

LONDON BOROUGH OF TOWER HAMLETS

STATEMENT OF ACCOUNTS 2008-09



2007 - 2008
School Improvement

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STATEMENT OF ACCOUNTS 2008-09

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EXPLANATORY FOREWORD

Overview by the Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2008/09, which reports our financial results for the year.

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 and the Best Value Accounting Code of Practice 2008. These constitute "proper accounting practice" with which councils must comply by statute. The Council has also produced a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at www.towerhamlets.gov.uk

The Council's Use of Resources score was a '3', the second highest category, against the Audit Commission's 'harder test'. Overall, the Council has been rated 4* and improving well by the Audit Commission in the Comprehensive Performance Assessment, and the Council has improved its performance throughout the period the CPA test has been in existence. CPA will now be replaced with a new, tougher Comprehensive Area Assessment, and the Council remains committed to improvement and to ensuring we perform well against the new inspection regime.

The Council's finances overall are sound, and we will need this solid financial base as we face the period of tighter public spending ahead. Expenditure in 2008/09 was well under control and the revenue budget ended the year slightly under spent. Long term borrowing reduced during the year by approaching £10.3m.

Pressures on the Council's budget year on year from demographic growth, new legislation and inflation will generally exceed the additional income we receive, while uncertainty in the economy means that we may have to plan for greater financial risk as we go forward. The Council's prudent treasury management strategy has allowed us to avoid some of the consequences of the 2008 banking crisis, but the Council's investment income has been hit by lower interest rates and the performance of stock markets around the world has seen the Pension Fund reduce in value. However, the Council has delivered or planned to deliver savings which have enabled the budget to be balanced and increases in Council Tax kept to affordable levels. The general downturn in the economy, and in particular the property market, has had an impact on the Council's fixed asset base and consequently a downward valuation of £166m has been reflected in the balance sheet.

For the period 2008/09 – 2010/11, the Council set a three year budget plan, and this will help us to look beyond this to plan the use of our resources better in the longer term. Tower Hamlets' Council Tax remains, for 2009/10, the sixth lowest charge in London. At the same time, the Council continues to retain a prudent level of reserves against foreseen and unforeseen eventualities, while fully taking into account its ambitious improvement programme.

Tower Hamlets Homes, the Council's Arms Length Management Organisation (or ALMO), was established in July 2008 to run Council housing in the Borough. These accounts therefore include Group Accounts, reflecting the financial position of the ALMO as well as the Council. A successful ALMO will be able to draw substantial new investment for housing to Tower Hamlets.

We have also completed the appointment of a strategic partner to help us deliver the Government's Building Schools for the Future programme, while progressing regeneration projects in several parts of the Borough. In all, £69 million was directly invested in assets and infrastructure. Amongst other things, significant investment in schools, housing and streets has been achieved.

The Council has played its part in reshaping the highly-regarded Tower Hamlets Partnership during 2008/09, and looks forward to working with its partners to deliver further community benefits across all public services in the Borough.

In summary whilst we face challenging times ahead, the Council through prudent and effective financial management is in a strong position financially to respond and to maintain the impetus of an improving Council in support of its local community.

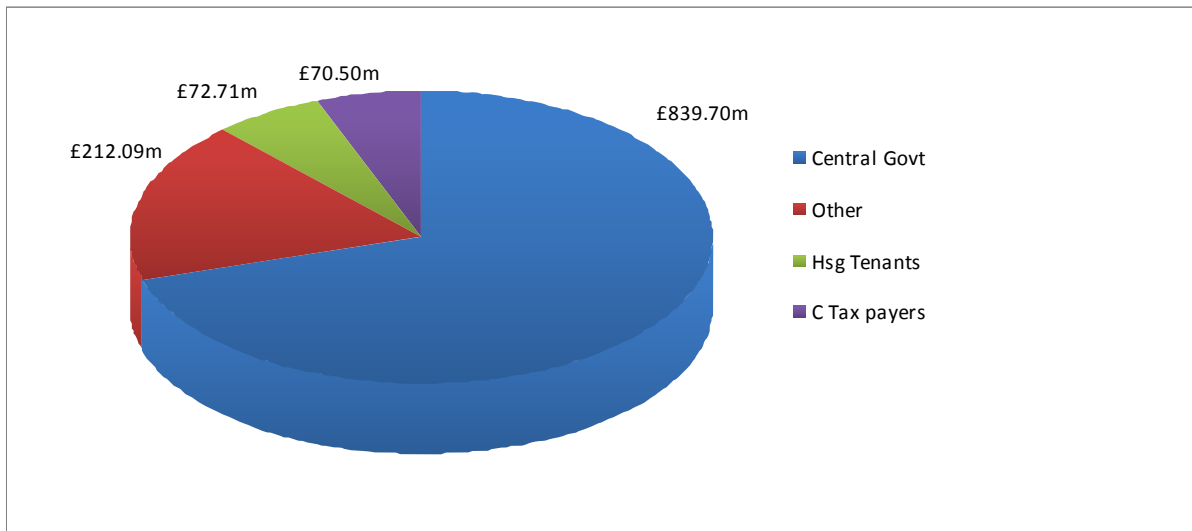
Chris Naylor ACA IPFA MA Cantab
Corporate Director of Resources

Review of the Year

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

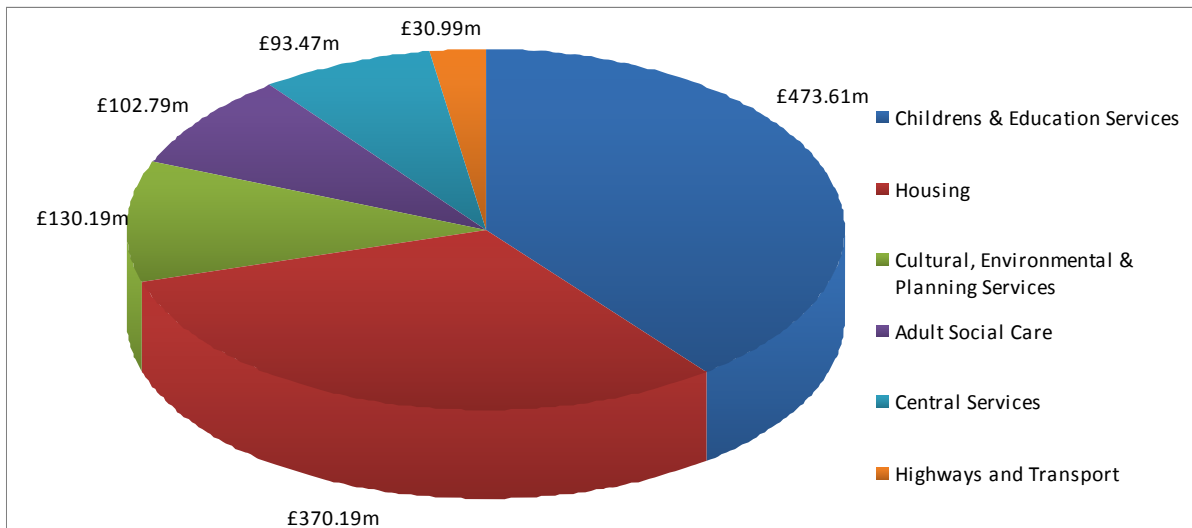
WHERE THE MONEY CAME FROM

The Council's overall income for the year was £1,195.0 million (£1,277.9 million in 2007-08) and came from a number of different sources:



HOW THE MONEY WAS SPENT

The Council spent £1,201.2 million (£1,270.5 million in 2007-08) on services:



Grants from Central Government form the biggest single source of income to the Council - £839.7 million (£808.7 million in 2007/2008). Of this, approximately 70% is grant towards the costs of providing specific services. The rest is grant for the Council's service provision as a whole.

Income received from housing tenants' rents and other charges amounted to £72.7 million (£75.2 million in 2007/2008). The reduction is due to the full year effect of the 2007-08 transfers of housing stock to Registered Social Landlords. "Other" income of £212.09 million (£329.6 million in 2007-08) includes fees and charges

from users of services provided by the Council and external interest receipts. The balance of £70.5 million came from Council Tax (£66.3 million in 2007-08).

£1,201.2 million was spent in the year (£1,270.5 million in 2007-08). 39% of spending was on Children's and Education services; 31% on Housing; Adult Social Care accounted for 9% and Culture and Environment (including leisure, environmental health, planning and refuse collection) 11%. A fuller analysis is shown in the Income and Expenditure Account on page 16.

Running expenses (such as maintaining buildings, running vehicles and buying supplies and services) accounted for approximately 42% of spending. Salaries and wages accounted for a further 26%. The balance was spent on "capital financing" (principal and interest payments on loans, leasing charges and asset rentals).

REVENUE SPEND COMPARED TO BUDGET

The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (HRA) - a separate account for the Council acting as a housing landlord. The General Fund net budget requirement for the year was agreed at £295.5million consisting of service budgets of £296.6 million and a net contribution from balances of £1.1 million. Actual spend amounted to £294.9 million, an under spend of £1.7 million, with a net contribution from balances of £1.0 million. The HRA expenditure requirement for the year was agreed at £95.9 million. In total there was a net over spend of £23.4 million. This has reduced the HRA balance and reserves by £11.9 million. More details are shown below:

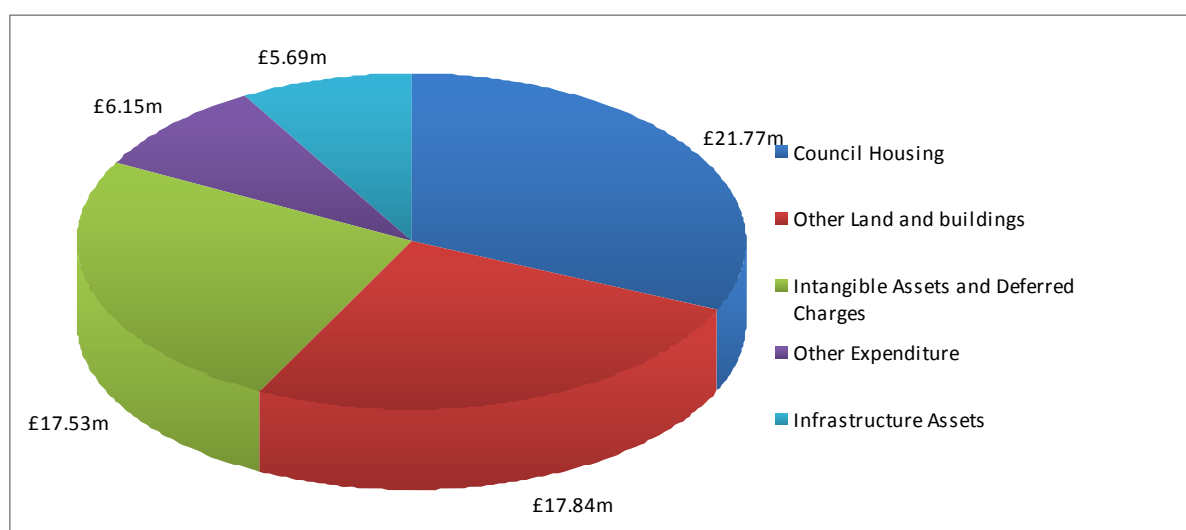
| General Fund | Adjusted Budget £'m | Actual £'m | Variance £'m |
|-----------------------------------|--------------------------------|-----------------------|-------------------------|
| Net expenditure | 296.6 | 294.9 | (1.7) |
| Contribution to / (from) balances | (1.1) | (1.0) | 0.1 |
| Budget requirement | 295.5 | 293.9 | (1.6) |
| Government Grants | | | |
| Revenue Support Grant | (27.5) | (27.5) | 0.0 |
| Redistributed Business Rates | (197.5) | (197.5) | 0.0 |
| Surplus on Collection Fund | (1.5) | (1.5) | 0.0 |
| Council Tax Requirement | 69.0 | 67.4 | (1.6) |

| Housing Revenue Account | Adjusted Budget £'m | Actual £'m | Variance £'m |
|--|--------------------------------|-----------------------|-------------------------|
| Expenditure | 104.2 | 131.2 | 27.0 |
| Contribution to / (from) balances and reserves | (8.3) | (11.9) | (3.6) |
| Budget requirement | 95.9 | 119.3 | 23.4 |
| Income | | | |
| Rents | (56.3) | (57.6) | (1.3) |
| Government grant | (21.3) | (18.8) | 2.5 |
| Charges and contributions | (17.5) | (41.9) | (24.4) |
| Interest | (0.8) | (1.0) | (0.2) |
| Total Income | (95.9) | (119.3) | (23.4) |

PENSIONS

The Council offers retirement pensions to its staff under a statutory scheme and makes contributions to pension schemes 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 assets (investments) of the pension schemes and the net amount is included in the accounts as the Council's "Pensions Liability". At the end of 2008-09 this liability was £270.57 million (£183.02 million, restated, at the end of 2007-08). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet, there are statutory arrangements for meeting the liability. The deficit will be addressed by increased contributions to the schemes over the remaining working lives of the staff. These contributions were assessed by the Council's actuary in April 2009 and a budget provision has been made accordingly.

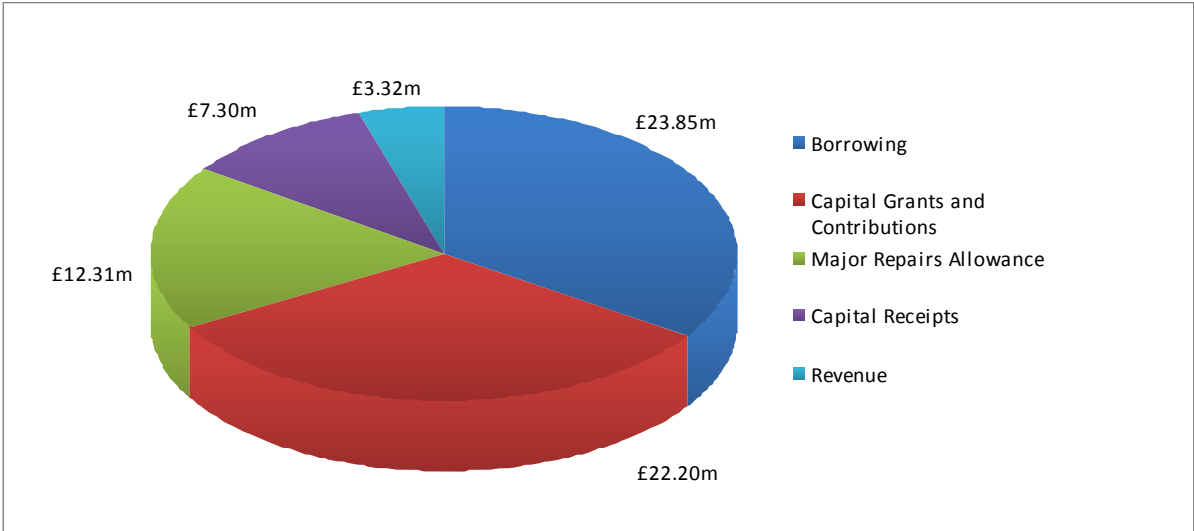
CAPITAL SPENDING



Capital spending during the year amounted to £68.98 million (£61.30 million in 2007-08). £21.77 million (£28.74 million in 2007-08) of this was on projects relating to the conversion and improvement of the Council's

housing stock. Spending on other land and buildings projects was £17.84 million (£14.66 million in 2007-08) and was primarily on the refurbishment, improvement and extension of schools in the borough. Infrastructure spending of £5.69 million (£5.14 million in 2007-08) was mainly on improving the existing road system within the Borough and the provision of street lighting. Other expenditure comprises equipment, which amounted to £2.83 million (£0.74 million in 2007-08) and a further £3.32 million (£3.05 million in 2007-08) was spent on improving parks and open spaces in the borough. Spending on Intangible Assets and Revenue Expenditure Funded from Capital under Statute (REFCUS) includes information technology, home improvement grants paid to homeowners and grants paid to voluntary organisations, and amounted to £17.53 million (£8.94 million in 2007-08).

HOW CAPITAL SPENDING WAS PAID FOR



The Government pays the Council a grant called the Major Repairs Allowance to be spent on its housing stock. This amounted to £12.31 million for the year (£10.15 million in 2007-08). Capital receipts are income from the sale of assets, such as council houses. £7.3 million was used in 2008-09 (£11.45million in 2007-08). The Council can pay for capital spending from its revenue monies and £3.32 million was used in the year (£0.05million in 2007-08). There are other Government grants which have to be used for specific projects and the Council receives contributions from others (for example developers). A total of £22.2 million was used in 2008-09 (£17.71 million in 2007-08). Finally, the Council is allowed to borrow money to finance capital spending and £23.85 million was borrowed in the year (£21.96 million in 2007-08).

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required:

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

The Statement of Accounts 2008-09 was considered and approved by the Council's Audit Committee on 29th September 2009.

Chair of Committee

The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2008-09 presents fairly the financial position of the Council at 31st March 2009 and its income and expenditure for the year.

Chris Naylor ACA IPFA MACantab
Corporate Director of Resources
29th September 2009

THE ACCOUNTING STATEMENTS

These comprise:

- The **Statement of Accounting Policies** on which the figures in the accounts are based.
- The **Core Financial Statements**:
 - The **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 **Statement of Movement on the General Fund Balance** which shows the amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute or non-statutory proper practices to be taken into account in determining the movement on the General Fund Balance.
 - The **Statement of Total Recognised Gains and Losses** which shows all gains and losses recognised in the Council's Balance Sheet including those that are not reflected in the Income and Expenditure Account.
 - 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 **Group Accounts** which combine the financial activities and position of the Council and its subsidiary Arms Length Management Organisation (ALMO), Tower Hamlets Homes, into amalgamated Core Financial Statements
- The **Pension Fund Accounts** which provide information about the financial position, performance and the financial adaptability of the statutory pension fund. They show the results for the fund for the year and the disposition of its assets at the period end.

We try to produce the statements in a form that is understandable to most stakeholders. However, they include some technical terms which are explained in the **Glossary**, which starts at page 86.

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31st March 2009. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008* (the "SORP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets. 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.

2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant 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 stocks on the Balance Sheet.
- Works are charged as expenditure less deposits and are carried as works in progress on the Balance Sheet. This is a change in policy since 2007-08 – see page 33.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.

3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

4. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. 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 Net Cost of Services in the Income and Expenditure Account. 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 tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

5. Government Grants and Contributions (Revenue)

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

6. Retirement Benefits

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

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

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 and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

Liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) as at 31st March 2009. However, unlike in previous years, the discount rate has been adjusted to reflect the re-rating of a number of bonds given the downturn in the economic environment.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted securities are now valued at bid price rather than mid-market value, in accordance with revised Financial Reporting Standard 17. This is a change in accounting policy from 2007-08. The change has not had a material effect on the Council's accounts (see page 46).

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

- Current service cost – the increase in liabilities as a result of years of service earned during the year, allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
- Past service cost – the increase in liabilities arising from decisions in the year the effect of which relates to years of service earned in earlier years, debited to the Net Cost of Services as part of Non Distributed Costs.
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure in the Income and Expenditure Account.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Net Operating Expenditure in the Income and Expenditure Account.
- 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Statement of Total Recognised Gains and Losses.
- 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 Statement of Movement on the General Fund Balance 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.

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.

7. VAT

Income and expenditure exclude any amounts related to VAT, as generally all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them. Any irrecoverable VAT is included in the cost of services.

8. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2008* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation,
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties,
- Non-material end of year balances on support services treated as trading accounts.

The first two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services. Balances on the third category are accounted for as a surplus or deficit on a trading account, as part of Net Operating Expenditure.

9. Intangible Fixed Assets

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

10. Tangible Fixed Assets

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

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

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

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value.
- Dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use.
- Infrastructure assets – depreciated historical cost.
- Community assets – historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value.
- Specialised operational properties – existing use value or, where there is no active market for the asset being valued, depreciated replacement cost.
- Investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date the reserve came into existence. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 received from disposals are categorised as capital receipts.

A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of 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 Statement of Movement on the General Fund Balance.

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

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

Depreciation is calculated on the following bases:

- Dwellings – equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation.
- Other land and buildings – up to 60 years, individual asset lives being assessed by the valuer.
- Vehicles, plant and equipment – equipment 5 years. For vehicles and plant, a percentage of the value of each class of assets in the Balance Sheet is used, as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation over 40 years.

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

Revaluation gains are also depreciated, with an amount equal to the difference between the 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.

Grants and contributions: Grants and contributions received after the 31st March 2007 which are identifiable to fixed assets with a finite useful life are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets, in line with the depreciation policy applied to them. Grants and contributions received on or before 31st March 2007 are transferred to revenue over a specified period depending on the nature of the expenditure which was funded as follows:

- Works – 10 years
- Improvements – 20 years
- Conversions – 30 years
- New Construction – 40 years

11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service.

- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, 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, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

12. 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 fixed 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 to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax. In a change of practice from 2007-08, expenditure incurred by the Council on major works to leaseholders' properties is treated as REFCUS – see page 57.

13. Leases

Operating Leases

The Council has no finance leases. Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on an 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.

14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable with accrued interest at the Balance Sheet date and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves a 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 by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading (amortising) the gains/losses 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

15. 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.

The Council has no available-for-sale assets. Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 with interest accrued at the balance sheet date and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

When soft loans are made (loans to voluntary organisations at less than market rates), a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

16. Stocks and Work in Progress

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Exceptionally, vehicle maintenance stocks are valued at the latest purchase price. Work in progress consists of rechargeable works which are shown net of deposits. This is a change in accounting policy compared with previous years when the amounts were shown gross. Adjusted comparable figures for 2007-08 are shown on page 33 (work in progress) and page 38 (creditors).

17. Interests in Companies and Other Entities

The Council has a material interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council and requires group accounts to be prepared. The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. The group accounts are at pages 61 to 66. In the Council's own single-entity accounts, interests in companies and other entities are recorded as investments, at cost, less any provision for losses. Where the Council is a participant in a joint arrangement that is not an entity (JANE) it accounts for its own assets, liabilities and cash flows, measured according to the terms of the agreement governing the arrangement.

18. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide services passes to the PFI contractor. Payments made by the Council under a contract are charged to revenue to reflect the value of services received in each financial year.

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

The amounts are shown in the relevant notes to the Balance Sheet. They are written on to the Council's Balance Sheet as long-term debtors over the lifetime of the contracts. The residual value of the debtors at the end of the contracts will be written on to the Balance Sheet as tangible fixed assets. An initial capital contribution by the Council under the contracts is treated as a deferred consideration under current assets - debtors and payments in advance, and charged to the appropriate service revenue account over the lifetime of the contract. The amounts charged are then reversed out of the Income and Expenditure Account to the Capital Adjustment Account so there is no impact on the level of Council Tax.

19. Events after the Balance Sheet Date

Amounts are adjusted in the Statement of Accounts if an event arises after the Balance Sheet date, but before the date the Statement is authorised for issue, which provides additional evidence of conditions that existed at that date and materially/significantly affects the amounts to be included. If an event arises between those dates which concerns conditions which did not exist at that date, it is disclosed in the notes to the Balance Sheet if it is of such materiality that disclosure is required for the fair presentation of the financial statements. Details of an event after the Balance Sheet date are at page 38.

INCOME AND EXPENDITURE ACCOUNT

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

| | Note | 2008/09 Gross Expenditure As Restated ¹ £'000 | 2008/09 Gross Income £'000 | 2008/09 Net Expenditure As Restated ¹ £'000 | 2007/08 Gross Expenditure As Restated ¹ £'000 | 2007/08 Gross Income £'000 | 2007/08 Net Expenditure As Restated ¹ £'000 |
|---|------|--|-------------------------------------|--|--|-------------------------------------|--|
| Cultural, Environmental, Regulatory and Planning Services | 4 | 130,252 | 53,909 | 76,343 | 112,623 | 56,669 | 55,954 |
| Central Services | | 55,655 | 47,018 | 8,637 | 59,340 | 50,088 | 9,252 |
| Children's and Education Services | 56 | 471,243 | 374,075 | 97,168 | 431,928 | 349,151 | 82,777 |
| Highways and Transport Services | | 30,989 | 27,693 | 3,296 | 29,565 | 32,137 | (2,572) |
| Local Authority Housing (Housing Revenue Account) | 6 | 110,565 | 91,599 | 18,966 | 257,828 | 102,971 | 154,857 |
| Other Housing Services | 6 | 259,630 | 255,347 | 4,283 | 244,976 | 238,303 | 6,673 |
| Adult Social Care | 21 | 102,959 | 17,201 | 85,758 | 102,098 | 24,492 | 77,606 |
| Corporate and Democratic Core | | 21,072 | 6,339 | 14,733 | 17,908 | 5,642 | 12,266 |
| Non-distributed Costs | | 15,185 | 481 | 14,704 | 14,082 | 19,583 | (5,501) |
| NET COST OF SERVICES | | 1,197,550 | 873,662 | 323,888 | 1,270,348 | 879,036 | 391,312 |
| Net (gain)/loss on disposal of fixed assets | 3 | | | (13,394) | | | 36,909 |
| Total net (surplus)/deficit on trading accounts | 8 | | | 1,555 | | | 683 |
| Amounts due to levying authorities | 9 | | | 1,641 | | | 1,527 |
| Contribution to housing pooled capital receipts | | | | 4,766 | | | 14,506 |
| Interest payable and similar charges | | | | 22,656 | | | 34,857 |
| Interest and investment income | | | | (6,144) | | | (7,776) |
| Amortisation of premiums and discounts | | | | 2,849 | | | - |
| Unattached capital receipts | | | | (1,331) | | | - |
| Pensions interest cost and expected return on pensions assets | 48 | | | 12,234 | | | 5,643 |
| Overhanging debt grant | | | | 0 | | | (64,354) |
| NET OPERATING EXPENDITURE | | | | 348,720 | | | 413,307 |
| INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT | | | | | | | |
| Council Tax income | | | | (70,501) | | | (66,322) |
| Government grants (not attributable to specific services) | 15 | | | (55,384) | | | (30,727) |
| Distribution from non-domestic rate pool | | | | (197,503) | | | (183,094) |
| (SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND | | | | 25,332 | | | 133,164 |

¹ See note 58

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

| | Note | 2008/09 £'000 | 2007/08 As Restated ³ £'000 |
|---|------|------------------|--|
| (Surplus)/Deficit for the year on the Income and Expenditure Account | | 25,332 | 133,164 |
| Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year | 2 | (19,107) | (137,636) |
| (Increase)/decrease in General Fund Balance for the year | | 6,225 | (4,472) |
| General Fund Balance brought forward ¹ | | (53,863) | (49,391) |
| General Fund Balance (including schools' balances) carried forward | | (47,638) | (53,863) |
| Amount of General Fund Balances Held by Schools under Local Management Schemes | | | |
| Schools' Balances brought forward | | (28,349) | (31,275) |
| Movement on Schools Balances in year | | 7,813 | 2,926 |
| Schools' Balances carried forward² | | (20,536) | (28,349) |
| Amount of General Fund Balance Generally Available for New Expenditure | | (27,102) | (25,514) |

¹ The General Fund Balance brought forward figure in 2007-08 has been reduced by £362,000 to incorporate balances on trading accounts and the Street Trading Account. In previous years the balance on the latter account has been shown separately on the Balance Sheet.

² Schools' balances are included in Earmarked Reserves on the Council's Balance Sheet (see page 43)

³ See note 58

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

| | 2008/09 | 2007/08 |
|--|----------------|--------------------------|
| | | As Restated ¹ |
| | £'000 | £'000 |
| (Surplus)/Deficit on the Income and Expenditure Account for the year | 25,332 | 133,164 |
| (Surplus)/Deficit arising on revaluation of fixed assets | 54,771 | (397,412) |
| Actuarial (gains)/losses on pension fund assets and liabilities | 85,644 | (119,464) |
| Collection Fund deficit - element relating to authority | 481 | 2,027 |
| Total recognised (gains) and losses for the year | 166,228 | (381,685) |
| Cumulative effect on reserves of prior period adjustments | | 75,444 |
| Aggregate (increase)/decrease in net worth | 166,228 | (306,241) |

¹ See note 58

BALANCE SHEET

as at 31st March

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

| | Note | 2009 | 2009 | 2008 | 2008 |
|---|---------|---------|------------------|--------------------------|--------------------------|
| | | £'000 | £'000 | As Restated ² | As Restated ² |
| | | | | £'000 | £'000 |
| Fixed Assets | | | | | |
| Tangible Fixed Assets | 22 - 23 | | | | |
| Operational assets | | | | | |
| Council dwellings | | 901,291 | | 986,081 | |
| Other land and buildings | | 695,058 | | 698,122 | |
| Infrastructure assets | | 86,397 | | 83,321 | |
| Equipment | | 3,643 | | 1,623 | |
| Community assets | | 45,220 | | 41,073 | |
| Non-operational assets | | | | | |
| Investment properties | | 50,844 | 1,782,453 | 54,106 | 1,864,326 |
| Total Fixed Assets | | | | | |
| Long Term Debtors | 29 | | 109,614 | | 72,694 |
| Total Long Term Assets | | | 1,892,067 | | 1,937,020 |
| Current Assets | | | | | |
| Stocks and Work in Progress | 30 | 303 | | 2,884 | |
| Debtors | 31 | 92,675 | | 110,831 | |
| Investments | 33 | 78,427 | | 100,389 | |
| Cash and Bank | | 27,452 | 198,857 | 26,365 | 240,469 |
| Total Assets | | | 2,090,924 | | 2,177,489 |
| Current liabilities | | | | | |
| Short-term borrowing | 33 | 12,901 | | 14,018 | |
| Creditors | 34 | 142,789 | 155,690 | 148,680 | 162,698 |
| Total Assets less Current Liabilities | | | 1,935,234 | | 2,014,791 |
| Long Term Liabilities | | | | | |
| Long-term borrowing | 33 | 251,785 | | 262,043 | |
| Capital Grants Unapplied | 36 | 37,363 | | 21,234 | |
| Capital Grants and Contributions Deferred | 37 | 96,139 | | 99,788 | |
| Deferred Income - Receipt in Advance | 38 | 11,006 | | 11,391 | |
| Provisions | 38a | 8,560 | | 11,266 | |
| Liability related to defined benefit pension schemes ¹ | 48 | 270,565 | 675,418 | 183,025 | 588,747 |
| TOTAL ASSETS LESS LIABILITIES | | | | | |
| | | | 1,259,816 | 1,426,044 | |
| Financed by | | | | | |
| Revaluation Reserve | 40 | | 319,706 | | 378,611 |
| Capital Adjustment Account | 42 | | 1,037,867 | | 1,061,731 |
| Capital Receipts Reserve | 43 | | 18,091 | | 9,383 |
| Deferred Capital Receipts | 44 | | 412 | | 556 |
| Pensions Reserve ¹ | 48 | | (270,565) | | (183,025) |
| Major Repairs Reserve | 39 | | 2,354 | | 2,841 |
| Collection Fund | | | (597) | | (116) |
| Financial Instruments Adjustment Account | 41 | | 280 | | 2,555 |
| Balances | | | | | |
| General Fund | 39 | | 27,102 | | 25,474 |
| Housing Revenue Account | 39 | | 23,301 | | 35,188 |
| Earmarked Reserves | 47 | | 101,865 | | 92,846 |
| TOTAL NET WORTH | | | | | |
| | | | 1,259,816 | 1,426,044 | |

¹ 2007-08 balance as restated. See note 48 to the Core Financial Statements.

² See note 58

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. From 2008-09 the SORP permits presentation of the Cash Flow Statement by either the direct method showing gross cash flows, or by the indirect method, whereby revenue cash flow is derived by adjusting the overall Income and Expenditure Account surplus or deficit to a cash basis. Under the latter method gross cash flow categories are not presented in the Statement and non-cash items, returns on investments and servicing of finance are removed from the surplus or deficit in order to calculate a single overall figure for revenue cash flow. From 2008-09 the Council's Cash Flow Statement is presented by the indirect method whereas in previous years it was presented by the direct method.

| | Note | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 | 2007/2008 As Restated ¹ £'000 |
|--|------|--------------------|--------------------|--|--|
| NET REVENUE ACTIVITIES CASH FLOW | 51 | | (4,624) | | 38,503 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | | | |
| <i>Cash outflows</i> | | | | | |
| Interest paid | | (21,038) | | (30,749) | |
| <i>Cash inflows</i> | | | | | |
| Interest received | | 6,434 | | 6,182 | |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | (14,604) | | (24,567) |
| CAPITAL ACTIVITIES | | | | | |
| <i>Cash outflows</i> | | | | | |
| Purchase of fixed assets | | (50,283) | | (49,317) | |
| Other capital cash payments | | - | | (157) | |
| <i>Cash inflows</i> | | | | | |
| Sale of fixed assets | | 25,873 | | 27,058 | |
| Other capital cash payments/(income) | | 67 | | 11,554 | |
| Capital grants received | | 36,716 | | 24,691 | |
| NET CASH OUTFLOW FROM CAPITAL ACTIVITIES | | | 12,373 | | 13,829 |
| NET CASH INFLOW/OUTFLOW BEFORE FINANCING | | | (6,855) | | 27,765 |
| MANAGEMENT OF LIQUID RESOURCES | | | | | |
| Net increase/decrease in other liquid resources | 55 | 21,962 | | (2,380) | |
| FINANCING | | | 21,962 | | (2,380) |
| <i>Cash outflows</i> | | | | | |
| Repayments of amounts borrowed | | (21,020) | | (73,121) | |
| <i>Cash inflows</i> | | | | | |
| New loans raised | | 7,000 | | 41,000 | |
| NET CASH INFLOW FROM FINANCING | | | (14,020) | | (32,121) |
| INCREASE/(DECREASE) IN CASH | | | 1,087 | | (6,736) |

¹ See note 58

NOTES TO THE CORE FINANCIAL STATEMENTS

1 SERVICE EXPENDITURE ANALYSIS

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

2 NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 | 2007/2008 As Restated ¹ £'000 |
|--|--------------------|--------------------|--|--|
| Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year | | | | |
| Amortisation of intangible fixed assets | (969) | | (692) | |
| Depreciation and impairment of fixed assets | (23,241) | | (19,415) | |
| Excess of depreciation of Housing Revenue Account compared with Major Repairs Allowance | (734) | | (883) | |
| Impairment of Housing Revenue Account assets | (23,363) | | (184,876) | |
| Overhanging debt grant | 0 | | 64,354 | |
| Premia on debt redemption | 0 | | (10,849) | |
| Deferred considerations adjustment | (1,434) | | (1,344) | |
| Government Grants Deferred amortisation | 25,851 | | 50,176 | |
| Difference between amounts debited/credited to the Income and Expenditure account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt | (2,284) | | 2,840 | |
| Revenue expenditure funded from capital under statute | (16,281) | | (10,676) | |
| Unattached capital receipts | 1,331 | | | |
| Gain or loss on sale of Housing Revenue Account fixed assets | 3,720 | | (339) | |
| Net profit/(loss) on sale of fixed assets | 9,674 | | (36,570) | |
| Net charges made for retirement benefits in accordance with FRS 17 | (38,249) | (65,979) | (32,651) | (180,925) |
| Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund balance for the year | | | | |
| Minimum revenue provision for capital financing | 6,984 | | 6,984 | |
| Capital expenditure financed from the General Fund | 3,316 | | 48 | |
| Transfer from Capital Receipts Reserve to meet payments to the housing capital receipts pool | (4,766) | | (14,506) | |
| Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners | 36,353 | 41,887 | 38,726 | 31,252 |
| Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund balance for the year | | | | |
| Transfer of statutory surplus/(deficit) for the year on the Housing Revenue Account | (11,887) | | 2,072 | |
| Transfers made at the discretion of the Council to or from reserves that have been earmarked for specific purpose | 16,872 | 4,985 | 9,965 | 12,037 |
| Net additional amount required to be credited to the General Fund balance for the year | | (19,107) | | (137,636) |

¹ See note 58

3 GAIN OR LOSS ON DISPOSAL OF FIXED ASSETS

This represents the gain/loss to the Council on the sale of fixed assets. The effects are reversed in the Statement of Movement on the General Fund balance to avoid any impact on the General Fund balance.

| | 2008/09 Disposal £'000 | 2007/08 Disposal £'000 |
|--|------------------------------|------------------------------|
| Market value of assets sold | 5,911 | 26,582 |
| *Adjustments for demolitions/transfers/disposals | 0 | 37,381 |
| Book value of disposals | 5,911 | 63,963 |
| Capital receipts received | (19,387) | (27,393) |
| Cost of disposal on dwellings | 82 | 339 |
| Loss/(Gain) on Disposal | (13,394) | 36,909 |

*The adjustments represent write out of the carrying value of assets disposed of in previous years, identified during an asset verification exercise.

4 BUILDING CONTROL ACCOUNT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of its building control function. The statement below shows the total cost of the building control function divided between chargeable and non-chargeable activities.

| | 2008/2009 | | | 2007/2008 | | |
|---------------------------------------|--------------|----------------|---------------|--------------|----------------|---------------|
| | Chargeable | Non Chargeable | Total Outturn | Chargeable | Non Chargeable | Total Outturn |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Expenditure | | | | | | |
| Employee costs | 1,127 | 628 | 1,755 | 1,213 | 652 | 1,865 |
| Transport | 24 | 15 | 39 | 23 | 13 | 36 |
| Premises | 168 | 95 | 263 | 126 | 70 | 196 |
| Supplies and services | 211 | 47 | 258 | 181 | 36 | 217 |
| Support services | 149 | 168 | 317 | 92 | 185 | 277 |
| Total Expenditure | 1,679 | 953 | 2,632 | 1,635 | 956 | 2,591 |
| Income | | | | | | |
| Building Regulation fees | 1,766 | 197 | 1,963 | 1,671 | 185 | 1,856 |
| Other Income | 0 | 0 | 0 | 0 | 30 | 30 |
| Total Income | 1,766 | 197 | 1,963 | 1,671 | 215 | 1,886 |
| Deficit (Surplus) for the year | (87) | 756 | 669 | (36) | 741 | 705 |

5 CONTROLLED PARKING ACCOUNT

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

This account records all income and expenditure attributable to on-street parking activities, including enforcement. The account may incur a deficit in the year in which case the deficit must be made good from the General Fund at the end of the year. The use of any surplus is prescribed by legislation and is restricted largely to reinvestment within the service and highways and transportation initiatives. The surplus at 31st March 2009 has been transferred into an earmarked reserve.

| | 2008/2009 | 2007/2008 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Expenditure | | |
| Employee costs | 4,270 | 4,072 |
| Premises | 529 | 536 |
| Transport | 152 | 156 |
| Supplies and services | 2,098 | 1,426 |
| Third party payments | 1,524 | 1,459 |
| Support services | 1,691 | 1,923 |
| Capital financing | 10 | 28 |
| Total Expenditure | 10,274 | 9,600 |
| Income | | |
| Fees and charges | 14,646 | 12,708 |
| Decrease in provision for bad debts | 491 | 974 |
| Total Income | 15,137 | 13,682 |
| (Surplus)/Loss for the year | (4,863) | (4,082) |
| Balance at 1st April | 0 | 0 |
| Surplus for year | 4,863 | 4,082 |
| Funding of General Fund service initiatives. | (3,906) | (4,082) |
| Balance at 31st March | 957 | 0 |

6 HOUSING SERVICES

The Housing Revenue Account (HRA), which is separately reported at page 52, is consolidated into the Income and Expenditure Account. Before consolidation certain adjustments are required to ensure the proper reporting of expenditure and income for the Council as a whole. The amounts consolidated are as follows:

| | 2008/2009 Gross Expenditure £'000 | 2008/2009 Gross Income £'000 | 2008/2009 Net Expenditure £'000 | 2007/2008 Net Expenditure £'000 |
|-----------------------------------|--|---------------------------------------|--|--|
| Housing Revenue Account (page 52) | 110,893 | (91,599) | 19,294 | 155,196 |
| Internal recharges | | | | |
| Corporate and Democratic Core | (328) | | (328) | (339) |
| Local Authority Housing | 110,565 | (91,599) | 18,966 | 154,857 |
| Other Housing | 259,630 | (254,415) | 5,215 | 7,582 |
| Internal recharges | | | | |
| Supporting people | | (932) | (932) | (909) |
| Other Housing Services | 259,630 | (255,347) | 4,283 | 6,673 |
| NET COST OF SERVICES | 370,195 | (346,946) | 23,249 | 161,530 |

7 MEMBERS' ALLOWANCES

Includes total allowances paid to Council Members of £856,159 in 2008/2009 (£852,441 in 2007/2008).

8 TRADING ACCOUNTS

The following services are reported as trading activities in 2008/2009:

| | 2008/2009 Expenditure £'000 | 2008/2009 Income £'000 | 2008/2009 Surplus/ (Deficit) £'000 | 2007/2008 Surplus/ (Deficit) £'000 |
|--------------------------------|-----------------------------------|------------------------------|---|---|
| Vehicle Maintenance | 7,463 | 7,510 | 47 | 192 |
| Cleansing and Welfare Catering | 14,047 | 14,038 | (9) | (350) |
| Building and Property Services | 199 | 185 | (14) | 48 |
| Support Services | 32,567 | 30,856 | (1,711) | (323) |
| Street Trading (see note 45) | 2,118 | 2,222 | 104 | (250) |
| Mile End Park | 808 | 836 | 28 | - |
| TOTAL TRADING ACCOUNTS | 57,202 | 55,647 | (1,555) | (683) |

9 LEVIES

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

| | 2008/2009 £'000 | 2007/2008 £,000 |
|------------------------------------|--------------------|--------------------|
| Lee Valley Regional Park Authority | 243 | 236 |
| Environment Agency | 161 | 142 |
| London Pensions Fund Authority | 1,237 | 1,149 |
| Total levies | 1,641 | 1,527 |

10 UNDISCHARGED OBLIGATIONS ARISING FROM LONG-TERM CONTRACTS

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

The projected payments under the PFI agreements are as follows:

| | 2008/2009 Mulberry School £'000 | 2007/2008 Mulberry School £'000 | 2008/2009 Grouped Schools £'000 | 2007/2008 Grouped Schools £'000 |
|---|--|--|--|--|
| Contracted payments due within 1 year | 2,248 | 2,064 | 12,459 | 12,599 |
| Contracted payments due within the following 5 years | 10,541 | 10,672 | 64,663 | 66,999 |
| Contracted payments after year ending 31st March 2015 | 32,986 | 35,629 | 186,916 | 212,758 |

11 AGENCY INCOME AND EXPENDITURE

The Council has an agency agreement with Thames Water Authority (TWA) whereby the Council is responsible for collecting unmetered water charges from Council tenants. For this service the Council receives a commission based on the total TWA bill chargeable for the year. In 2008/2009 this commission amounted to £798,738 (£812,559 in 2007/2008).

12 LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to enter into an agreement with another local authority or public body for the provision of any administrative, professional or technical services. The authority entered into an agreement in May 2004 with the London Boroughs of Barking and Dagenham, Hackney, Havering and Newham to establish the London Thames Gateway Development Corporation (LTGDC). The LTGDC has the power to determine various planning applications within its area above an agreed threshold. The income received by the Council in 2008/09 from this agreement amounted to £36,840 (£31,915 in 2007-08).

13 OFFICERS' EMOLUMENTS

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

| Remuneration Band £ | 2008/2009 | | | 2007/2008 | | |
|------------------------|-------------------|----------------|----------------|-------------------|----------------|----------------|
| | Teaching Staff | Other Staff | Total Staff | Teaching Staff | Other Staff | Total Staff |
| | 50,000 - 59,999 | 257 | 159 | 416 | 210 | 144 |
| 60,000 - 69,999 | 70 | 54 | 124 | 59 | 45 | 104 |
| 70,000 - 79,999 | 27 | 33 | 60 | 21 | 16 | 37 |
| 80,000 - 89,999 | 3 | 11 | 14 | 5 | 14 | 19 |
| 90,000 - 99,999 | 6 | 12 | 18 | 4 | 11 | 15 |
| 100,000 - 109,999 | 4 | 9 | 13 | 6 | 2 | 8 |
| 110,000 - 119,999 | 2 | 0 | 2 | 0 | 1 | 1 |
| 120,000 - 129,999 | 0 | 1 | 1 | 1 | 2 | 3 |
| 130,000 - 139,999 | 0 | 4 | 4 | 0 | 3 | 3 |
| 140,000 - 149,999 | 1 | 2 | 3 | 0 | 0 | 0 |
| 150,000 - 159,999 | 0 | 0 | 0 | 0 | 0 | 0 |
| 160,000 - 169,999 | 0 | 1 | 1 | 0 | 1 | 1 |
| 170,000 - 179,999 | 0 | 0 | 0 | 0 | 1 | 1 |
| 180,000 - 189,999 | 0 | 2 | 2 | 0 | 0 | 0 |
| 230,000 - 239,999 | 0 | 0 | 0 | 0 | 1 | 1 |
| Total employees | 370 | 288 | 658 | 306 | 241 | 547 |

14 PUBLICITY

Section 5(1) of the Local Government Act 1986 requires the Council to disclose separately its expenditure on publicity.

| | 2008/2009 £'000 | 2007/2008 £'000 |
|----------------------------|--------------------|--------------------|
| Recruitment advertising | 1,571 | 1,373 |
| Media and public relations | 1,267 | 980 |
| Other | 1 | 1 |
| Total expenditure | 2,839 | 2,354 |

15 GOVERNMENT GRANTS (NOT ATTRIBUTABLE TO SPECIFIC SERVICES)

This includes Revenue Support Grant, Local Authority Business Growth Incentives Scheme Grant and, from 1st April 2008, Area Based Grant (ABG). ABG is a non-ringfenced general grant, no conditions on use are imposed and, unlike LAAG, it is paid directly to the authority that benefits from the grant, rather than being paid to the authority in the area with 'accountable body' status for onward distribution to the other authorities.

| | 2008/09 | 2007/08 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Revenue Support Grant | (27,494) | (30,727) |
| Local Authority Business Growth Incentives Scheme Grant (LABGI) ¹ | (215) | (636) |
| Area Based Grant | (27,675) | 0 |
| Total | (55,384) | (31,363) |

¹ LABGI was included in Net Cost of Services in the 2007-08 Income and Expenditure Account. The above note has been restated for 2007-08 for comparative purposes.

16 AUDIT FEES

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

| | 2008/2009 | 2007/2008 |
|--|------------|------------|
| | £'000 | £'000 |
| External audit services carried out by the appointed auditor | 442 | 445 |
| Statutory inspection | 27 | 150 |
| Certification of grant claims and returns | 113 | 99 |
| Other services provided by the appointed auditor | 2 | 0 |
| Total | 584 | 694 |

The fees for other services related to the National Fraud Initiative.

17 ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulations 1990 require authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than market rate. At 31st March 2009 the Council had no outstanding loan agreements of this nature.

18 SECTION 137 OF THE LOCAL GOVERNMENT ACT 1972

This section, as amended, empowers councils to make contributions to certain charitable funds, not-for-profit bodies and mayoral appeals. No such contributions were made in 2008/09.

19 RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Council and related parties in accordance with Financial Reporting Standard 8. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

(i) Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments are set out in a note to the Cash Flow Statement.

(ii) Partnerships

The Council has partnership arrangements with the following organisations:

NDC (New Deal for the Community)

PCT (Primary Care Trust)

(iii) Pension Fund

The Council borrows from the Pension Fund. The Pension Fund accounts are presented on pages 67 to 72 of this Statement.

(iv) Membership of and relationship with other organisations

Council Members have made declarations of their interests in the following organisations to which the Council made payments in 2008-09:

| Organisations | Councillor | Payments by the Council £'000 |
|---|----------------|----------------------------------|
| Age Concern Tower Hamlets | A. Heslop | 670 |
| Alpha Grove Community Trust | P. J. Briscoe | 128 |
| | S. A. Houghton | |
| Apasenth | M. A. Salique | 1,788 |
| Bengali Educational Society | S. Ullah | 3 |
| | S. Islam | |
| Berner Estate Tenants and Residents Association | S Haque | 1 |
| | S Ali | |
| Bethnal Green Museum of Childhood | A. Heslop | 2 |
| | C. Hawkins | |
| | D. Jones | |
| Bromley by Bow Centre | A. A. Sardar | 1,422 |
| BYM Bangladesh Youth Movement | S. Ali | 2 |
| Chisenhale Dance Space | J.Peck | 18 |
| Cullogen Bangladeshi Parents Association | A. M. O. Ahmed | 8 |
| Cultural Industries Development Agency | D. Jones | 51 |
| | S. Khatun | |
| Daneford Trust | S. Haque | 3 |
| Docklands Sailing Water Sports Centre | M. S. Ali | 17 |
| East End Citizen Advice Bureau | R. U. Ahmed | 200 |
| East End Homes | D. Jones | 925 |
| | M. Uz-Zaman | |
| East London Line Group | A. Ullah | 4 |
| | W. Islam | |
| East London Somali Youth and Welfare Centre | A. A. Omer | 55 |
| Ensign Youth Club | A. Asad | 89 |
| Gateway Housing Association | J.Peck | 735 |
| Island Health | M. S. Ali | 1 |
| | R. Eckhardt | |
| Isle of Dogs Community Foundation | S Khatun | 1,031 |
| | T J Archer | |
| Jagonari | A. Ali | 476 |
| Keen Students School | H. U. Abbas | 10 |
| Kingley Hall Community Centre | R. Khan | 18 |
| Leaside Regeneration | A. M. O. Ahmed | 656 |
| | M. Francis | |

19 RELATED PARTY TRANSACTIONS (cont)

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

| Organisations | Councillor | Payments by the Council £'000 |
|--|--|----------------------------------|
| London Accident Prevention Council | E. Jones | 2 |
| London Youth Games | P. Golds S. Eaton W. Islam | 13 |
| Magic Me | S. Eaton | 23 |
| Montefiore Centre | M. A. Salique | 5 |
| Mudchute Association | R. Eckhardt | 147 |
| Oxford House in Bethnal Green | C. Harper-Penman | 29 |
| Poplar Harca | A. A. Sardar M. Uz-Zaman R. Khan | 2,845 |
| Rich Mix Cultural Enterprises | C. Harper-Penman R. U. Ahmed S. Khatun | 126 |
| Smithy Street Primary School | M. Uz-Zaman | 50 |
| Solander Gardens Muslim Community and Education Centre | H. Miah | 3 |
| Spitalfields Housing Association | H. U. Abbas | 1 |
| Splash | D. Uddin | 26 |
| St Hilda's East | F. Haque | 990 |
| St. Katherine and Shadwell Trust | A. Asad D. Jones S. Haque | 29 |
| Stepney Dynamic Youth | A. R. Khan | 5 |
| Thames Gateway London Partnership | A. M. O. Ahmed | 10 |
| The London Thames Gateway | A. M. O. Ahmed | 49 |
| Tower Hamlets College | C. Hawkins | 930 |
| Tower Hamlets College Day Nursery | C. Hawkins | 13 |
| Tower Hamlets Community Credit Union | R. M. A. Saunders | 2 |
| Tower Hamlets Community Housing | M. A. Salique S. Islam S. Haque | 327 |
| Tower Hamlets Community Transport | A. A. Omer A. Ullah A. Ali T. J. O'Flaherty | 113 |
| Tower Hamlets Law Centre | M. A. Salique | 242 |
| Tower Hamlets Play Association | A. A. Omer | 241 |
| Tower Hamlets Primary Care Trust | D. Jones M. Uz-Zaman | 5,140 |
| Tower Hamlets Sports Council | A. Miah R. U. Ahmed R. Eckhardt S. Khatun S. Eaton W. Islam A A Omer | 8 |
| Tower Project | A. T. Jackson | 1,841 |
| Toynbee Hall | S. Eaton | 153 |
| Wapping Bangladesh Association | A. Ullah S. Haque | 15 |
| Women's Environment Network | C. Hawkins | 22 |

20 INTERESTS IN COMPANIES

Tower Hamlets Homes Limited is a private company limited by guarantee with no share capital. It is a wholly owned subsidiary of the Council and is incorporated in the Council's Group Accounts at pages 61 to 66.

21 POOLED BUDGETS

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

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

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

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

| 2008-09 | ICES £'000 | LDSA £'000 | DCTP £'000 | CLDSA £'000 | OTS £'000 |
|--|-----------------------|-----------------------|-----------------------|------------------------|----------------------|
| Income | | | | | |
| The Council | 924 | 1,278 | 6,301 | 17,885 | 1,805 |
| Tower Hamlets Primary Care Trust | 610 | 1,661 | 1,538 | 3,142 | 1,385 |
| Learning Disabilities Development Fund | | | | 245 | |
| | 1,534 | 2,939 | 7,839 | 21,272 | 3,190 |
| Expenditure | 1,534 | 2,939 | 7,839 | 21,272 | 3,190 |
| Surplus/Deficit for the year | 0 | 0 | 0 | 0 | 0 |
| 2007-08 | ICES £'000 | LDSA £'000 | DCTP £'000 | CLDSA £'000 | OTS £'000 |
| Income | | | | | |
| The Council | 916 | 1,247 | 5,755 | 17,161 | 1,516 |
| Tower Hamlets Primary Care Trust | 774 | 1,621 | 1,386 | 2,754 | 1,314 |
| Learning Disabilities Development Fund | | | | 246 | |
| | 1,690 | 2,868 | 7,141 | 20,161 | 2,830 |
| Expenditure | 1,690 | 2,868 | 7,141 | 20,161 | 2,830 |
| Surplus/Deficit for the year | 0 | 0 | 0 | 0 | 0 |

| 22 MOVEMENT ON FIXED ASSETS | Council | Other Land | Infrastructure | Equipment | Community | Total | Non- | Total |
|---|------------------|----------------|----------------|---------------|---------------|------------------|---------------|------------------|
| | Dwellings | and Buildings | | | | Operational | Operational | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation | | | | | | | | |
| At 1st April 2008 | 999,016 | 737,233 | 104,000 | 9,659 | 41,073 | 1,890,981 | 55,591 | 1,946,572 |
| Additions | 21,765 | 17,190 | 5,690 | 2,621 | 3,252 | 50,518 | 210 | 50,728 |
| Disposals | (3,395) | (1,724) | - | 0 | 0 | (5,119) | (792) | (5,911) |
| Reclassifications | - | (448) | - | 1 | 432 | (15) | 15 | 0 |
| Revaluations | 34,229 | 6,728 | - | - | 463 | 41,420 | 227 | 41,647 |
| At 31 March 2009 | 1,051,615 | 758,979 | 109,690 | 12,281 | 45,220 | 1,977,785 | 55,251 | 2,033,036 |
| Depreciation and impairments | | | | | | | | |
| At 1st April 2008 | 12,935 | 39,111 | 20,679 | 8,036 | 0 | 80,761 | 1,485 | 82,246 |
| Depreciation charge for 2008-09 | 11,824 | 12,379 | 2,614 | 602 | - | 27,419 | - | 27,419 |
| Impairment loss for 2008-09 | 138,500 | 24,174 | - | - | - | 162,674 | 3,751 | 166,425 |
| Disposals | - | 0 | - | 0 | - | 0 | 0 | 0 |
| Revaluations | (12,935) | (11,743) | - | - | - | (24,678) | (829) | (25,507) |
| Depreciation as at 31st March 2009 | 150,324 | 63,921 | 23,293 | 8,638 | 0 | 246,176 | 4,407 | 250,583 |
| Balance sheet amount at 31st March 2009 | 901,291 | 695,058 | 86,397 | 3,643 | 45,220 | 1,731,609 | 50,844 | 1,782,453 |
| Balance sheet amount at 31st March 2008 ¹ | 986,081 | 698,122 | 83,321 | 1,623 | 41,073 | 1,810,220 | 54,106 | 1,864,326 |

¹ See note 58

Nature of asset holding

Owned

| | | | | | | | | |
|-------|---------|---------|--------|-------|--------|-----------|--------|-----------|
| Owned | 901,291 | 695,058 | 86,397 | 3,643 | 45,220 | 1,731,609 | 50,844 | 1,782,453 |
|-------|---------|---------|--------|-------|--------|-----------|--------|-----------|

| 23 FIXED ASSET VALUATIONS | Council | Other Land | Infrastructure | Equipment | Community | Total | Non- | Total |
|--|----------------|----------------|----------------|--------------|---------------|------------------|---------------|------------------|
| | Dwellings | and Buildings | | | | Operational | Operational | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| The following shows the progress of the Council's rolling programme for the revaluation of fixed assets. | | | | | | | | |
| Valued at historic cost | - | - | 86,397 | 3,643 | 45,220 | 135,260 | - | 135,260 |
| Valued at current value in: | | | | | | | | |
| 2008/09 | 901,291 | 82,154 | - | - | - | 983,445 | 50,844 | 1,034,289 |
| 2007/08 | - | 507,650 | - | - | - | 507,650 | - | 507,650 |
| 2006/07 | - | 22,576 | - | - | - | 22,576 | - | 22,576 |
| 2005/06 | - | 82,678 | - | - | - | 82,678 | - | 82,678 |
| Total | 901,291 | 695,058 | 86,397 | 3,643 | 45,220 | 1,731,609 | 50,844 | 1,782,453 |

The freehold properties which comprise the Council's property portfolio have been valued by Royal Institute of Chartered Surveyors (RICS) qualified valuers as follows:

Dwellings - C. Kench, MRICS

Community buildings - S.A. Collier BSc, FRICS

Other non-dwellings - S. A. Layfield FRICS, IRRV and A. Osibogun, MRICS

General Fund Property Valuation

The Council operates a five-year rolling programme of revaluation. The valuations carried out complied with the requirements of Financial Reporting Standard (FRS) 15, "Tangible Fixed Assets", issued by the Accounting Standards Board. A table showing the analysis of revaluations of fixed assets is shown above.

Properties considered by the valuer to be specialised within the definition provided by FRS 15 were valued on the basis of Depreciated Replacement Cost where there is no active market for the asset being valued. Properties considered by the valuer to be non-specific were valued on an Existing Use Value basis. Community assets and infrastructure assets have been included at historic cost.

Independent RICS qualified valuers have undertaken a review of the value of assets as required under FRS 11, "Impairment of Fixed Assets", and consider that the value of the assets has reduced due to the current economic climate as set out in Note 22.

Housing Revenue Account Property Valuation

The valuation of Housing Revenue Account assets has been carried out by the District Valuer London (DVS) in accordance with guidelines produced by central government in the "Guidance on Stock Valuation for Resource Accounting".

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

Depreciation

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life, except non-operational investment properties and land. Community assets are not depreciated as they have no determinable useful life. The depreciation bases adopted for each type of asset are disclosed in the Statement of Accounting Policies on page 12. The projected asset lives, which form the basis of the depreciation charges, are reviewed as part of the revaluation exercise.

24 CAPITAL EXPENDITURE AND FINANCING

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

| | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|---|--------------------|--|
| Expenditure | | |
| Tangible Fixed Assets | | |
| Operational | 50,519 | 48,147 |
| Non Operational | 209 | 46 |
| Intangible Fixed Assets | 969 | 692 |
| Deferred Consideration | 1,002 | 1,878 |
| Revenue Expenditure Funded from Capital Under Statute | 16,281 | 10,554 |
| TOTAL | 68,980 | 61,317 |
| Source of Finance | | |
| Borrowing | 23,846 | 21,963 |
| Capital Receipts and Contributions | 29,508 | 29,166 |
| Major Repairs Reserve | 12,311 | 10,140 |
| Direct Revenue Funding | 3,315 | 48 |
| TOTAL | 68,980 | 61,317 |

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

| | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|--|--------------------|--|
| Opening Capital Financing Requirement | 404,835 | 443,333 |
| Capital Investment | | |
| Operational Assets | 50,728 | 48,193 |
| Intangible Assets | 969 | 692 |
| Revenue Expenditure Funded from Capital Under Statute | 16,281 | 10,554 |
| Deferred Consideration | 1,002 | 1,878 |
| Sources of Finance | | |
| Capital Receipts and Contributions | (29,508) | (29,167) |
| Major Repairs Reserve | (12,311) | (10,140) |
| Direct Revenue Funding | (3,315) | (48) |
| Net Revenue Provision | (6,983) | (6,954) |
| Stock transfer loans repaid | 0 | (53,506) |
| Closing Capital Financing Requirement | 421,698 | 404,835 |
| Explanation of movements in the year | | |
| Increase (decrease) in underlying need to borrow (supported by Government financial assistance) | 16,309 | 14,383 |
| Repayment of External Loans Resulting from Stock Transfer | 0 | (53,506) |
| Increase in underlying need to borrow (unsupported by Government financial assistance) | 554 | 625 |
| Increase/(decrease) in Capital Financing Requirement | 16,863 | (38,498) |

¹ See note 58

25 ANALYSIS OF TANGIBLE FIXED ASSETS

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

| | 2008/2009 | 2007/2008 |
|---|-------------------|-------------------|
| Land and buildings | <i>Number</i> | <i>Number</i> |
| Dwellings | 13,058 | 13,096 |
| Administrative buildings | 34 | 37 |
| Commercial properties | 492 | 497 |
| Depots | 6 | 6 |
| Cemeteries | 2 | 2 |
| Public mortuary | 1 | 1 |
| Recreation and leisure facilities | 25 | 29 |
| Schools | 48 | 53 |
| Social services establishments - Residential Homes, Day Centres etc. | 16 | 21 |
| Other | 74 | 69 |
| | <i>Hectares</i> | <i>Hectares</i> |
| Parks and open spaces | 238 | 236 |
| | <i>Kilometres</i> | <i>Kilometres</i> |
| Infrastructure | | |
| Principal built up roads | 14.7 | 14.7 |
| Other built up roads | 248.2 | 248.2 |

26 CAPITAL COMMITMENTS

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £52.73 million at 31st March 2009 (£1.79 million at 31st March 2008).

| | Committed sum £m | Costs to 31/3/2009 £m | 2009/2010 onwards £m |
|--|------------------------|-----------------------------|----------------------------|
| George Loveless and James Hammett - refurbishment | 3.33 | 1.76 | 1.57 |
| Building Schools for the Future | | | |
| Bethnal Green Training Centre | 17.05 | 5.28 | 11.77 |
| St Pauls Way Secondary School | 36.05 | 3.58 | 32.47 |
| Wessex Centre | 2.51 | 0.68 | 1.83 |
| Arnhem Wharf expansion | 1.65 | - | 1.65 |
| Manorfield expansion | 3.62 | 0.18 | 3.44 |
| TOTAL | 64.21 | 11.48 | 52.73 |

27 LEASES

Operating Leases

The Council was committed at 31 March 2009 to making payments of £9.256 million under operating leases as follows:

| | Buildings £000 | Other Land and Vehicles, Plant and Equipment £000 |
|---|-------------------|---|
| Leases expiring in 2009/10 | 0 | 1,228 |
| Leases expiring between 2010/11 and 2014/15 | 0 | 623 |
| Leases expiring after 2014/15 | 7,294 | 111 |

28 INTANGIBLE FIXED ASSETS

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

| | Balance at 1/4/2008 £'000 | Expenditure 2008-09 £'000 | Revenue Charge 2008-09 £'000 | Balance at 31/3/2009 £'000 |
|--------------------------|---------------------------------|---------------------------------|---------------------------------------|----------------------------------|
| Software licences | - | 969 | (969) | - |

29 LONG TERM DEBTORS

| | Balance at 1/4/2008 £'000 | Advances £'000 | Income and adjustments £'000 | Balance at 31/3/2009 £'000 |
|---|---------------------------------|-------------------|------------------------------------|----------------------------------|
| Mortgages | | | | |
| Right to buy | 575 | - | (144) | 431 |
| TOTAL MORTGAGES | 575 | - | (144) | 431 |
| Private Finance Initiative schemes ¹ | 71,628 | 12,757 | 24,374 | 108,759 |
| Sundry loans | 491 | - | (67) | 424 |
| TOTAL LONG TERM DEBTORS | 72,694 | 12,757 | 24,163 | 109,614 |

¹ In accordance with best accounting practice, 2008-09 Private Finance Initiative schemes have been increased by £24.374 million during the year to reflect a reclassification from short term debtors (see note 32), giving a total at the year end of £109.614m. The comparable figure at 31st March 2008 is £97.591 million.

30 STOCK AND WORK IN PROGRESS

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| Work in progress | 289 | 2,870 |
| Stocks | 14 | 14 |
| TOTAL STOCKS AND WORKS IN PROGRESS | 303 | 2,884 |

Work in progress consists of rechargeable works which are shown net of deposits. This is a change in practice from 2007-08 when the figures were shown gross. The comparable figure for 2007-08 is £273,000.

31 DEBTORS AND PAYMENTS IN ADVANCE

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|
| Government | 11,256 | 12,335 |
| Her Majesty's Revenue and Customs | 8,002 | 10,477 |
| Rates, Community Charge and Council Tax payers | 27,349 | 23,304 |
| Other local authorities | 1 | - |
| Rents: sundry tenants | 4,792 | 4,681 |
| Rents: homeless families | 13,368 | 12,335 |
| Employees | 306 | 370 |
| Payments in advance | 3,563 | 4,004 |
| Deferred considerations ¹ | 1,434 | 26,241 |
| Housing benefits overpayments | 11,317 | 9,122 |
| Controlled parking fees | 5,749 | 3,365 |
| Sundry | 63,409 | 57,142 |
| TOTAL DEBTORS | 150,546 | 163,376 |
| Provisions for bad debts | | |
| Rents: sundry tenants | (3,207) | (3,982) |
| Housing benefits overpayments | (10,277) | (8,640) |
| Rents: homeless families | (13,154) | (12,075) |
| Controlled parking fees | (5,437) | (3,241) |
| Rates, Community Charge and Council Tax payers | (11,111) | (10,329) |
| Sundry | (14,685) | (14,278) |
| TOTAL PROVISIONS FOR BAD DEBTS | (57,871) | (52,545) |
| TOTAL NET DEBTORS | 92,675 | 110,831 |

¹ In accordance with best accounting practice, 2008-09 Deferred Considerations have been reduced by £24.374 million during the year to reflect a reclassification to long term debtors (see note 29), giving a total at the year end of £1.434 million. The comparable figure at 31 March 2008 is £1.344 million. The comparable total net debtors figure is £85.934 million.

32 DEFERRED CONSIDERATIONS

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

| | 2008/2009 £'000 | 2007/2008 £'000 |
|-------------------------------|--------------------|--------------------|
| Balance at beginning of year | 26,241 | 25,707 |
| Expenditure during the year | 1,001 | 1,878 |
| Charged to revenue | (1,434) | (1,344) |
| BALANCE AT END OF YEAR | 25,808 | 26,241 |
| Made up of: | | |
| Long term debtors | 24,374 | 24,897 |
| Short term debtors | 1,434 | 1,344 |
| | 25,808 | 26,241 |

33 FINANCIAL ASSETS AND LIABILITIES

With effect from 1 April 2007, local authorities have had to adopt a major change of accounting policy in order to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee.

Amortised Cost

This change in accounting standards has meant that most financial instruments (whether borrowing or investment) in 2007/08 and subsequent years, have to be valued on an amortised costs 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.

33 FINANCIAL ASSETS AND LIABILITIES (contd)

Compliance

The Council has:

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

Types of Financial Instruments

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

| Financial Instrument Balances | Long-Term | | Current | | Total | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2008/2009 £'000 | 2007/2008 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2008/2009 £'000 | 2007/2008 £'000 |
| Borrowings | | | | | | |
| Financial liabilities at amortised cost | 251,785 | 262,043 | 12,901 | 14,018 | 264,686 | 276,061 |
| Investments | | | | | | |
| Loans and receivables | | | 78,427 | 100,389 | 78,427 | 100,389 |

The adjustments are as set out below:

| | 2008/2009 £000s | 2007/2008 £000s |
|---|--------------------|--------------------|
| Balance Sheet: long term loans | 251,785 | 262,043 |
| Balance Sheet: short term loans | 12,901 | 14,018 |
| Loans | 264,686 | 276,061 |
| Debt Restructuring Adjustments ¹ | | 2,839 |
| Total Borrowing | 264,686 | 278,900 |

¹ The accounting treatment of premia in 2007-08 has been reviewed. The balance outstanding previously served to reduce Long term loans on the Council's Balance Sheet. It has been transferred to the Financial Instruments Adjustments Account to reflect best practice. The comparable 2008-09 figure is £1.9 million.

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:

| | 2008/2009 | | 2007/2008 | |
|---|---|---|---|---|
| | Financial Liabilities measured at amortised cost £000s | Financial Assets Loans and receivables £000s | Financial Liabilities measured at amortised cost £000s | Financial Assets Loans and receivables £000s |
| Interest expense | 23,473 | | 26,076 | |
| Interest income | | 6,059 | | 7,776 |
| TOTAL INTEREST AND INVESTMENT INCOME | 23,473 | 6,059 | 26,076 | 7,776 |

The interest payable relates to third party debt and excludes interfund interest payments amounting to £0.414 million. These payments to the HRA and Pension Fund have been included in the balance sheet.

Fair Value of Assets and Liabilities carried at Amortised Cost

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 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.

33 FINANCIAL ASSETS AND LIABILITIES (contd)

The calculations are made with the following assumptions:

- The PWLB can be calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2009.
- For other market debt and investments the discount rate used is the rates 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

| | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2007/2008 £'000 |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Public Works Loans Board | 247,113 | 330,715 | 260,268 | 330,002 |
| LOBOs | 17,573 | 18,337 | 17,573 | 18,551 |
| Short term borrowing | - | - | 1,059 | 1,059 |
| Financial liabilities | 264,686 | 349,052 | 278,900 | 349,612 |

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 lower/higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Fair Value of Assets Carried at Amortised Cost

Deposits with banks and building societies

TOTAL

| | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|--------------------|--------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Deposits with banks and building societies | 78,427 | 78,492 | 100,389 | 100,393 |
| TOTAL | 78,427 | 78,492 | 100,389 | 100,393 |

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 is receivable is lower/higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above/below current market rates increases the amount that the authority would receive if it agreed to early repayment of loans.

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. The Council has fully adopted 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

1. Credit Risk

Credit 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. 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. The Council also has a policy of limiting deposits with institutions to a maximum of £10-25 million.

The following analysis 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.

Deposits with banks and other financial institutions

Bonds and other securities

Customers

TOTAL

| | Amounts at 31 March 2009 £'000 | Historical experience of default % | Historical experience adjusted for market conditions as at 31 March 2009 % | Estimated maximum exposure to default and uncollectability £'000 |
|--|--------------------------------------|---|--|---|
| Deposits with banks and other financial institutions | 78,427 | - | - | - |
| Bonds and other securities | - | - | - | - |
| Customers | - | - | - | - |
| TOTAL | 78,427 | 0 | 0 | 0 |

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

33 FINANCIAL ASSETS AND LIABILITIES (contd)

The Council does not generally allow credit for customers, such that £3.261 million of the £28.330 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

| | 31 March 2009 £'000 | 31 March 2008 £'000 |
|------------------------|------------------------|------------------------|
| Credit Risk | | |
| Three to six months | 598 | 1,172 |
| Six months to one year | 1,336 | 1,386 |
| More than one year | 1,327 | 1,527 |
| TOTAL | 3,261 | 4,085 |

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):

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--------------------------|--------------------|--------------------|
| Loans outstanding | | |
| Public Works Loans Board | 244,476 | 257,437 |
| Market debt | 17,500 | 17,500 |
| Temporary borrowing | | 1,059 |
| TOTAL | 261,976 | 275,996 |
| Less than 1 year | 12,901 | 14,018 |
| Between 1 and 2 years | 6,600 | 12,901 |
| Between 2 and 5 years | 58,112 | 49,345 |
| Between 5 and 10 years | 113,284 | 98,452 |
| More than 10 years | 71,079 | 101,280 |
| TOTAL | 261,976 | 275,996 |

3. Market Risk

Interest rate risk

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

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

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the 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 Statement of Recognised Gains & Losses
- 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 aim to keep a maximum of 20% of its borrowings in variable rate loans. 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. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of higher costs.

The treasury management team has a strategy for assessing interest rate exposure that feeds into the setting of the annual budget.

According to this assessment strategy, at 31 March 2009, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|
| Interest Rate Risk | | |
| Increase in interest payable on variable rate borrowings | 0 | 172 |
| Increase in interest receivable on variable rate investments | -1,037 | (959) |
| Impact on Income and Expenditure Account | (1,037) | (787) |

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

Price risk

The Council does not generally invest in equity shares but does have the following shareholdings acquired in association with its activities:

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| London Mutual Insurance Limited | 346 | 260 |
| The Tower Hamlets Local Education Partnership | 7 | 0 |

34 CREDITORS AND RECEIPTS IN ADVANCE

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|
| Government | 29,180 | 36,388 |
| Inland Revenue/Customs and Excise | 8,297 | 7,803 |
| Rates, Community Charge and Council Tax payers | 23,851 | 29,410 |
| Rents: sundry tenants | 1,109 | 1,144 |
| Rents: homeless families | 240 | 265 |
| Receipts in advance | 40,600 | 35,407 |
| Sundry | 39,512 | 38,263 |
| TOTAL CREDITORS | 142,789 | 148,680 |

Sundry creditors includes £3.899 million in respect of deposits held against rechargeable works (work in progress - see page 33). Work in progress is shown net of deposits in the Council's Balance Sheet, which is a change in practice from 2007-08 and results in a reduction of reported creditors. Creditors in 2007-08 included £6.159 million in respect of deposits. The comparable 2007-08 figure on the revised basis is £2.087 million, a reduction of £4.072 million.

35 EVENTS AFTER THE BALANCE SHEET DATE

The Creditors line in the Current Liabilities section of the Balance Sheet includes an amount of £3.1 million in respect of compensation paid resulting from planning approval given for business and residential development at 33-37 The Oval. This was shown as a contingent liability in the Council's 2007-08 accounts. The amount in question was paid on 29th May 2009.

The Council was a participating member of London Authorities Mutual Limited, a collectively owned insurer for councils. In June 2009 the Court of Appeal ruled that this collective was unlawful and should cease to exist. The Council's investment in this venture, which is anticipated to be fully recoverable, is not material to the Council's accounts.

36 CAPITAL GRANTS UNAPPLIED

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| Balance at 1 April 2008 | 21,234 | 14,255 |
| Capital grants received | 36,716 | 22,772 |
| Total receipts for year | 57,950 | 37,027 |
| Receipts applied to finance capital expenditure | (20,587) | (15,793) |
| BALANCE AS AT 31 MARCH 2009 | 37,363 | 21,234 |

37 DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

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

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| Balance at 1 April 2009 | 99,788 | 132,252 |
| Grants and contributions applied to capital investments | 22,202 | 17,712 |
| Amounts released in year | (25,851) | (50,176) |
| Balance at 31 March 2009 | 96,139 | 99,788 |

38 DEFERRED INCOME - RECEIPT IN ADVANCE

The Council was paid an incentive (reverse premium) to enter into the lease of an administrative building. The premium is being released to revenue over the term of the lease. In previous years the balance remaining at the year end has been treated as a provision. Following review, the amount has been reclassified as deferred income to accord with best accounting practice.

| | Reclassified £'000 | Used in Year £'000 | Balance at 31 March 2009 £'000 |
|---|-----------------------|-----------------------|--------------------------------------|
| Administrative buildings lease equalisation | 11,391 | 385 | 11,006 |

38a PROVISIONS

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

| | Balance at 1/4/2008 £'000 | Used in Year £'000 | Contribution in Year £'000 | Balance at 31/3/2009 £'000 |
|---|---------------------------------|--------------------------|----------------------------------|----------------------------------|
| (a) Insurance Fund | 3,400 | | 1,476 | 4,876 |
| (b) Single Status | 4,575 | 4,149 | | 426 |
| (c) Asylum Seekers | 100 | 100 | | 0 |
| (d) Liability to DEFRA for BMW landfill usage | 335 | 335 | 6 | 6 |
| (e) Administrative buildings lease equalisation | 11,391 | 11,391 | | 0 |
| (f) Repayment of deposits | 434 | 43 | | 391 |
| (g) Education salaries liability | 196 | 171 | | 25 |
| (h) Repayment of European funding | 394 | | | 394 |
| (i) Pension liability - part time staff | 400 | | | 400 |
| (j) E-procurement | 30 | 30 | | 0 |
| (k) Barkantine PFI | 1,100 | | 496 | 1,596 |
| (l) Dangerous structures | 13 | | | 13 |
| (m) Youth and community contracts | | | 101 | 101 |
| (n) Metropolitan Police | 176 | | | 176 |
| (o) Employment Tribunal | 60 | | | 60 |
| (p) Commissioning Responsibility | 53 | | | 53 |
| (q) Adoption Fees | | | 43 | 43 |
| TOTAL | 22,657 | 16,219 | 2,122 | 8,560 |

- (a) 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.
- (b) For additional costs resulting from the single status agreement which changed employees' conditions of service. The provision was almost fully used during the year.
- (c) To provide for the non-payment of Government grant in respect of payments by the Council for accommodation services.
- (d) The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of Biodegradable Municipal Waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to a defined upper limit. As landfill is used, a liability is recognised for actual BMW landfill usage.
- (e) This provision has been reclassified as deferred income. See note 38 above.
- (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.
- (g) To accommodate the anticipated pay rise due to ex-employees following the cessation of the national pay body in 1994.
- (h) There are a number of European funded schemes where there is a probability that grant will need to be repaid.
- (i) To reflect the potential liability for 40 ex-employees, based on the additional pension contribution costs that the Council would have incurred if these staff had been allowed to join the pension fund.
- (j) To provide for set up costs of electronic invoicing for small and local suppliers.
- (k) To provide for the potential liability of PFI credits not being issued by the DCLG for the Barkantine PFI Scheme.
- (l) The Council is in dispute over the cost of various works under its dangerous structure obligations. The provision has been established to meet the cost of these works once the amount of the liability has been agreed.
- (m) The youth work contracts provide for a 10% bonus to be paid at the end of each contract year. This provision is to meet this obligation.
- (n) To provide for the repayment of grant either to the Metropolitan Police or the Home Office. The recipient has yet to be determined by the Home Office.
- (o) To provide for payment following an unfair dismissal by the Council.
- (p) Provision for the disputed payment for a former borough resident's nursing care.
- (q) Provision for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted.

39 MOVEMENT ON RESERVES

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

| | Balance at 1/4/2008 As Restated ¹ £'000 | Movement in year £'000 | Balance at 31/03/2009 £'000 | Purpose of Reserve | Further Detail of Movements |
|--|---|------------------------------|-----------------------------------|--|--------------------------------|
| Revaluation Reserve | 378,611 | (58,905) | 319,706 | To record unrealised revaluation gains (since 1 April 2007) from holding fixed assets. The balance does not represent cash resources available to the Council. | See note 40 |
| Capital Adjustment Account | 1,061,731 | (23,864) | 1,037,867 | A balancing mechanism between the different rates at which assets are depreciated under the SORP and financed through the capital controls system. The balance does not represent cash resources available to the Council. | See note 42 |
| Capital Receipts Reserve | 9,383 | 8,708 | 18,091 | Proceeds of fixed asset sales available to meet future capital investment | See note 43 |
| Financial Instruments Adjustment Account | 2,555 | 280 | 2,835 | Discounts on the premature redemption of debt to be transferred to revenue over the residual term of the loan | See note 41 |
| Pensions Reserve | (183,026) | (87,539) | (270,565) | Balancing account to allow inclusion of Pensions Liability in the Balance Sheet | See note 48 |
| Housing Revenue Account | 35,188 | (11,887) | 23,301 | Resources available to meet future costs for council houses | See pages 52-57 |
| Major Repairs Reserve | 2,841 | (487) | 2,354 | Resources available to meet capital investment in council housing | See page 55 |
| General Fund | 25,514 | 1,588 | 27,102 | Resources available to meet future costs for non-housing services. Schools' Balances are included in Earmarked Reserves. | See page 17 |
| Earmarked Reserves (including schools' balances) | 92,846 | 9,019 | 101,865 | Amounts carried forward to meet known liabilities in the future. | See note 47 |
| TOTAL | 1,425,643 | (163,087) | 1,262,556 | | |

¹ See note 58

40 REVALUATION RESERVE

| | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|--|--------------------|--|
| Balance at 1st April | 378,611 | 0 |
| Revaluation gains on assets revalued in year | 86,571 | 397,411 |
| Balances written off on assets disposed of in year | (587) | (15,714) |
| Balances written off on impairment losses in year | (141,342) | 0 |
| Difference between depreciation on current value and depreciation on historic cost | (3,547) | (3,086) |
| BALANCE AT 31st MARCH | 319,706 | 378,611 |

The Revaluation Reserve records unrealised revaluation gains (since 1 April 2007) from holding fixed assets. The balance on the account is matched by fixed assets within the Balance Sheet and does not represent cash resources available to the Council.

¹ See note 58

41 FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account represents the balance of deferred premia and discounts relating to the premature redemption of Public Works Loans Board (PWL) debt prior to 2008-09.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2007 permit councils to hold the total amount in this account and debit or credit the amounts to revenue over the residual term of the redeemed loan.

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| Balance at 1st April | 2,555 | - |
| Transfer of deferred discounts from revenue | - | 2,840 |
| Premia - prior year adjustment ¹ | (2,839) | - |
| Annual transfer to revenue | 564 | (285) |
| BALANCE AT 31st MARCH | 280 | 2,555 |

¹ The accounting treatment of premia in 2007-08 has been reviewed. The balance outstanding previously served to reduce Long Term Liabilities - Long term borrowing, on the Council's Balance Sheet. It has been transferred to this account to reflect best practice. The comparable figure for 2007-08 was £2.8 million.

42 CAPITAL ADJUSTMENT ACCOUNT

| | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|--|--------------------|--|
| BALANCE AT 1st APRIL | 1,061,731 | 1,205,748 |
| Fixed Asset Adjustments | | |
| Depreciation (General Fund) | (14,861) | (16,569) |
| Depreciation (HRA) | (12,558) | (13,818) |
| Impairment (GF) | (31,750) | (2,845) |
| Difference between depreciation on current value and depreciation on historic cost | 3,547 | 3,086 |
| Sales of Fixed Assets | (5,911) | (26,582) |
| Write-off of Fixed Assets (including transfers to Registered Social Landlords) | 0 | (222,620) |
| Write out Revaluation Reserve Balance on Assets Disposed of in Year | 587 | 15,713 |
| Amortisation of Revenue Expenditure Financed from Capital under Statute | (18,684) | (12,690) |
| Resources set aside to finance Capital Expenditure | | |
| Capital Receipts | 7,306 | 11,454 |
| Capital Grants and Contributions | 25,851 | 50,176 |
| Direct Revenue Financing (General Fund) | 3,315 | 48 |
| Major Repairs Allowance | 12,311 | 10,140 |
| Minimum Revenue Provision | 6,983 | 6,984 |
| Stock Transfer Loans Repaid | - | 53,506 |
| BALANCE AT 31st MARCH | 1,037,867 | 1,061,731 |

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and financed through the capital controls system. The balance is matched by fixed assets within the Balance Sheet and does not represent cash resources available to the Council.

¹ See note 58

43 CAPITAL RECEIPTS RESERVE

| | Housing £'000 | Other £'000 | Total £'000 |
|---|------------------|----------------|----------------|
| Balance at 1st April, 2008 | 3,216 | 6,167 | 9,383 |
| Receipts from sales of assets | 7,152 | 12,153 | 19,305 |
| Unattached receipts | 369 | 962 | 1,331 |
| Deferred capital receipts | 144 | | 144 |
| Receipts paid to central government | (4,766) | | (4,766) |
| Receipts applied to finance capital expenditure | (6,115) | (1,191) | (7,306) |
| BALANCE AT 31st MARCH 2009 | 0 | 18,091 | 18,091 |

44 DEFERRED CAPITAL RECEIPTS

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

| | 2008/2009 £'000 | 2007/2008 £'000 |
|-----------|--------------------|--------------------|
| Mortgages | 412 | 556 |
| | 412 | 556 |

45 STREET TRADING ACCOUNT

| | 2008/2009 | 2007/2008 |
|---------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Expenditure | | |
| Employee costs | 985 | 1,013 |
| Refuse collection and disposal | 682 | 704 |
| Support services | 311 | 472 |
| Other expenditure | 110 | 124 |
| Increase in provision for bad debts | 30 | |
| Total Expenditure | 2,118 | 2,313 |
| Income | | |
| Street trading charges | 2,107 | 1,940 |
| Other income | 115 | 50 |
| Decrease in provision for bad debts | | 73 |
| Total Income | 2,222 | 2,063 |
| Deficit/(surplus) for the year | (104) | 250 |
| Balance at 1st April | 402 | 152 |
| Deficit/(surplus) for the year | (104) | 250 |
| BALANCE at 31st MARCH | 298 | 402 |

The Council operates a separate Street Trading Account under the London Local Authorities Act 1990. S.32 of the Act enables the Council to recover from the traders the reasonable costs in connection with their functions under the Act - notably, refuse collection/disposal and administrative/technical support. The overall deficit on the account serves to reduce the Council's General Fund balance.

46 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2009 the Council transferred tenanted and leasehold properties to other landlords - 7,363 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to Eastend Homes; 1,985 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields HA. 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.

Further Stock Transfers

A small number of further transfers of Council Housing Estates involving up to 174 homes may take place over the next year which require environmental warranties to be given for land on the estates. These potential liabilities are being covered by taking out insurance as cover for the first 10 years. Although some liability may occur to the Council after 10 years, most if not all of the potential for claims will occur in the first 5 years following each transfer when the major works will be carried out. The amount of the potential obligation cannot be measured with sufficient reliability at this time.

47 EARMARKED RESERVES

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| Corporate | | |
| (a) Insurance Reserve | 26,096 | 25,985 |
| (a2) Area Based Grant Reserve | 5,744 | - |
| (b) Decent Homes | 23,662 | 21,684 |
| (c) Final Accounts review | 2,724 | 2,219 |
| (d) Performance Related grant | 2,348 | - |
| (e) Trading Account net balances | - | 693 |
| (f) Olympic Legacy | 2,110 | 1,500 |
| (g) Personal Computers refresh | 1,355 | 975 |
| (h) Single Status | 1,205 | 1,205 |
| (i) Local Authority Business Growth Incentives Scheme (LABGI) | 725 | - |
| (j) EGovernment | 689 | - |
| Chief Executive's and Resources | | |
| (k) Corporate initiatives | 1,791 | 1,741 |
| (l) Miscellaneous Information Technology (IT) projects | 213 | 380 |
| (m) Local elections | 150 | - |
| (n) Underspends carried forward | 100 | 145 |
| (o) Administrative buildings car parks | - | 13 |
| Development and Renewal | | |
| (p) Regeneration | 1,738 | - |
| (q) Planning development | 1,236 | - |
| (r) Building Control | 247 | 160 |
| (s) Community use of buildings | 200 | 200 |
| (t) Neighbourhood Renewal | 2,468 | 3,075 |
| (u) Crossrail | 90 | 154 |
| (v) Ocean New Deal for Communities | 359 | 359 |
| Communities, Localities and Culture | | |
| (w) Parking Control Account | 957 | - |
| (x) Tower Hamlets Mela | 288 | - |
| (y) Food waste recycling programme | 220 | - |
| (z) Civil Contingencies | 150 | 250 |
| (aa) Blackwall depot | 50 | - |
| Children's | | |
| (bb) Schools delegated balances | 20,536 | 28,349 |
| (cc) Recoupment | - | 524 |
| (dd) Unapplied rate rebates | 1,970 | 1,868 |
| (ee) Special needs | 93 | 93 |
| (ff) Tower Hamlets PCT | - | 100 |
| Adults Health and Wellbeing | | |
| (gg) Homelessness | 1,851 | 1,174 |
| (hh) Frameworki | 500 | - |
| TOTAL EARMARKED RESERVES AT 31st MARCH | 101,865 | 92,846 |

The nature of the above reserves is described below and on the following pages.

- (a) The Council is self insured for most liability and property risks. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision. During the year the reserve increased by £0.1 million (net of a transfer of £1.5 million into the insurance provision).
- (a2) A reserve created in 2008-09 to earmark and carry forward unused Area Based Grant into the following year.

47 EARMARKED RESERVES (contd)

- (b) £15.1 million of this reserve is to fund capital schemes previously funded from capital receipts which have now been allocated to the Housing Overcrowding Strategy. The balance of £8.6 million is earmarked for potential future costs associated with the outsourcing of the Council's housing repairs and improvements service.
- (c) Held to meet any liabilities identified following a review of the Council's final accounts and balance sheet.
- (d) This reserve represents grant received which will be used to deliver improved outcomes in accordance with the Local Area Agreement.
- (e) The net balance on trading accounts has been returned to general reserves during the year (in accordance with BVACOP) and this reserve closed.
- (f) For the purpose of making a grant available, should it be necessary, to the developers of the Olympic Aquatics Centre in addition to other olympic legacy expenditure.
- (g) A reserve established to meet the future cost of replacing personal computers.
- (h) A reserve established to meet potential costs resulting from a reduction in the basic week for former manual employees.
- (i) A new reserve using LAGBI resources, earmarked for the future improvement of town centres.
- (j) A reserve to meet the cost of Egovernment initiatives.
- (k) This reserve was established to provide time-limited resources to accelerate performance improvement and/or efficiency programmes.
- (l) This reserve was established to fund specific projects. The balance was reviewed at the end of the year and reduced.
- (m) This reserve has been established to meet the cost of the next local borough elections in May 2010.
- (n) A reserve established to carry forward any unspent Chief Executive budget to the next financial year. £45,000 of the reserve was used during the year and the balance carried forward into 2009-10.
- (o) An amount originally carried forward to fund the costs of green transport initiatives under the Green Transport Policy. Following review, the reserve has been closed.
- (p) A new reserve established from grant monies and earmarked to progress future regeneration initiatives.
- (q) A new reserve established from grant monies and earmarked to finance future planning function initiatives including the digitisation of records; and Local Deveopment Framework and Customer Contact Centre related expenditure.
- (r) Under Government regulations chargeable building control activities should break even over a 3 year period. The reserve represents the surplus on such activities in the year.
- (s) A reserve to fund future strategies in respect of the community use of buildings.
- (t) During the year £0.6 million of this reserve was used on neighbourhood renewal initiatives. Of the balance remaining, £2 million is earmarked towards the Council's overcrowding strategy. The remainder is earmarked towards legacy issues from the Davenant Centre.
- (u) A reserve to fund future Council costs arising from this major construction project. £64,000 of the reserve was used during the year.
- (v) This reserve combines existing New Deal for Communities (NDC) reserves and is earmarked towards the Ocean NDC regeneration programme and support for the Ocean regeneration trust.

47 EARMARKED RESERVES (contd)

- (w) This reserve has been created using part of the Parking Control account surplus for the year. It will be used for future operational activities.
- (x) A reserve to fund the Council's management and organisation of the Mela in 2009 and support the creation of a new community trust to deliver the Mela in future years.
- (y) A new reserve established to facilitate the continuing rollout of the Council's Food Waste Recycling Programme.
- (z) A reserve originally established to fund the installation of a fixed generator in the Town Hall. A more cost effective method of providing business continuity options has been identified, with a consequent reduction in the level of reserve.

- (aa) A new reserve to provide for necessary security works at Blackwall depot.
- (bb) This reserve represents unapplied revenue balances held by the Council on behalf of schools with delegated spending authority. The balance is committed to be spent on the education service.
- (cc) Originally a reserve for claims outstanding against the recoupment budget. A review of the position at the year end has established that the reserve is no longer required.
- (dd) Resources generated by reviews of the rateable values of Children's Services properties, earmarked for future improvements to Children's Services building stock.
- (ee) A reserve to fund specific projects to aid the transition of out borough pupils to LBTH expectations.
- (ff) Original contribution from Tower Hamlets PCT towards the Family Intervention Programme. The reserve was fully used during the year.
- (gg) A reserve to meet the cost of future homelessness initiatives..
- (hh) This reserve is to enable the implementation of a new client database using new software called "Frameworki".

48 PENSIONS SCHEMES

Participation in pensions schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make 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 (LGP) Scheme 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 (LEA's) 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.

Change of accounting policy

Under the 2008 SORP the Council has adopted the amendment to FRS17 *Retirement Benefits*. As a result, quoted securities held as assets in the LGPS are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets as at 31 March 2008 has been restated from £706.8 million to £703.7 million, a decrease of £3.1 million, resulting in a corresponding increase in the pension deficit.

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 Statement of Movement in the General Fund Balance (SMGFB). The following transactions have been made in the Income and Expenditure Account and SMGFB during the year:

| | The Council | | LPFA | | Total | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2008/2009 | 2007/2008 | 2008/2009 | 2007/2008 | 2008/2009 | 2007/2008 |
| | As restated | As restated | As restated | As restated | As restated | As restated |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income and Expenditure Account | | | | | | |
| Net Cost of Services | | | | | | |
| Current service costs | 16,732 | 21,770 | 407 | 490 | 17,139 | 22,260 |
| Past service costs ¹ | 6,681 | 0 | 237 | 0 | 6,918 | 0 |
| Impact of settlements and curtailments | 1,958 | 4,748 | 0 | 0 | 1,958 | 4,748 |
| Net Operating Expenditure | | | | | | |
| Interest cost | 57,960 | 53,371 | 3,309 | 2,867 | 61,269 | 56,238 |
| Expected return on assets in the scheme | (47,033) | (48,682) | (2,002) | (1,910) | (49,035) | (50,592) |
| Net Charge to the Income and Expenditure Account | | | | | | |
| | 36,298 | 31,207 | 1,951 | 1,447 | 38,249 | 32,654 |
| Statement of Movement in the General Fund Balance | | | | | | |
| Reversal of net charges made for retirement benefits in accordance with FRS 17 | (36,298) | (31,207) | (1,951) | (1,447) | (38,249) | (32,654) |
| Actual amount charged against the General Fund Balance for pensions in the year | | | | | | |
| | 35,272 | (37,799) | 1,082 | (927) | 36,354 | (38,726) |

¹ Past service costs in 2008-09 relate to retrospective changes to members' benefits which came into effect on 1st April 2008.

In 2008-09 the Council paid £13.465 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2007-08 were £12.588 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 2008-09 this amounted to £0.43 million (£0.28 million in 2007-08).

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £85.644 million (actuarial gains of £119.464 million in 2007-08) were included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of actuarial losses recognised in the STRGL is £60.104 million.

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities (LGPS):

| | The Council | | LPFA | | Total | |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2008/2009 £'000 | 2007/2008 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2008/2009 £'000 | 2007/2008 £'000 |
| 1st April | (837,851) | (986,327) | (48,839) | (54,198) | (886,690) | (1,040,525) |
| Current service cost | (16,732) | (21,770) | (407) | (490) | (17,139) | (22,260) |
| Interest cost | (57,960) | (53,371) | (3,309) | (2,867) | (61,269) | (56,238) |
| Contributions | (8,610) | (7,167) | (148) | (133) | (8,758) | (7,300) |
| Actuarial gains | 84,292 | 205,977 | 3,309 | 5,972 | 87,601 | 211,949 |
| Benefits paid | 29,600 | 29,555 | 2,580 | 2,877 | 32,180 | 32,432 |
| Past service costs | (6,681) | 0 | (237) | 0 | (6,918) | 0 |
| Losses on curtailments | (1,958) | (4,748) | 0 | 0 | (1,958) | (4,748) |
| 31st March | (815,900) | (837,851) | (47,051) | (48,839) | (862,951) | (886,690) |

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

| | The Council | | LPFA | | Total | |
|-------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|
| | 2008/2009 £'000 | 2007/2008 As restated £'000 | 2008/2009 £'000 | 2007/2008 As restated £'000 | 2008/2009 £'000 | 2007/2008 As restated £'000 |
| 1st April | 661,906 | 692,747 | 41,758 | 39,087 | 703,664 | 731,834 |
| Expected rate of return | 47,033 | 48,682 | 2,002 | 1,910 | 49,035 | 50,592 |
| Actuarial losses | (167,427) | (94,934) | (5,818) | 2,578 | (173,245) | (92,356) |
| Contributions | | | | | | |
| Members | 8,610 | 7,167 | 148 | 133 | 8,758 | 7,300 |
| Employer | 35,272 | 37,799 | 1,082 | 927 | 36,354 | 38,726 |
| Benefits paid | (29,600) | (29,555) | (2,580) | (2,877) | (32,180) | (32,432) |
| 31st March | 555,794 | 661,906 | 36,592 | 41,758 | 592,386 | 703,664 |

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

| | 2004/2005* | 2005/2006* | 2006/2007 As restated | 2007/2008 As restated | 2008/2009 |
|-------------------------------|------------------|------------------|--------------------------|--------------------------|------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Present value of liabilities: | | | | | |
| The Council | (821,355) | (989,200) | (986,327) | (837,851) | (815,900) |
| LPFA | (48,590) | (55,110) | (54,198) | (48,839) | (47,051) |
| Fair value of assets | | | | | |
| The Council | 512,106 | 639,300 | 692,748 | 661,906 | 555,794 |
| LPFA | 36,742 | 39,031 | 39,087 | 41,758 | 36,592 |
| Deficit in the scheme | | | | | |
| The Council | (309,249) | (349,900) | (293,579) | (175,945) | (260,106) |
| LPFA | (11,848) | (16,079) | (15,111) | (7,081) | (10,459) |
| Total | (321,097) | (365,979) | (308,690) | (183,026) | (270,565) |

* The Council has elected not to restate fair value of assets for 2004/05 and 2005/06 as permitted by FRS 17 (as revised).

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total net liability of £270.56 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 2010 are £35.3 million to the Council's scheme and £0.48 million to the LPFA scheme.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both schemes have been assessed by Hymans Robertson, an independent firm of actuaries, based on the latest triennial valuation as at 1 April 2004. Their main assumptions have been:

| | The Council | | LPFA | |
|--|-------------|------------|------------|------------|
| | 2008/2009 | 2007/2008 | 2008/2009 | 2007/2008 |
| Long-term expected rate of return on assets in the scheme: | | | | |
| Equity investments | 7.0% | 7.7% | 7.0% | 7.7% |
| Target return funds | | | 5.5% | 6.3% |
| Property | 4.9% | 5.7% | | |
| Bonds | 5.4% | 5.7% | | |
| Alternative assets | | | 6.0% | 6.7% |
| Cash | 4.0% | 4.8% | 4.0% | 4.8% |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men | 19.6 years | 19.6 years | 21.0 years | 19.6 years |
| Women | 22.5 years | 22.5 years | 23.4 years | 22.5 years |
| Longevity at 65 for future pensioners: | | | | |
| Men | 20.7 years | 20.7 years | 23.0 years | 20.7 years |
| Women | 23.6 years | 23.6 years | 24.2 years | 23.6 years |
| Rate of inflation | 3.1% | 3.6% | 3.1% | 3.6% |
| Rate of increase in salaries | 4.6% | 5.1% | 4.6% | 5.1% |
| Rate of increase in pensions | 3.1% | 3.6% | 3.1% | 3.6% |
| Rate for discounting scheme liabilities | 6.9% | 6.9% | 6.9% | 6.9% |
| Take-up of option to convert annual pension into retirement lump sum | 50% | | | |

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2008-09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2009:

| | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
|--|---------|------------------|------------------|---------|---------|
| | % | As restated % | As restated % | % | % |
| The Council | | | | | |
| Experience gains and losses on assets | -0.30 | -0.14 | 0.00 | 13.00 | 3.90 |
| Experience gains and losses on liabilities | 0.00 | 0.04 | 0.00 | 0.00 | 0.30 |
| London Pensions Fund Authority | | | | | |
| Experience gains and losses on assets | -0.16 | 0.06 | 0.00 | 3.70 | 0.50 |
| Experience gains and losses on liabilities | 0.00 | 0.04 | -0.30 | -0.20 | -3.60 |

49 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 1/4/2008 £'000 | Expenditure £'000 | Income £'000 | Balance at 31/3/2009 £'000 |
|--|------------------------------|----------------------|-----------------|-------------------------------|
| (a) Welfare Savings | 442 | 253 | 371 | 560 |
| (b) King Bequest Fund | 14 | 0 | 0 | 14 |
| (c) Children's Trust Funds | 6 | 3 | 0 | 3 |
| (d) Social Services Trust Funds - sundry other | 105 | 131 | 155 | 129 |
| (e) Tower Hamlets Further Education Trust | 157 | 1,510 | 2,225 | 872 |
| (f) Globe Town Picture Fund | 160 | 0 | 0 | 160 |
| (g) Sundry Other | 56 | 0 | 1 | 57 |
| TOTAL TRUST FUNDS | 940 | 1,897 | 2,752 | 1,795 |

- (a) This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to finance the purchase of goods and services on behalf of residents.
- (b) This Fund was established with a legacy from the will of a former resident of the borough. The terms of the will restrict expenditure to specific activities which enhance the environment of the local community.
- (c) These Funds represent monies held and/or invested by the Council on behalf of children in care.
- (d) These Funds represent monies held by the Council on behalf of any residents of the borough (including those in private accommodation) who are unable to manage their own personal affairs.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2009 may be summarised as follows.

- (e) 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.
- (f) This Fund was established with the proceeds of the sale of a painting by the Council.
- (g) Sundry Other includes funds representing a number of miscellaneous deposits.

50 STATEMENT OF NET ASSETS EMPLOYED

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

| | Balance at 31/03/09 £'000 | Balance at 31/03/08 £'000 |
|-------------------------|---------------------------------|---------------------------------|
| General Fund | 365,343 | 522,301 |
| Housing Revenue Account | 894,173 | 1,027,951 |
| TOTAL | 1,259,516 | 1,550,252 |

51 RECONCILIATION OF SURPLUS/(DEFICIT) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

| | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2007/2008 As Restated ¹ £'000 |
|--|--------------------|--------------------|--------------------|--|
| Surplus/(deficit) for the year | | (25,911) | | (135,909) |
| Non Cash Transactions | | | | |
| Depreciation and impairment | 59,162 | | 224,639 | |
| Deferred grants amortised in year | (25,851) | | (50,176) | |
| PFI debtor adjustments | 1,434 | | 1,344 | |
| Pension fund adjustments | 1,896 | | (6,075) | |
| Other non cash financial instrument adjustments | (372) | | | |
| Contribution to provisions | (3,091) | 33,178 | (5,473) | 164,259 |
| Adjustments for items reported separately in cashflow statement | | | | |
| Interest and investment income | | (6,144) | | (7,716) |
| Interest payable | | 22,656 | | 24,008 |
| Gains/losses on disposal of fixed assets | | (13,394) | | (27,445) |
| Items on an accruals basis | | | | |
| (Increase)/decrease in stock | | 2,581 | | 1,060 |
| (Increase)/decrease in debtors | | (11,450) | | 12,498 |
| Increase/(decrease) in creditors | | (6,140) | | 7,748 |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | | (4,624) | | 38,503 |

¹ See note 58

52 OTHER GOVERNMENT GRANTS

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|
| Alcohol and Drug Misuse | | 1,552 |
| HIV/Aids | 280 | 235 |
| Asylum Seekers Accommodation | 837 | 1,133 |
| Promoting Independence | 273 | 1,887 |
| Preserved Rights | | 1,058 |
| Children's Services | 1,216 | 1,020 |
| Dept of Health: Other | 217 | 2,870 |
| Other Social Services | 570 | 4,402 |
| DWP: Benefits: Administration | 4,315 | 4,994 |
| DWP: Benefits: Council Tax | 26,808 | 25,475 |
| DWP: Benefits: Rent Rebates | 68,613 | 74,611 |
| DCLG: Area Based Grant | 27,675 | |
| DCLG: Housing Subsidy | 20,551 | 30,015 |
| DCLG: Homelessness Grant | 1,070 | |
| DCLG: Single Regeneration Grant | 26 | 102 |
| DCLG: Home Insulation & Improvement Grants | 588 | 549 |
| Home Office: Civil Defence | | - |
| Standards Fund | 50,054 | 36,307 |
| Mandatory Awards | | 53 |
| FEFC Access | 385 | 466 |
| Learning Skills Council | 2,084 | |
| Education and Training | 34,465 | 31,700 |
| Dedicated Schools Grant | 222,676 | 214,012 |
| Nursery and other childrens grants | 18,683 | 18,061 |
| European Social Grants | 31 | 102 |
| New Deal | 2,325 | 7,253 |
| Neighbourhood Renewal Fund | | 14,540 |
| Supporting People | 15,385 | 15,670 |
| Connexions | | 536 |
| London Development Agency | 362 | |
| Other Revenue Grants | 6,141 | 15,573 |
| TOTAL OTHER REVENUE GRANTS | 505,630 | 504,176 |

53 ANALYSIS OF NET DEBT

| | Cash £000 | Short term investments £000 | Total £000 | Loans due within one year £000 | Loans due more than one year £000 | Net Debt £000 |
|--------------------------------------|---------------|-----------------------------------|----------------|--------------------------------------|---|------------------|
| Balance as at 1st April 2008 | 26,365 | 100,389 | 126,754 | (14,018) | (262,043) | (149,307) |
| Cashflows in year | 1,087 | (21,962) | (20,875) | 1,117 | 12,903 | (6,855) |
| Other non cash changes | | | | | (2,645) | (2,645) |
| Balance as at 31st March 2009 | 27,452 | 78,427 | 105,879 | (12,901) | (251,785) | (158,807) |

54 RECONCILIATION OF CHANGES IN CASH TO MOVEMENT IN NET DEBT

| | 2008/2009 £'000 | 2008/2009 £'000 |
|--|--------------------|--------------------|
| Increase/(Decrease) in cash in year | | 1,087 |
| Cash inflow/(outflow) from management of liquid resources | | (21,962) |
| Cash inflow from: | | |
| New loans raised | (7,000) | |
| Cash outflow from: | | |
| Loans repaid | 21,020 | 14,020 |
| Change in net debt resulting from cashflows | | (6,855) |
| Other non cash changes: | | |
| Net adjustments for difference between effective interest rate and actual interest payable | (2,645) | (2,645) |
| Net Debt brought forward | | (149,307) |
| Net Debt Carried forward | | (158,807) |

55 ANALYSIS OF CHANGES IN CASH AND LIQUID RESOURCES DURING THE YEAR

| | 2008-09 £000 | 2007-08 £'000 | Change in year £'000 |
|------------------------------------|-----------------|------------------|-------------------------|
| Management of Liquid Assets | | | |
| Short Term Investments | 78,427 | 100,389 | (21,962) |
| Short term deposits | | | |
| Cash | 27,452 | 26,365 | 1,087 |
| Bank overdraft | | | |
| Increase/(decrease) in year | 105,879 | 126,754 | (20,875) |

56 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.

Details of the deployment of DSG receivable for 2008/09 are as follows:

| | Schools Budget Funded by DSG | | |
|--|---------------------------------|--|----------------|
| | Central Expenditure £000s | Individual Schools Budget £000s | Total £000s |
| Original grant allocation to Schools Budget for the current year in the Council's budget | 23,148 | 199,630 | 222,778 |
| Adjustment to finalised grant allocation | 0 | (102) | (102) |
| DSG receivable for the year | 23,148 | 199,528 | 222,676 |
| Actual expenditure for the year | 21,282 | 200,510 | 221,792 |
| (Over)/underspend for the year | 1,866 | (982) | 884 |
| (Over)/underspend from prior year | 15,731 | (10,204) | 5,527 |
| (Over)/underspend carried forward to 2008/09 ¹ | 17,597 | (11,186) | 6,411 |

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

57 AUTHORISED FOR ISSUE DATE

The accounts were authorised for issue by Mr. Chris Naylor ACA IPFA MACantab on 29th September 2009.

58 PRIOR YEAR ADJUSTMENT

Fixed assets to the value of £124.207 million have been written out of the Balance Sheet as a result of a detailed review of the Council's asset register. This has no effect on the Council's overall resources position. Of the amount, £51.934 million was written onto the Balance Sheet in 2007-08 and £72.273 million in prior years. In accordance with recommended practice, 2007-08 amounts have been restated throughout the Statement of Accounts and amounts for prior years reflected in adjusted balances brought forward on 1st April 2007. Amounts have been restated in the Balance Sheet, Income and Expenditure accounts, Statements of the Movement in General Fund and Housing Revenue Account Balances, the Statement of Recognised Gains and Losses and various notes to the accounts, as indicated throughout the body of the Statement of Accounts.

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 | 2008/2009 £'000 | 2007/2008 As Restated ² £'000 |
|---|------|--------------------|--|
| INCOME | | | |
| Gross rental income | | | |
| Rents of dwellings | | 54,117 | 55,964 |
| Non dwelling rents | | 3,525 | 3,443 |
| Charges for services and facilities | | | |
| Heating and other charges | | 6,605 | 6,814 |
| Leaseholder charges | | 8,466 | 8,930 |
| HRA subsidy receivable | | | |
| General | | 6,947 | 14,770 |
| Major Repairs Allowance | | 11,824 | 12,935 |
| Contribution towards expenditure | | 115 | 115 |
| Reduction in provision for bad debts | | | 0 |
| TOTAL INCOME | | 91,599 | 102,971 |
| EXPENDITURE | | | |
| Repairs, maintenance and management | | | |
| Repairs and maintenance | | 28,220 | 23,121 |
| Supervision and management | | 33,454 | 28,992 |
| Rents, rates, taxes and other charges | | 2,982 | 1,270 |
| Rent rebates | | 215 | 1,401 |
| Increase in provision for bad debts | | 1,464 | 4,151 |
| Depreciation of fixed assets | 6 | | |
| On dwellings | | 11,824 | 12,935 |
| On other assets | | 734 | 883 |
| Impairment | | 23,363 | 184,876 |
| Revenue expenditure funded from capital under statute | 13 | 8,113 | - |
| Debt management costs | | 196 | 199 |
| TOTAL EXPENDITURE | | 110,565 | 257,828 |
| NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT | | 18,966 | 154,857 |
| HRA services share of Corporate and Democratic Core | | 328 | 339 |
| NET COST OF HRA SERVICES | | 19,294 | 155,196 |
| HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account | | | |
| Overhanging debt grant | | - | (60,505) |
| HRA element of premia on debt redemption | | - | 7,000 |
| Gain or loss on sale of HRA fixed assets | | (3,720) | 339 |
| Amortisation of premiums and discounts ¹ | 10 | 2,849 | - |
| Interest payable | | 17,804 | 20,811 |
| Interest and investment income | | (1,002) | (1,337) |
| Pensions interest cost | 7 | 3,776 | 7,563 |
| Expected return on pension assets | 7 | (3,058) | (6,888) |
| DEFICIT/(SURPLUS) FOR THE YEAR ON HRA SERVICES | | 35,943 | 122,179 |

¹ Amounts of £666,000 (2008-09) and £668,000 (2007-08) are now reflected in the Statement of Movement on the Housing Revenue Account Balance, in accordance with proper practice - see note 1. See also note 10.

² See note 58

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 | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|--|------|--------------------|--|
| Deficit/(Surplus) for the year on the HRA Income and Expenditure Account | | 35,943 | 122,179 |
| Net additional amount required by statute to be credited to the HRA balance for the year | 1 | (24,056) | (124,251) |
| (Increase)/decrease in the HRA Balance | | 11,887 | (2,072) |
| Balance on the Statutory HRA Brought Forward | | (35,188) | (33,116) |
| Balance on the Statutory HRA Carried Forward | | (23,301) | (35,188) |

¹ See note 58

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

| | 2008/2009 | | 2007/2008 | |
|---|-----------|-----------------|-----------------------------------|-----------------------------------|
| | £'000 | £'000 | As Restated ¹ £'000 | As Restated ¹ £'000 |
| Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year | | | | |
| Revenue expenditure funded from capital under statute | (8,113) | | (218) | |
| Government Grants Deferred amortisation | 6,434 | | 6,327 | |
| Gain or loss on sale of HRA fixed assets | 3,720 | | (339) | |
| Impairment | (23,363) | | (184,876) | |
| Overhanging debt grant | | | 60,505 | |
| Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute | (2,183) | | (6,332) | |
| Net charges made for retirement benefits in accordance with FRS 17 | (1,175) | | (2,862) | |
| Transfers from General Fund (as directed by Secretary of State) | (932) | (25,612) | (909) | (128,704) |
| Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year | | | | |
| Transfer to/from the Major Repairs Reserve | (734) | | (883) | |
| Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners | 2,290 | 1,556 | 5,336 | 4,453 |
| Net additional amount required by statute to be debited to the HRA Balance for the year | | (24,056) | | (124,251) |

¹ See note 58

2. HOUSING STOCK

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

| | 2009 | 2008 |
|-------------------------------------|---------------|---------------|
| Low rise flats (1-2 storeys) | 228 | 230 |
| Medium rise flats (3-5 storeys) | 7,496 | 7,525 |
| High rise flats (6 or more storeys) | 4,539 | 4,543 |
| Houses and bungalows | 795 | 795 |
| TOTAL AT 31st MARCH | 13,058 | 13,093 |

3. FIXED ASSETS

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

| | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|------------------------|--------------------|--|
| Dwellings | 901,291 | 986,081 |
| Other Land & Buildings | 25,368 | 30,181 |
| Non-Operational | 46,520 | 50,634 |
| TOTAL | 973,179 | 1,066,896 |

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

¹ See note 58

| | Operational Dwellings £'000 | Other land and buildings £'000 | Non- Operational £'000 | TOTAL £'000 |
|--|-----------------------------------|--------------------------------------|------------------------------|----------------|
| Total value at 1st April 2007 | 1,087,705 | 40,990 | 74,595 | 1,203,290 |
| Additions, disposals, transfers and revaluations | (101,624) | (10,809) | (23,961) | (136,394) |
| Total value at 31st March 2008 | 986,081 | 30,181 | 50,634 | 1,066,896 |
| Additions, disposals, transfers and revaluations | (84,790) | (4,813) | (4,114) | (93,717) |
| TOTAL VALUE AT 31st MARCH 2009 | 901,291 | 25,368 | 46,520 | 973,179 |

The vacant possession value of dwellings within the Council's HRA was £2,785 million in 2008/2009 (£2,624 million in 2007/2008). 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

| | 2008/2009 £'000 | 2007/2008 As Restated ¹ £'000 |
|---|--------------------|--|
| Balance at 1st April | 2,841 | 45 |
| Transfer from Capital Adjustment Account - depreciation | 12,558 | 13,818 |
| Transfer to HRA - depreciation on non-dwellings | (734) | (882) |
| Financing of capital expenditure | (12,311) | (10,140) |
| Balance at 31st March | 2,354 | 2,841 |

¹ See note 58

5. CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

| | Dwellings £'000 | Other land and buildings £'000 | Other £'000 | Total £'000 |
|--------------------------------|--------------------|--------------------------------------|----------------|----------------|
| Expenditure | 29,202 | 358 | 1,939 | 31,499 |
| Sources of finance | | | | |
| Borrowing | 14,851 | 358 | 291 | 15,500 |
| Useable capital receipts | 170 | - | 1,006 | 1,176 |
| Capital grants | 1,870 | - | 642 | 2,512 |
| Major Repairs Reserve | 12,311 | - | - | 12,311 |
| TOTAL CAPITAL FINANCING | 29,202 | 358 | 1,939 | 31,499 |

(ii) Capital Receipts

Capital receipts in 2008/09 from the disposal of fixed assets within the HRA amounted to £7.73 million (£26.85m in 2007/08) as follows:

| | 2008/2009 £'000 | 2007/2008 £'000 |
|-------------------------------|--------------------|--------------------|
| Dwellings | 7,731 | 25,902 |
| Other land and buildings | 0 | 944 |
| TOTAL CAPITAL RECEIPTS | 7,731 | 26,846 |

6. DEPRECIATION

The total depreciation charge for the year was £12.593 million (£13.853 million in 2007/2008) made up of £11.824 million (£12.935 million in 2007/08) in respect of council houses and £0.769 million (£0.918 million in 2007/08) in respect of other housing assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance as this is the amount (based on a 30 year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---------------------------|--------------------|--------------------|
| Operational Assets | | |
| Council dwellings | 11,824 | 12,935 |
| Other land and buildings | 729 | 763 |
| Equipment | - | 115 |
| Infrastructure | 5 | 5 |
| TOTAL DEPRECIATION | 12,558 | 13,818 |

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 48 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

| | The Council | | LPFA | | Total | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2008/2009 £'000 | 2007/2008 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2008/2009 £'000 | 2007/2008 £'000 |
| Income and Expenditure Account | | | | | | |
| Net Cost of Services | | | | | | |
| Current service costs | 452 | 2,178 | 5 | 8 | 457 | 2,186 |
| Net Operating Expenditure | | | | | | |
| Interest cost | 3,747 | 7,519 | 29 | 44 | 3,776 | 7,563 |
| Expected return on assets in the scheme | (3,041) | (6,858) | (17) | (30) | (3,058) | (6,888) |
| Net Charge to the Income and Expenditure Account | 1,158 | 2,839 | 17 | 22 | 1,175 | 2,861 |
| Statement of Movement in the HRA Balance | | | | | | |
| Reversal of net charges made for retirement benefits in accordance with FRS17 | (1,158) | (2,839) | (17) | (22) | (1,175) | (2,861) |
| Employer's contribution to scheme | 2,281 | 5,326 | 9 | 10 | 2,290 | 5,336 |

8. RENT ARREARS

| | 2008/2009 £'000 | 2007/2008 £'000 |
|----------------------------------|--------------------|--------------------|
| Gross rent arrears at 31st March | 3,846 | 3,739 |
| Arrears as % of rent receivable | 7.1 | 6.2 |
| Provision made for bad debts | 3,207 | 3,106 |

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. The £0.9 million transferred during 2008/09 relates to "Supporting People" services provided by the Council.

10. AMORTISED PREMIUMS AND DISCOUNTS

This relates to premiums payable on the premature redemption of housing debt prior to 2006-07. The accounting treatment of those amounts has been reviewed and amended retrospectively which results in a charge to the Income and Expenditure Account. The charge is reversed out in the Statement of Movement in the HRA balance, resulting in no change in the balance available.

11. HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|
| Management & Maintenance Allowances | 33,418 | 36,044 |
| Major Repairs Allowance | 11,824 | 12,935 |
| Charges for capital | 26,950 | 30,617 |
| Rent Constraint Allowance ¹ | - | 770 |
| Other Allowances | 31 | 26 |
| Guide Line Rent Income | (52,965) | (54,138) |
| Interest on Receipts | (48) | (69) |
| Prior Year Adjustment | (439) | 1,520 |
| TOTAL HOUSING REVENUE ACCOUNT SUBSIDY | 18,771 | 27,705 |

¹ Abolished 31 March 2008

12. IMPAIRMENT OF FIXED ASSETS

In light of recent economic conditions, a review was undertaken by external valuers to assess the effect of falling house prices on the Council's dwellings and other housing properties portfolio. The review reported that, as at 31st March 2009, there was an average 13.4% decline in property prices in Tower Hamlets, deemed to be due purely to a fall in market prices. This resulted in the balance sheet value of dwellings - 13,050 properties with an existing use value, social housing of £1,030 million - suffering impairment of £138.5 million; and other properties £6.1 million. Only £23.363 million of this is chargeable to the Income and Expenditure Account, the balance offsetting prior years' upwards revaluations in the Revaluation Reserve. Impairment in 2007-08 (£184.9 million) is not comparable as this was solely attributable to the transfer of housing stock away from the Council.

13. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

£7.82 million of this amount is in respect of major works to leaseholders' properties, expenditure on which is in respect of third party capital assets and is reimbursable. This is a change in practice compared with previous years when such expenditure was treated as affecting Council owned assets. The change is in accordance with proper accounting principles. The comparable figure for 2007-08 was £7.32 million.

COLLECTION FUND

| | Note | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2007/2008 £'000 |
|---|------|--------------------|--------------------|--------------------|--------------------|
| INCOME | | | | | |
| Council Tax (net of benefits) | 2 | 68,519 | | 62,889 | |
| Transfers from General Fund - Council Tax Benefits | | 26,625 | 95,144 | 25,663 | 88,552 |
| National Non-Domestic Rates | 3 | | 280,994 | | 254,745 |
| Reduction in provision for bad debts | 5 | | 17 | | - |
| TOTAL INCOME | | | 376,155 | | 343,297 |
| EXPENDITURE | | | | | |
| Precepts and demands | | | | | |
| London Borough of Tower Hamlets | | 68,996 | | 64,817 | |
| Greater London Authority | | 24,694 | 93,690 | 23,550 | 88,367 |
| Distribution of prior year surplus on Collection Fund | | | 2,050 | | 1,986 |
| National Non-Domestic Rates | | | | | |
| Payment to National Pool | | 280,047 | | 253,785 | |
| Cost of collection allowance | | 947 | 280,994 | 960 | 254,745 |
| Increase in provision for bad debts | 5 | | | | 944 |
| TOTAL EXPENDITURE | | | 376,734 | | 346,042 |
| DECREASE IN FUND BALANCE | | | (579) | | (2,745) |
| COLLECTION FUND BALANCE | | | | | |
| Balance at the beginning of the year | | | (231) | | 2,514 |
| (Deficit)/Surplus for the year | | | (579) | | (2,745) |
| BALANCE AT END OF YEAR | 1 | | (810) | | (231) |

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 deficit on the Fund (£810,000) is attributable to the Council (£597,000) and the Greater London Authority (£213,000). The latter amount is carried as a debtor in the Council's Balance Sheet.

2. COUNCIL TAX

Council Tax is a tax payable depending on the nature and degree of occupation of the residential property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by 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 £40,000 and up to £52,000 | 7/9 |
| C | Over £52,000 and up to £68,000 | 8/9 |
| D | Over £68,000 and up to £88,000 | 9/9 |
| E | Over £88,000 and up to £120,000 | 11/9 |
| F | Over £120,000 and up to £160,000 | 13/9 |
| G | Over £160,000 and up to £320,000 | 15/9 |
| H | Over £320,000 | 18/9 |

By multiplying the number of properties in each band (after allowing for discounts, exemptions and non-collection) by the appropriate fraction the Council calculates the number of "Band D equivalent" properties in the borough (known as the Council Tax Base) and how much a Band D tax of £1 would produce. For 2008-09 this was £0.080 million (£0.077 million for 2007-08) allowing for a non-collection rate of 3.00% (3.00% in 2007-08).

When the 2008-09 Council Tax was set the position was as follows:

| Band | 2008/2009 No. of Properties | 2008/2009 Council Tax Base | 2007/08 No. of Properties | 2007/08 Council Tax Base |
|--------------|-----------------------------------|----------------------------------|---------------------------------|--------------------------------|
| A | 1,103 | 713 | 1,128 | 729 |
| B | 20,505 | 15,470 | 20,406 | 15,395 |
| C | 27,158 | 23,416 | 26,527 | 22,872 |
| D | 15,968 | 15,489 | 15,254 | 14,796 |
| E | 11,103 | 13,164 | 10,622 | 12,593 |
| F | 5,270 | 7,384 | 5,053 | 7,080 |
| G | 2,126 | 3,437 | 2,101 | 3,397 |
| H | 327 | 633 | 327 | 634 |
| Total | 83,560 | 79,706 | 81,418 | 77,496 |

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:

| | 2008/2009 | | 2007/08 | | Increase £ | % |
|--------------------------|-----------------|---------------------------------|-----------------|---------------------------------|---------------|-------------|
| | Band D Tax £ | Amount to be raised £'000 | Band D Tax £ | Amount to be raised £'000 | | |
| Tower Hamlets | 865.64 | 68,996 | 836.37 | 64,817 | 29.27 | 3.50 |
| Greater London Authority | 309.82 | 24,694 | 303.88 | 23,550 | 5.94 | 1.95 |
| TOTAL | 1,175.46 | 93,690 | 1,140.25 | 88,367 | 35.21 | 3.09 |

3. NATIONAL NON-DOMESTIC RATES (NNDR)

Under the arrangements for National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes this to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2008-09 was 46.2p in the £ (44.4p in the £ in 2007-08), The total rateable value in the borough as at 31st March 2009 was £673.0 million (£684.1 million at 31st March 2008).

4. ADJUSTMENTS FOR PRIOR YEARS' COMMUNITY CHARGE

Although Council Tax replaced Community Charge on 1st April 1993 the Council continues to account for residual adjustments to the Community Charges raised in earlier years in the Collection Fund.

5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2008/2009 the Council Tax bad debt provision was reduced by £0.017 million (2007-08, increased by ££0.944 million) and £1.621 million of irrecoverable debts (2007-08, £2.766 million) were written off.

GROUP ACCOUNTS

1 INTRODUCTION

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.

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 | 5 | 5 |
| Housing tenants and leaseholders | 5 | 5 |
| Independent | 5 | 5 |
| Total | 15 | 15 |

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

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

The Council has determined that Group Accounts, showing the consolidated financial activities and financial position of the Council as a "single entity" and THH, need to be prepared for the first time for the 2008-09 financial year. The consolidation has been carried out in accordance with the acquisition basis of accounting - the service was externalised at fair value and did not result in an adjustment for goodwill. The income and expenditure of THH for the period 7 July 2008 to 31 March 2009 is included in the Group Income and Expenditure Account and its assets and liabilities at 31 March 2009 in the Group Balance Sheet. There were no activities in 2007-08.

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

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

or from Companies House, Cardiff

The accounts are subject to approval and adoption at an Annual General Meeting on 14th July 2009; and the formal issuing of the auditors' report

THH's appointed auditors are:

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

GROUP INCOME AND EXPENDITURE ACCOUNT

| | 2008/09 Gross Expenditure | 2008/09 Gross Income | 2008/09 Net Expenditure | 2007/08 Gross Expenditure As Restated ¹ | 2007/08 Gross Income | 2007/08 Net Expenditure As Restated ¹ |
|---|---------------------------------|----------------------------|-------------------------------|---|----------------------------|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cultural, Environmental, Regulatory and Planning Services | 130,252 | 53,909 | 76,343 | 112,623 | 56,669 | 55,954 |
| Central Services | 55,655 | 47,018 | 8,637 | 59,340 | 50,088 | 9,252 |
| Children's and Education Services | 471,243 | 374,075 | 97,168 | 431,928 | 349,151 | 82,777 |
| Highways and Transport Services | 30,989 | 27,693 | 3,296 | 29,565 | 32,137 | (2,572) |
| Local Authority Housing (HRA) | 110,408 | 91,599 | 18,809 | 257,828 | 102,971 | 154,857 |
| Other Housing Services | 259,630 | 255,347 | 4,283 | 244,976 | 238,303 | 6,673 |
| Adult Social Care | 102,959 | 17,201 | 85,758 | 102,098 | 24,492 | 77,606 |
| Corporate and Democratic Core | 21,072 | 6,339 | 14,733 | 17,908 | 5,642 | 12,266 |
| Non-distributed Costs | 15,185 | 481 | 14,704 | 14,082 | 19,583 | (5,501) |
| NET COST OF SERVICES | 1,197,393 | 873,662 | 323,731 | 1,270,348 | 879,036 | 391,312 |
| Net (gain)/loss on disposal of fixed assets | | | (13,394) | | | 39,909 |
| Total net (surplus)/deficit on Trading Accounts | | | 1,555 | | | 683 |
| Amounts due to levying authorities | | | 1,641 | | | 1,527 |
| Contribution to Housing Pooled capital receipts | | | 4,766 | | | 14,506 |
| Interest payable and similar charges | | | 22,659 | | | 34,857 |
| Interest and investment income | | | (6,166) | | | (7,776) |
| Pensions interest cost and Expected return on pensions assets | | | 12,267 | | | 5,643 |
| Amortisation of premiums and discounts | | | 2,849 | | | |
| Unattached Capital Receipts | | | (1,331) | | | - |
| Overhanging debt grant | | | - | | | (64,354) |
| Corporation tax | | | 5 | | | - |
| NET OPERATING EXPENDITURE | | | 348,582 | | | 413,307 |
| INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT: | | | | | | |
| Council Tax income | | | (70,501) | | | (66,322) |
| Government grants (not attributable to specific services) | | | (55,384) | | | (30,727) |
| Distribution from non-domestic rate pool | | | (197,503) | | | (183,094) |
| (SURPLUS)/DEFICIT FOR THE YEAR | | | 25,194 | | | 133,164 |

¹ See note 58

RECONCILIATION OF SINGLE ENTITY SURPLUS OR DEFICIT FOR THE YEAR TO THE GROUP SURPLUS OR DEFICIT

| | 2008/09 | 2007/08 |
|---|---------------|--------------------------|
| | | As Restated ¹ |
| | £'000 | £'000 |
| (Surplus)/Deficit on the Council's Income and Expenditure Account for the year | 25,332 | 133,164 |
| Adjustments for transactions with THH | (157) | - |
| (Surplus)/Deficit on the Group Income and Expenditure Account attributable to the Council | 25,175 | 133,164 |
| (Surplus)/Deficit attributable to THH | 19 | - |
| (Surplus)/Deficit for the year on the Group Income and Expenditure Account | 25,194 | 133,164 |

¹ See note 58

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2008/09 | 2007/08 |
|--|----------------|--------------------------|
| | | As Restated ¹ |
| | £'000 | £'000 |
| (Surplus)/Deficit on the Income and Expenditure Account for the year | 25,194 | 133,164 |
| (Surplus)/Deficit arising on revaluation of fixed assets | 54,771 | (397,412) |
| Actuarial (gains)/losses on pension fund assets and liabilities | 84,532 | (119,464) |
| Movement in Collection Fund balance attributable to the Council | 481 | 2,027 |
| Total recognised (gains) and losses for the year | 164,978 | (381,685) |
| Cumulative effect on reserves of prior period adjustments | | 75,444 |
| Aggregate (increase)/decrease in net worth | 164,978 | (306,241) |

¹ See note 58

GROUP BALANCE SHEET

as at 31st March

| Note | 2009 | 2009 | 2008 | 2008 |
|--|---------|------------------|--------------------------|--------------------------|
| | £'000 | £'000 | As Restated ¹ | As Restated ¹ |
| | | | £'000 | £'000 |
| Fixed Assets | | | | |
| Tangible Fixed Assets | | | | |
| Operational assets | | | | |
| Dwellings | 901,291 | | 986,081 | |
| Other land and buildings | 695,058 | | 698,122 | |
| Infrastructure assets | 86,397 | | 83,321 | |
| Equipment | 3,780 | | 1,623 | |
| Community assets | 45,220 | | 41,073 | |
| Non-operational assets | | | | |
| Investment properties | 50,844 | 1,782,590 | 54,106 | 1,864,326 |
| Total Fixed Assets | | | | |
| Long Term Debtors | | 109,614 | | 72,694 |
| Total Long Term Assets | | 1,892,204 | | 1,937,020 |
| Current Assets | | | | |
| Stocks and Work in Progress | 3 | 345 | 2,884 | |
| Debtors | 3 | 91,459 | 110,831 | |
| Investments | | 78,427 | 100,389 | |
| Cash and Bank | 3 | 31,302 | 201,533 | 240,469 |
| Total Assets | | 2,093,737 | | 2,177,489 |
| Current liabilities | | | | |
| Short Term Borrowing | | 12,901 | 14,018 | |
| Creditors | 3 | 144,227 | 157,128 | 148,680 |
| Total Assets less Current Liabilities | | 1,936,609 | | 2,014,791 |
| Long Term Liabilities | | | | |
| Long Term Borrowing | | 251,785 | 262,043 | |
| Grants Unapplied | | 37,363 | 21,234 | |
| Capital Grants and Contributions Deferred | | 96,139 | 99,788 | |
| Deferred Income - Receipt in Advance | | 11,006 | 11,391 | |
| Provisions | | 8,560 | 11,266 | |
| Pensions Liability | 3 | 270,690 | 675,543 | 183,025 |
| TOTAL ASSETS LESS LIABILITIES | | 1,261,066 | | 1,426,044 |
| Financed by | | | | |
| Revaluation Reserve | | 319,706 | | 378,611 |
| Capital Adjustment Account | | 1,037,867 | | 1,061,731 |
| Capital Receipts Reserve | | 18,091 | | 9,383 |
| Deferred Capital Receipts | | 412 | | 556 |
| Pensions Reserve | 3 | (270,690) | | (183,025) |
| Major Repairs Reserve | | 2,354 | | 2,841 |
| Collection Fund | | (597) | | (116) |
| Financial Instrument Adjustment Account | | 280 | | 2,555 |
| Balances | | | | |
| General Fund | | 27,102 | | 25,474 |
| Housing Revenue Account | | 23,301 | | 35,188 |
| Earmarked Reserves | | 101,865 | | 92,846 |
| Income and Expenditure Reserve | 3 | 1,375 | | - |
| TOTAL NET WORTH | | 1,261,066 | | 1,426,044 |

¹ See note 58

GROUP CASH FLOW STATEMENT

| | Note | 2008/2009 | 2008/2009 | 2007/2008 | 2007/2008 |
|--|------|-----------|-----------------|--------------------------|--------------------------|
| | | £'000 | £'000 | As Restated ¹ | As Restated ¹ |
| | | | | £'000 | £'000 |
| NET REVENUE ACTIVITIES CASH FLOW | 1 | | (616) | | 38,503 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | | | |
| <i>Cash outflows</i> | | | | | |
| Interest paid | | (21,074) | | (30,749) | |
| <i>Cash inflows</i> | | | | | |
| Interest received | | 6,483 | | 6,182 | |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS | | | (14,591) | | (24,567) |
| CAPITAL ACTIVITIES | | | | | |
| <i>Cash outflows</i> | | | | | |
| Purchase of fixed assets | | (50,454) | | (49,317) | |
| Other capital cash payments | | - | | (157) | |
| <i>Cash inflows</i> | | | | | |
| Sale of fixed assets | | 25,873 | | 27,058 | |
| Other capital cash payments/(income) | | 67 | | 11,554 | |
| Capital grants received | | 36,716 | | 24,691 | |
| NET CASH OUTFLOW FROM CAPITAL ACTIVITIES | | | 12,202 | | 13,829 |
| NET CASH INFLOW/OUTFLOW BEFORE FINANCING | | | (3,005) | | 27,765 |
| MANAGEMENT OF LIQUID RESOURCES | | | | | |
| Net increase/decrease in other liquid resources | | 21,962 | | (2,380) | |
| FINANCING | | | 21,962 | | (2,380) |
| <i>Cash outflows</i> | | | | | |
| Repayments of amounts borrowed | | (21,020) | | (73,121) | |
| <i>Cash inflows</i> | | | | | |
| New loans raised | | | | 41,000 | |
| New short term loans raised | | 7,000 | | - | |
| NET CASH INFLOW FROM FINANCING | | | (14,020) | | (32,121) |
| INCREASE/(DECREASE) IN CASH | | | 4,937 | | (6,736) |

¹ See note 58

NOTES TO THE GROUP ACCOUNTS

1 RECONCILIATION OF SURPLUS/(DEFICIT) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

| | 2008/2009 £'000 | 2008/2009 £'000 | 2007/2008 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|--------------------|--------------------|
| Surplus/(deficit) for the year | | (25,754) | | (135,909) |
| Non Cash Transactions | | | | |
| Depreciation and impairment | 59,196 | | 224,639 | |
| Deferred grants amortised in year | (25,851) | | (50,176) | |
| PFI debtor adjustments | 1,434 | | 1,344 | |
| Pension fund adjustments | 3,116 | | (6,075) | |
| Other non cash financial instrument adjustments | (372) | | | |
| Contribution to provisions | (3,091) | 34,432 | (5,473) | 164,259 |
| Adjustments for items reported separately in cashflow statement | | | | |
| Interest and investment income | | (6,161) | | (7,716) |
| Interest payable | | 22,659 | | 24,008 |
| Gains/losses on disposal of fixed assets | | (13,394) | | (27,445) |
| Items on an accruals basis | | | | |
| (Increase)/decrease in stock | | 2,539 | | 1,060 |
| (Increase)/decrease in debtors | | (11,521) | | 12,498 |
| (Increase)/decrease in creditors | | (3,416) | | 7,748 |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | | (616) | | 38,503 |

2 INCOME AND EXPENDITURE ACCOUNT

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

| | 2008/2009 £'000 |
|------------------------|--------------------|
| Operating profit | (157) |
| Interest payable | 3 |
| Interest receivable | (22) |
| Pensions interest cost | 33 |
| Corporation tax | 5 |
| Total | (138) |

3 BALANCE SHEET

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

| | The Council £'000 | THH £'000 | TOTAL £'000 |
|--------------------------------|----------------------|--------------|----------------|
| Fixed assets - equipment | 3,643 | 137 | 3,780 |
| Stock and work in progress | 303 | 42 | 345 |
| Debtors | 115,762 | 71 | 115,833 |
| Cash | 27,452 | 3,850 | 31,302 |
| Creditors | 142,789 | 1,438 | 144,227 |
| Pensions liability | 270,565 | 125 | 270,690 |
| Pension reserve | (270,565) | (125) | (270,690) |
| Income and Expenditure Reserve | - | 1,375 | 1,375 |

PENSION FUND ACCOUNTS

| | Note | 2009 £'000 | 2008 £'000 |
|--|------|------------------|------------------|
| FUND ACCOUNT AS AT 31ST MARCH | | | |
| Dealings with members, employers and others directly involved in the scheme | | | |
| Income | | | |
| Contributions receivable from | | | |
| Employers | 3 | 37,755 | 38,015 |
| Employees or members | 3 | 9,164 | 7,784 |
| Transfer values receivable (individual) | | 4,862 | 4,426 |
| Total income | | 51,781 | 50,225 |
| Expenditure | | | |
| Benefits payable | | | |
| Pensions | 4 | 26,685 | 25,088 |
| Lump sum payments/grants | 4 | 6,495 | 6,383 |
| Payments to and on account of leavers | | | |
| Refunds of contributions | | 6 | 10 |
| Transfer values payable (individual) | | 6,679 | 4,803 |
| Administration | | 326 | 946 |
| Contributions equivalent premium | | 30 | 3 |
| Total expenditure | | 40,221 | 37,233 |
| NET ADDITIONS FROM DEALINGS WITH MEMBERS | | 11,560 | 12,992 |
| RETURN ON INVESTMENTS | | | |
| | | 2008/2009 | 2007/2008 |
| | | £'000 | £'000 |
| Investment income | 10 | 23,535 | 17,780 |
| Change in market value: Realised | | (81,917) | 65,861 |
| Change in market value: Unrealised | | (72,192) | (116,253) |
| Investment management expenses | | (1,875) | (2,001) |
| NET RETURN ON INVESTMENTS | | (132,449) | (34,613) |
| Net decrease in the the fund during the year | 11 | (120,889) | (21,621) |
| Opening net assets of the scheme | 11 | 683,222 | 704,843 |
| CLOSING NET ASSETS OF THE SCHEME | | 562,333 | 683,222 |
| NET ASSETS STATEMENT AS AT 31ST MARCH | | | |
| | | 2009 | 2008 |
| | | £'000 | £'000 |
| Investments Assets | | | |
| Fixed interest securities - Public Sector | | 54,006 | 39,262 |
| Fixed interest securities - Private Sector | | 39,363 | 52,340 |
| Fixed interest securities - Overseas | | 9,078 | 12,366 |
| Index Linked Securities - Public Sector | | 48,922 | 57,501 |
| Equities - UK | | 108,288 | 168,745 |
| Equities - Overseas | | 220,378 | 263,343 |
| Managed and Unitised Funds | | | |
| Property | | 53,668 | 78,188 |
| Other | | 23,887 | 34 |
| | | 557,590 | 671,779 |
| Other Net Assets | | | |
| Debtors less Creditors | 5 | 1,215 | 2,978 |
| Cash | 6 | 3,528 | 8,465 |
| TOTAL NET ASSETS | | 562,333 | 683,222 |

NOTES TO THE PENSION FUND ACCOUNT

1. INTRODUCTION

The Pension Fund is 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 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 employees, from the employer and from interest and dividends 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. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future which are reported on separately in the actuary's statement.

2. ACCOUNTING POLICIES

(a) Accounts

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

(b) Basis of preparation

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

The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2009.

(c) Investments

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31 March 2009
- (ii) Unit trust and managed fund investments are stated at the mid point of the latest prices quoted by their respective managers prior to 31 March 2009.
- (iii) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31 March 2009.
- (iv) Freehold property and leasehold property are included on the basis of their open market value.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31 March 2009 was 15.8%. It should be noted that the Triennial Revaluation of the fund concluded in 2007 has increased the rate to 15.8% and this rate will apply from the 1st April 2008. Contributions shown in the revenue statement may be categorised as follows:

| | 2008/2009 | 2007/2008 |
|---|----------------|----------------|
| | Total £'000 | Total £'000 |
| Employees | | |
| Council employees normal contributions | 8,611 | 7,542 |
| Admitted bodies employees normal contributions | 553 | 242 |
| Employee contributions | 9,164 | 7,784 |
| Employers | | |
| Council normal employer's contributions | 20,247 | 18,198 |
| Admitted bodies normal employer's contributions | 1,704 | 490 |
| | 21,951 | 18,688 |
| Council special employer's contributions | 15,804 | 19,327 |
| Employers' contributions | 37,755 | 38,015 |
| Total contributions | 46,919 | 45,799 |

Note: The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2008/09 employees made contributions of £53,873 into the AVC Scheme operated by Norwich Union. The contributions are not included in the Pension Fund Accounts but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

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

| | 2008/2009 | | | 2007/2008 | | |
|----------------------------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|
| | Admitted | | | Admitted | | |
| | Council £000 | Bodies £000 | Total £000 | Council £000 | Bodies £000 | Total £000 |
| Pensions Paid to Retired Members | (26,568) | (117) | (26,685) | (24,660) | (428) | (25,088) |
| Lump Sums Paid on Retirement | (5,525) | (712) | (6,237) | (5,716) | (261) | (5,977) |
| Death Grant | (258) | | (258) | (406) | 0 | (406) |
| Total Benefits | (32,351) | (829) | (33,180) | (30,782) | (689) | (31,471) |

5. DEBTORS AND CREDITORS

All transactions are accounted for on an accruals basis. The following material amounts were due to, or payable from, the Pension Fund as at 31st March 2009. All amounts related to the administering authority

| | 2008/2009 £'000 | 2007/2008 £'000 |
|--|--------------------|--------------------|
| Amounts receivable | | |
| Investment sales | 8,350 | 1,122 |
| Dividends receivable | 1,407 | 2,212 |
| Tax recoverable | 371 | 236 |
| Interest receivable | 705 | 523 |
| Admitted Bodies' Contributions | 114 | 309 |
| | 10,947 | 4,402 |
| Amounts payable | | |
| Investment purchases | 8,920 | 895 |
| Lump sums payable | 282 | (10) |
| Administration expenses | 530 | 539 |
| | 9,732 | 1,424 |
| Amounts receivable less amounts payable | 1,215 | 2,978 |

6. CASH

The cash balance can be further analysed as follows:

| | 2008/2009 £000 | 2007/2008 £000 |
|------------------------------------|-------------------|-------------------|
| GMO | 2,406 | 2,915 |
| INVESTEC | | 33 |
| Aberdeen: Fixed Interest Portfolio | 1,996 | 958 |
| Aberdeen: UK Equities | 1,462 | 238 |
| Schroders: Multi Asset Portfolio | 13 | (1) |
| Schroders: Property Portfolio | 319 | 2,097 |
| Martin Currie | 666 | 1,165 |
| Merrill Lynch | 30 | 1 |
| London Borough of Tower Hamlets | (3,364) | 1,059 |
| TOTAL CASH | 3,528 | 8,465 |

7. TAXATION

UK Income Tax

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

Value Added Tax

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

Overseas Tax

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

8. MEMBERSHIP OF THE FUND

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

| | 2009 | 2008 |
|--|---------------|---------------|
| London Borough of Tower Hamlets | | |
| Active Members | 4,865 | 5,382 |
| Pensioners | 3,561 | 3,590 |
| Deferred Pensioners | 4,664 | 4,328 |
| | 13,090 | 13,300 |
| Admitted Bodies | | |
| Active Members | 530 | 148 |
| Pensioners | 78 | 54 |
| Deferred Pensioners | 183 | 180 |
| | 791 | 382 |

The following bodies have been admitted into the Fund:

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

During the financial year the Council established an Arms Length Management Organisation - Tower Hamlets Homes - to manage its dwellings stock. This process involved the transfer of 397 scheme members and the admission of Tower Hamlets Homes into the scheme as a scheduled employer.

9. INVESTMENT MANAGEMENT

The structure in the year was as set out below.

| <u>Manager</u> | <u>Mandate</u> |
|--------------------|---|
| GMO | Global Equity |
| Martin Currie | UK Equity |
| Schroders property | Property |
| Investec | Residual Venture Capital Fund |
| Baillie Gifford | Overseas Equities |
| Aberdeen Bonds | Fixed Interest, UK Equities and Private Equity* |
| Auriel | Currency manager |
| Record | Currency manager |

The value of the fund, by manager, is as follows.

| | 2008/2009 | | 2007/2008 | |
|--------------------|-----------|------|-----------|------|
| | £ million | % | £ million | % |
| GMO | 138.2 | 24.4 | 173.5 | 25.4 |
| Martin Currie | 65.9 | 11.6 | 88.5 | 13.0 |
| Schroders property | 61.8 | 10.9 | 80.4 | 11.8 |
| Aberdeen Bonds | 153.2 | 27.1 | 162.9 | 23.8 |
| Aberdeen Equities | 45.6 | 8.1 | 67.1 | 9.8 |
| Baillie Gifford | 85.3 | 15.1 | 109.8 | 16.1 |
| Auriel | 9.8 | 1.7 | | |
| Record | 6.4 | 1.1 | | |

The relatively high level of trading activity in the previous year reflects the transition from a balanced to a specialist management structure.

There were no stock lending arrangements operational in the year.

The movement in market value of securities held may be summarised as follows:

| | Market Value 1 Apr 2008 | Purchases | Sales | Change in Market Value | Market Value 31 Mar 2009 |
|-------------------|----------------------------|----------------|------------------|---------------------------|-----------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| GMO | 169,630 | 97,478 | (94,294) | (37,779) | 135,035 |
| Baillie Gifford | 109,762 | 0 | 0 | (24,424) | 85,338 |
| Martin Currie | 86,468 | 52,908 | (59,564) | (14,970) | 64,842 |
| Aberdeen Equities | 66,228 | 8,191 | (19,589) | (11,184) | 43,646 |
| Schroders | 78,188 | 11,437 | (7,580) | (20,728) | 61,317 |
| Aberdeen Bonds | 161,469 | 76,555 | (129,161) | 42,308 | 151,171 |
| Auriel | | 14,000 | (296) | (3,884) | 9,820 |
| Record | | 7,000 | | (613) | 6,387 |
| Aberdeen No.2 | 34 | | | | 34 |
| | 671,779 | 267,569 | (310,484) | (71,274) | 557,590 |

10. INVESTMENT INCOME

There was no stock lending arrangements operational in the financial year. Dividends and interest shown in return on investments are broken down as follows:

| | 2008/2009 £'000 | 2007/2008 £'000 |
|---|--------------------|--------------------|
| Rent from properties | 2,415 | 1,919 |
| Interest from fixed interest securities | 3,051 | 2,490 |
| UK equities | 5,500 | 7,285 |
| Foreign equities | 12,966 | 6,271 |
| Interest on cash deposits | (512) | (321) |
| Foreign tax | 115 | 132 |
| Underwriting commission | | 4 |
| TOTAL | 23,535 | 17,780 |

11 SECURITIES

The value of listed and unlisted securities is broken down as follows:

| | 2008/2009 £000 | 2007/2008 £000 |
|-----------------|-------------------|-------------------|
| Unlisted | 32 | 66 |
| Listed | 561,086 | 680,178 |
| Working Capital | 1,215 | 2,978 |
| | 562,333 | 683,222 |

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 2007 statutory triennial revaluation of the Pension Fund completed by the actuary (Hymans Robertson) estimated the deficit on the Fund to be approximately £205 million and the funding level to be 78%. This compares to a deficit at the previous revaluation in 2004 of £192 million and a corresponding funding level of 73%.

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

| | £ Million |
|-----------|-----------|
| 2008/2009 | 12.50 |
| 2009/2010 | 12.50 |
| 2010/2011 | 12.50 |

In addition the contributions were increased by RPI plus 1.5% with effect from 1st April 2009.

The method of calculating the employer's contribution rate derives the cost of the benefits building up over the year following the valuation date. This method is known as the "Projected Unit Method". It is a method considered appropriate by the actuary for a Fund open to new members. As the Fund remains open to new members, its age profile is not currently rising significantly.

If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement. In completing the valuation, the actuary has adopted a market value method to derive the financial assumptions by considering various average yields and average market values in the 12 months leading to the valuation date. This represents a change from previously adopted traditional techniques where the assumptions adopted have reflected expectations of long term averages.

The assumptions used in the calculation and applied during the intervaluation period are summarised as follows:

| | 2008 | 2004 |
|-------------------------------|------|------|
| Investment Returns (Equities) | 5.9% | 6.7% |
| Pay Increases | 4.7% | 4.4% |
| Price Inflation | 3.2% | 2.9% |

The next statutory revaluation is due in 2010 with the results to be implemented in April 2011.

13. ADMINISTRATIVE EXPENSES

| | 2008/2009 £000 | 2007/2008 £000 |
|-------------------------|-------------------|-------------------|
| Investment Advice | 151 | 556 |
| Performance Measurement | 13 | 17 |
| Administration | 243 | 356 |
| Other Fees | (81) | 17 |
| | 326 | 946 |

14. INVESTMENT MANAGEMENT EXPENSES

| | 2008/2009 £000 | 2007/2008 £000 |
|----------------------|-------------------|-------------------|
| Payments to Managers | 1,875 | 2,001 |

15. REGULATIONS

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

- a) Contributors now have the right to make additional voluntary contributions to enhance their pension. The Council made such a scheme available to staff through Norwich Union.
- b) Permanent full time employees can opt out of the Local Government Scheme and make their own pension fund arrangements.
- c) Since 1995, all employees (except teachers) are eligible to join the scheme.
- e) The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 - SI 2002 No.1852 - requires administering authorities to update and publish a Statement of Investment Principles and Myners Compliance Statement. These documents are available on the Council's website.
- f) The Council is also required to prepare and publish a Communications Strategy, Governance Statement and Funding Strategy Statement all of which are available on the Council's website.

16. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts.

During the year no trustees or Council chief officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than the following:-

- 1) Administrative services were undertaken by the Council on behalf of the Pension Fund.
- 2) The Pension Fund had a temporary loan of £3.364 million from the Council as at the 31st March 2009 which will be repaid in the next financial year.

17. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2009.

18. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

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

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Basis of audit opinion

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

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

Opinion

In my opinion, the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

30 September 2009

Annual Governance Statement

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

Scope of Responsibility

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

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at www.towerhamlets.gov.uk or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee members received a report in October 2007 assessing the current local governance arrangements and recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.

The Purpose of the Governance Framework

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

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

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been in place at Tower Hamlets for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance.

The Governance Framework

Vision and Priorities

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

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

- A great place to live;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2008/09, 15 priorities were identified around all five Community Plan themes.

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

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

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The Vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprises the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs) and the Local Area Steering Groups. The Council's Corporate Management Team (CMT) and the Cabinet and other members have also had contributed to the Vision and Priorities for the new Community Plan.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2008/09 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council both lead and contribute to the delivery of the Community Plan.

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

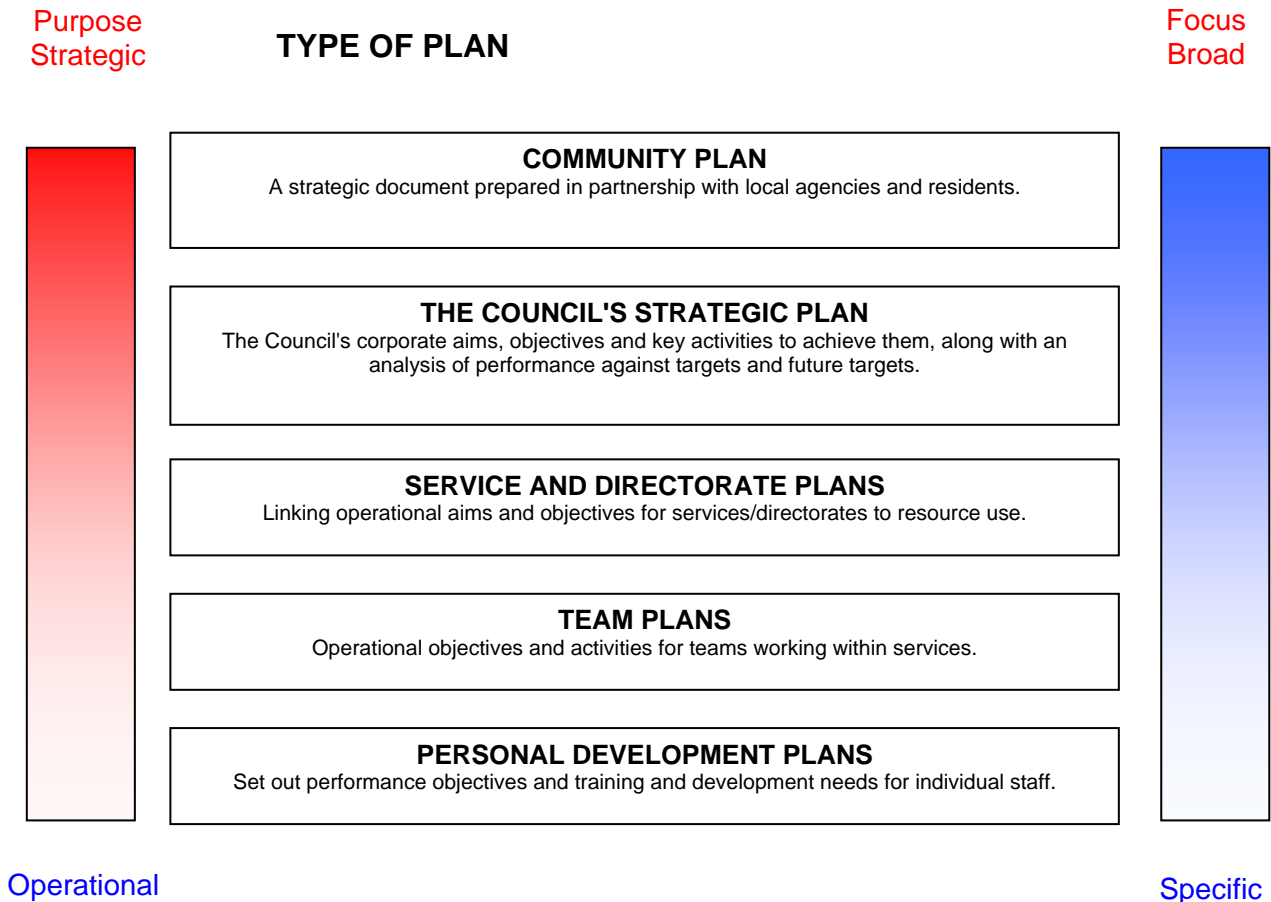
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

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

Quality of Service

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

The overall planning framework is illustrated in the following diagram.



Constitutional Matters

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.

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

During 2008/09 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

Codes of Conduct

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

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships. The Standards Committee was advised of the change and the revisions that were made to the code.

Compliance with Policies, Procedures, Laws and Regulations

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

Effective Audit Committee

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

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlines in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2008/09.

Whistle Blow and the Complaints Procedure

The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

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.

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

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

Risk Management

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

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

Financial Management

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

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2008/09 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

The Efficient and Effective Use of Resources

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2008/09, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation. The Audit Commission's most recent assessment for value reported an improvement in the way the Council seeks to delivery value for money.

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

Learning and Organisational Development

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

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. For some aspects of Council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

Communication and Engagement

The Council publishes numerous documents on its website as well as providing a weekly newspaper, the award winning East End life to keep members of the public up to date with what is going on.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future. This year the Council has also carried out extensive work to refresh its Community Strategy. To ensure all residents had an opportunity to input into the strategy, the Council identified the hard to reach elements of the community and made arrangements to facilitate participation of these groups.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed this year for the period 2008 - 2011 include key targets and indicators following negotiation between the Tower Hamlets and Central Government.

The Council also has important partnership arrangements with the local primary care trusts and has uniquely, appointed a Joint Director of Human Resources to work across both sets of organisations. It is intended that with this appointments and increasingly joined up working, the range of services offered by authority and the primary care trust are delivered seamlessly to the public.

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.

Review of Effectiveness

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

- 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 and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'four star' and improving well in its Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services have shown significant improvement whilst both Children's and Adults Social Care Services have been awarded 3 stars (out of 3) with excellent prospects for improvement. Children's Services received a score of 4/4 in its Annual Performance Assessment.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2008/09 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

Overview and Scrutiny

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

Internal Audit

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2008/09, the overall the control environment is adjudged to be satisfactory.

External Audit

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

- preparing accounts in compliance with statutory and other relevant requirements;

- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements. With regards the overall Use of Resources, the Council attained a score of 3. The score of 3 means the authority is performing well and consistently above the minimum requirement.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2008/09 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

| Governance Issue | Action taken and next steps | CMT Lead |
|---|---|--|
| Optimise asset management across public services to enable Council assets to be utilised in the most effective way. | <p>In February 2009 Cabinet approved an approach to the development of a cross-public sector asset strategy and phase 1 will commence on Summer 2009. This will involve a gap analysis of all public sector property requirements and the generation of options to address these requirements. This work will be undertaken in parallel with the development of the Infrastructure Delivery Plan for the Core Strategy and it is expected the Asset Strategy will be a significant part of the Delivery Plan.</p> <p>The Council has broadened membership of its Capital and Asset Management Board to include the Metropolitan Police and NHS Trusts and representatives attend meetings quarterly to focus on long term asset strategy and other issues of mutual interest {Priority 1.2 (6) – Strategic Plan}.</p> | Corporate Directors, Resources and Development and Renewal |
| To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery. | The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to any disaster around testing resilience at directorate level and scenario testing in case of a pandemic {Priority 1.2 - Communities Localities and Culture's Directorate Plan}. | Corporate Director, Communities Localities and Culture |
| Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's | A mock inspection of the Council's Arms Length Management Organisation (Tower | Corporate Director, |

| Governance Issue | Action taken and next steps | CMT Lead |
|---|---|---|
| ALMO achieves two stars. | <p>Hamlets Homes) is planned for mid June 2009. This will allow the ALMO to focus key areas.</p> <p>From discussions that have taken place with the Homes and Community Agency and the Department of Communities and Local Government, funding for this scheme is programmed within their financial projections although the funding is not fully committed at this stage. The authority is also progressing other opportunities around regeneration {Priority 2.1 (15) – Strategic Plan}.</p> | Development and Renewal |
| To improve the management for sickness absence. | <p>Compliance to ensure that managers are taking responsibility for managing sickness cases, reducing absence and effective reporting and monitoring is in place at corporate, directorate and service levels to reduce sickness absence (both long-term and short-term) is taking place. Over 2008/09, further arrangements are planned to reduce sickness by ensuring compliance.</p> <p>The authority also plans to adopt a health and wellbeing strategy, in partnership with NHS Tower Hamlets to promote positive health and self-awareness of individual levels of health and risks attributed to the workplace, home and lifestyle {Priority 1.2 (3) – Strategic Plan}.</p> | Corporate Management Team |
| Enhance the benefits derived from implementation of SX3 and improve management of Major Works for Leaseholders. | A number of systems related issues arising from the implementation of SX3 to account for leaseholder charges have been identified. A project team created to deal with the issue has developed an action plan and is working to cleanse data, provide user training, and improve systems and control around the software {Priority 2.1.4.1 – Development and Renewal’s Directorate Plan}. | Corporate Director, Development and Renewal |
| To review and ensure the arrangements for safeguarding children. | Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council is reviewing referral and safeguarding arrangements with social care and where necessary | Corporate Director, Children Services |

| Governance Issue | Action taken and next steps | CMT Lead |
|--|---|--|
| | <p>strengthening current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children's Services and enhancing the use of Framework I, the Council's case management system {Priority 1, Stay Safe, CYPP}.</p> | |
| <p>Improve information governance across the authority.</p> | <p>Following loss of personal data by an employee, a number of steps are being taken to militate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords and the development of projects that look to encrypt data and information {Priority 1.7, point 7 – Chief Executive's Directorate Plan}.</p> | <p>Assistant Chief Executive (Legal)</p> |
| <p>To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.</p> | <p>The authority's medium term financial strategy has been refreshed and sets out the funding needs to deliver the Council's priorities for three years from 2009/10 to 2011/12. The strategy recognises the need to make efficiency savings in coming years and sets out the level of savings for each of the three years. The authority is taking active steps to continue to provide its services with reduced funding {Priority 1.2 (5) Strategic Plan and priority 8 – Resource's Directorate Plan}.</p> | <p>Corporate Management Team</p> |
| <p>Enhance the benefits derived from effective contract management of key contracts with the private sector.</p> | <p>The council delivers a number of its services in partnership with the private sector. The authority has recognised the scope to enhance current arrangements to improve the value it attains from its legal agreements and as such, is developing a contract management toolkit to achieve enhanced outcomes {Priority 9 – Resource's Directorate Plan}.</p> | <p>Corporate Management Team.</p> |
| <p>To review and ensure the delivery of additional housing to reduce overcrowding.</p> | <p>The council is committed to providing high quality housing in line with the needs of the community. To achieve this, a programme is being developed to acquire</p> | <p>Corporate Director, Development</p> |

| Governance Issue | Action taken and next steps | CMT Lead |
|------------------|--|--------------|
| | and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}. | and Renewal. |

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

.....

Chief Executive

Date:

.....

Leader

Date:

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

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

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

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.

Accruals - The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

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

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

Approved Investments - These are investments, which Local Authorities are permitted to make using their unapplied capital and revenue funds. These investments must be in sterling and normally consist of gilts or short-term deposits with banks, building societies and other financial institutions. Such investments are treated as neither revenue nor capital expenditure.

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

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 towards the year-end to take account of inflation, changes in patterns of services and other factors.

Capital Financing Charges - The annual cost of capital, including principal repayments, interest charges and leasing costs.

Capital Expenditure - Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

Capital Adjustment Account - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans or certain other capital financing transactions.

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

Capital Receipt - Income received from the sale of a capital asset such as land or buildings.

Capital Receipts Reserve - Represents proceeds of fixed asset sales available to meet future capital investment.

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

Collateral - Assets pledged by a borrower to secure a loan.

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

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.

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.

Creditors - Amount of money owed by the Council for goods and services received.

Credit Risk - The probability that an organisation owing monies to the Council may be unable to honour its commitments.

Debtors - Amount of money owed to the Authority by individuals, and organisations.

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

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 a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

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

Events after the Balance Sheet Date - Those events that relate to the accounting year, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the Director of Resources.

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

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

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.

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

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

Government and Other Capital Contributions Deferred - Capital Grants received which will be credited to revenue in future years to offset depreciation for related fixed assets.

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 a fixed asset caused by consumption of economic benefits or by a general fall in prices.

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

Infrastructure Assets - Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

Intangible Assets - Non-financial fixed assets that do not have physical substance but are identifiable and controlled by the authority 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.

Liquidity Risk - The risk that the Council will be unable to raise finance to meet its commitments.

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

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

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

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

Net Current Replacement Cost - The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

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

Non-Operational Assets - Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of its services. Examples are investments and surplus properties.

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.

Operational Assets - Fixed assets held, occupied, used or consumed by the Council in the direct delivery of its service.

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

Precept - The charge made by one Authority (e.g. Greater London Authority) on another Authority (e.g. Tower Hamlets) to finance its net expenditure.

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

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

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 homes.

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

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

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

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

Soft Loan - Loans given at less than market/commercial rates to community or not-for-profit organisations.

Statement of Movement on the General Fund Balance - A Statement that reconciles between the statutory provisions that specify the net expenditure that needs to be taken into account when setting local taxes and surplus or deficit on the Income and Expenditure Account.

Statement of Total Recognised Gains and Losses - A statement bringing together all the gains and losses of the Council during the year.

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.

Abbreviations used in Accounts

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| ABG | Area Based Grant |
| AGS | Annual Governance Statement |
| BVACOP | Best Value Accounting Code of Practice |
| CAA | Capital Adjustment Account |
| CFR | Capital Financing Requirement |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CRR | Capital Receipts Reserve |
| DCLG | Department of Communities and Local Government |
| DCSF | Department for Children, Schools and Families |
| DSG | Dedicated Schools Grant |
| DWP | Department for Work and Pensions |
| EIR | Effective Interest Rate |
| FRS | Financial Reporting Standard |
| GAAP | Generally Accepted Accounting Principles |
| GLA | Greater London Authority |
| HRA | Housing Revenue Account |
| I & E | Income and Expenditure Account |
| 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 |
| NPV | Net Present Value |
| (N)NDR | (National) Non-Domestic Rates |
| PCT | Primary Care Trust |
| PFI | Private Finance Initiative |
| PWLB | Public Works Loans Board |
| RICS | Royal Institute of Chartered Surveyors |
| RSG | Revenue Support Grant |
| SORP | Statement of Recommended Practice |
| SSAP | Statement of Standard Accounting Practice |
| STRGL | Statement of Recognised Gains and Losses |
| WDA | Waste Disposal Authority |