

LONDON BOROUGH OF TOWER HAMLETS

ANNUAL FINANCIAL REPORT 2017-18



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Reducing Re-offending
2003 - 2008
*Winner of 6 previous
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ANNUAL FINANCIAL REPORT 2017-18

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Narrative Report – 2017/18

Overview by Zena Cooke Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2017/18, which reports our financial results for the year.

The accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produces a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at www.towerhamlets.gov.uk

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

Through sound financial management the Council's spend for the year is in line with the revenue budget with a slight underspend of £1.5 million.

After these transfers, the Council's general fund balance is £33.2m. This is considered adequate reserve balance for the stable financial management of the Council considering the challenges it faces in the coming years.

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

Key achievements in 2017/18 include:

- Delivering 750 affordable homes, including stock which are family sized for social rent
- Rehoused 870 overcrowded households into larger, more suitable accommodation
- The delivery of 190 hot meals a day to older residents
- 1,598 residents enrolled on the WorkPath partnership provision, of which 994 were supported into sustainable employment
- Over 1,400 tonnes of waste collected each week
- Provided free school meals for 11,293 pupils who would not have been eligible for meals paid for by central government. In total 33,818 children receive free school meals in the borough.
- Provided home care support to 1,520 people to help them stay living at home

- Making our borough greener, including a programme of tree planting in streets, parks and open spaces.

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

The Council has continued to invest in its infrastructure with nearly £125 million spent on its capital programme. The main areas of investment were in housing and schools, with £23.9 million of improvement works spent through the housing capital programme and £51.7 million spent on temporary accommodation.

Looking forward the Council will continue to face significant financial challenges. The Medium Term Financial Plan agreed by Full Council in February 2018 includes a further £42m million savings programme in the years 2018 to 2021. This forms the basis of a balanced budget over the next three years, Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. The impact of Brexit on the Borough is still to be quantified.

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

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

Review of the Year

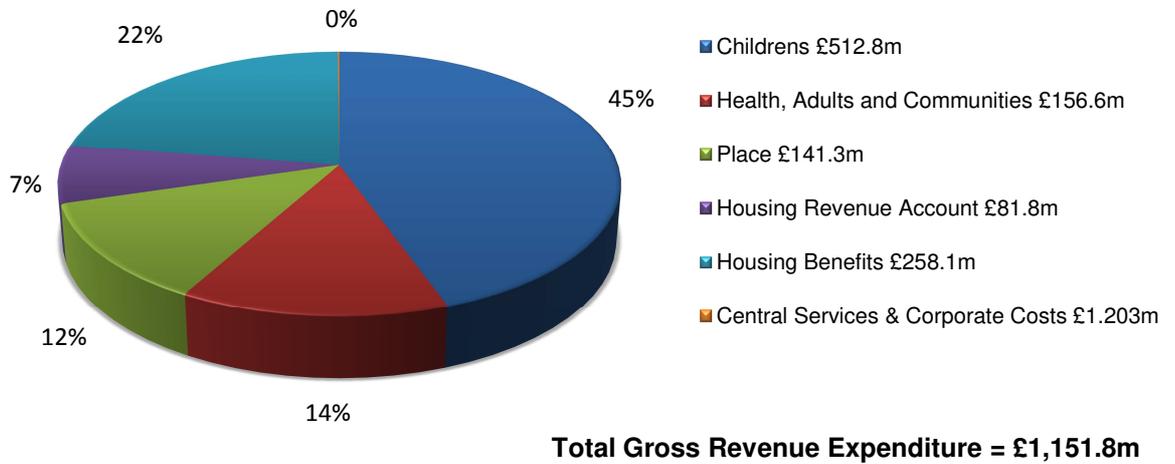
Revenue Income and Expenditure

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

Overall, the Council's Directorate spend was underspent by £1.5 million against the General Fund budget of £345.913 million. The HRA account showed an additional surplus of some £8.5 million against budget, this was due to lower financing of capital spend from the revenue budget.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.2 billion (£1.2 billion in 2016/17). An analysis by directorate is shown in the following diagram. Note that these expenditure figures are per the Council's management accounts spend and do not include the effect of technical accounting entries that appear in the Comprehensive Income and Expenditure Account.

Analysis of Gross Revenue Expenditure by Service Area

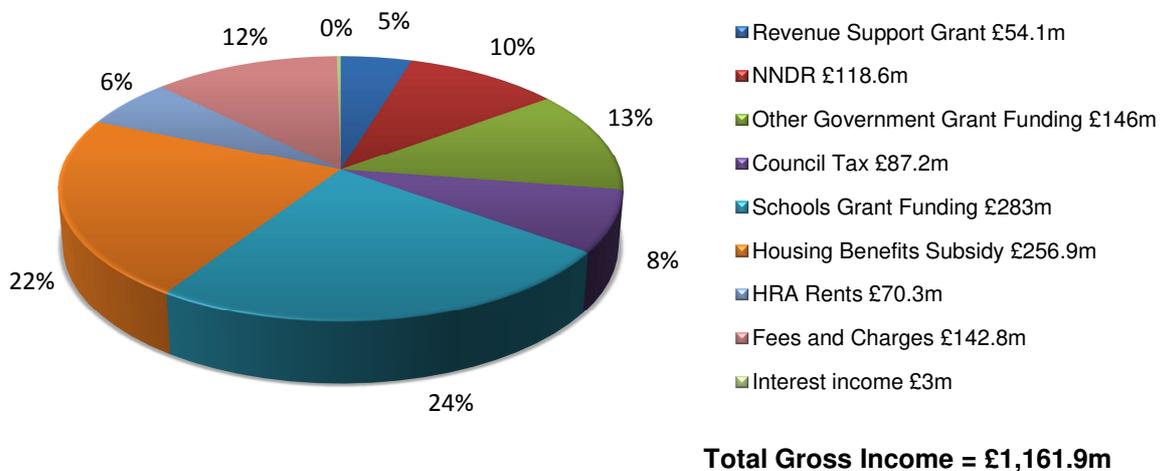


Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.74 billion).

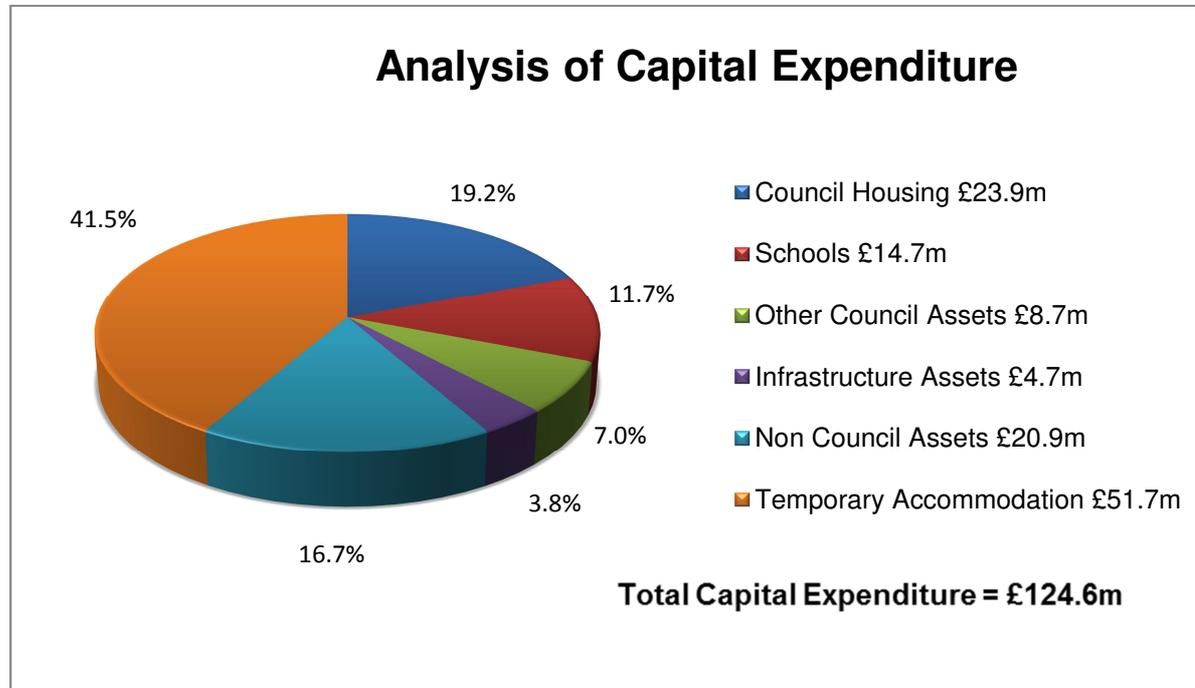
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely 'passported' directly to the schools. An analysis of all the funding sources is shown in the diagram below.

Analysis of Revenue Funding Sources



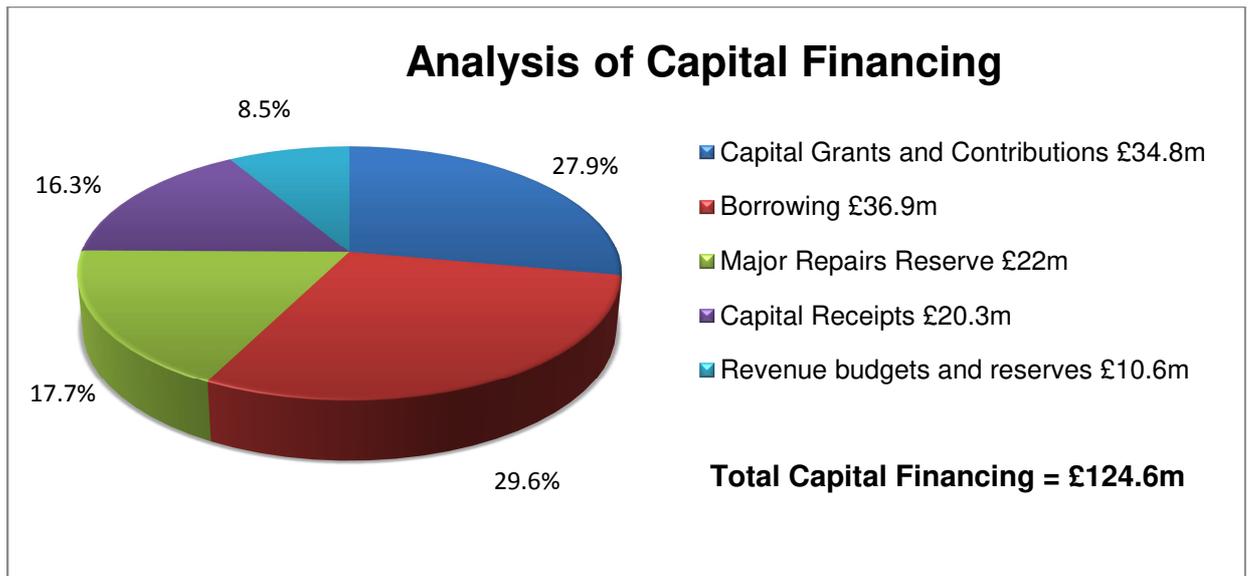
Capital Investment

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



Investment shown as being in 'non-Council assets' includes £3.3 million of expenditure on schools not owned by the Council and £10.0 million of expenditure on leaseholder properties.

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



Borrowing

At the year end the Council had outstanding borrowings of £85.3 million (£86.3 million 2016/17). This was reduced by PWLB loans that matured during the year.

Pensions

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

At the end of 2017/18 there was a net liability of £563 million (£619 million 2016/17), this reduction is mainly due to increases in investment values. Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed with contributions to the scheme in future years. These contributions have been reflected in the Council's Medium Term Financial Plan.

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

FURTHER INFORMATION

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

THE ACCOUNTING STATEMENTS

These comprise:

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

The **Core Financial Statements**:

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

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

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

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

Notes to the Core Financial Statements

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

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

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

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

MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES						UNUSABLE RESERVES								TOTAL AUTHORITY RESERVES £'000	
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000		TOTAL UNUSABLE RESERVES £'000
Balance as at 31 March 2016		72,096	153,842	32,092	9,176	86,383	56,195	409,784	401,655	1,496,454	(516,595)	728	284	(2,370)	2	1,380,158	1,789,942
<u>Movement in reserves during 2016/17</u>																	
Surplus or (Deficit) on the Provision of Services		(314)	0	63,122	0	0	0	62,808	0	0	0	0	0	0	0	0	62,808
Other comprehensive expenditure and income		0	0	0	0	0	0	0	82,645	0	(91,986)	0	0	0	0	(9,341)	(9,341)
Total Comprehensive Expenditure and Income		(314)	0	63,122	0	0	0	62,808	82,645	0	(91,986)	0	0	0	0	(9,341)	53,467
Adjustments between accounting basis and funding basis under regulations		(34,552)	0	(56,137)	284	70,466	25,834	5,895	(19,705)	29,224	(10,541)	(3,029)	(284)	(1,559)	(2)	(5,896)	(1)
Net Increase or Decrease before Transfers to Earmarked Reserves		(34,866)	0	6,985	284	70,466	25,834	68,703	62,940	29,224	(102,527)	(3,029)	(284)	(1,559)	(2)	(15,237)	53,466
Transfers to or from earmarked reserves	8	(12,590)	12,590	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	7,097	(7,097)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in 2016/17		(40,359)	5,493	6,985	284	70,466	25,834	68,703	62,940	29,224	(102,527)	(3,029)	(284)	(1,559)	(2)	(15,237)	53,466
Balance as at 31 March 2017 carried forward		31,737	159,335	39,077	9,460	156,849	82,029	478,487	464,595	1,525,678	(619,122)	(2,301)	0	(3,929)	0	1,364,921	1,843,408
<u>Movement in reserves during 2017/18</u>																	
Surplus or (Deficit) on the Provision of Services		(34,403)	0	12,990	0	0	0	(21,413)	0	0	0	0	0	0	0	0	(21,413)
Other comprehensive expenditure and income		0	0	0	0	0	0	0	216,962	0	51,679	0	0	0	0	268,641	268,641
Total Comprehensive Expenditure and Income		(34,403)	0	12,990	0	0	0	(21,413)	216,962	0	51,679	0	0	0	0	268,641	247,228
Adjustments between accounting basis and funding basis under regulations		18,564	0	(4,509)	(3,975)	37,707	10,807	58,594	(16,324)	(11,888)	(24,398)	(6,726)	0	742	0	(58,594)	0
Net Increase or Decrease before Transfers to Earmarked Reserves		(15,839)	0	8,481	(3,975)	37,707	10,807	37,181	200,638	(11,888)	27,281	(6,726)	0	742	0	210,047	247,228
Transfers to or from earmarked reserves	8	16,016	(16,016)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	1,341	(1,341)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		1,518	(17,357)	8,481	(3,975)	37,707	10,807	37,181	200,638	(11,888)	27,281	(6,726)	0	742	0	210,047	247,228
Balance as at 31 March 2018		33,255	141,978	47,558	5,485	194,556	92,836	515,668	665,233	1,513,790	(591,841)	(9,027)	0	(3,187)	0	1,574,968	2,090,636

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Gross Expenditure	2016/17		Note	2017/18		
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
554,767	439,884	114,883	Children's Services	538,699	406,776	131,923
168,107	64,494	103,613	Health, Adults and Communities	162,076	66,068	96,008
141,027	74,304	66,723	Place	154,392	82,636	71,756
12,256	2,473	9,783	Governance	18,372	2,641	15,731
64,209	91,545	(27,336)	Local Authority Housing (Housing Revenue Account)	83,387	91,030	(7,643)
294,998	275,378	19,620	Resources	296,760	266,133	30,627
14,388	745	13,643	Corporate Cost and Central Items	6,592	8,262	(1,670)
1,249,752	948,823	300,929	NET COST OF SERVICES	1,260,278	923,546	336,732
		(38,985)	Other Operating Expenditure			(11,268)
		26,422	Financing and Investment Income and Expenditure			23,253
		(351,174)	Taxation and Non-Specific Grant Income			(327,304)
		(62,808)	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			21,413
			Other Comprehensive Income and Expenditure			
		(82,645)	(Surplus)/Deficit on revaluation of non-current assets			(216,962)
		91,986	Actuarial (gains) or losses on pension assets and liabilities			(51,679)
		9,341	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			(268,641)
(53,467) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE						(247,228)

BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2018.

31 March 2017 £'000		Notes	31 March 2018 £'000
	Long-term Assets		
2,275,180	Property, plant and equipment	12	2,486,991
9,311	Heritage Assets	18	18,835
618	Long Term Debtors	13	590
2,285,109	Total Long-term assets		2,506,416
	Current Assets		
311,667	Short-term investments	15	359,126
3,850	Assets held for sale	21	0
80,487	Short-term debtors	19	100,800
184,299	Cash and cash equivalents	20	114,524
580,303	Total Current Assets		574,450
	Current liabilities		
3,533	Short-term borrowing	15	4,426
154,154	Short-term creditors	22	157,986
4,855	Provisions	23	7,373
162,542	Total Current liabilities		169,785
	Long Term Liabilities		
7,173	Provisions	23	7,160
84,966	Long-term borrowing	15	83,293
619,122	Liability related to defined benefit pension schemes	41	562,923
83,120	Capital grants receipts in advance	37	104,772
63,871	Deferred liabilities	40	61,455
1,205	Deferred Income - Receipt in Advance		835
859,457	Total Long-Term Liabilities		820,438
1,843,413	NET ASSETS		2,090,643
	Reserves		
	Usable Reserves		
31,740	General Fund		33,258
39,079	Housing Revenue Account		47,560
134,619	Earmarked reserves	8	118,605
24,714	Schools reserves	8	23,373
156,848	Capital Receipts Reserve		194,556
82,030	Capital Grants Unapplied		92,836
9,459	Major Repairs Reserve		5,485
478,489	Total Usable Reserves		515,673
	Unusable Reserves	25	
464,596	Revaluation Reserve		665,233
1,525,680	Capital Adjustment Account		1,513,792
(2,301)	Collection Fund Adjustment Account		(9,027)
0	Financial Instruments Adjustment Account		0
(619,122)	Pensions Reserve		(591,841)
(3,929)	Accumulated Absences Account		(3,187)
0	Deferred capital receipts		0
1,364,924	Total Unusable Reserves		1,574,970
1,843,413	TOTAL RESERVES		2,090,643

These financial statements replace the unaudited financial statements confirmed by the
Corporate Director of Resources on 31/05/2018



Date 31/07/2018

Zena Cooke - Corporate Director of Resources

CASH FLOW STATEMENT

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

2016/17 £'000		Notes	2017/18 £'000
62,808	Net surplus or (deficit) on the provision of services		(21,413)
44,145	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	84,825
(92,215)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(70,596)
14,738	Net cash flows from Operating Activities		(7,184)
9,777	Investing Activities	<u>27</u>	(58,900)
(928)	Financing Activities	<u>28</u>	(3,691)
23,587	Net increase or decrease in cash and cash equivalents		(69,775)
160,712	Cash and cash equivalents at the beginning of the reporting period		184,299
184,299	Cash and cash equivalents at the end of the reporting period	<u>20</u>	114,524

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017-18 financial year and its position at the year-end of 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 and the *Service Reporting Code of Practice (SeRCOP) 2017-18*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council for the year ending 31st March 2018 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

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

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

2. Accruals of Income and Expenditure

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

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

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

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

3. Cash and Cash Equivalents

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

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

4. Exceptional Items

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

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

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

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

6. Accounting Standards not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the code.

The following new standards are in the 2018-19 code:

- IFRS 9 Financial instruments. This changes the classification of financial instruments. Financial assets classed as loans and receivables will be classified as amortised cost instruments where there is a contractual cash flow, such as a deposit. Other more complex instruments will be classed as fair value through Other Comprehensive Income or Fair Value through Profit and Loss. There is not expected to be any impairment of investments currently held.
- IFRS15 Revenue from Contracts with Customers. Impact is likely to be minimal but would relate to income streams where the Council generates income streams on a long term contract.
- IAS7 Statement of Cash Flows. Cash flows from financing activities would be disclosed.

7. Charges to Revenue for Non Current Assets

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

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

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

8. Council Tax and Non-domestic Rates (England)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

9. Employee Benefits

a. Benefits Payable during Employment

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

b. Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2018.

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement
- this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- expected rate of return (on assets) – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or

because the actuaries have updated their assumptions, debited to the Pensions Reserve.

- contributions paid to the pension funds – cash paid as employer’s contributions to the pension funds.

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

Discretionary Benefits

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

10. Events after the Balance Sheet date

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

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

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

11. Financial Instruments

a. Financial Liabilities

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

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

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

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

b. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

12. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

13. Government Grants and Contributions

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

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

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

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

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

14. Heritage assets

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

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

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £18.8 million at 31 March 2018. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. For example this may include reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

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

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

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

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

15. Interests in Companies and Other Entities

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 44). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

16. Inventories and Long Term Contracts

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

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

17. Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as a Lessee

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

a. Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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

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

b. Operating Leases

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

The Council as a Lessor

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

Operating Leases

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

18. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017-18 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received.

19. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected

to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating

Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

20. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

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

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

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

21. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

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

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

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

b. Contingent Liabilities

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

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

c. Contingent Assets

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

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

22. Reserves

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

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

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

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

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

24. Fair value measurement

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

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

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

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest

and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

25. Value added Tax (VAT)

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

26. Collection Fund

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

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

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

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

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

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

27. Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase which commenced on 1 April 2014 and will run until March 2019, after which point the government has announced its abolition. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

28. Community Infrastructure Levy

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

29. Schools

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

2 Restated Accounting Statements

There are no restated accounting statements.

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

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

The items in the Council's Balance Sheet at 31st March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Valuations at 1st April 2017 and 31st March 2018 have been used to construct the balance sheet.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1.8 million for every year that useful lives had to be reduced.

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

NNDR Appeals - There are approximately 2,955 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. Provision has been made for appeals where there might be a reduction in NNDR due.

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

The assumptions interact in complex ways within the IAS19 calculation basis. During 2017/18, the Council's actuaries advised that the net pensions liability had decreased by over £56 million to £563 million mainly as a result of rising investment values.

4 Material Items of Income and Expense

Current Year Items

Actuarial gain on pension fund - there was a £56 million actuarial loss on the pension fund mainly due to a rise in investment values. The actuary has advised that a deficit payment equivalent to £15million should be made in the three years, 2017/18, 2018/19 and 2019/20. The Pensions Committee accepted a pre-payment of £43.4m as the net present value equivalent of the sum due. This amount will be charged to the General Fund over the three year period.

Revaluation of Properties - a £20m unrealised revaluation loss on the value of property (in particular schools) is included in the net cost of services on the face of the Comprehensive Income & Expenditure Account. The total change in the value of property due to revaluations during 2017/18 was an increase of £187.5m. The net increase credited to the revaluation reserve was £207.5m, which is shown as part of other comprehensive income and expenditure.

5 Events After the Balance Sheet Date

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

6a Note to the Expenditure and Funding Analysis

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

Adjustments for Capital Purposes	2016/17		Total Adjustments	2017/18		Total Adjustments		
	Transfers to/from Earmarked Reserves	Net Change for Pensions Adjustments		Other Adjustments	Net Change for Pensions Adjustments		Other Adjustments	
£'000	£'000	£'000	£'000	£'000	£'000	£'000		
298	1,047	9,448	8,144	22,888	2,457	7,692	(8,690)	24,347
0	2,224	1,787	(33,071)	0	(1,163)	4,116	(46,088)	(43,135)
1,562	1,894	3,229	(2,040)	487	628	7,844	(619)	8,340
0	61	(722)	(781)	0	0	2,234	105	2,339
(13,819)	0	(3,040)	(20,348)	7,397	0	(3,040)	(3,519)	838
(494)	273	608	400	(1,901)	(463)	5,937	8	3,581
18,985	(14,058)	(18,670)	(5,636)	13,225	6,823	(15,590)	50	4,508
6,532	(8,559)	(7,360)	(53,332)	42,096	8,282	9,193	(58,753)	818
(90,961)	(16,510)	17,901	(42,849)	(50,783)	2,453	15,206	63,718	30,594
(84,429)	(25,069)	10,541	(96,161)	(8,687)	10,735	24,399	4,965	31,412

Adjustments for Capital Purposes

This column includes the following adjustments:

- Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the Comprehensive Income and Expenditure Statement
- Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Transfers to/from Earmarked Reserves

This column adjusts for the application of earmarked reserves against expenditure and the transfer of any balances to earmarked reserves which are not included in the Comprehensive Income and Expenditure Statement as they are not chargeable under generally accepted accounting practices.

Net Change for Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs
- Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

Other Adjustments

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

- Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.
- Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2017/18	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	19,954	0	0	18,038	0	0	37,992	(37,992)	0
Revaluation losses on PPE (charged to SDPS)	19,985	0	0	0	0	0	19,985	(19,985)	0
Capital grants and contributions applied	(9,091)	0	(1,720)	0	0	(23,935)	(34,746)	34,746	0
Revenue expenditure funded from capital under statute	10,808	0	10,047	0	0	0	20,855	(20,855)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	19,980	0	25,004	0	0	0	44,984	(44,984)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,483)	0	(449)	0	0	0	(7,932)	7,932	0
Capital expenditure charged against the General Fund and HRA balances	(8,372)	0	(2,201)	0	0	0	(10,573)	10,573	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(30,156)	0	(26,788)	0	56,944	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(20,340)	0	(20,340)	20,340	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,737	0	0	0	(1,737)	0	0	0	0
Unattached capital receipts	(260)	0	(2,580)	0	2,840	0	0	0	0
Deferred Capital Receipts	0	0	0	0	0	0	0	0	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(22,013)	0	0	(22,013)	22,013	0
Adjustments involving the Financial Instruments Adjustment Account									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	63,576	0	1,225	0	0	0	64,801	(64,801)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(37,363)	0	(3,040)	0	0	0	(40,403)	40,403	0
Adjustments involving the Collection Fund Adjustment Account									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	6,726	0	0	0	0	0	6,726	(6,726)	0
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES when receivable	(30,735)	0	(4,007)	0	0	34,742	0	0	0
Adjustment between the Capital Adjustment Account and the Revaluation Reserve									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(742)	0	0	0	0	0	(742)	742	0
Total Adjustments	18,564	0	(4,509)	(3,975)	37,707	10,807	58,594	(58,594)	0

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2016/17	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	24,398	0	0	14,801	0	0	39,199	(39,199)	0
Revaluation losses on PPE (charged to SDPS)	(425)	0	(11,370)	0	0	0	(11,795)	11,795	0
Capital grants and contributions applied	(5,917)	0	(6,164)	0	0	(19,510)	(31,591)	31,591	0
Revenue expenditure funded from capital under statute	9,333	0	3,341	0	0	0	12,674	(12,674)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	8,338	0	29,313	0	0	0	37,651	(37,651)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,096)	0	(504)	0	0	0	(7,600)	7,600	0
Capital expenditure charged against the General Fund and HRA balances	(20,340)	0	(5,287)	0	0	0	(25,627)	25,627	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(17,953)	0	(56,039)	0	73,992	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(7,913)	0	(7,913)	7,913	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,755	0	0	0	(1,755)	0	0	0	0
Unattached capital receipts	(1,853)	0	(4,287)	0	6,140	0	0	0	0
Deferred Capital Receipts	0	0	0	0	2	0	2	(2)	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(14,517)	0	0	(14,517)	14,517	0
Adjustments involving the Financial Instruments Adjustment Account									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	102	0	182	0	0	0	284	(284)	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	55,294	0	1,203	0	0	0	56,497	(56,497)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(42,915)	0	(3,041)	0	0	0	(45,956)	45,956	0
Adjustments involving the Collection Fund Adjustment Account									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	3,029	0	0	0	0	0	3,029	(3,029)	0
Adjustments involving the Unequal Pay Back Pay Adjustment Account									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES when receivable	(41,860)	0	(3,484)	0	0	45,344	0	0	0
Adjustment between the Capital Adjustment Account and the Revaluation Reserve									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of State)									
	0	0	0	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,559	0	0	0	0	0	1,559	(1,559)	0
Total Adjustments	(34,552)	0	(56,137)	284	70,466	25,834	5,895	(5,895)	0

8 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2017/18.

	BALANCE AT 1 APRIL 2016 £000	TRANSFERS OUT 2016/17 £000	TRANSFERS IN 2016/17 £000	REALLOCATI ONS 2016-17 £000	BALANCE AT 31 MARCH 2017 £000	TRANSFERS OUT 2017/18 £000	TRANSFERS IN 2017/18 £000	REALLOCATIO NS 2017-18 £000	BALANCE AT 31 MARCH 2018 £000
GENERAL FUND									
General Fund Reserve	72,100	(40,360)	0	0	31,740	0	1,518	0	33,258
EARMARKED RESERVES									
1 Transformation	24,028	(8,194)	0	9,166	25,000	(10,025)	0	0	14,975
2 Severance	12,000	(1,176)	0	(10,824)	0	0	0	0	0
3 ICT / Finance Systems	2,510	(1,932)	25,000	(2,510)	23,068	(2,100)	0	0	20,968
4 ICT Refresh	1,331	0	0	(1,331)	0	0	0	0	0
5 Education Grant Reduction	2,443	(370)	0	(2,073)	0	0	0	0	0
6 Employment and other Corporate Initiatives	13,233	(3,765)	0	(9,468)	0	0	0	0	0
7 Other	1,200	0	116	(354)	962	(209)	176	0	929
8 Homelessness	1,655	(496)	0	(1,159)	0	0	0	0	0
9 Parking Control	3,295	0	0	0	3,295	0	0	0	3,295
10 Building Control	0	0	0	373	373	(156)	0	0	217
11 Land Charges	0	0	0	749	749	0	0	0	749
12 Place (formerly Development & Renewal) Other	5,881	(1,551)	0	(4,330)	0	0	0	0	0
13 Communities, Localities & Culture	2,660	(413)	0	(2,247)	0	0	0	0	0
14 Children, Schools & Families	1,238	(160)	0	(1,078)	0	0	0	0	0
15 Adults, Health & Wellbeing (including Public Health)	2,702	(1,402)	0	(1,300)	0	0	1,297	0	1,297
16 Law, Probity & Governance & Resources	624	0	0	(624)	0	0	0	0	0
17 Insurance	22,060	(1,289)	0	0	20,771	0	463	0	21,234
18 Schools Balances	31,811	(7,097)	0	0	24,714	(1,341)	0	0	23,373
19 CSF - Early Intervention	218	(218)	0	0	0	0	0	0	0
20 Housing Revenue Account (HRA)	32,092	6,987	0	0	39,079	0	8,481	0	47,560
21 Capital Programme (General Fund)	24,951	(19,305)	0	(5,646)	0	0	0	0	0
22 New Civic Centre	0	0	20,000	0	20,000	(2,753)	0	0	17,247
23 New Homes Bonus	0	0	7,258	0	7,258	0	4,855	0	12,113
24 Free School Meals	0	0	0	6,000	6,000	(2,000)	0	0	4,000
25 Mayor's Investment Priorities	0	0	0	10,000	10,000	(2,980)	0	0	7,020
26 Risk Reserve	0	0	0	10,500	10,500	(2,346)	600	0	8,754
27 Revenue Grants	0	0	487	1,156	1,643	(385)	483	0	1,741
28 Mayor's Tackling Poverty Reserve	0	0	0	5,000	5,000	(934)	0	0	4,066
Earmarked Reserve Total	185,932	(40,381)	52,861	0	198,412	(25,229)	16,355	0	189,538
Total Usable Reserve Total	258,032	(80,741)	52,861	0	230,152	(25,229)	17,873	0	222,796

Corporate Reserves

- 1 Reserve created to support the delivery of the Council's transformation programme.
- 2 Reserve for potential severance / redundancy payments*.
- 3 & 4 Reserve to support the planned investment in Council's finance systems.
- 5 Reserve to mitigate the impact of reductions to education improvement grant funding.*
- 6 Reserve for employment, business support and corporate initiatives.*
- 7 Other - mainstream grants fund.*
- 8 A reserve to mitigate the impact of the increased cost of managing homelessness.*
- 9 Parking control reserve.
- 10 Building Control reserve created from Building Control service revenue.
- 11 Reserve created from Land Charges revenue.
- 12-16 Reserves held for service specific initiatives.*
- 17 The Council is self insured for most liability and property risks below £1 million. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- 18 Reserves held by schools under the scheme of delegation.
- 19 Reserve created from grant for Children, School & Families early intervention schemes.
- 20 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 22 Reserve to contribute towards funding of new Civic Centre.
- 23 Unspent New Homes Bonus receipts to be used to fund housing schemes.
- 24 Reserve to fund free school meals programme.
- 25 Reserve to fund Mayor's Investment Priority schemes.
- 26 Risk Reserve to manage funding of risks arising.
- 27 Unspent revenue grants without repayment conditions.
- 28 Contribution toward funding of welfare reform programme.

9 Other Operating Expenditure

2016/17 £'000	Note	2017/18 £'000
Levies		
239	- Lee Valley Regional Park Authority	233
190	- Environment Agency	201
1,312	- London Pensions Fund Authority	1,358
0	- Financial Reporting Council	3
1,741	Total Levies	1,795
1,755	Payments to Housing Capital Receipts Pool	1,737
(36,341)	Net (gain)/loss on disposal of non-current assets	(11,959)
(6,140)	Unattached capital receipts	(2,841)
(38,985)	Total	(11,268)

2016/17 Grants - Of 635 grant payments made during 2016/17, 5 grant payments totalling £78,997.57 were paid in error by the Council as appropriate premises rental agreements were not in place at the time of payment. As the Commissioners required appropriate premises agreements to be in place before payment was made, this expenditure was considered unlawful. These payments represented 2.7% of all £2.9m grants payments in the financial year and 2.6% of the number of payments processed. The £78,997.57 of expenditure is included within the Comprehensive Income and Expenditure Statement for 2016/17. The approval process has been strengthened and work continues to address grants related premises issues. Progress has been reported to the Commissioners' public decision making meetings and since 17 January 2017, to the Grants Determination (Cabinet) Sub Committee. There were no grant payments made in 2017/18 that were paid without lease rental agreements in place.

10 Financing and Investment Income and Expenditure

2016/17 £'000		2017/18 £'000
10,939	Interest payable and similar charges	10,800
17,901	Pensions interest cost and expected return on pensions assets	15,206
(2,519)	Interest receivable and similar income	(2,950)
101	Surplus or deficit of trading operations	197
26,422	Total	23,253

11 Taxation and Non Specific Grant Income

2016/17 £'000		2017/18 £'000
(78,043)	Council Tax income	(87,150)
(117,870)	Non domestic rates	(118,562)
(105,025)	Non-ringfenced Government grants	(83,872)
(50,236)	Capital grants and contributions	(37,720)
(351,174)	Total	(327,304)

12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2017/18	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 2017	1,342,492	992,333	24,691	157,546	54,414	7,575	31,517	2,610,568	257,384
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	0	(166,622)	5,212
Adjusted cost/valuation at 1 April 2017	1,203,994	963,827	24,647	157,545	54,415	8,001	31,517	2,443,946	262,596
Additions	19,853	74,341	186	4,741	443	21	4,071	103,656	5,862
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(23,954)	110,949	0	0	0	0	0	86,995	16,294
Revaluation	0	(19,985)	0	0	0	0	0	(19,985)	(11,651)
Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(12,724)	(16,383)	0	0	0	0	0	(29,107)	0
Derecognition - Disposals	(12,211)	(647)	0	0	0	0	0	(12,858)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets Reclassified (to)/from Held for Sale	26,081	0	0	0	0	0	(26,081)	0	0
Other Reclassification of Assets	1,201,039	1,112,102	24,833	162,286	54,858	8,022	9,507	2,572,647	273,101
At 31 March 2018	1,201,039	1,112,102	24,833	162,286	54,858	8,022	9,507	2,572,647	273,101
Accumulated Depreciation and Impairment									
At 1 April 2017	151,745	112,337	21,787	49,940	5	(426)	0	335,388	23,782
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	0	(166,622)	5,212
Adjusted accumulated depreciation at 1 April 2017	13,247	83,831	21,743	49,939	6	0	0	168,766	28,994
Depreciation charge	17,053	16,766	553	3,814	0	3	0	38,189	4,038
Depreciation written out to the Revaluation Reserve	(29,850)	(90,618)	0	0	0	0	0	(120,468)	(30,197)
Derecognition - Disposals	(188)	(252)	0	0	0	0	0	(440)	0
Derecognition - Other	(366)	(25)	0	0	0	0	0	(391)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2018	(104)	9,702	22,296	53,753	6	3	0	85,656	2,835
Net Book Value									
At 31 March 2018	1,201,143	1,102,400	2,537	108,533	54,852	8,019	9,507	2,486,991	270,266
At 31 March 2017	1,190,747	879,996	2,904	107,606	54,409	8,001	31,517	2,275,180	293,602

12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2016/17	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 2016	1,244,394	971,542	24,428	153,803	53,891	11,885	10,705	2,470,648	250,625
Additions	36,447	31,900	263	3,743	523	0	20,812	93,688	6,759
Revaluation increases/(decreases) recognised in the Revaluation Reserve	74,882	(10,050)	0	0	0	0	0	64,832	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	11,370	(346)	0	0	0	0	0	11,024	0
Derecognition - Disposals	(24,601)	0	0	0	0	(742)	0	(25,343)	0
Derecognition - Other	0	(713)	0	0	0	0	0	(713)	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	(3,568)	0	(3,568)	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2017	1,342,492	992,333	24,691	157,546	54,414	7,575	31,517	2,610,568	257,384
Accumulated Depreciation and Impairment									
At 1 April 2015	151,963	95,190	21,121	46,220	5	(426)	0	314,073	17,250
Depreciation charge	13,525	21,485	666	3,720	0	0	0	39,396	6,532
Depreciation written out to the Revaluation Reserve	(13,465)	(4,349)	0	0	0	0	0	(17,814)	0
Derecognition - Disposals	(278)	0	0	0	0	0	0	(278)	0
Derecognition - Other	0	11	0	0	0	0	0	11	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2017	151,745	112,337	21,787	49,940	5	(426)	0	335,388	23,782
Net Book Value									
At 31 March 2017	1,190,747	879,996	2,904	107,606	54,409	8,001	31,517	2,275,180	233,602
At 31 March 2016	1,092,431	876,352	3,307	107,583	53,886	12,311	10,705	2,156,575	233,375

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

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

- Council Dwellings – As a method of depreciation, the council has used the Major Repairs Allowance (MRA) to adjust the value of the housing stock to reflect the effects of use, deterioration and obsolescence. In 2017/18, the council compared the MRA figure to a depreciation figure calculated based on figures from a qualified valuer to ensure the depreciation charge to the HRA was adequate to finance the HRA's long-term financial plan.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £15.049 million at 31st March 2018 (£38.555 million at 31st March 2017).

	Committed sum £m	Costs to 31/3/2017 £m	2017/18 onwards £m	Contract End Date
Decent Homes Contract	20.728	7.234	13.494	31/03/2019
St Paul's Way Trust School	11.379	9.824	1.555	24/08/2018
TOTAL	32.107	17.058	15.049	

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. In 2017/18, school assets and other high value assets valued at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31st March 2018. A summary of total valuation per asset category is shown below.

In 2017/18, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

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

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	67,444	2,537	108,533	54,852	-	9,507	242,873
Valued at current value in:								
2017/18	1,201,143	891,908	-	-	-	-	-	2,093,051
2016/17	-	30,497	-	-	-	278	-	30,775
2015/16	-	55,375	-	-	-	7,741	-	63,116
2014/15	-	24,780	-	-	-	-	-	24,780
2013/14	-	32,396	-	-	-	-	-	32,396
Value at 31 March 2018	1,201,143	1,102,400	2,537	108,533	54,852	8,019	9,507	2,486,991

13 LONG TERM DEBTORS

	1st April 2016	Advances	Income and Adjustments	Balance at 31st March 2017	Advances	Income and Adjustments	Balance at 31st March 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mortgages on Right to Buy properties	29	0	(3)	26	0	0	26
Sundry Loans	543	160	(111)	592	86	(114)	564
	572	160	(114)	618	86	(114)	590

14 INTANGIBLE ASSETS

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

15 FINANCIAL INSTRUMENT NOTES

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

Amortised Cost

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

Fair Value

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

Compliance

The Council has:

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

Types of Financial Instruments

Financial Instrument Categories	Long-Term		Current		Total	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Financial Liabilities						
Borrowings at amortised cost	84,966	83,293	1,310	2,009	86,276	85,301
Deferred Liabilities (PFI and Finance Leases)	63,871	61,454	2,223	2,417	66,094	63,871
Creditors - Financial Liabilities carried at contract amount	0	0	40,292	50,245	40,292	50,245
Total Liabilities	148,837	144,747	43,825	54,671	192,662	199,082
Financial Assets						
Loans and receivables	0	0	311,667	359,126	311,667	359,126
Debtors - financial assets carried at contract amounts	0	0	7,701	6,289	7,701	6,289
Cash held at bank and cash equivalents	0	0	184,299	82,889	184,299	82,889
Total Financial Assets	0	0	503,667	448,304	503,667	448,304

NOTES

1. Market loans of £77.5 million have been included in long term borrowing. £60m are LOBO (lender's option, borrower's option) loans, and £17.5m of these loans are fixed rate loans.

2. Included in loans and receivables is £52m of deposits due to be settled within 1 and 3 years as at 31 March 2018.

3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, stepped deposits, collar/structured deposits, certificates of deposits, call accounts and money market funds.

4. The terms of the stepped deposits of £5m from 30 April 2015 - 29 April 2018 earn an interest rate of 0.9% in the first year; 1.25% in the second year and 1.79% in the final year.

5. Balances in the money market funds at 31 March 2018 are shown under 'cash and cash equivalent' in the balance sheet. Cash equivalents are highly liquid deposits which are readily convertible into cash at short notice. They include £106.9 million (£136.9 million as at 31st March 2017) of short-term deposits with banks and building societies excluded from loans and receivables.

6. The above long term figures are based on holding the instrument for its full term.

7. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 30 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. As at 31 March 2018 the Tower Hamlets Homes Pension Fund was fully funded.

15 FINANCIAL INSTRUMENTS (continued)

Gains and Losses on Financial Instruments

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

	2016/17		2017/18	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	10,939	0	10,800	0
Interest income	0	2,519	0	2,950
TOTAL INTEREST AND INVESTMENT INCOME	10,939	2,519	10,800	2,950

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

Methods and Assumptions in valuation technique

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

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

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2018.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

Fair Value of Liabilities Carried at Amortised Cost	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	8,458	10,871	7,483	8,803
Market Loans - Fixed Interest	17,577	29,278	17,577	33,635
Market Loans - Lender's option, borrower's option loans	60,241	93,895	60,241	98,520
Deferred liabilities - (PFI/Finance Leases)	66,092	66,092	63,871	63,871
Creditors - Financial Liabilities carried at contract amount	40,292	40,292	50,245	50,245
Financial Liabilities	192,660	240,428	199,418	255,074

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

Fair Value of Assets Carried at Amortised Cost	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	311,660	312,237	359,119	356,207
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	7,701	7,701	6,289	6,289
Cash held at Bank	47,448	47,448	31,635	31,635
Cash equivalents (deposits with banks and other financial institutions)	136,851	136,851	82,889	82,790
Financial Assets	503,667	504,244	479,939	476,928

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

15 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments

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

1. Credit Risk

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

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

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

	Amounts at 31 March 2018 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2018 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	101,688	0%	0%	0%
Money Market Funds	12,836	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	82,112	0%	0%	0%
6 - 12 months	209,660	0%	0%	0%
Over 12 months	67,347	0%	0%	0%
TOTAL	473,643	0%	0%	0%

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

The Council does not generally allow credit for customers, such that £1.4 million of the £66 million balance (2016/17 - £4.0 million of the £52.6 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

15 FINANCIAL INSTRUMENTS (continued)

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

Credit Risk	31 March 2017 £'000	31 March 2018 £'000
Three to six months	344	337
Six months to one year	401	241
More than one year	721	822
TOTAL	1,466	1,400

2. Liquidity Risk

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

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

Loans outstanding	31 March 2017 £'000	31 March 2018 £'000
Public Works Loans Board	8,458	7,483
Market debt	77,818	77,818
PFI / Finance Leases	66,092	63,871
TOTAL	152,368	149,173
Less than 1 year	3,532	4,425
Between 1 and 2 years	4,090	3,808
Between 2 and 5 years	12,804	14,231
Between 5 and 10 years	28,152	27,083
More than 10 years	103,790	99,626
TOTAL	152,368	149,172

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

3. Market Risk

Interest rate risk

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

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

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

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

15 FINANCIAL INSTRUMENTS (continued)

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

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

According to this assessment, at 31st March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2016/17 £'000	2017/18 £'000
Increase in interest payable on variable rate borrowings	600	600
Increase in interest receivable on variable rate investments	(3,000)	(3,900)
Impact on Income and Expenditure Account	(2,400)	(3,300)

Fair Value Movements	2016/17 £'000	2017/18 £'000
Decrease in fair value of fixed rate investments	1,016	492
Decrease in fair value of fixed rate borrowing liabilities	293	336
Impact on Income and Expenditure Account	1,309	828

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

Equity Shares (not quoted on an active market)

	2016/17 £'000	2017/18 £'000
The Tower Hamlets Local Education Partnership	7	7
Total	7	7

16 CONSTRUCTION CONTRACTS

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

17 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2018 and concluded that there was no significant impairment to report.

18 HERITAGE ASSETS

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

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

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

	Balance at 31st March 2016 £'000	2016/17 Acquisitions £'000	2016/17 Disposals £'000	2016/17 Revaluation £'000	Balance at 31st March 2017 £'000	2017/18 Acquisitions £'000	2017/18 Disposals £'000	2017/18 Revaluation £'000	Balance at 31st March 2018 £'000
Value of Heritage Assets held by Council									
(a) - Works of art	8,910	0	0	0	8,910	0	0	9,500	18,410
(b) - Civic Regalia	389	0	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	11	1	0	0	12	24	0	0	36
TOTAL HERITAGE ASSETS	9,310	1	0	0	9,311	24	0	9,500	18,835

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

There are 109 works of art across the borough for which the council has a duty of care. These include sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material. The estimated value of these assets has not changed since 2010.

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

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

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

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

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

(d) A new capital scheme started in 2012/13 to create a piece of public art funded by section 106 contributions from developments in the area. The agreed budget for the scheme is £238k and is not yet completed. The asset is shown at historical cost.

19 DEBTORS

	31 March 2017 £'000	31 March 2018 £'000
Central government bodies	21,669	31,218
Other local authorities	3,320	186
Other entities and individuals	52,661	65,688
Payments in advance	2,837	3,708
Total	80,487	100,800

20 CASH AND CASH EQUIVALENTS

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

	31 March 2017 £'000	31 March 2018 £'000
Cash held by the Council	47,448	31,635
Short-term deposits with banks and building societies	136,851	82,889
Total Cash and Cash Equivalents	184,299	114,524

21 ASSETS HELD FOR SALE

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

	Current		Non Current	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Value at 1st April	13,695	3,850	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	3,850	0	0	0
Revaluation losses	(1,550)	0	0	0
Revaluation gains	0	0	0	0
Assets declassified as held for sale:				
Property, Plant and Equipment	(282)	0	0	0
Assets sold	(11,863)	(3,850)	0	0
Value at 31st March	3,850	0	0	0

22 CREDITORS

	31 March 2017 £000	31 March 2018 £000
Central government bodies	29,330	10,803
Other local authorities	8,871	8,432
Other entities and individuals	61,174	67,865
Accruals	40,292	50,245
Receipts in advance	14,487	20,641
Total	154,154	157,986

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2016 £'000	Amounts used in 2016/17 £'000	Contributions in 2016/17 £'000	Balance at 31 March 2017 £'000	Amounts used in 2017/18 £'000	Contributions in 2017/18 £'000	Balance at 31 March 2018 £'000
(a) Single Status	62	0	0	62	0	0	62
(b) ICT provision and other corporate provisions	1,308	(436)	3,034	3,906	(372)	490	4,024
(c) Contract disputes	123	0	181	304	0	0	304
(d) Business rates appeals provision	583	(2,446)	2,446	583	(3,450)	5,850	2,983
TOTAL	2,076	(2,882)	5,661	4,855	(3,822)	6,340	7,373

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

LONG-TERM PROVISIONS	Balance at 1 April 2016 £'000	Amounts used in 2016/17 £'000	Contributions in 2016/17 £'000	Balance at 31 March 2017 £'000	Amounts used in 2017/18 £'000	Contributions in 2017/18 £'000	Balance at 31 March 2018 £'000
(e) Insurance Fund	7,060	(244)	188	7,004	(113)	100	6,991
(f) Repayment of deposits	169	0	0	169	0	0	169
(g) Repayment of European funding	394	(394)	0	0	0	0	0
TOTAL	7,623	(638)	188	7,173	(113)	100	7,160
							14,533

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

24 USABLE RESERVES

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

25 UNUSABLE RESERVES

31 March 2017 £'000		31 March 2018 £'000
464,596	Revaluation Reserve	665,233
1,525,680	Capital Adjustment Account	1,513,792
0	Financial Instruments Adjustment Account	0
(619,122)	Pensions Reserve	(591,841)
(2,301)	Collection Fund Adjustment Account	(9,027)
(3,929)	Accumulating Compensated Absences Adjustment Account	(3,187)
0	Deferred Capital Receipts	0
1,364,924	Total Unusable Reserves	1,574,970

Revaluation Reserve

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

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

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

2016/17 £'000		2017/18 £'000
401,655	Balance at 1 April	464,595
102,462	Upward revaluation of assets	348,291
(19,817)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(131,329)
<u>82,645</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	216,962
(4,046)	Difference between current value depreciation and historical cost depreciation	(5,288)
<u>(15,659)</u>	Accumulated gains on assets sold or scrapped	(11,036)
(19,705)	Amount written off to the Capital Adjustment Account	(16,324)
464,595	Balance at 31 March	665,233

25 UNUSABLE RESERVES

Capital Adjustment Account

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

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

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

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

2016/17 £'000		2017/18 £'000
1,496,454	Balance at 1 April	1,525,680
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(39,199)	Charges for depreciation and impairment of non current assets	(37,992)
11,795	Revaluation losses and reversals on Property, Plant and Equipment	(19,985)
(12,674)	Revenue expenditure funded from capital under statute	(20,855)
(37,651)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(44,984)
<u>(77,729)</u>		<u>(123,816)</u>
19,705	Adjusting amounts written out of the Revaluation Reserve	16,324
<u>(58,025)</u>	Net written out amount of the cost of non current assets consumed in the year	<u>(107,492)</u>
	Capital financing applied in the year:	
7,913	Use of the Capital Receipts Reserve to finance new capital expenditure	20,340
14,517	Use of the Major Repairs Reserve to finance new capital expenditure	22,013
31,591	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	34,746
7,601	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,932
<u>25,627</u>	Capital expenditure charged against the General Fund and HRA balances	<u>10,573</u>
87,250		95,604
1,525,680	Balance at 31 March	1,513,792

25 UNUSABLE RESERVES (continued)

Financial Instruments Adjustment Account

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

2016/17 £'000	2017/18 £'000
284 Balance at 1 April	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with	
(284) statutory requirements	0
0 Balance at 31 March	0

Pensions Reserve

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

2016/17 £'000	2017/18 £'000
(516,595) Balance at 1 April	(619,122)
(91,986) Actuarial gains or losses on pensions assets and liabilities	51,679
(56,497) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(64,801)
45,956 Employer's pensions contributions and direct payments to pensioners payable in the year	40,403
(619,122) Balance at 31 March	(591,841)

25 UNUSABLE RESERVES

Collection Fund Adjustment Account

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

2016/17 £'000		2017/18 £'000
728	Balance at 1 April	(2,301)
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in	
(3,029)	accordance with statutory requirements	(6,726)
(2,301)	Balance at 31 March	(9,027)

Accumulated Absences Account

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

2016/17 £'000		2017/18 £'000
(2,370)	Balance at 1 April	(3,929)
2,370	Settlement or cancellation of accrual made at the end of the preceding year	3,929
(3,929)	Amounts accrued at the end of the current year	(3,187)
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from	
(1,559)	remuneration chargeable in the year in accordance with statutory	742
(3,929)	Balance at 31 March	(3,187)

Deferred Capital Receipts

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

2016/17 £'000		2017/18 £'000
2	Balance at 1 April	0
(2)	Transfer to the Capital Receipts Reserve upon receipt of cash	0
0	Balance at 31 March	0

26a NOTE A TO THE CASH FLOW STATEMENT

2016/17 £'000		2017/18 £'000
62,808	Net Surplus or (Deficit) on the Provision of Services	(21,413)
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>	
39,199	Depreciation	37,992
(11,795)	Impairment and downward valuations	19,985
338	Adjustments for effective interest rates	0
(50,850)	Increase/Decrease in Creditors	16,744
16,732	Increase/Decrease in Debtors	(33,395)
10,541	Pension Liability	(3,990)
2,329	Contributions to/(from) Provisions	2,505
37,651	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	44,984
44,145		84,825
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>	
(12,082)	Capital Grants credited to surplus or deficit on the provision of services	(10,811)
(80,133)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(59,785)
(92,215)		(70,596)
14,738	Net cash flows from operating activities	(7,184)

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2016/17 £'000		2017/18 £'000
2,519	Interest received	2,950
(8,090)	Interest paid	(10,800)
(5,571)		(7,850)

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2016/17 £'000		2017/18 £'000
(70,455)	Purchase of property, plant and equipment, investment property and intangible assets	(103,696)
(20,078)	Purchase of short-term and long-term investments	(47,452)
73,995	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	56,944
	Proceeds from short-term and long-term investments	
26,315	Other receipts from investing activities	35,304
9,777	Net cash flows from investing activities	(58,900)

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2016/17 £'000		2017/18 £'000
(557)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,351)
(371)	Repayments of short- and long-term borrowing	(1,340)
(928)	Net cash flows from financing activities	(3,691)

29 TRADING OPERATIONS

The following services are reported as trading activities

	2016/17			2017/18			Balance 31/03/2017 £'000
	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	
Street Trading	2,520	2,419	(101)	2,529	2,332	(197)	570
TOTAL TRADING ACCOUNTS	2,520	2,419	(101)	2,529	2,332	(197)	570

30 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

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

Fatal Incident in Mile End Park

Following a fatal incident involving a child in the Mile End Park in 2015, a coroners hearing in May 2018 is to consider the cause of death pending further investigations. Provision has been made within the insurance provision to meet the maximum potential insurance liability. At this time, it is uncertain if further liabilities will be raised against the Council.

30a CONTINGENT ASSETS

Regeneration Schemes

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

Leisure Contracts

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

31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council entered into two Pooled Budget and Lead Commissioning agreements with the Primary Care Trust for the Integrated Community Equipment Service (ICES) and Better Care Fund (BCF).

In 2017/18 the Better Care Fund Pooled Budget was revised to incorporate ICES and the Improved Better Care Fund, to provide one single framework partnership agreement relating to the commissioning of health and social care services to deliver the Tower Hamlets Better Care Fund Plan.

The Council manages and delivers statutory functions, alongside Tower Hamlets Clinical Commissioning Group, to collaboratively deliver efficient, joined up health and social care services to residents.

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

2017/18	ICES £'000	BCF £'000
Income		
The Council	0	19,616
Barts and the London Trust health services	0	0
Clinical Commissioning Group (CCG)	0	25,611
	0	45,227
Expenditure	0	45,227
Surplus/(Deficit) for the year	0	0
2016/17	ICES £'000	BCF £'000
Income		
The Council	1,167	9,015
Barts and the London Trust health services	813	0
Clinical Commissioning Group (CCG)	0	12,448
	1,980	21,463
Expenditure	1,980	19,195
Surplus/Deficit for the year	0	2,268

32 MEMBERS' ALLOWANCES

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

	2016/17 £'000	2017/18 £'000
Allowances	882	888
Total	882	888

33 OFFICERS' REMUNERATION

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

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

¹ Left 30/06/2016

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

³ Left 27/11/2016

⁴ Commenced 15/08/2016

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

2017/18	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution ⁵ £	Other £	Total £
Mr W Tuckley - Chief Executive	198,894	83	0	38,956	0	237,933
Total Head of Paid Service	198,894	83	0	38,956	0	237,933
Corporate Directors						
Children's Services	140,862	21	0	0	0	140,883
Health, Adults & Community	124,947	0	0	24,240	0	149,187
Mr G White - Governance & Monitoring Officer (Interim) ¹	42,562	0	0	0	0	42,562
Governance & Monitoring Officer ²	92,053	0	0	17,854	0	109,907
Mr A Dalvi - Place ³	89,510	0	82,956	4,568	0	177,034
Place ⁴	99,957	216	0	19,392	0	119,565
Public Health	102,579	0	0	14,751	0	117,330
Resources	127,422	81	0	24,733	0	152,236
	1,018,786	401	82,956	144,494	0	1,246,637

¹ Left 07/07/2017

² Commenced 03/07/2017

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

⁴ Commenced 13/06/2017

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

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

Remuneration band (£)	2016/17					2017/18				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	199	0	110	(4)	309	165	(1)	123	(9)	288
55,000 - 59,999	156	(3)	50	(7)	206	111	0	51	(5)	162
60,000 - 64,999	70	(2)	45	(6)	115	58	(2)	36	(5)	94
65,000 - 69,999	36	(1)	26	(2)	62	21	(2)	22	(5)	43
70,000 - 74,999	34	(1)	24	0	58	27	(1)	20	(1)	47
75,000 - 79,999	18	0	15	(3)	33	19	(1)	29	(3)	48
80,000 - 84,999	15	(3)	8	(1)	23	11	0	3	(1)	14
85,000 - 89,999	8	0	2	(1)	10	7	0	5	(2)	12
90,000 - 94,999	3	0	2	0	5	6	0	8	(5)	14
95,000 - 99,999	5	(1)	3	(2)	8	2	0	6	(2)	8
100,000 - 104,999	3	0	3	0	6	4	0	3	(1)	7
105,000 - 109,999	4	0	4	(2)	8	1	0	2	(1)	3
110,000 - 114,999	2	0	3	(2)	5	0	0	2	(2)	2
115,000 - 119,999	1	0	0	0	1	5	0	0	0	5
120,000 - 124,999	0	0	0	0	0	1	0	1	(2)	2
125,000 - 129,999	2	0	0	0	2	1	0	1	0	2
130,000 - 134,999	1	(1)	0	0	1	0	0	0	0	0
135,000 - 139,999	0	0	0	0	0	0	0	1	(1)	1
140,000 - 144,999	0	0	0	0	0	0	0	1	(1)	1
145,000 - 149,999	0	0	1	(1)	1	0	0	0	0	0
150,000 - 154,999	1	0	0	0	1	0	0	0	0	0
155,000 - 159,999	1	0	1	(1)	2	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0	0	0	0	0
180,000 - 184,999	0	0	2	(2)	2	0	0	0	0	0
190,000 - 194,999	0	0	1	(1)	1	0	0	0	0	0
230,000 - 234,999	0	0	1	(1)	1	0	0	0	0	0
	559	(12)	301	(36)	860	439	(7)	314	(46)	753

Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
0 - 20,000	0	0	78	188	78	188	667	1,202
20,001 - 40,000	0	0	40	44	40	44	1,137	1,199
40,001 - 60,000	0	0	25	19	25	19	1,233	903
60,001 - 80,000	0	0	5	7	5	7	320	464
80,001 - 100,000	0	0	6	4	6	4	554	363
100,001 - 150,000	0	0	10	11	10	11	1,207	1,378
150,001 - 200,000	0	0	0	5	0	5	0	850
200,001 - 250,000	0	0	0	2	0	2	0	437
300,001 - 350,000	0	0	1	0	1	0	339	0
Total	0	0	165	280	165	280	5,457	6,796

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

34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2016/17 £'000	2017/18 £'000
Expenditure		
Property, Plant and Equipment	69,070	103,657
Heritage Assets	1	25
Revenue Expenditure Funded from Capital Under Statute	12,674	20,855
TOTAL	81,745	124,537
Sources of Finance		
Borrowing	2,096	36,864
Capital Grants and Contributions	31,591	34,747
Capital Receipts	7,913	20,340
Major Repairs Reserve	14,517	22,013
Direct Revenue Funding	25,627	10,573
TOTAL	81,744	124,537

	2016/17 £'000	2017/18 £'000
Opening Capital Financing Requirement	262,588	281,703
Capital investment		
Property, Plant and Equipment	93,689	103,657
Heritage Assets	1	25
Revenue Expenditure Funded from Capital under Statute	12,674	20,855
Sources of finance		
Capital Grants and Contributions	(31,591)	(34,747)
Capital Receipts	(7,913)	(20,340)
Major Repairs Reserve	(14,517)	(22,013)
Sums set aside from revenue:		
• Direct Revenue Funding	(25,627)	(10,573)
• Minimum Revenue Provision ¹	(7,097)	(7,483)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(504)	(449)
Closing Capital Financing Requirement	281,703	310,635
Explanation of movements in year		
Decrease in underlying need to borrow (supported by government financial assistance)	(7,599)	(7,932)
Increase in underlying need to borrow (unsupported by government financial assistance)	2,096	36,864
Assets acquired under finance leases	24,618	0
Increase/(decrease) in Capital Financing Requirement	19,115	28,932

35 EXTERNAL AUDIT COSTS

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

	2016/17 £'000	2017/18 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	210	210
Additional fees payable to external Audit for inquiries relating to previous year	2	21
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	23	20
Fees payable in respect of other services provided by external auditors during the year	53	37
Total	288	289

The fees payable to the external auditors for other services comprise £7k for Pooling of Housing Capital Receipts & Teachers Pensions and other Audit work; £22k for 2016/17 additional work/testing and £30k PFI Objection. The Council Received a Rebate of £31.2k from Public Sector Audit Appointments in the year, this has the effect of reducing the overall cost to the Council.

36 DEDICATED SCHOOLS GRANT

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

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

- A DSG figure as issued by DfE in March 2017.
 B Academy figure Recouped 2016/17
 C Total DSG after Academy Recoupment 2016/17.
 D Figure brought forward from 2015/16.
 E The amount which the Council decided after consultation with the schools forum to carry forward to 2017/18 rather than distribute in 2016/17.
 F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
 G Changes to Initial distribution in 2016/17.
 H Budgeted distribution of DSG at year end.
 I Actual amount of central expenditure items in 2016/17.
 J Amount of ISB distributed to schools.
 K Contribution from the Council in 2016/17 which substituted for DSG in funding the Schools Budget
 L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2017/18	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2017/18 before Academy Recoupment	0	329,295	329,295
B	Academy figure Recouped 2017/18	0	(47,492)	(47,492)
C	Total DSG after Academy Recoupment 2017/18	0	281,802	281,802
D	Brought forward from 2016/17			1,655
E	Carry forward to 2018/19 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2017/18	1,655	281,802	283,457
G	In-year adjustments	0	0	0
H	Final budget distribution for 2017/18	1,655	281,802	283,457
I	Less actual central expenditure	0	(264,445)	(264,445)
J	Less actual ISB deployed to schools	(18,827)	0	(18,827)
K	Council contribution for 2017/18	0	0	0
L	Carry forward to 2018/19	(17,172)	17,357	185

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

37 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2016/17	2017/18
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rate Related Grants	(7,486)	(5,554)
New Homes Bonus	(28,875)	(24,185)
Revenue Support Grant (Formula Grant)	(68,664)	(54,133)
Total Non-Ringfenced Government Grants	(105,025)	(83,872)
Capital Grants and Contributions		
Non-conditional grants:		
Schools-funded Capital Programme	(1,824)	(1,989)
Transport for London Funding	(2,895)	(1,291)
Major Works Contributions (cash received)	(3,236)	(4,008)
Capital Maintenance Grant	(3,165)	(3,065)
Basic Needs/New Pupil Places	(11,477)	(6,837)
Community Infrastructure Levy (CIL)	(18,165)	(13,520)
Other Non-Conditional Grants Received	(1,071)	(230)
Conditional grants:		
Building the Pipeline Housing Grant	0	(1,700)
National Affordable Housing Programme	(6,163)	0
Other Conditional Grants Applied	(346)	(185)
Developers' Contributions (capital)	(1,894)	(4,895)
Total Capital Grants and Contributions	(50,236)	(37,720)
Credited to Services		
Capital Grants funding REFCUS	(4,397)	(4,910)
Developers' Contributions (capital) funding REFCUS	(2,793)	(2,924)
Developers' Contributions (revenue)	(2,117)	(3,567)
Dedicated Schools Grant	(300,651)	(282,983)
Education Services Grant	(3,751)	(1,049)
PFI Credits	(7,922)	(8,997)
School Sixth Form Grant	(16,448)	(13,810)
Pupil Premium Grant	(22,231)	(19,947)
Public Health Grant	(36,883)	(35,963)
Reception Baseline Assessment	(3,009)	(3,183)
Housing Benefit Subsidy	(270,375)	(257,898)
Better Care Fund	0	(8,658)
Other Revenue Grants	(16,601)	(20,621)
Total Credited to Services	(687,178)	(664,510)
Total Grant Income in Comprehensive Income & Expenditure Account	(842,439)	(786,102)
The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:		
Receipt in Advance Grant Balances	31st March 2017 £'000	31st March 2018 £'000
Capital Grants Receipts in Advance		
Developers' Contributions (capital)	74,350	85,732
Major Works Invoices	6,123	15,719
Disabled Facilities Grant	941	1,897
New Homes Bonus London Enterprise Panel (LEP) - capital element	1,000	851
Other conditional capital grants and contributions	706	573
Total Capital Grants Receipts in Advance	83,120	104,772
Revenue Grants Receipts in Advance		
Developers' Contributions (revenue)	8,151	12,471
Dedicated Schools Grant	1,655	186
PFI Credits	4,001	4,816
New Homes Bonus London Enterprise Panel (LEP) - revenue element	4,355	2,604
Housing Benefit Subsidy	31,929	9,827
Flexible Homelessness Support Grant		2,080
Other conditional revenue grants	1,206	2,359
Total Revenue Grants Receipts in Advance	51,297	34,344
Total Grant Receipt in Advance Balances	134,417	139,116

38 RELATED PARTIES

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

Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from central government departments and other grant making bodies are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2018 are within the creditors note.

Partnerships

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

Pension Fund

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

Subsidiary

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

Membership of and relationship with other organisations

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

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2016/17 £'000	Payments by the Council over £10k 2017/18 £'000	Amounts due to Orgs. > £10k at 31/03/18 £'000
Aldgate and Allhallows Barking Foundation	D Jones	Trustee			
Balagonji Educational Trust	G K Choudhury				
Bangladesh Football Association	A Begum	Husband - Trustee			
Bangladesh Youth Movement	A Khan	Employee (15/16 only)	39		
Betar Bangla	S Islam	Member	13		
Bromley By Bow Centre	H Uddin	Employee	961	970	
Central Foundation Girls School	M M Miah	Governor (16/17 only)	30	0	0
Culloden Bangladeshi Parents Association	A M O Ahmed	Member	15	11	
Community Martial Arts Trust	A Miah	Employee			
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton	Member	13		
Department for Work and Pensions	O Rahman	Employee			
East London Foundation Trust	A W Gibbs	Council Representative (16/17 only)	3,549	4,572	
	D Jones	Council Representative			
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	A Cregan	Council Representative	622	161	19
	G Robanni	Board Member (16/17 only)			
Gateway Housing Association	H Uddin	Employer has a Working Relationship with this Organisation (16/17 only)	46	0	0
Golapgonj Education Trust	S Khatun	Member			
Green Candle Dance Company	P Golds	Council Representative	52	68	
Island Sports Trust	P Golds	Council Representative			
John Scurr Primary School	S Islam	Governor			
Lee Valley Regional Park Authority	D Jones	Council Representative			
London Councils	C Harrisson	Pensions CIV Joint Committee	923	1,006	225
London Legacy Development Corporation	R Blake	Council Representative		1,000	
Mile End Park Partnership Board	D Jones	Council Representative			
Mulberry Girls School	D Jones	Governor	29	32	20
National Housing Federation	J Pierce	Employee			
Norton Folgate Almshouses Charity	J Pierce	Council Representative			
Old Ford Housing Association	M Francis	Board Director (2016/17 only)	153	0	
Old Palace School	M Miah	Governor (16/17 only)			
Olga Primary School	C Harrisson	Governor	12	48	
Poplar Bangladeshi Project	A M O Ahmed	Member			
Poplar Harca	A M O Ahmed	Appointment by the Authority	4,220	5,478	568
Rich Mix Cultural Foundation	D Jones	Director	11		
	A Begum	Council Representative (16/17 only)			
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
St Katherine & Shadwell Trust	S Haque	Deputy			
St Pauls Way Trust School	R Saunders	Council Representative	19	48	24
	R Blake	Member, Husband - Member			
St Peters Bengali Association	M A Mustaqim	Employee			
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
Tower Hamlets Cemetery	D J Edgar	Member		17	
	R Blake	Member			
Tower Hamlets Community Housing	G Robanni	Council Representative	139	162	34
	C Harrisson	Member			
	R Khan	Member			
	A W Gibbs	Husband - Member			
Tower Hamlets Homes	G Robanni	Council Representative	12,385	12,236	
	M Francis	Appointment by the Authority			
Tower Hamlets Youth Sport Foundation	A Begum	Husband - Trustee	74	17	
Toynbee Hall	S Khatun	Employee (16/17 only)	680	0	0
Trinity Buoy Wharf	D Jones	Trustee			

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2016/17 £'000	Payments by the Council over £10k 2017/18 £'000	Amounts due to Orgs. > £10k at 31/03/18 £'000
Unison	C Harrison	Employee	469	391	31
	D Hassell*	Member			
	S Islam	Member			
	A W Gibbs	Member (16/17 only)			
	R Saunders	Member (16/17 only)			
	A Ali	Member (16/17 only)			
Victoria & Albert Museum of Childhood	D Jones	Council Representative			
Wadajir Somali Centre	A M O Ahmed	Member	28	39	
London School of Economics	D Hassell*	Employee			
Spitalfields Neighbourhood Planning Forum	A Begum	Family member chair			
Social Organisation for Unity and Leisure	A Begum	Family member chair			
Canary Wharf Sports Group	A Begum	Family member chair			
Boundary Community School	A Mukit	Family member employee			
Tower Hamlets Education Partnership	A W Gibbs	Appointment by the Authority			
London Fire and Emergency Planning Authority	A W Gibbs	Function of a Public Nature (2017/18 only)		34	
	R Blake	Member since Oct, 17			
Madani Girls School	Shafi Ahmed	General Secretary			
Harry Gosling Primary School	Shafi Ahmed	Co-opted Governor			
Progressive Youth Organisation (PYO)	Suluk Ahmed	One of the directors			
Chartered Institute of Housing	R Blake	Influencing Group			
Local Government Association, Environment Economy Transp	R Blake	Member (reported in 17/18)		59	
Tower Project	R Blake	Trustee (reported in 17/18)		2,516	
Liberty	D J Edgar	Member			
Shadwell Basin	D Jones	Family member (husband) - Director			
Compass Wellbeing	D Jones	Family member (husband) - Director (reported in 17/18)		2,135	
Shahporan Masjid and Islamic Centre	M A Mustaqim*	Secretary			
Account 3	M A Mustaqim*	Employee (reported in 17/18)		253	
CACI LTD	D Radley	Family member (husband's cousin) - Director (reported in 17/18)			
Whitechapel Gallery	A Ali	Appointment by the Authority			
Bromley By Bow Bangladeshi Forum	K U Ahmed	Secretary			
Roman Road Trust	R Blake	Brother - Board Member			
Tower Hamlets and Canary Wharf Further Education Trust	R Blake	Trustee			
Campus Educational Trust	D Chesterton*	Trustee			
Secure Foundation	D Chesterton*	Trustee			
Australian Foyer Foundation	D Chesterton*	Trustee			
ELMV Ellen Elizabeth Marine Venture	D Chesterton*	Trustee			
Capstan Square Resident LTD	D Chesterton*	Director			
House Mill Trust	A Cregan	Trustee			
Inspire Malawi	J Dockerill	Trustee			
Unicef UK	A W Gibbs	Director of Advocacy			
Wine & Spirits Trade Association	A W Gibbs	Husband - Director of Policy			
Health and Wellbeing Board	A W Gibbs	Chair			
Sylhet Aid- River Trust	A Miah*	Chair person			
Ocean Business Association	Ayas Miah	Chair Person			
Biswanath Probashi Education Trust	Ayas Miah	Trustee			
Dosh Ghor Progoty Trust	Ayas Miah	Trustee			
Human Rights & Peace for Bangladesh	Ayas Miah	Secretary			
Solander Gardens Muslim Community & Education Centre	H Miah	Secretary			
St. Johns Community Association	M Miah	Board Member			
Al Aqsa	M Miah	Board Member			
MHP Communications	J Peck	Managing Director			
PCS Union	O Rahman	Branch Chair			
Jalalabad Probashi Khallayan Parishod UK	O Rahman	Executive Board Member			
Business in the Community	R Saunders	Director			
Organisations	Officer	Relationship With Organisation			
Marathon Events Ltd	W Tuckley	Director			
Seahorse Homes Ltd	A Sutcliffe	Board member			
Mulberry Housing	A Sutcliffe	Board member			
London Education Partnership	A Sutcliffe	Board member			

* Lee Valley Regional Park Authority levy shown

31,253

39 LEASES

Authority as Lessee

Finance Leases

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

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

Leased In Assets

	Buildings 31 March 2017 £'000	Buildings 31 March 2018 £'000
Poplar Baths Leisure Centre	15,429	18,482
Poplar Baths Housing	9,189	11,879
Dame Colet Residential Development	8,165	8,104
Total	32,783	38,465

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

	Buildings 31 March 2017 £'000	Buildings 31 March 2018 £'000
Finance lease liabilities (net present value of minimum lease payments)	29,789	28,915
Finance costs payable in future years	65,053	63,143
Minimum lease payments	94,842	92,058

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

	Minimum Lease		Finance Lease	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Not later than one year	2,785	2,785	875	875
Later than one year and not later than five years	11,138	11,139	3,498	3,498
Later than five years	80,919	78,134	25,416	24,542
	94,842	92,058	29,789	28,915

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 no contingent rents were payable by the Authority.

39 LEASES

Authority as Lessee

Operating Leases

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

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

Leased In Assets

	Land & Buildings 31 March 2017 £'000	Vehicles Plant & Equipment 31 March 2017 £'000	Land & Buildings 31 March 2018 £'000	Vehicles Plant & Equipment 31 March 2018 £'000
Adults Health and Wellbeing				
Not later than one year	149	0	149	0
Later than one year and not later than five years	597	0	597	0
Later than five years	1,370	0	1,221	0
Chief Executive's				
Not later than one year	0	98	0	55
Later than one year and not later than five years	0	74	0	20
Later than five years	0	0	0	0
Children Schools and Families				
Not later than one year	74	246	0	256
Later than one year and not later than five years	210	283	0	305
Later than five years	498	1	0	1
Place				
Not later than one year	2,840	409	2,874	314
Later than one year and not later than five years	6,480	958	3,817	651
Later than five years	1,824	0	2,175	0
Total				
Not later than one year	3,063	753	3,023	625
Later than one year and not later than five years	7,287	1,315	4,414	976
Later than five years	3,692	1	3,396	1
	14,042	2,069	10,834	1,603

39 LEASES (continued)

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

	Land & Buildings 31st March 2017 £'000	Vehicles Plant & Equipment 31st March 2017 £'000	Land & Buildings 31st March 2018 £'000	Vehicles Plant & Equipment 31st March 2018 £'000
Adults Health and Wellbeing				
Minimum Lease Payments	149	0	149	0
Chief Executive's				
Minimum Lease Payments	0	55	0	98
Children Schools and Families				
Minimum Lease Payments	113	287	0	299
Place				
Minimum Lease Payments	2,840	546	2,908	606
Total				
Minimum Lease Payments	3,102	888	3,057	1,003

Authority as Lessor

Finance Leases

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

Operating Leases

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

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

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

	31st March 2017 £'000	31st March 2018 £'000
Not later than one year	(3,320)	(3,314)
Later than one year and not later than five years	(10,700)	(11,255)
Later than five years	(19,286)	(20,820)
	(33,306)	(35,388)

40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2017	29,044	202,495	2,063	233,602
Depreciation	(535)	(3,320)	(183)	(4,038)
Revaluations	5,258	29,236	346	34,840
Enhancements	0	5,862	0	5,862
Derecognition	0	0	0	0
Asset value at 31 March 2018	33,767	234,273	2,226	270,266

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2017	5,925	28,402	1,977	36,304
Repayments/Amortisation of deferred liability	(332)	(818)	(197)	(1,347)
Liabilities at 31 March 2018	5,593	27,584	1,780	34,957
Consisting of:				
Long term liability	5,265	26,568	1,582	33,415
Short-term liability	328	1,016	198	1,542
Liability value at 31 March 2018	5,593	27,584	1,780	34,957

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	328	1,016	198	1,542
Within 2 - 5 years	1,450	7,717	791	9,958
Within 6 - 10 years	3,068	18,851	791	22,710
Within 11 - 15 years	747	0	0	747
	5,593	27,584	1,780	34,957
Interest				
Within 1 year	628	4,340	0	4,968
Within 2 - 5 years	2,130	15,228	0	17,358
Within 6 - 10 years	1,493	8,938	0	10,431
Within 11 - 15 years	84	0	0	84
	4,335	28,506	0	32,841
Service Charges				
Within 1 year	673	2,294	0	2,967
Within 2 - 5 years	2,694	10,663	0	13,357
Within 6 - 10 years	3,367	13,569	0	16,936
Within 11 - 15 years	673	0	0	673
	7,407	26,526	0	33,933

41 PENSIONS SCHEMES - DEFINED BENEFIT

Participation in pensions schemes

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

The Council participates in three pensions schemes:

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

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

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

Transactions Relating to Retirement Benefits

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

	The Council		LPFA		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Cost of Services						
Current service costs	37,301	47,986	274	319	37,575	48,305
Impact of settlements and curtailments	918	1,290	103	0	1,021	1,290
Total Service Cost	38,219	49,276	377	319	38,596	49,595
Interest income on plan assets	(35,790)	(30,422)	(1,667)	(1,325)	(37,457)	(31,747)
Interest cost on defined benefit obligation	53,333	45,414	2,025	1,539	55,358	46,953
Total Net Interest	17,543	14,992	358	214	17,901	15,206
Net Charge to the Comprehensive Income and Expenditure Account	55,762	64,268	735	533	56,497	64,801
Remeasurement of the Scheme Liabilities						
Changes in demographic assumptions	(25,190)	0	(1,744)	0	(26,934)	0
Changes in financial assumptions	290,196	(33,701)	10,217	(2,014)	300,413	(35,715)
Other experience	(27,267)	0	(2,375)	0	(29,642)	0
Return on plan assets excluding amounts included in net interest	(140,952)	(13,229)	(9,091)	(2,001)	(150,043)	(15,230)
Total remeasurements recognised in Comprehensive Income and Expenditure Statement	96,787	(46,930)	(2,993)	(4,015)	93,794	(50,945)
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(55,762)	(64,268)	(735)	(533)	(56,497)	(64,801)
Actual amount charged against the General Fund Balance for pensions in the year	45,136	68,890	820	431	45,956	69,321

In 2017/18 the Council paid £15.893 million into the Teachers Pension Scheme, representing 16.48% of pensionable pay. The figures for 2016/17 were £12.794 million and 16.5% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2017/18 and 2016/17 there were no added year payments by the Council.

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £51.7 million (£92.0 million loss in 2016/17) were included in the Actuarial gains or losses on pension assets and liabilities within Other Comprehensive Income and Expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £408.255 million.

41 PENSION SCHEME (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
1st April	(1,663,196)	(1,911,848)	(63,016)	(68,652)	(1,726,212)	(1,980,500)
In-year adjustment to exclude/(incorporate) THH deficit	37,914	(4,616)	0	0	37,914	(4,616)
Current service cost	(37,301)	(47,986)	(274)	(319)	(37,575)	(48,305)
Interest cost	(53,333)	(45,414)	(2,025)	(1,539)	(55,358)	(46,953)
Contributions	(9,763)	(8,474)	(63)	(55)	(9,826)	(8,529)
Actuarial gains / (losses)	(237,739)	33,701	(6,718)	2,014	(244,457)	35,715
Benefits paid	52,488	49,373	3,547	3,581	56,035	52,954
Past service costs	0	0	(103)	0	(103)	0
Losses on curtailments	(918)	(1,290)	0	0	(918)	(1,290)
31st March	(1,911,848)	(1,936,554)	(68,652)	(64,970)	(1,980,500)	(2,001,524)

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

	The Council		LPFA		Total	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
1st April	1,155,656	1,298,703	53,961	62,675	1,209,617	1,361,378
In-year adjustment to exclude/(incorporate) THH deficit	(36,106)	5,350	0	0	(36,106)	5,350
Expected rate of return	35,790	30,422	1,667	1,325	37,457	31,747
Actuarial (losses) / gains	140,952	13,229	9,711	2,001	150,663	15,230
Contributions						
Members contributions	9,763	8,474	63	55	9,826	8,529
Employer contributions	45,136	68,890	820	431	45,956	69,321
Benefits paid	(52,488)	(49,373)	(3,547)	(3,581)	(56,035)	(52,954)
31st March	1,298,703	1,375,695	62,675	62,906	1,361,378	1,438,601

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

	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(1,503,100)	(1,777,605)	(1,663,196)	(1,911,848)	(1,936,554)
LPFA	(61,951)	(68,409)	(63,016)	(68,652)	(64,970)
Fair value of assets					
The Council	1,012,951	1,139,418	1,155,656	1,298,703	1,375,695
LPFA	56,154	57,032	53,961	62,675	62,906
Deficit in the scheme					
The Council	(490,149)	(638,187)	(507,540)	(613,145)	(560,859)
LPFA	(5,797)	(11,377)	(9,055)	(5,977)	(2,064)
Total deficit in the schemes	(495,946)	(649,564)	(516,595)	(619,122)	(562,923)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £562.9 million has a significant impact on the net worth of the Council as recorded in the balance sheet, this is an improvement from previous years. Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by further contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2018 are £23.579 million to the Council's scheme and £0.160 million to the LPFA scheme (per actuary's reports).

41 PENSION SCHEME (continued)

Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2016/17	2017/18	2016/17	2017/18
Long-term expected rate of return on assets in the scheme ¹	4.3%	4.3%	4.0%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.1 years	22.1 years	20.6 years	20.7 years
Women	24.1 years	24.1 years	23.6 years	23.7 years
Longevity at 65 for future pensioners:				
Men	23.9 years	23.9 years	23 years	23.1 years
Women	25.8 years	25.8 years	25.9 years	26 years
Rate of inflation		2.4%	2.4%	2.4%
Rate of increase in salaries	2.2%	2.2%	3.9%	3.9%
Rate of increase in pensions	2.4%	2.4%	2.4%	2.4%
Rate for discounting scheme liabilities	2.5%	2.6%	2.3%	2.5%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%*		

¹ The expected rates of return are set equal to the discount rate.

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

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2016/17	2017/18	2016/17	2017/18
Equities	73%	63%	59%	61%
Bonds	17%	19%	0%	0%
Property	9%	10%	5%	7%
Infrastructure	0%	0%	5%	4%
Commodities	0%	0%	0%	0%
Cash	1%	4%	9%	6%
Cash flow matching	0%	0%	0%	0%
Target return portfolio/other	0%	4%	22%	22%

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2017/18 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2018:

	2013/14	2014/15	2015/16	2016/17	2017/18
	%	%	%	%	%
The Council					
Experience gains and (losses) on assets	0.05	6.96	-2.87	11.73	1.04
Experience gains and (losses) on liabilities	-2.20	11.94	-11.25	13.11	1.84
London Pensions Fund Authority					
Experience gains and (losses) on assets	13.47	0.00	-0.04	0.15	3.05
Experience gains and (losses) on liabilities	-5.45	10.35	-7.04	9.79	3.10

42 Income and Expenditure Analysed by Nature

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

2016/17 £'000		2017/18 £'000
	<u>Expenditure:</u>	
477,114	Employee benefits expenses	471,108
708,597	Other service expenses	705,967
21,544	Support service recharges	4,372
42,596	Depreciation, amortisation and impairment	79,030
28,840	Interest payments	26,006
1,741	Precepts and levies	1,795
1,755	Payments to housing capital receipts pool	1,737
(42,481)	Gains and losses on disposal of non-current assets	(14,800)
1,239,706	TOTAL EXPENDITURE	1,275,215
	<u>Income:</u>	
(286,235)	Fees, charges and other service income	(249,368)
(2,519)	Interest and investment income	(2,950)
(195,913)	Income from council tax and non-domestic rates	(205,713)
(817,847)	Government grants and contributions	(795,770)
(1,302,514)	TOTAL INCOME	(1,253,801)
(62,808)	SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	21,414

43 TRUST FUNDS

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

	Balance at 1/4/2016	2016/17 Expenditure	2016/17 Income	Balance at 31/3/2017	2017/18 Expenditure	2017/18 Income	Balance at 31/3/2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings / Client Financial Affairs	3,465	2,683	2,737	3,519	2,687	2,836	3,667
(b) Social Services Trust Funds - sundry other	126	10	92	208	13	15	210
(c) Tower Hamlets Further Education Trust	98	0	0	98	46	0	52
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	156	6	28	178	73	89	194
TOTAL TRUST FUNDS	4,005	2,699	2,857	4,163	2,820	2,940	4,283

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

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2018 may be summarised as follows:

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

44 TOWER HAMLETS HOMES

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

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

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

	Number	Voting Rights
Council nominees	4	4
Housing tenants and leaseholders	3	3
Independent	4	4
Total	11	11

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

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

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

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

	The Council		THH		TOTAL	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Non-current assets - equipment	2,904	2,537	68	63	2,972	2,600
Short-term debtors	80,487	100,800	(865)	(1,575)	79,622	99,224
Cash and cash equivalents	184,299	114,524	7,820	6,447	192,119	120,971
Short-term creditors	154,154	157,986	3,065	1,713	157,219	159,698
Pensions liability	619,122	562,923	0	0	619,122	562,923
Pensions reserve	(619,122)	(562,923)	0	0	(619,122)	(562,923)
Income and Expenditure Reserve	0		3,958	3,221	3,958	3,221

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	2016/17 £'000	2017/18 £'000
EXPENDITURE			
Repairs and maintenance		18,726	19,415
Supervision and management		33,503	34,436
Rents, rates, taxes and other charges		2,528	2,584
Depreciation of non-current assets	6		
On dwellings		13,525	17,052
On other assets		1,276	986
Revaluation losses (and reversals)		(9,049)	0
Debt management costs		73	72
Movement in the allowance for bad debts		287	(1,205)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		3,341	10,047
TOTAL EXPENDITURE		64,210	83,387
INCOME			
Gross rental income			
Dwelling rents		66,802	65,904
Non dwelling rents		4,188	4,402
Charges for services and facilities		20,440	20,609
Contributions towards expenditure		115	115
TOTAL INCOME		91,545	91,030
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		(27,335)	(7,643)
HRA services share of Corporate and Democratic Core		157	143
NET COST OF HRA SERVICES		(27,178)	(7,500)
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
(Gain)/loss on sale of HRA non-current assets		(26,726)	(1,784)
Unattached capital receipts		(4,287)	(2,580)
Interest payable and similar charges	10	4,059	3,909
Interest and investment income		(545)	(533)
Pensions interest cost and expected return on pension assets	7	1,203	1,225
Capital grants and contributions receivable		(9,648)	(5,727)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		(63,122)	(12,990)

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	2016/17		2017/18	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(32,092)		(39,079)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(63,123)		(12,990)	
Net additional amount required by statute to be debited to the HRA balance for the year		56,136		4,509	
Decrease (Increase) in the HRA Balance			(6,987)		(8,481)
Transfers to or (from) reserves			0		0
Balance on the Statutory HRA Carried Forward			(39,079)		(47,560)

¹ Brought forward balance corrected as per balance sheet

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2016/17		2017/18	
	£'000	£'000	£'000	£'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Revenue expenditure funded from capital under statute	(3,341)		(10,047)	
Capital grants and contributions	9,648		5,727	
Gain or loss on sale of HRA non-current assets	26,726		1,784	
Unattached capital receipts	4,287		2,580	
Reversal of revaluation losses on non-current assets	11,370		0	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(182)		0	
Net charges made for retirement benefits in accordance with IAS19	1,837		1,815	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	50,345	<u>0</u>	1,859
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Capital expenditure financed from revenue	5,287		2,201	
Transfer to / from Capital Adjustment Account	504		449	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	5,791	<u>0</u>	2,650
Net additional amount required by statute to be debited to the HRA Balance for the year		56,136		4,509

2 HOUSING STOCK

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

	2016/17	2017/18
Low-rise flats (1-2 storeys)	257	255
Medium-rise flats (3-5 storeys)	6,829	6,761
High-rise flats (6 or more storeys)	3,834	3,776
Houses and bungalows	772	776
TOTAL AT 31st MARCH	11,692	11,568

3 NON-CURRENT ASSETS

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

	2016/17 £'000	2017/18 £'000
Dwellings	1,190,747	1,201,143
Other Land and Buildings	63,329	63,222
Surplus Assets Not Held for Sale	282	278
Assets Under Construction	31,517	9,507
Assets Held for Sale	0	0
TOTAL	1,285,875	1,274,150

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1 st April 2016	1,092,431	65,248	0	10,705	6,178	1,174,562
Additions, disposals, transfers and revaluations	98,316	(1,919)	282	20,812	(6,178)	111,313
Total value at 31 st March 2017	1,190,747	63,329	282	31,517	0	1,285,875
Additions, disposals, transfers and revaluations	10,396	(107)	(4)	(22,010)	0	(11,725)
TOTAL VALUE AT 31st MARCH 2018	1,201,143	63,222	278	9,507	0	1,274,150

The vacant possession value of dwellings within the Council's HRA was £4,464 million in 2017/18 (£4,660 million in 2016/17). 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

	2016/17 £'000	2017/18 £'000
Balance at 1st April	9,176	9,460
Transfer from Capital Adjustment Account - depreciation	14,801	18,038
Financing of capital expenditure	(14,517)	(22,013)
Balance at 31st March	9,460	5,485

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2016/17			2017/18		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
Expenditure	53,070	7,531	60,601	23,849	10,303	34,152
Sources of finance						
Borrowing	9,189	0	9,189	0	94	94
Capital Receipts	4,839	1,257	6,096	973	151	1,124
Capital Grants and Contributions	6,413	0	6,413	8,720	0	8,720
Major Repairs Reserve	11,176	3,341	14,517	11,966	10,047	22,013
Direct Revenue Financing	21,453	2,933	24,386	2,190	11	2,201
TOTAL CAPITAL FINANCING	53,070	7,531	60,601	23,849	10,303	34,152

(ii) Capital Receipts

Capital receipts (gross) in 2017/18 from the disposal of non-current assets within the HRA amounted to £27.183 million (£56.650 million in 2016/17) as follows:

	2016/17 £'000	2017/18 £'000
Dwellings	42,098	27,183
Other land and buildings	14,552	0
TOTAL CAPITAL RECEIPTS	56,650	27,183

6 DEPRECIATION

The total depreciation charge for the year was £18.038 million (£14.801 million in 2016/17), made up of £17.052 million (£13.525 million in 2016/17) in respect of council houses and £0.986 million (£1.276 million in 2016/17) in respect of other HRA assets. In 2016/17 and prior years, Major Repairs Allowance was used as a proxy for depreciation, from 2017/18 standard depreciation calculations apply. An analysis of the depreciation charges is set out below.

	2016/17 £'000	2017/18 £'000
Dwellings	13,525	17,052
Other Land and Buildings	1,276	986
TOTAL DEPRECIATION	14,801	18,038

7 PENSION COSTS

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

Income and Expenditure Account	The Council		LPFA		Total	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Net Cost of Services						
Current service costs	0	0	0	0	0	0
Net Operating Expenditure						
Interest cost	3,656	3,711	0	0	3,656	3,711
Settlements / Curtailments	0		0	0	0	0
Expected return on assets in the scheme	(2,453)	(2,486)	0	0	(2,453)	(2,486)
Net Charge to the Income and Expenditure Account	1,203	1,225	0	0	1,203	1,225
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(1,203)	(1,225)	0	0	(1,203)	(1,225)
Employer's contribution to scheme	3,040	3,040	0	0	3,040	3,040

8 RENT ARREARS

	2016/17 £'000	2017/18 £'000
Gross rent arrears at 31 st March	4,421	5,082
Arrears as % of rent receivable	6.6	7.7
Provision made for bad debts	3,337	4,038

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2017/18.

10 ITEM 8 INTEREST ADJUSTMENT

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

COLLECTION FUND

	Note	2016/17 £'000	2016/17 £'000	2017/18 £'000	2017/18 £'000
INCOME					
Council Tax (net of benefits)	2	104,615		115,158	
Transfers from General Fund - Council Tax Benefits			104,615		115,158
Distribution of prior year deficit on Collection Fund			0		
National Non-Domestic Rates - Transitional Protection	3	407,671 (755)	406,916	421,125 23,461	444,586
Business Rate Supplement			12,529		15,481
TOTAL INCOME			524,060		575,225
EXPENDITURE					
Council Tax					
Precepts and demands					
London Borough of Tower Hamlets		76,885		85,836	
Greater London Authority		23,044	99,929	24,861	110,697
Increase in provision for Council Tax bad debts	5		3,181		2,771
Distribution of prior year Council Tax surplus on Collection Fund			1,863		1,333
NNDR Estimated surplus for 2013/14 applied in 2015/16			0		0
National Non-Domestic Rates					
Interest		48		0	
Transitional Protection		0		0	
Cost of collection allowance		963	1,011	1017	1,017
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		118,182		134,614	
DCLG		196,969		148,075	
Greater London Authority		78,788	393,939	166,024	448,713
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		2,598		-394	
DCLG		1,013		-657	
Greater London Authority		405	4,016	-263	-1,314
Business Rate Supplement	4				
Payment to Greater London Authority *		11,880		15,868	
Cost of collection allowance		15	11,895	16	15,884
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		1,456		41	
DCLG		2,426		69	
Greater London Authority		971	4,853	28	138
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		2,446		5,850	
DCLG		4,076		6,435	
Greater London Authority		1,630	8,152	7,215	19,500
TOTAL EXPENDITURE			528,839		598,739
INCREASE/(DECREASE) IN FUND BALANCE			(4,779)		(23,514)
BRS Debtor/(Creditor)			(634)		(230)
COLLECTION FUND BALANCE (Deficit)/Surplus for the year			(5,413)		(23,744)
Balance at the beginning of the year			(5,851)		(11,264)
LBTH estimated surplus for 2013/14 B/Fwd to apply in future years			0		0
BALANCE AT END OF YEAR	1		(11,264)		(35,008)

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

NOTES TO THE COLLECTION FUND

1. GENERAL

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

The Council Tax surplus on the Fund (£2.694m) is attributable to the Council (£2.093m) and the Greater London Authority (£0.601m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a deficit of £23.467m in 2017/18 (a deficit of £5.053m during 2016/17). Back-dated NNDR charges have been raised in 2017/18 to recover the 2016/17 deficit. For the NNDR income relating to the year 2017/18, 30% is attributable to the Council, 37% to the GLA and 33% to the CLG.

2. COUNCIL TAX

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

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

When the 2016/17 Council Tax was set the position was as follows:

Band	2016/17 No. of Properties	2016/17 Council Tax Base	2017/18 No. of Properties	2017/18 Council Tax Base
A	3,517	488	3,941	706
B	25,820	16,841	25,793	16,973
C	37,390	29,812	38,002	30,519
D	25,277	22,831	26,499	24,056
E	18,967	20,950	19,869	22,060
F	8,805	11,500	9,127	12,037
G	3,350	5,112	3,608	5,558
H	537	998	567	1,053
Total	123,663	108,532	127,406	112,962

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:

	2016/17		2017/18		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	920.85	76,885	966.80	85,836	45.95	4.99%
Greater London Authority	276.00	23,044	280.02	24,861	4.02	1.46%
TOTAL	1,196.85	99,929	1,246.82	110,697	49.97	4.01%

3. NATIONAL NON-DOMESTIC RATES (NNDR)

NNDR, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2017/18 was 47.9p in the £ (49.7p in the £ in 2016/17). The total rateable value in the borough as at 31 March 2018 was £1,046 million (£875.2 million at 31 March 2017). A periodic revaluation of business properties took place in April 2017. At March 2018 there were around 2,955 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. Provision has been made for the remaining appeals

4. CROSSRAIL BUSINESS RATE SUPPLEMENT

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

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

The Crossrail BRS multiplier for 2017/18 is 2p per pound of rateable value. Reliefs for the Crossrail BRS will apply on the same basis and at the same percentage rate as for your National Non Domestic Rates (NNDR) bill, although no transitional relief is provided for the BRS.

www.london.gov.uk/crossrail-brs

2016/17 £'000		2017/18 £'000
14,096	Non Domestic Rates Due	16,486
	Less Allowances and Other Adjustments	
868	Mandatory & Discretionary Relief	1,005
0	Provision for Bad Debts	0
15	Cost of Collection	16
13,213	Collectable from Business Rate Supplement Payers	15,465

5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2017/18 the Council Tax bad debt provision was increased by £2.771 million (£3.181 million in 2016/17) and £1.497 million of irrecoverable debts were written off (£1.269 million in 2016/17).

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2016/17 £'000	2017/18 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers			
Normal	3	28,524	30,311
Augmentation	3	1,288	2,462
Deficit funding	3	22,000	43,388
From members	3	11,151	10,819
Transfers in			
Transfers in from other pension funds	4	2,195	5,966
Benefits			
Pensions	4	(39,485)	(42,711)
Lump sum benefits	4	(12,341)	(13,192)
Payments to and on account of leavers			
Refunds of contributions		(259)	(274)
State scheme premiums		(29)	0
Transfers out to other pension funds		(3,517)	(4,761)
Administrative expenses	13,14b	(972)	(509)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		8,555	31,499
RETURN ON INVESTMENTS			
		2016/17 £'000	2017/18 £'000
Investment income	11	17,776	18,281
Taxes on Income		(363)	(167)
Change in market value of investments			
Realised		415,494	(9,174)
Unrealised	10	(197,036)	75,791
Investment management expenses	13	(2,879)	(3,251)
NET RETURN ON INVESTMENTS		232,992	81,480
Net increase in the Fund during the year		241,548	112,979
Add: Opening net assets of the scheme		1,126,129	1,367,677
CLOSING NET ASSETS OF THE SCHEME		1,367,677	1,480,656
NET ASSETS AS AT 31ST MARCH			
		2017 £'000	2018 £'000
Investments Assets			
Equities		247,485	0
Pooled Investment Vehicles			
Unit Trusts		971,562	1,302,839
Property		133,609	142,803
Other		0	0
		1,352,656	1,445,642
Cash deposits	6	4,096	8,733
Other investment balances	5	1,673	833
Investments Liabilities			
Other investment balances	5	(45)	0
Current Assets			
	5	19,847	27,662
Current Liabilities			
	5	(10,550)	(2,214)
NET ASSETS		1,367,677	1,480,656

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

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

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

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

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

2. ACCOUNTING POLICIES

(a) Accounts

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

The Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

(b) Basis of preparation

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

- (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after the 31 March 2018. The actuarial present value of promised retirement benefits, valued on an IAS19 basis, is disclosed in Note 12 of the accounts as permitted under IAS 26.

Fund Account - Revenue Recognition

Contribution Income

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

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

(d) Investments

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2018
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2018.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2018.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2018. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) Investment Income

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

NOTES TO THE PENSION FUND ACCOUNTS

2 ACCOUNTING POLICIES Cont...

Fund account - expense items

(f) Management Expenses

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

Administrative Expenses

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

Oversight & Governance Costs

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

Investment Management Expenses

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

(g) Benefits Payable

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

Net assets statement

Financial Assets

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

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

(i) Market-quoted investments

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

(ii) Fixed interest securities

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

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

The assumptions interact in complex ways. During 2017/18, the Council's actuaries advised that the net pensions liability had decreased by £51.5 million to £560.9 million as a result of increased investment values.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2018 range from 15.8% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £22.0m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2016/17 £'000	2017/18 £'000
Members normal contributions		
Council	9,835	9,367
Admitted bodies	157	128
Scheduled body	1,159	1,324
Total members	11,151	10,819
Employers		
Normal contributions		
Council	22,655	26,099
Admitted bodies	1,992	598
Scheduled bodies	3,877	3,614
Deficit funding contributions		
Council	22,000	43,388
Other contributions		
Council	1,288	2,462
Total employers	51,812	76,161
Total contributions	62,963	86,980

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

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2017/18 employees made contributions of £11,924.48 into the AVC Scheme operated by Aviva (Norwich Union) and £4,643.47 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831) but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation. In April 2011 the method of indexation changed from the retail prices index to the consumer prices index. 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. Benefits payable are analysed below.

	2016/17				2017/18			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(37,650)	(679)	(1,156)	(39,485)	(40,548)	(761)	(1,402)	(42,711)
Lump sum retirement benefits	(9,688)	(300)	(839)	(10,827)	(10,012)	(451)	(1,059)	(11,522)
Lump sum death benefits	(1,514)	0	0	(1,514)	(1,670)	0	0	(1,670)
Total Pensions and Benefits	(48,852)	(979)	(1,995)	(51,826)	(52,230)	(1,212)	(2,461)	(55,903)
Transfer Values Received (Individual)	2,195	0	0	2,195	5,966	0	0	5,966
Transfer Values Paid (Individual)	(3,517)	0	0	(3,517)	(4,761)	0	0	(4,761)
Total	(50,174)	(979)	(1,995)	(53,148)	(51,025)	(1,212)	(2,461)	(54,698)

5. DEBTORS AND CREDITORS

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

	2016/17 £'000	2017/18 £'000
Debtors		
Other Investment Balances		
Investment sales	0	0
Dividends receivable	961	0
Tax recoverable	712	833
	<u>1,673</u>	<u>833</u>
Current Assets		
Contributions due from admitted bodies	241	115
London Borough of Tower Hamlets	1,176	1,063
	<u>1,417</u>	<u>1,178</u>
Total Debtors	3,090	2,011
Creditors		
Other Investment Balances		
Investment purchases	45	0
Current Liabilities		
Admitted Bodies	0	32
Unpaid benefits	1,664	1,154
Administrative expenses	747	529
London Borough of Tower Hamlets Pension	3,940	0
HMRC Creditor Income Tax Deducted	4,199	499
	<u>10,550</u>	<u>2,214</u>
Total Creditors	10,595	2,214
Net Debtors	(7,505)	(203)

6. CASH

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

	2016/17 £'000	2017/18 £'000
GMO	1,075	0
Schroders: Property Portfolio	3,021	8,733
London Borough of Tower Hamlets Pension Fund	18,428	26,484
TOTAL CASH	22,524	35,217

7. TAXATION

UK Income Tax

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

Value Added Tax

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

Overseas Tax

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

8. INVESTMENT STRATEGY STATEMENT

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish an Investment Strategy Statement (ISS) in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The ISS which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 16th March 2017.

9. MEMBERSHIP OF THE FUND

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

	2017	2018
London Borough of Tower Hamlets		
Active Members	6,605	5,859
Pensioners	4,536	4,723
Deferred Pensioners	7,076	7,443
Dependants	1,030	1,038
	19,247	19,063
Admitted & Scheduled Bodies		
Active Members	651	776
Pensioners	275	332
Deferred Pensioners	406	456
Dependants	29	32
	1,361	1,596

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilisys
 City Gateway
 Compass Contract
 East End Homes
 Energy Kidz
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
 Greenwich Leisure Limited
 One Housing Group (formerly Island Homes)
 Swan Housing Association
 Tower Hamlets Community Housing
 Vibrance (formerly Redbridge Community Housing Limited)
 Wettons Cleaning Ltd

Scheduled Bodies

Attwood Academy (Ian Mikardo School)
 Canary Wharf College
 Culloden Primary School
 East London Academy
 Green Spring Academy
 London Enterprise Academy
 Letta Trust (Stebon and Bygrove Schools)
 Mulberry Academy
 Old Ford Primary School
 Sir William Burrough
 Solebay Academy
 St. Pauls Way Community School
 Tower Hamlets Homes Limited
 Tower Trust (Clara Grant and Stepney Green Schools)
 Wapping High School

10. INVESTMENTS

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

Manager

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

Mandate

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

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

	2017		2018	
	£ million	%	£ million	%
GMO UK Ltd.	326.9	24.1	0.9	0.1
Goldman Sachs Asset Management Property Fund	77.9	5.7	77.1	5.3
Insight Investment Management (Global) Ltd	71.7	5.3	71.8	4.9
Legal & General Investment Management - Equities	265.9	19.6	493.2	33.9
Legal & General Investment Management	74.0	5.4	75.0	5.2
London CIV	405.2	29.8	585.8	40.3
Schroders Asset Management Property Fund	136.7	10.1	151.5	10.4

10. INVESTMENTS (continued)

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

	Market Value as at 1 Apr 2017 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2018 £'000
Equities	324,294	46,636	(314,634)	(56,296)	0
Pooled Investments	894,752	145,198	135,306	127,583	1,302,839
Pooled Property Investments	133,610	13,943	(9,215)	4,466	142,804
	1,352,656	205,777	(188,543)	75,753	1,445,643

Other Investment Balances

Cash Deposits	4,096	0	0	4,637	8,733
Amounts receivable for sales of investments					
Investment income due	1,673	0	(841)		832
Amounts payable for purchases of investments	(45)	0	45	0	0
Net Investment Assets	1,358,380	205,777	(189,339)	80,390	1,455,208

	Market Value as at 1 Apr 2016 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2017 £'000
Bonds	0	0	0	0	0
Equities	214,616	222,584	(183,549)	42,463	296,114
Pooled Investments	626,883	804,730	(273,727)	(234,954)	922,932
Pooled Property Investments	129,933	19,897	(11,675)	(4,545)	133,610
	971,432	1,047,211	(468,951)	(197,036)	1,352,656

Other Investment Balances

Cash Deposits	5,647	0	0	(1,551)	4,096
Investment income due	1,973	0	0	(300)	1,673
Amounts payable for purchases of investments	(35)	0	0	(10)	(45)
Net Investment Assets	7,585	0	0	(1,861)	5,724

10. INVESTMENTS (continued)

A further analysis of investments assets is as follows.

	Market Value as at 31 Mar 2017 £'000	Market Value as at 31 Mar 2018 £'000
Equities		
UK		
Quoted	21,564	0
Overseas		
Quoted	225,922	0
	<u>247,486</u>	<u>0</u>
Pooled Funds - Additional Analysis		
UK		
Fixed Income Unit Trust	73,978	81,152
Unit Trusts	820,774	1,221,687
Overseas		
Unit Trusts	76,809	0
	<u>971,561</u>	<u>1,302,839</u>
Pooled Property Investments	133,609	142,803
	<u>133,609</u>	<u>142,803</u>
Cash Deposits	4,096	8,733
Investment Income Due	1,673	832
	<u>5,769</u>	<u>9,565</u>
Total Investment Assets	<u>1,358,425</u>	<u>1,455,207</u>
Investment Liabilities		
Amounts Payable for Purchases	(45)	0
Total Investment Liabilities	<u>(45)</u>	<u>0</u>
Net Investment Assets	1,358,380	1,455,207

The market value per investment manager is as follows:

	Market Value 31 Mar 2017		Market Value 31 Mar 2018	
	£'000	%	£'000	%
GMO UK Ltd	324,295	24.0%	0	0.0%
Insight Investment Management (Global) Ltd	71,743	5.3%	71,779	5.0%
Legal & General	339,865	25.1%	568,209	39.3%
London LGPS CIV	405,215	30.0%	585,774	40.5%
Goldman Sachs Asset Management	77,929	5.8%	77,077	5.3%
Schroders Asset Management Property Fund	133,609	9.9%	142,803	9.9%
	<u>1,352,656</u>	<u>100.0%</u>	<u>1,445,642</u>	<u>100.0%</u>

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2016/17 £'000	2017/18 £'000
Dividends from overseas equities	11,917	10,824
Dividends from UK equities	89	647
Net rents from properties	5,002	6,395
Interest on cash deposits	130	52
Foreign tax	275	196
TOTAL	17,413	18,114

TAXES ON INVESTMENT INCOME

	2016/17 £'000	2017/18 £'000
Withholding tax - equities	286	167
Withholding tax - pooled	77	0
TOTAL	363	167

12 ACTUARIAL POSITION

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

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

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

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

The Pension Committee agreed to accept the three year deficit payment in advance at a net present value. The net present value of this payment was £43.38m paid on 1 December 2017.

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

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

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

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

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2017/18 was 19.9%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall".

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

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

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

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

Actuarial Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £2,007 million (£1,983 million in 2016/17). This includes both vested and non-vested benefits.

Assumptions

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

Demographic assumptions

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

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

Financial assumptions

Year ended	31st March	31st March
	2017	2018
Pension increase rate	2.4%	2.4%
Salary increase rate	2.2%	2.2%
Discount rate	2.5%	2.6%

13. MANAGEMENT EXPENSES

	2016/17 £'000	2017/18 £'000
Administration costs	789	398
Investment management expenses	2,879	3,251
Oversight & governance	183	111
	3,851	3,760

14. INVESTMENT EXPENSES

	2016/17 £'000	2017/18 £'000
Management fees	2,722	3,229
Custody fees	35	22
Transaction Costs	122	38
	2,879	3,289

14b. EXTERNAL AUDIT FEE

	2016/17 £'000	2017/18 £'000
Audit Fee included within note 13	21	21
	21	21

15. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

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

Credit risk

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

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

Liquidity risk

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

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

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

Market risk

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

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2017 and 31st March 2018 is set out below.

Interest Rate Risk	As At 31st March 2017	As At 31st March 2018
Asset Type	£'000	£'000
Cash and cash equivalents	4,096	8,733
Cash balances	19,846	27,619
Fixed interest securities	73,978	142,805
Total	97,920	179,157

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2018	Change in year in net assets available	
Asset Type		+100 BPS £'000	-100 BPS £'000
Cash and cash equivalents	8,733	87	(87)
Cash balances	27,619	276	(276)
Fixed interest securities	142,805	(1,428)	1,428
Total change in net assets available	179,157	(1,065)	1,065

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

Interest rate risk - sensitivity analysis

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

15. RISK MANAGEMENT (continued)

Currency risk

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

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 9.0%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2017 £'000	As At 31st March 2018 £'000
Asset Type		
Overseas quoted securities	306,252	0
Overseas unit trusts	0	1,080
Cash	0	0
Total overseas assets	306,252	1,080

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2018 £'000	Change in year in net assets available to pay benefits	
		+9.0% £'000	-9.0% £'000
Asset Type			
Overseas quoted securities	0	0	0
Overseas unit trusts	1,080	1,177	983
Cash	0	0	0
Total change in net assets available	1,080	1,177	983

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

Other Price risk

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

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

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

Other price risk - sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
Equities	9.7%
Bonds	8.2%
Multi Asset	4.1%
Property	1.8%
Alternatives	4.2%
Cash	0.4%

15. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	35,217	0.0%	35,217	35,217
Investment portfolio assets				
UK equities	493,650	9.7%	541,616	445,684
Bonds				
Global equity	0	0.0%	0	0
Total fixed interest	74,559	8.2%	80,687	68,431
Alternatives	734,629	4.2%	765,156	704,102
Pooled Property Investments	142,805	1.8%	145,339	140,271
Net derivative assets	0	0.0%	0	0
Investment income due	832	0.0%	832	832
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	0	0.0%	0	0
Total assets available to pay benefits	1,481,692		1,568,846	1,394,538

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

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

Refinancing risk

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

16. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2018.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities		0	0	0
Pooled Funds				
Unit Trusts	1,302,839	0	0	1,302,839
Property Unit Trust	142,803	0	0	142,803
Other	0	0	0	0
Derivative Contracts				
Forward Foreign Exchange Contracts		0	0	0
Cash and bank Deposits	36,237	0	0	36,237
Current Assets	947	0	0	947
Current Liabilities	(2,713)	0	0	(2,713)
	1,480,114	0	0	1,480,114

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

The equivalents at 31st March 2017 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	247,485	0	0	247,485
Pooled Funds				
Unit Trusts	971,562	0	0	971,562
Property Unit Trust	133,609	0	0	133,609
Other	0	0	0	0
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	23,701	0	0	23,701
Current Assets	1,914	0	0	1,914
Current Liabilities	(10,595)	0	0	(10,595)
	1,367,676	0	0	1,367,677

16. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial instruments

	Long-term	
	2016/17 £'000	2017/18 £'000
Financial Assets		
Loans and receivables	148	4,637
Financial assets at fair value through profit or loss	218,459	71,287
Financial assets at amortised cost	0	4,466
Total Financial Assets	218,607	80,390

17. CURRENT ASSETS

	2016/17 £'000	2017/18 £'000
Contributions due - employees	0	115
Contributions due - employers	241	0
Transfer values receivable	0	1,020
Sundry debtors	1,177	0
Cash balances	18,428	26,484
	19,846	27,619

Analysis of debtors

	2016/17 £'000	2017/18 £'000
Other entities and individuals	19,846	27,619
	19,846	27,619

18. CURRENT LIABILITIES

	2016/17 £'000	2017/18 £'000
Sundry creditors	4,687	1,060
HMRC creditor	4,199	499
Benefits payable	1,664	1,154
	10,550	2,713

Analysis of creditors

	2016/17 £'000	2017/18 £'000
Central government bodies	0	499
Other entities and individuals	10,550	1,715
	10,550	2,214

19. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £669k (£669k 2016/17) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £43.38m to the Fund in respect of back funding for the three year period to 31st March 2020. The 2016/17 contribution was £22m for one year. All monies owing to and from the fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31 March 2016, the Fund held an average investment of £11.4m (£26.1m 31 March 2017), earning interest of £90k, (£148k 2016/17)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.8m (£3.3m 2016/17) from this company.

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

	2016/17	2017/18
Fund Administration Expenses	£'000	£'000
Payroll / HR Support	494	494
Corporate Finance	175	320
	669	814

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2018 include:

Service Head - Finance and Procurement
Chief Accountant

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

	2016/17	2017/18
	£'000	£'000
Short term benefits	30	37
Long term/post retirement benefits	13	22

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2017/18 there were no Members of the Pension Fund Committee who had involvement with other organisations.

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

20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31/03/2018.

21. CONTINGENT ASSETS

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

22. IMPAIRMENT LOSSES

During 2017/18 impairment losses were nil (impairment losses in 2016/17 were also nil).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF TOWER HAMLETS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of London Borough of Tower Hamlets ('the Authority') for the year ended 31 March 2018 which comprise the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Movement in Reserves Statement, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund, the Fund Account and Net Assets Statement for the London Borough of Tower Hamlets Pension Fund and the related notes (including the Expenditure and Funding Analysis), including the accounting policies in note 1 and the Pension Fund accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the London Borough of Tower Hamlets Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Director of Resources is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

Director of Resources responsibilities

As explained more fully in the statement set out on page 98, the Director of Resources is responsible for: the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

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

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph below, we are satisfied that, in all significant respects, London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

In considering whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources we have reviewed the progress made against the findings of the Best Value Inspection of the London Borough of Tower Hamlets Report (the Report) published on 4 November 2014, as well as the evidence gathered from our own audit work. The Report concluded that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas of the payment of grants and connected decisions; the disposal of property and the granting of leasehold interests; and spending on publicity. Subsequently the Secretary of State for Communities and Local Government ('the Secretary of State') appointed independent Commissioners to undertake an executive decision-making role in relation to all grant decisions, and to oversee the work of the Authority in these areas of operation.

The Authority developed and published comprehensive action plans including a programme of cultural change (the "BV Action Plans") and these have been developed into a Best Value Improvement Plan ("BV Improvement Plan") under five areas: elections; communications; property; grants; and organisational culture. In March 2017 the Secretary of State decided not to extend the appointment of the Commissioners beyond 31 March 2017 in recognition of the Authority's progress. In light of the remaining actions identified in the BV Improvement Plan, the Secretary of State issued three new Directions, in force until 30 September 2018, which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV Improvement Plan to the Secretary of State and set up an independent review of achievement of the BV Improvement Plan with a report to the Secretary of State by 1 August 2018.

We have considered the quarterly reporting by the Authority to the Secretary of State and the extent to which the actions in the Authority's BV Implementation Plans were reported as completed. The reports show that Authority considers that the majority of the actions identified are completed or on track with majority of short-term and medium-term milestones having been delivered. Where there are delays a revised plan has been set out. Work on the longer-term milestones are considered to be on-going with plans for delivery over the next financial year. Whilst we note the continuing progress made further time is required to fully implement and embed the improvements required under the BV Improvement Plan.

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

The Authority has established a Children's Services Improvement Board led by a Chair and an Improvement Plan was submitted to the Department for Education in July 2017. The consequent Improvement Plan aims to achieve a standard of at least 'good' by April 2019. Progress is reviewed regularly by Ofsted. The findings from the Ofsted monitoring visits indicate a positive trajectory of change

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

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether London Borough of Tower Hamlets had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether London Borough of Tower Hamlets put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

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

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

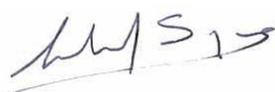
DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT

Due to matters brought to our attention by local authority electors, work on the WGA Return and the Pension Fund Annual Report and Accounts not being completed by the 31 July 2018

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

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

We are also required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report and Accounts of the London Borough of Tower Hamlets Pension Fund within the pension fund accounts included in the financial statements of the London Borough of Tower Hamlets. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December following the end of the relevant financial year. As the Authority has not yet approved the Pension Fund Annual Report and Accounts we have not issued our report on the financial statements included in the Pension Fund Annual Report and Accounts. Until we have done so, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.



Andrew Sayers
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

31 July 2018

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

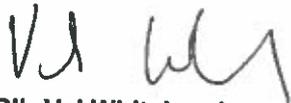
I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2018 and of its income and expenditure for the year then ended.



Zena Cooke
Corporate Director of Resources
25th July 2018

Approval of Statement of Accounts

The Statement of Accounts was approved by the Audit Committee



Cllr Val Whitehead
Chair – Audit Committee
25th July 2018



Annual Governance Statement 2017 – 18

Date Issued

31 May 2018

Prepared by

Steven Tinkler

Chief Internal Auditor

Introductory Foreword

Tower Hamlets (TH) is an inspirational place – a great place to live, work, learn and play. Thousands of people are attracted to our borough because we are diverse, dynamic, modern and exciting with an enterprising global economy that plays a crucial role in the London economy.

However, we are managing increasing demand and significant reductions in our funding. Effective service commissioning and delivery has never been more important.

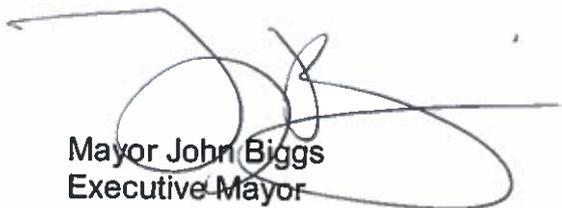
Good governance ensures that an organisation is doing the right things, in the right way and for the right people.

This means complying with relevant legislation and giving our operational and political leaders the right insight and assurance that this is happening. Our suppliers, partners and taxpayers also need to know that we are doing things correctly in order to protect their investment and reputation.

- Following the return of full powers back to the Council and the removal of the Commissioners, the effectiveness of THs' governance framework has been reviewed and as Mayor and Chief Executive, we have been advised of the resulting implications.

Our overall assessment is that this annual governance statement (AGS) is a balanced reflection of THs' governance environment and that an adequate framework exists within the organisation to maintain effective internal control.

We are also satisfied that there are appropriate plans in place to address the weaknesses identified and to ensure continuous improvement in the governance system.



Mayor John Biggs
Executive Mayor



Will Tuckley
Chief Executive

What is Corporate Governance?

Corporate Governance refers to the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The *International Federation of Accountants / CIPFA 2014: International Framework Good Governance in the Public Sector*, further states that to deliver good governance in the public sector, both governing bodies and individuals working for them must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest requires behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.

Our governance arrangements aim to ensure that we meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our public money and resources are safeguarded, properly accounted for and used economically, efficiently and effectively.

The governance framework comprises the systems, processes, cultures and values by which Tower Hamlets is directed and controlled, and through which we engage with and lead the local community. The framework brings together an underlying set of legal requirements, good practice and management processes.

How do we know our arrangements are working?

To monitor the effectiveness of our corporate governance systems, we have approved and adopted a 'Code of Corporate Governance' which is consistent with the principles of the CIPFA / SOLACE 2016: *Delivering Good Governance in Local Government Framework 2016 Edition*.

This code is subject to review, challenge and endorsement by the Audit Committee or scrutiny panels as appropriate. A copy of the code can be located at www.towerhamlets.gov.uk or can be obtained from the Monitoring Officer.

Each year we review our corporate governance processes, systems and the assurances on the governance framework to create an annual governance statement. We review our compliance with the approved code of corporate governance, consulting with and obtaining positive assurances from the corporate leadership team and governance officers.

In addition we also reflect and take into consideration the work of internal and external audit and other inspection bodies completed during the year. The issues identified during the review are highlighted in the action plan at the end of this statement.

This AGS builds upon those of previous years. It summarises the key governance framework which has been in place for the year ended 31 March 2018 up to the date of approval of the statement of accounts and records any significant governance issues that need to be addressed over the coming year.

As we are continually changing and seeking improvement it is important that the governance arrangements are robust and flexible enough to manage change effectively, and positively support our aims and objectives.

It is recognised that the governance framework cannot eliminate all risk and therefore only provides reasonable and not absolute assurance of effectiveness.

How Tower Hamlets works

The Council comprises of a directly elected Mayor and 45 Councillors who are elected on a four year term. Councillors are elected to represent the 20 wards across the Borough with between one to three Councillors in each ward.

The Executive Mayor is Mayor John Biggs. The composition of the Council is:

Labour (42 seats)

Conservative (2 seats)

People's Alliance of Tower Hamlets (1 seat)

Councillors are democratically accountable to the residents of their Wards. The overriding duty of Councillors is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

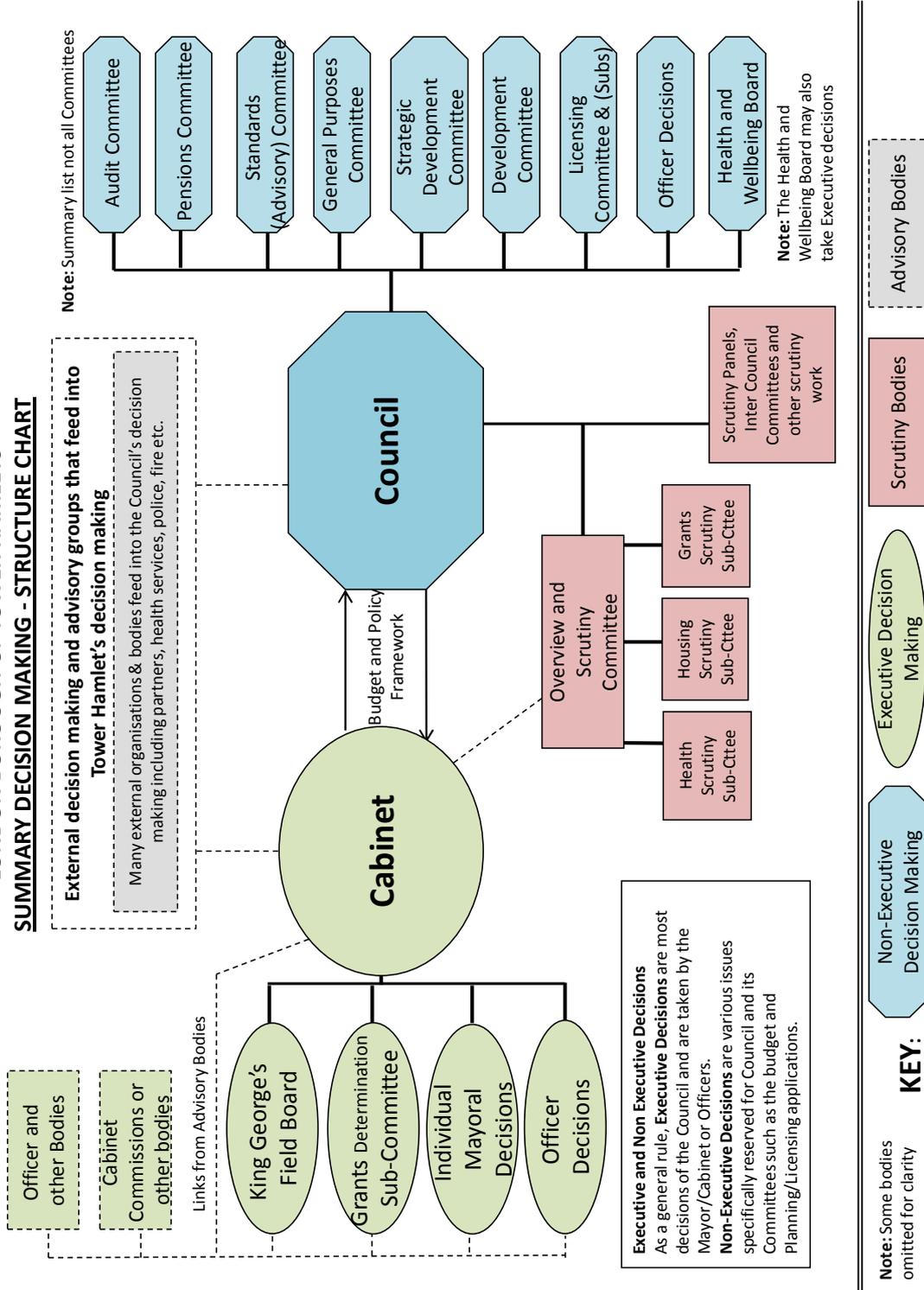
Full Council consists of the Mayor and all Councillors. It meets to make major decisions including setting Council Policy, the Budget and Council Tax and considering any recommendations outside of the budget and policy framework. The Council appoints a number of Committees to carry out specific functions. These include: the Regulatory Committees, the Pensions Committee and a Standards (Advisory) Committee.



The Mayor appoints and is supported by a Cabinet. The Mayor and Cabinet are responsible for most regular decisions of the Council. This includes preparing the budget and plans for the Council to consider, implementing and monitoring other major decisions. The Mayor and Cabinet have to take decisions in line with Budget and Policy Framework set by Full Council. Any proposals outside this must be referred to Full Council to decide.

The public has wide access to Council meetings through attendance, submission of deputations, questions and opportunity to contribute to debates. The Council's website gives dates and times of meetings and access to documents.

**LONDON BOROUGH OF TOWER HAMLETS
SUMMARY DECISION MAKING - STRUCTURE CHART**



Constitution

The constitution is available via www.towerhamlets.gov.uk and sets out how TH operates, how decisions are made and the processes that are followed to ensure that decision making is efficient, transparent and accountable to local people. A number of the codes of practice and procedures within the constitution are required by law, whilst some are chosen to reflect best practice arrangements.

The constitution further sets out the role of key governance officers, including the statutory posts, and explains the role of these officers for ensuring that processes are in place to ensure that TH meets its statutory obligations and also for the provision of advice to councillors, officers and committees on staff management, financial, legal and ethical governance issues. The statutory posts / are:

Statutory Roles:	Allocated to:
Head of Paid Service	Chief Executive
Chief Finance Officer (Section 151)	Corporate Director Resources
Monitoring Officer	Corporate Director Governance and Monitoring Officer
Director of Social Services (Adult Services Only)	Corporate Director Health, Adults and Community
Director of Children's Services	Corporate Director Children's Services
Chief Education Officer	Corporate Director Children's Services
Director of Public Health	Director of Public Health

The senior management structure within the Council has seen some minor changes but largely stable throughout 2017/18. The key governance officers have been involved in the preparation of this statement and are satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted.

Structure

Scrutiny committees

Scrutiny is a key part of the democratic process, monitoring Cabinet policy decisions and with a key role in advising on the development of policy. Scrutiny also has a broader remit to examine issues affecting TH.

Within its terms of reference, the **Overview and Scrutiny Committee** shall:

- Review or scrutinise decisions made, or other actions taken in connection with the discharge of any functions which are the responsibility of the Executive;
- Advise the Mayor or the Executive of key issues / questions arising in relation to reports due to be considered by the Mayor or the Executive;
- Make reports or recommendations to Council and / or the Mayor or the Executive in connection with the discharge of any functions which are the responsibility of the Executive; and
- Review or scrutinise the decisions made or other actions taken in connection with the discharge of any functions which are not the responsibility of the Executive.

There are three Scrutiny Sub-Committees which support the work of the Mayor / Cabinet and TH as a whole. These relate to three specific themes, which are:

- Grants Scrutiny Sub-Committee;
- Health Scrutiny Sub-Committee;
- Housing Scrutiny Sub-Committee.

Best Value Improvement Board

As part of the final submission to the Secretary of State for DCLG, the Best Value Improvement Plan 2017/18, proposed the creation of a Best Value Improvement Board to drive sustainable improvement across the organisation by providing oversight, support and challenge. The Board is chaired by the Mayor with both cross party and external representation to provide suitable challenge to improve all council activities.

A key objective of the Board was to provide a Council-wide approach to setting, reviewing and implementing improvement activity by:

- Acting as the Council's Best Value Improvement Board providing focus, advice and challenge as a "critical friend" on the adequacy of the Council's Improvement Plans, monitoring the pace and impact;
- Assessing, challenge and support the robustness of the improvement activity and related implementation plans;
- Maintaining an overview of performance against the detailed improvement activity;
- Ensure there is sustainable improvements across the Council
- Holding cabinet members and officers to account;
- Meeting in public every quarter to ensure transparency and accountability in relation to progress being made;
- Submitting a progress report quarterly to Department for Communities and Local Government.

The Board continues to make an affective contribution towards the delivery of improved governance across the Council and during 2017/18, the Board has delivered following outcomes:

- Oversaw delivery of Best Value Improvement Plan
- Oversaw delivery of Children's Services Improvement Plan
- Developed a Tower Hamlets Improvement Framework bringing together improvement activities across the organisation.

Audit Committee

This committee undertakes the core functions, and complies with best practice as detailed within the CIPFA 2013: Audit Committees – Practical Guidance for Local Authorities and Police and has oversight of the delivery (as the 'Board') of Internal Audit standards in accordance with the Public Sector Internal Audit Standards (PSIAS). As part of the continued development of the effectiveness of the Committee, a self-assessment of the committee will be conducted during the 2018/19 committee cycle, in accordance with revised version of the guidance, published in May 2018.

The committee takes a positive and proactive approach to governance and reviews progress on the AGS action plan, internal audit annual audit plan, anti-fraud arrangements including whistleblowing and risk management. Although not previously completed, the chair of the committee going forwards will provide an annual report to full Council which outlines the work and effectiveness of the committee during the year.

Corporate Parenting Board

The joint Member / Officer CPB will advise the Mayor in Cabinet to ensure that the services the Council provides to the children in its care are of the highest standard and that those services meet national and local government objectives for children and young people in public care.

Specifically the CPB will:

- Oversee the delivery of Tower Hamlets Children Looked After Strategy and ensures it is updated to reflect new policy, priorities and practice changes.
- Offers high level support and challenge to the implementation of the Council's improvement plan in relation to looked after children and care leavers.
- Acts as a monitor of performance by officers of the council by receiving and reviewing regular performance reports

- Keeps abreast of new policy and legislation that affects looked after children and care leavers to ensure the council's offer is aligned with best practice and expected standards.
- Provides a forum for identifying and supporting the priorities of children looked after and care leavers Members, Officers and the council more widely.
- Provides a forum for communication and purposeful engagement between children looked after, care leavers, Members and Officers
- Seeks to influence policy and practice for the benefit of children and young people looked after and leaving care.
- Steer and advise the wider Council and partners on its role as a Corporate Parent.
- Ensure that the wider council and partners contribute effectively in providing the best offer for children looked after and care leavers.

Council Owned Companies / Partnerships

Tower Hamlets Homes

We have in place a well-established Arm's Length Management Organisation - Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage the Council's housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company Board. Performance is monitored through a formal review process with Senior Council officers and elected members. The company operates its own risk management strategy and is subject to internal and external audit and inspection activities in compliance with the Companies Act.

Seahorse Homes Limited

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017. The company has yet to start trading. The Board of Directors is comprised of three Council officers. The company is seeking to acquire homes which will be let at market rent levels in order to achieve a commercial profit. The first property acquisitions are expected to complete in autumn 2018. The company also intends to commence new build development activity in 2019.

Mulberry Housing Society

Mulberry Housing Society is a charitable community benefit society established in 2017. The society has yet to start trading. The Board of Directors is comprised of two Council officers and three Independent

members. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. The first property acquisitions are expected to complete in autumn 2018. The society also intends to commence new build development activity in 2019.

It should however be recognised that the Council does not strictly-speaking control or have a shareholding in Mulberry Housing Society.

Tower Hamlets Strategic Plan 2016 – 2019

The updated Strategic Plan sets out the priorities and outcomes the Mayor and his administration have been elected to deliver. These are underpinned by the Council's transformation programme, medium term financial strategy and the drive to deliver better outcomes for local people.

The 3 priorities and outcomes for 2017/18 identified within the plan were:

- Creating opportunity by supporting aspiration and tackling poverty;
- Creating and maintaining a vibrant and successful place; and
- Working smarter together as one team with our partners and community.

Review of effectiveness

Tower Hamlets has a responsibility to conduct an annual review of the effectiveness of its governance framework, including the system of internal control.

This is informed by:

- Annual assurance opinion of the Chief Internal Auditor;
- Performance against targets;
- Annual director assurance statements;
- A review of the progress made with regards to the implementation of the previous year's AGS action plan.

The review of effectiveness of our governance framework is informed by the work of the Corporate Leadership Team who have responsibility for the development and maintenance of the governance environment, Chief Internal Auditors' Annual Report, and also by comments made by the external auditors and other agencies and inspectorates. The Statutory Officers Group considers the draft Annual Governance Statement, prior to formal review of the AGS by the Audit Committee.

Planning

The Council's Performance Management and Accountability Framework (PMAF) ensures that the vision and priorities are translated into clear plans and measurable outcomes which are appropriately monitored and delivered by officers and elected members. The PMAF sets out corporate expectations for managing performance, and informs the design and operation of performance management processes within individual Directorates and services.

Evidence and analysis have been used to identify our priorities and outcomes for local people, and these are outlined in our Strategic Plan, along with the actions we will take to make these happen, and the performance measures we will monitor in order to review and challenge whether what we are doing is achieving the desired results.

Strategic performance monitoring is undertaken publically on a quarterly basis at Cabinet. The Council takes an outcomes based approach to performance management: identifying the outcomes we want to achieve for local people and taking actions which will support the delivery of these outcomes. Our strategic performance measures enable us to understand the impact of our actions.

Members and officers are supported in their work to improve performance through Dashboard reporting. This allows a greater breadth of data to be provided within reports, and tailored to individual audiences. Mayor and Cabinet Member Dashboards are designed to encourage dialogue between Members and Directors regarding performance, challenges, associated risks and improvement plans, and support accountability. Senior managers receive performance and organisational health dashboards which report by exception and focus on areas of under-performance, high risk and high cost.

The Council has formal procedures in place to challenge where there are identified performance concerns: taking a trouble-shooting approach to improving performance, acting as a 'critical friend', and making decisions about where to focus improvement work. Therefore, areas of identified concern are referred to our Performance Improvement Board for further examination. Areas of under-performance may also be referred to the Council's Overview and Scrutiny Committee for further review.

Delivery of Projects

THs' has developed a Smarter Together portfolio which brings together the various programmes and projects with the council. The management of these projects complies with recognised industry best practice within the public sector.

The portfolio has been set up in accordance with Management of Portfolios (MoP) best practice guidance to ensure the optimisation of investment. A programme and project methodology has also been established - based on Managing Successful Programmes (MSP), Management of Risk (MoR) and Management of Benefits (MoB) - to apply best practice principles throughout the delivery lifecycle. There are clearly defined roles and responsibilities for all decision-making forums set out in agreed Terms of Reference, supported by discussion/decision logs, actions lists and a suite of registers to ensure effective management of risks, issues, assumptions and dependencies.

An internal gateway process has been put in place to ensure sufficient rigour is applied before new change initiatives are commissioned. This includes assessing (against agreed criteria) whether the change initiative is suitable for investment before production of a business case. Business cases are developed using HMT's five case business case guidance to make sure information allows reliable and evidence-based decision making wherever possible. During the programme and project lifecycles, go/no go decision points have been built into plans to validate benefits before commencing key stages, such as design, procurement, build, development and implementation as appropriate.

A high level PMO technical competency framework has been developed and a learning and development programme is being delivered to ensure PMO staff are trained and qualified in key areas of expertise.

The Audit Committee

A well-established Audit Committee provides independent, effective assurance on the adequacy of the governance arrangements within TH. All major political parties are represented on the committee.

The Audit Committee met regularly during 2017/18. The committee considers reports including the Annual Internal Audit Report from the Chief Internal Auditor and the External Auditor.

The remit of the Audit Committee is to:

- Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- To consider the Audit Plan and review internal audit findings and the annual report from the Chief Internal Auditor;
- To act as a forum from the external auditors to bring issues to Members' attention including both specific reports and general items such as the Annual Audit Letter;
- To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption.

Management

Each Corporate Director has provided a self-assurance statement in respect of 2017/18, supported by assurance received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of TH which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of THs' key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in practice. The Monitoring Officer and the Legal Services Team monitor compliance with, and awareness of, key laws and regulations. Corporate directors, divisional directors and service heads are responsible for monitoring implementation of the council's policies.

One of the key elements in obtaining the required internal control assurance for the Annual Governance Statement is the completion of the Annual Positive Assurance Statement by senior officers. Corporate directors were asked to compile their statements after taking assurance from their senior / departmental management teams.

Internal Audit

TH takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of THs' activities. It is the duty of the Chief Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control within TH. This opinion has been used to inform the AGS.

The Internal Audit Service has been managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS), and this has been confirmed by the completion of an independent peer review of the Internal Audit function in October 2017. This independent review did highlight some areas for improvement with regards to elements of practice within the service. An appropriate improvement plan has been formulated and is being delivered.

One of the key assurance statements TH receives is the annual report and opinion of the Chief Internal Auditor. As outlined within annual report of the Chief Internal Auditor, the following assurance opinion was provided, 'On the basis of the audit and counter fraud work undertaken during 2017/18 financial year, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that this has been operating effectively during 2017/18. The internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice.

The assurance opinion is considered consistent with the ongoing transformation activities and the continued implementation of the Best Value Improvement Plan actions.

However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give this assurance.

External Audit & Inspections

KPMG are currently the council's appointed external auditor. However, following the decision of the council to opt in to the Public Sector Audit Appointments Limited (PSAA) arrangement, the PSAA Board appointed

Deloitte to audit the accounts of the council for a period of five years (2018/19 to 2022/23).

The auditor issued an unqualified opinion in relation to the council's 2016/17 statutory financial statements. However, the 2016/17 value for money (VFM) work which followed the National Audit Office's guidance identified one significant VFM risk and two other areas of audit focus. As a result KPMG concluded that the Authority had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2016/17. However, KPMG were satisfied that none of the remaining issues have an adverse impact on the 'sustainable resource deployment' sub criterion. KPMG therefore anticipate issuing a qualified VFM conclusion on an 'except for' basis rather than the adverse basis that were applied in 2013/14, 2014/15 and 2015/16."

During 2017/18 external inspectors from Ofsted, CQC and an external peer review have completed a number of inspections and reviews, summary details are as follows.

Ofsted

As a follow up to the April 2017 report published by Ofsted in respect of Tower Hamlets' Single Inspection of Children in need of help and protection, children looked after and care leavers and the Local Safeguarding Children Board, Ofsted completed 2 monitoring visits during 2017/18. Formal feedback received following these visits has confirmed that improvement activities introduced had been sustained and thresholds for help and protection were appropriately applied.

Prevent Peer Review

A Prevent peer review was undertaken in February 2018. Tower Hamlets is a Prevent Tier 1 priority area and as such receives additional funding from the Home Office to deliver Prevent projects. Tier 1 status is apportioned as Tower Hamlets is considered to be of significantly higher risk than the majority of local authority areas. Accordingly, expectations of delivery are high.

Given this, the peer review team agreed that Tower Hamlets is delivering Prevent to an extremely high standard. It was particularly noted that Partnerships are firmly developed, practice is consistently strong, and leaders are aware of challenges. In addition the review recognised that the Tension Monitoring Group arrangements are a particular area of national good practice.

Local Government Association – Corporate Peer Challenge

During June 2018, the council took part in a four day Local Government Association led Peer Challenge.

The challenge marked an important milestone in the council's journey as an organisation and provided an opportunity for the council to demonstrate the progress that has been made, but also to help us in plotting our future path to improvement.

The challenge further provided an opportunity for an informed, independent and external view of our strengths and weaknesses and provided fresh insight into where we are, the strength of our plans and into our ability to deliver the ongoing improvements we know are necessary to continue to better our services for our residents.

A formal report is expected on the outcomes of the Peer Challenge is to be provided towards the end of July 2018.

Risk Management

All councillors and managers are responsible for ensuring threats and opportunities are considered in the decisions they take. TH has in place a formally approved risk management strategy which is subject to annual review. That strategy sets out a corporate risk appetite that is not risk averse but seeks to support decision making that consider threats, identifies mitigations etc. in order to ensure opportunities are seized and delivered.

In support of the delivery of effective risk management arrangements, a corporate risk management system 'JCAD' is used to capture all relevant corporate / directorate and project related risks. In addition, directorate Risk Champions oversee the continued development and review of the council's approach to risk management, acting as risk specialists to continually review existing risk and to consider emerging risk matters.

Information Governance

Two formal groups oversee information governance risks to ensure that robust governance arrangements are in place and are maintained across the council. An Information Governance Group meets six weekly. In addition, the established Information Governance Strategy Board is chaired by the Head of Legal Services and is represented by Divisional Directors from each directorate.

Update on the 2016/17 Significant Governance Issues

The 2016/17 AGS included four significant governance issues which were to be implemented and addressed during 2017/18. Actions 1 and 2 are now complete and closed. The implementation of actions 3 and 4 is on-going.

Action 1 – In consultation with the Department of Education, establish an Improvement Board to oversee the delivery of the improvement programme.

Outcomes: In response to the Ofsted report findings and formal Improvement Board was established and has met consistently throughout the year to oversee the delivery of the improvement action plan.

Action 2 – To review and update the Constitution and the council's corporate governance framework.

Outcomes: The Constitution has been subject to formal review which included a revision to the Code of Corporate Governance.

Action 3 – To improve Organisational Culture through the delivery of the Best Value Improvement Plan.

Outcomes: Continued delivery of the best value improvement plan has been a key priority throughout the year. The Best Value Improvement Board established to provide formal oversight, is chaired by the Mayor with both cross party and external representation to provide suitable challenge to improve all council activities.

Action 4 – To ensure that where grant payments are made to third sector organisations, formal lease agreements are in place.

Outcomes: This action is progressing and lease agreements are being put in place with all relevant third sector organisations.

Significant Governance Issues 2017/18

Based on THs' established risk management, the issues detailed in the following action plan have been assessed as being significant for the purpose of the 2017/18 AGS.

It is proposed over the coming year that steps will be taken to address the issues identified to further enhance THs' governance arrangements.

No.	Issue	Action	Outcome	Lead Officer	Completion Date
1	To continue to effectively deliver the commitments outlined and defined within the Best Value Improvement Plan as a response to the findings of the Commissioners.	Effective oversight and organisational commitment to the delivery of the Best Value Improvement Plan, including the LGA corporate peer challenge.	Timely implementation of the Best Value Improvement actions throughout the 2018/19 financial year.	Chief Executive	31 March 2019
2	To continue to deliver improvements in Children's Services that respond to the Ofsted findings.	To continue to provide effective oversight for the delivery of the agreed improvement plan and to effectively respond to the Ofsted monitoring visit findings.	Continued improvement of Children's Services.	Corporate Director, Children's Services	31 March 2019

3	<p>The 2017/18 Internal Audit of the Leaving Care Service governance and control arrangements received a Nil assurance rating to this audit and which recommended that a full service review is undertaken.</p>	<p>Delivery of the service improvements identified within the 2018 drafted 'Through Care Service Policy and Procedure'.</p>	<p>Continued improvement of Children's Services.</p>	<p>Corporate Director, Children's Services</p>	<p>30th September 2018</p>
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GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Right To Buy (RTB) - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

Ring-Fenced Grant – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

Service Level Agreements - agreements between operational units, which state the price and specifications of the support service by one to another.

Service Reporting Code of Practice (SeRCOP) – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

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

Supplementary Business Rates (SBR/BRS) – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

Support Services – Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

Surplus Assets – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

Unusable Reserves – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

Usable Reserves – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves.

Value for money (VFM) – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

Abbreviations used in Accounts

AGS - Annual Governance Statement
ALMO - Arm's Length Management Organisation (Tower Hamlets Homes)
BSF - Building Schools for the Future
CAA - Capital Adjustment Account
CDC - Corporate and Democratic Core
CFR - Capital Financing Requirement
CIES - Comprehensive Income and Expenditure Statement
CIL - Community Infrastructure Levy
CIPFA - Chartered Institute of Public Finance and Accountancy
CCG - Clinical Commissioning Group
CPI - Consumer Price Index
CRR - Capital Receipts Reserve
DCLG - Department of Communities and Local Government
DEFRA - Department for Environment, Food and Rural Affairs
DfE - Department for Education
DRF - Direct Revenue Funding
DSG - Dedicated Schools Grant
DWP - Department for Work and Pensions
EIR - Effective Interest Rate
GAAP - Generally Accepted Accounting Principles
GF - General Fund
GLA - Greater London Authority
HRA - Housing Revenue Account
IAS - International Accounting Standard
IFRS - International Financial Reporting Standards
LABGI - Local Authority Business Growth Incentive
LAML - London Authorities Mutual Limited
LASAAC - Local Authority (Scotland) Accounts Advisory Committee
LATS - Landfill Allowance Trading Scheme
LBTH - London Borough of Tower Hamlets
LGPS - Local Government Pension Scheme
LOBO - Lender's Option – Borrower's option
LPFA - London Pensions Fund Authority
MRA - Major Repairs Allowance
MRP - Minimum Revenue Provision
MTFP - Medium Term Financial Plan
NBV - Net Book Value
NCS - Net Cost of Services
NDC - Non Distributed Costs
(N)NDR - (National) Non-Domestic Rates

NPV - Net Present Value
NRV - Net Realisable Value
PBC - Prepared By Client
PFI - Private Finance Initiative
PPA - Prior Period Adjustment
PPE - Property, Plant and Equipment
PWLB - Public Works Loans Board
RCCO - Revenue Contributions to Capital Outlay
REFCUS - Revenue Expenditure Funded by Capital Under Statute
RICS - Royal Institute of Chartered Surveyors
RPI - Retail Price Index
RR - Revaluation reserve
RSG - Revenue Support Grant
RTB - Right To Buy
SBR - Supplementary Business Rates
SDPS - Surplus or Deficit on the Provision of Services
SeRCOP - Service Reporting Code of Practice
SLAs - Service Level Agreements
SORP - Statement of Recommended Practice (now Code of Practice on Local Authority Accounting)
TH - Tower Hamlets
THH - Tower Hamlets Homes
VFM - Value For Money
WDA - Waste Disposal Authority
WGA - Whole of Government Accounts