

FINANCIAL FOREWORD OF THE DIRECTOR OF FINANCE AND PERSONNEL

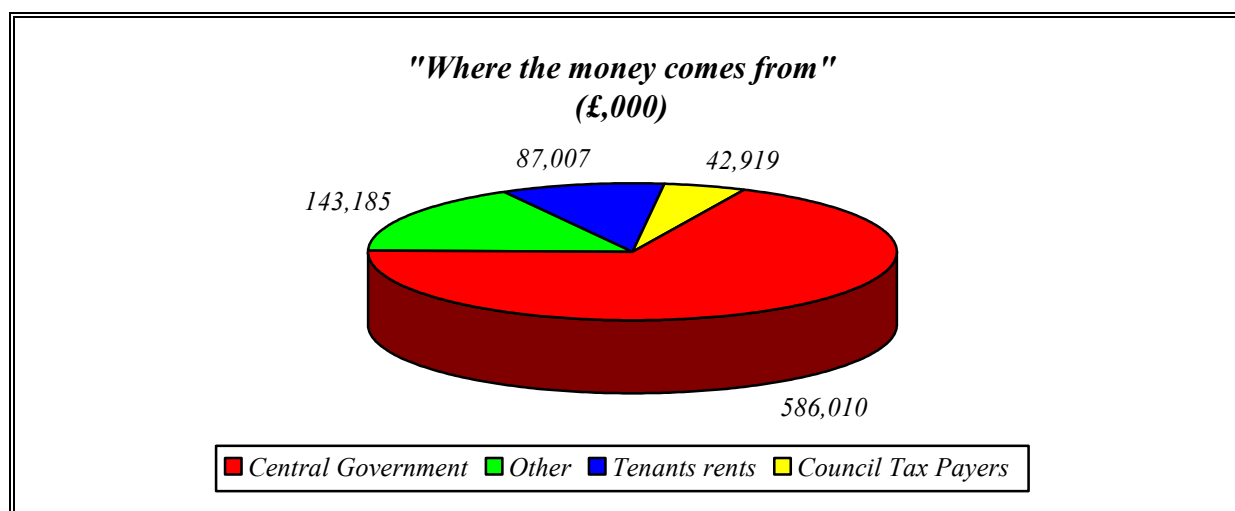
The Authority's accounts for the financial year ended 31st March 2003 are set out on pages 14 to 47. They consist of:

- ❑ The **Consolidated Revenue Account** – This reports the cost for the year of providing those services for which the Authority is responsible and shows how such costs were financed from the Collection Fund, Central Government and from charges levied by the Authority. This statement and supporting notes can be found on pages 14 to 20.
- ❑ The **Housing Revenue Account** - This reflects a statutory obligation to account separately for the provision of all types of Council housing. It shows the major elements of housing revenue expenditure - management, maintenance, rent rebates and capital financing costs - and how these are met by rents, Central Government subsidy and other income. This statement and supporting notes can be found on pages 21 to 23.
- ❑ The **Collection Fund** – This account shows the income received from Council Tax and Business Ratepayers and how it is distributed between the Authority and its preceptor, the Greater London Authority. This statement and supporting notes can be found on pages 24 to 25.
- ❑ The **Consolidated Balance Sheet** – This is fundamental to the understanding of the Authority's financial position as at 31st March 2003. It shows the balances and reserves available to the Authority, its long-term indebtedness, net current assets employed in operational activities and summarised information about fixed assets held. This statement and supporting notes can be found on pages 26 to 37.
- ❑ The **Statement of Total Movements in Reserves** - This summarises all recognised gains and losses during the year and can be found on pages 38 to 39.
- ❑ The **Cashflow Statement** - This summarises the inflows and outflows of cash arising from transactions with third parties during the year. This statement and supporting notes can be found on pages 40 to 41.
- ❑ The **Pension Fund Accounts** – These show the financial position of the Authority's Pension Fund at the year-end. The statements and supporting notes can be found on pages 42 to 47.

These accounts are supported by the Statement of Accounting Policies on pages 6 to 10.

WHERE THE MONEY COMES FROM

The Authority's gross revenue income for all funds in the year, net of recharges, was £859.1 million. This money comes from a number of different sources as demonstrated in the chart below.



Grants from Central Government form the most significant single source of income to the Authority - £586 million (£525.6 million in 2001/2002). Of these, approximately 49% are grants claimed or received as a subsidy towards the costs of providing specific services. The balance forms income received in respect of the Authority's service provision as a whole.

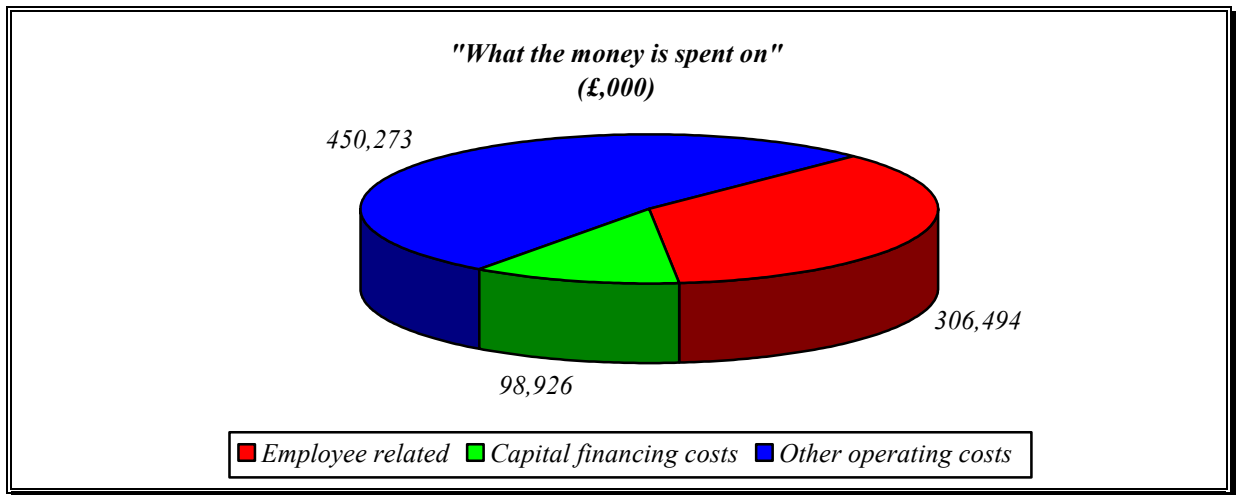
Income received in the form of rents and other charges from tenants of Council-owned dwellings amounted to £87.0 million (£88.37 million in 2001/2002). "Other" income includes, inter alia, fees and charges levied on users of services provided by the Authority (£96.5 million), and total external interest receipts (£6.1 million).

WHAT THE MONEY IS SPENT ON

Approximately £855.7 million was spent during the year. The chart overleaf shows what this money was spent on.

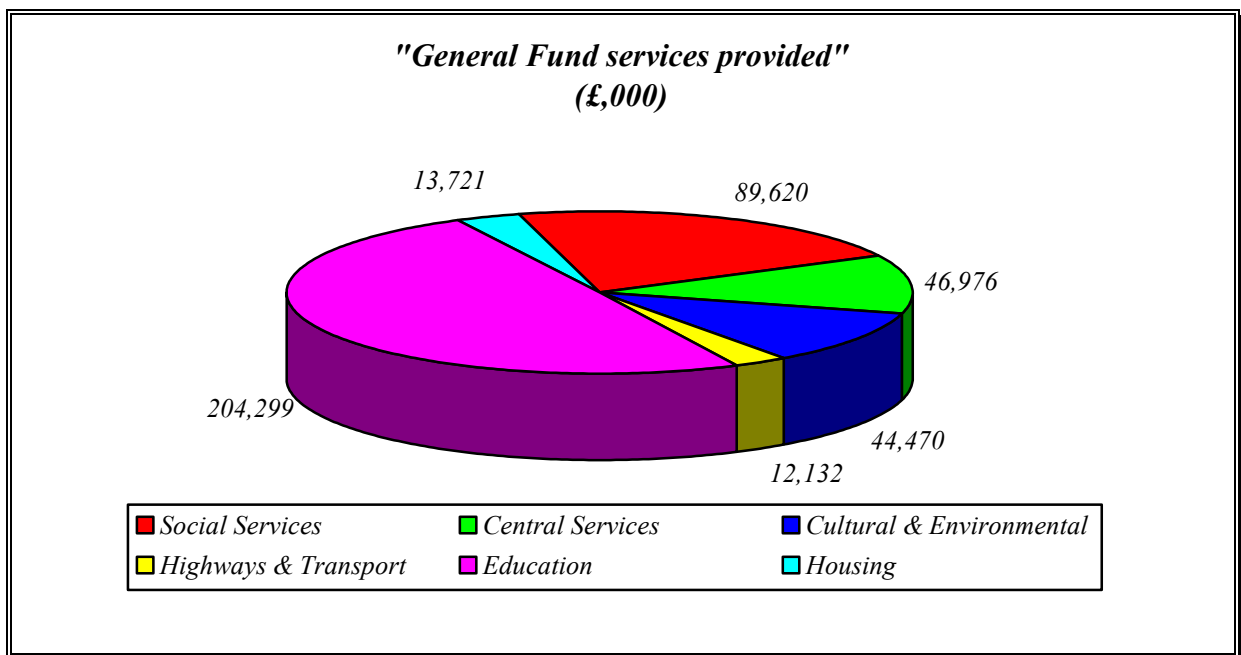
Running expenses (such as maintaining the Authority's administrative and operational buildings, operating vehicles and the purchase of supplies and services) accounted for approximately 53% of what the Authority spent. Employees' salaries and wages accounted for a further 36% of total expenditure.

Capital financing, which consists of principal and interest payments on loans, leasing charges and asset rentals comprises the balance.



GENERAL FUND SERVICES PROVIDED

The Authority's General Fund net service expenditure of £411 million is dominated by Education which represents 49.7% of total expenditure. Social Services accounts for a further 22% of spending on services and Cultural and Environmental Services (including Leisure, Environmental Health, Planning, and Refuse Collection) 10.8%. A fuller analysis can be found by reference to the Consolidated Revenue Account on page 14.



The net expenditure of £13.7 million on Housing services includes the net cost of housing benefits but excludes those costs incurred in the provision of council housing which are disclosed within the Housing Revenue Account on page 21.

THE 2002/2003 GENERAL FUND BUDGET

The General Fund revenue budget was agreed at £341.27 million after taking into account interest on, and contributions from, balances but excluding any estimated surplus/deficit on the Collection Fund. The main components of the budget for the year and how these compare with actual income and expenditure are set out below.

The difference between the original budgeted and actual net operating expenditure was an overspend of £0.65 million. The most significant variances are outlined below:

- £1.98 million overspend on the Children Commissioning budget due to substantial increased volume, which ran through from the previous financial year. A major campaign to recruit new locally based foster carers, combined with robust gatekeeping and new financial control systems, have now stabilised the position.
- £0.90 million underspend on the Elders Commissioning budget reflecting a reduced rate of placement in residential care in line with strategic objectives and a maximisation of government grant.
- £1.45 million overspend on the Physical Disabilities Commissioning budget reflects a significant increase in the number of homecare service users, as well as some additional high cost community care/residential care packages.
- In excess of £3 million “underspend” on Schools due to a change in the funding and reporting regime for Standards Funds. Funds accounted for during the financial year have an eligible expenditure period running until the 31 August 2003. Furthermore, the schools are no longer required to report the unspent Standards Fund to the LEA. The net underspending as at 31 March 2003, is reflected in the increased earmarked Schools balances. (see both page 14 and note 26 on page 36).

GENERAL FUND BUDGET SUMMARY 2002/2003

	Revised Budget £m	Actual expenditure £m	Variance £m
Net operating expenditure	352.95	353.60	0.65
Interest on balances	(5.25)	(4.86)	0.39
Contribution (from)/to reserves	(6.43)	(7.47)	(1.04)
	341.27	341.27	(0.00)
Financed by:-			
Revenue Support Grant	(241.13)	(241.13)	0.00
NNDR	(55.32)	(55.32)	0.00
Surplus on Collection Fund	(1.90)	(1.90)	0.00
Council Tax requirement	42.92	42.92	(0.00)

Details of gross expenditure and income arising from the provision of services are set out in the Consolidated Revenue Account on page 14 of the accounts.

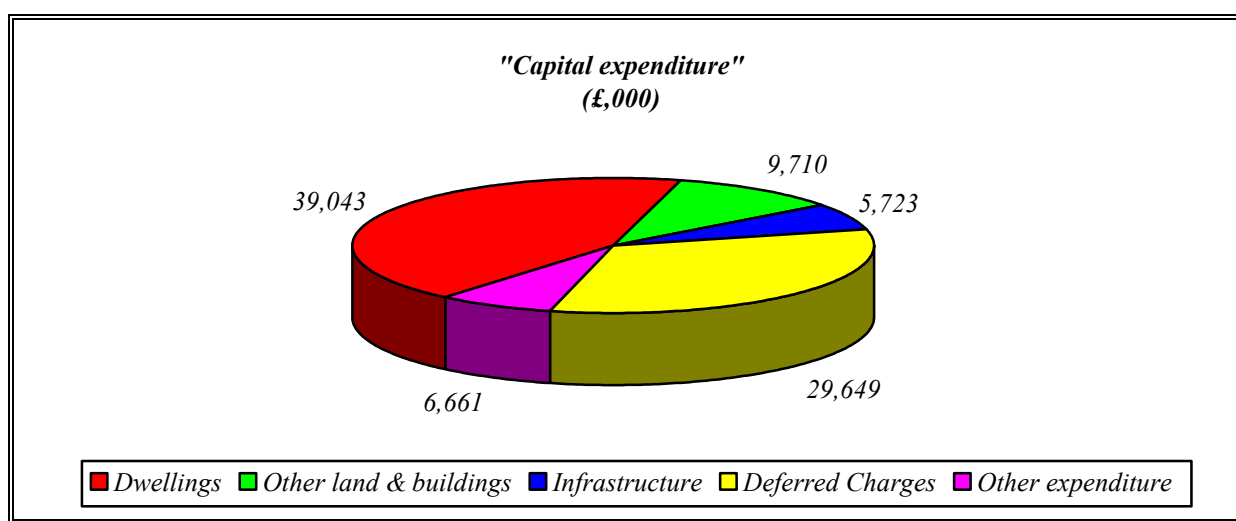
CAPITAL

Actual capital expenditure during the year amounted to £90.8 million (£80.0m in 2001/2002) and was accommodated within the resources available. This expenditure is analysed in the chart below.

Approximately £39.0 million (£44.7m in 2001/2002) of capital expenditure for the year was on projects relating to the conversion, improvement and major repair work required to the Authority's existing housing stock.

Capital expenditure on completed other land and building's projects accounted for £9.7 million (£8.5m in 2001/2002). This was primarily spent on the refurbishment, improvements and extensions to Schools. Expenditure on infrastructure - principally that incurred in improving the existing road system within the Borough and the provision of street lighting - accounted for a further £5.7 million (£4.7m in 2001/2002).

Deferred charges primarily comprises payments made as part of the Education PFI project and the cost of Redundancies capitalised by direction of the Secretary of State under Section 40(6) of the Local Government and Housing Act 1989. It also includes home improvement grants paid to homeowners and payments to tenants granted under the Home Purchase Incentive Scheme and



FURTHER INFORMATION

Further information about the accounts is available from the Director of Finance and Personnel, Mulberry Place, 5 Clove Crescent, London, E14 2BG.

STATEMENT OF ACCOUNTING POLICIES

The following Statement of Accounts has been prepared in accordance with the Statement of Recommended Practice (SORP) on local authority accounting and the Best Value Accounting Code of Practice (BVACOP) both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The relevant Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS) have been consulted. Where the adopted financial recording and/or disclosure policies differ from those prescribed, details are included, where appropriate, within the general statements set out below.

Debtors and Creditors

Transactions are recorded on an accruals basis. Estimated or actual sums due to creditors at 31st March 2003 but not paid by that time are recorded in the revenue accounts for the year and shown in the Balance Sheet. In the main, sums due to the Authority are set up in the accounts as they become due. The main exceptions being sums due from parents under the Children's Act 1975 and residents in old peoples accommodation under the National Assistance Act 1948 which are small in value and accounted for on a cash basis.

Provisions for Bad Debts

A provision for bad debts based on total debtors has been included in the accounts. The Authority's policy is to write off debts only when it has exhausted every possible avenue of recovery. Increases/decreases in provisions for debts raised by General Fund services are charged directly to individual service accounts in accordance with the Best Value Accounting Code of Practice

Pensions

The Authority paid an employer's contribution at an agreed percentage rate (based on superannuable employees' reckonable pay) into various Pension Funds for the benefit of the employees. For 2002/2003, the rates were as follows:

- 8.35% for Teachers (7.40% in 2001/2002);
- 19.30% for Non-teaching education staff (17.20% in 2001/2002);
- 20.69% for all other staff (19.40% in 2001/2002).

Cost of Support Services

Support Service costs are recharged to "front-line" service accounts in accordance with the reporting requirements of the SORP and BVACOP.

Trading Accounts

Trading accounts have been identified and prepared in accordance with the Best Value Accounting Code of Practice (BVACOP) published by CIPFA.

Material surpluses/deficits are applied to the accounts in the year they occur, otherwise they are carried forward to the following year and reflected in revised charges accordingly. The total net deficit carried forward is included in Earmarked Reserves and is disclosed in note 26 to the Consolidated Balance Sheet on page 36.

Fixed Assets

All expenditure on the acquisition or enhancement of fixed assets is capitalised on an accruals basis. Expenditure is capitalised on the basis that the relevant fixed asset provides benefits to the Authority for a period of more than one year. The de minimis level above which expenditure on fixed assets must be classified as capital is £50,000. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the 2000 SORP. Balance Sheet values are calculated on the following bases:

- land, operational properties and other operational assets are included in the Balance Sheet at the lower of net current replacement cost and net realisable value;
- non operational assets, including investment properties and assets that are surplus to requirements, are included in the Balance Sheet at open market value;
- infrastructure assets and community assets are included in the Balance Sheet at historic cost.

Adjustments to the value of assets are charged to the fixed asset restatement reserve. Subsequent revaluations of fixed assets are planned to be carried out no less frequently than every five years on a rolling basis. Material changes to asset valuations will be adjusted in the interim period, as they occur.

Assets acquired under finance leases are also capitalised in the Authority's accounts together with the liability to pay future rentals. Other assets previously acquired under advance and deferred purchase schemes are also recognised as fixed assets.

The Authority has not complied with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in as much as land has not been disaggregated from buildings. Consequently depreciation has been charged on these aggregate values and as such will be overstated.

Deferred charges

Deferred charges represent expenditure which may be properly capitalised, but which does not represent tangible fixed assets. They are amortised to revenue in the year in which the expenditure is incurred with the exception of capital expenditure on PFI schemes, which is amortised over the life of the contract.

Capitalised expenditure

The Authority's policy on the capitalisation of expenditure is in accordance with the requirements of section 40 of the Local Government and Housing Act, 1989. Expenditure for capital purposes is therefore limited to reclamation, acquisition, replacement or enhancement of land, roads, buildings and other structures within the Authority's ownership; the making of advances or grants or the provision of financial assistance to other persons for approved purposes and redundancy costs. In relation to the Authority's own assets, capital expenditure

will have lengthened the life of the asset, increased its open market value or increased the extent to which it can be used to discharge the Authority's functions.

Charges to revenue

General Fund Service Revenue accounts, central support services and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified rate of interest to net asset values. The aggregate charge to individual services is determined on the basis of the latest valuation of capital employed in each service. The charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.

External interest payable and the provision of depreciation are charged to the Asset Management Revenue Account (AMRA) which is credited with capital charges charged to services. The transfer of the balance of the AMRA to the Consolidated Revenue Account means that capital charges have a neutral impact on the amounts required to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately as appropriations, on the face of the Consolidated Revenue Account, below net operating expenditure.

Depreciation

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- Dwellings – assets have been depreciated in line with the Major Repairs Allowance, as this is the amount which central government estimates the Council requires to maintain the housing stock in its current state.
- Other land and buildings – 40 years
- Infrastructure – 40 years
- Equipment – 5 years
- Community buildings – 30 years
- Non-operational assets – 30 years

Leases

Payments under finance leases are charged to the asset management revenue account. Rentals payable under operating leases are charged to revenue on an accruals basis.

Capital contributions deferred

Grants and contributions used to finance capital expenditure are credited to a Capital Contributions Deferred Account. The balance on the account for those assets which are the

subject of depreciation is gradually written-out to revenue over the life of the asset at the same rate and in the same proportion as the asset depreciates.

Long Term Contracts

The Council has entered into two Private Finance Initiatives (PFIs). The first is for a Group of Schools which was signed on the 28th March 2002 and financially closed on the 28th June 2002. The value of the scheme is £327.03 million; services commenced on the 30th June 2002 and will end on the 31st August 2027.

The second scheme is for Mulberry School and was signed on the 29th March 2002 and financially closed on the 17th May 2002. The value of the scheme is £63.27 million; services commenced on the 31st May 2002 and will end on the 31st March 2029.

Capital Receipts

When assets are sold or disposed of, the amount of the capital receipt is held in a reserve account (Capital Receipts Unapplied) until it is used to finance further capital expenditure or to repay debt. Capital Receipts are applied in accordance with Government Regulations.

Capital grants and contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the cash grant or contribution will be received.

Debt Redemption

The Authority pays out long term loans on maturity. In addition to those repayments there is a facility to prematurely redeem debt during the term of the loan. The Authority has not used this facility in either 2002/2003 or 2001/2002.

Capital Reserves

Under the capital accounting arrangements, the following two reserves appear in the Consolidated Balance Sheet:

- the fixed asset restatement reserve, which represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets;
- the capital financing reserve, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

Investments

Investments are shown in the Consolidated Balance Sheet at their original cost.

Stocks and Work-in-Progress

Vehicle maintenance stocks are valued at the latest purchase price.

Work in progress is valued at the lower of cost and net realisable value and is shown net of deposits and payments on account where appropriate.

Provisions and Contingent Liabilities

Provisions are made when a present obligation arises as a result of a past event, it is probable that a transfer of economic benefits will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Details are disclosed in note 18 to the Consolidated Balance Sheet on page 33.

Contingent Liabilities are disclosed in the form of notes to the Consolidated Balance Sheet where potential material future losses or liabilities are identified but, due to uncertainty, there has been no provision made in the accounts. Details are disclosed in note 19 to the Consolidated Balance Sheet on page 33.

Insurance Fund

The Authority has established an Insurance Reserve to finance the element of claims for which commercial insurers are not liable. The Authority has identified claims of £8,677,877 which have been classified as a provision on the basis that the claims are certain but the date and amount are not.

Earmarked Reserves

Revenue resources may be earmarked from general balances to finance specific future expenditure. The Authority follows standard practice in both the accounting treatment and reporting of such reserves. All appropriations to and from Earmarked Reserves are subject to approval by an appropriate committee of the Council. Note 26 to the Consolidated Balance Sheet analyses the Authority's Earmarked Reserves and can be found on page 36.

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 has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance and Personnel;
- ☐ to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ☐ To approve the Statement of Accounts

The responsibilities of the Director of Finance and Personnel

The Director of Finance and Personnel is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the SORP, is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year (ended 31st March 2003).

In preparing this Statement of Accounts, the Director of Finance and Personnel has:

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

The Director of Finance and Personnel has also:

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

Accordingly, I certify that the accounting statements and supporting notes which follow present fairly the financial position of the Authority at 31st March 2003 and its income and expenditure for the year.



Martin Smith, CPFA.
Director of Finance and Personnel
22nd December 2003



Councillor Richard Brooks
Lead Member - Finance

Statement on the System of Internal Control

This statement is given in respect of the statement of accounts for the London Borough of Tower Hamlets. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Authority. In particular, the system includes

- ☐ comprehensive budgeting systems;
- ☐ regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- ☐ setting targets to measure financial and other performance;
- ☐ the preparation of regular financial reports which indicate actual expenditure against forecasts
- ☐ clearly defined capital expenditure guidelines; and
- ☐ as appropriate, formal project management disciplines.

Internal Audit

The service at Tower Hamlets operates in accordance with best practice as prescribed by the CIPFA Code of Audit Practice for Internal Audit in Local Government in the U.K.

It operates a system of Risk Assessment and this informs the contents of the Audit Strategic and Annual Plans.

The annual plan is presented to an Audit Panel of Members, annually at the start of each financial year, and is regularly updated as the year progresses. A revised plan is presented after the first 6 months and then an outturn given at the first meeting of the following municipal year.

The reporting arrangements reflect good practice as identified by the External Auditor. Reports once issued are followed up via monthly reminders, those outstanding after three months are reported to the Audit Panel.

The Audit Panel agreed that all significant report findings are referred to the Authority's Corporate Management Team of Directors.

The Head of Audit Services provides an independent opinion on the adequacy and effectiveness of the system of Internal Financial Control.

My review of the effectiveness of the system of internal financial control is informed by:

- ☐ the work of managers within the Authority;
- ☐ the work of internal auditors as described above; and
- ☐ the external auditors in their annual audit letter and other reports.



Martin Smith, CPFA.
Director of Finance and Personnel
22nd December 2003

CONSOLIDATED REVENUE ACCOUNT

for year ended 31st March 2003

	2002/2003 Gross Expend're £'000	2002/2003 Gross Income £'000	2002/2003 Net Expend're £'000	2001/2002 Net Expend're £'000
GENERAL FUND SERVICES (1)				
Cultural, Environmental and Planning Services (2)	82,202	37,732	44,470	41,243
Central Services	33,989	19,872	14,117	15,674
Education Services	272,015	67,716	204,299	202,630
Highways, Roads and Transport Services (3)	29,249	17,117	12,132	11,971
Housing Services	106,174	92,453	13,721	12,531
Social Services	120,535	30,915	89,620	84,123
Corporate and Democratic Core	35,094	2,346	32,748	18,227
Unapportionable Central Overheads	4,091	2,066	2,025	3,703
	683,349	270,217	413,132	390,102
HOUSING REVENUE ACCOUNT SERVICES	240,437	245,804	(5,367)	(3,575)
NET COST OF SERVICES	923,786	516,021	407,765	386,527
Total net deficit/(surplus) on Trading Accounts (6)			566	(457)
Transfer from Asset Management Revenue A/c (7)			(37,268)	(28,694)
Amounts due to levying authorities (8)			2,378	2,398
Interest and investment income			(4,858)	(4,665)
NET OPERATING EXPENDITURE			368,583	355,109
Surplus transferred to HRA balances			5,367	3,575
Contribution to/(from) school balances			3,434	(56)
Transfer to/(from) other earmarked reserves			(3,409)	(3,625)
Contribution to capital reserves:-				
Financing of capital expenditure			3,763	7,898
Capital contributions deferred			11,068	1,773
Provision for repayment of external loans (9)			(17,959)	(17,861)
Deferred Charges			(25,476)	(14,209)
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS			345,371	332,604
Council Taxpayers			(42,919)	(41,033)
Collection Fund surplus			(1,905)	(1,720)
Revenue Support Grant			(241,134)	(237,934)
Contribution from non-domestic rate pool			(55,316)	(50,141)
DEFICIT FOR THE YEAR			4,097	1,776
Balance at 1st April			15,757	17,533
Deficit for the year			(4,097)	(1,776)
BALANCE AT 31st MARCH			11,660	15,757

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. GENERAL FUND SERVICE ANALYSIS

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

2. BUILDING REGULATIONS CHARGING ACCOUNT 2002/2003

Net expenditure for Planning Services incorporates the costs of providing the Authority's building control function. It is required by Local Authority Building Control Regulations that the Authority disclose information regarding the setting of charges for the administration of the building control function. The statement below shows the total cost of the building control function divided between chargeable and non-chargeable activities.

	2002/2003			2001/2002		
	Chargeable	Non Chargeable	Total	Chargeable	Non Chargeable	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee costs	1,696	508	2,204	1,349	551	1,900
Transport	31	6	37	25	9	34
Supplies and services	301	50	351	284	23	307
Support services	340	184	524	239	161	400
Total Expenditure	2,368	748	3,116	1,897	744	2,641
Income						
Building Regulation Fees	2,813	180	2,993	2,323	204	2,527
Other Income	0	23	23	45	23	68
Total Income	2,813	203	3,016	2,368	227	2,595
Deficit/(Surplus) for the year	(445)	545	100	(471)	517	46

3. CONTROLLED PARKING ACCOUNT

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

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

	2002/2003 £'000	2001/2002 £'000
Expenditure		
Employee costs	2,905	2,942
Premises	31	44
Transport	102	82
Supplies and services	772	639
Third party payments	994	502
Support services	1,372	1,110
Capital financing	220	141
Increase in provision for bad debts	6,789	0
Total Expenditure	13,185	5,460
Income		
Fees and charges	15,549	6,640
Decrease in provision for bad debts	0	642
Total Income	15,549	7,282
Surplus for the year	(2,364)	(1,822)
Balance at 1st April	2,845	2,873
Surplus for year	2,364	1,822
Funding of General Fund service initiatives.	(2,180)	(1,850)
Earmarked Reserve balance at the 31st March	3,029	2,845

4. MEMBERS ALLOWANCES

Total allowances paid to council members were £608,085 in 2002/2003 (£463,969 in 2001/2002).

5. AGENCY AND CONTRACTED SERVICES

The Authority carried out work for Transport for London (TfL), part of the Greater London Authority (GLA), which related primarily to the supervision and maintenance of trunk roads, tunnels and bridges. The costs of such works, for which the Authority is fully reimbursed, totalled £0.085 million in 2002/2003 (£4.3 million in 2001/2002).

6. TRADING ACCOUNTS

The following accounts have been designated as "Trading Accounts" in 2002/2003 in accordance with Best Value criteria. A review of trading operations and their accounting will be undertaken during 2003/2004.

	2002/2003		2001/2002	
	Expenditure £'000	Surplus/ (Deficit) £'000	Expenditure £'000	Surplus/ (Deficit) £'000
Vehicle Maintenance	5,473	(3)	4,820	(300)
Cleansing and Welfare Catering	8,888	(25)	9,213	(200)
Building and Property Services	5,781	(21)	5,799	46
Housing Benefits Administration	4,140	36	3,961	56
Support Services	28,083	(287)	27,326	567
Administrative Buildings	17,594	(246)	16,761	280
Head of Street Services	1,201	(20)	7,657	8
TOTAL TRADING ACCOUNTS	71,160	(566)	75,537	457

7. ASSET MANAGEMENT REVENUE ACCOUNT

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000
Provision for depreciation of fixed assets		47,230	47,711
External interest payable:-			
Finance leases	2,127		2,615
Other loans	52,495		54,530
		54,622	57,145
		101,852	104,856
Capital charges to services			
General Fund		(63,160)	(62,738)
Housing Revenue a/c		(64,892)	(69,039)
Capital contributions deferred a/c		(11,068)	(1,773)
		(139,120)	(133,550)
Balance transferred to Consolidated Revenue A/c		(37,268)	(28,694)

8. LEVIES

The amounts levied against the Authority in 2002/2003 for services received comprised the following:-

	2002/2003 £'000	2001/2002 £'000
Lee Valley Regional Park Authority	176	170
Environment Agency	999	964
London Pensions Fund Authority	1,203	1,264
Total levies	2,378	2,398

9. MINIMUM REVENUE PROVISION

	2002/2003	2002/2003	2002/2003	2001/2002	2001/2002	2001/2002
	General			General		
	Fund	HRA	Total	Fund	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non housing - 4% of credit ceiling	4,949	0	4,949	4,792	0	4,792
Housing - 2% of credit ceiling	0	9,844	9,844	0	10,491	10,491
Total Minimum Revenue Provision	4,949	9,844	14,793	4,792	10,491	15,283
Depreciation charged in year	22,908	24,322	47,230	22,653	25,058	47,711
Net charge to revenue a/c	(17,959)	(14,478)	(32,437)	(17,861)	(14,567)	(32,428)

The MRP charge disclosed on the face of the Consolidated Revenue Account relates to the General Fund only. To provide a more appropriate basis for comparison, the prior year figure, along with those associated charges within the AMRA (see note 7), has been adjusted from that originally published in the 2001/2002 statements. Further information regarding capital charges made to the Housing Revenue Account is disclosed in note 9 to that account on page 23.

10. PRIVATE FINANCE INITIATIVE PROJECTS

The projected payments with regards to the Education PFI projects are as follows:

	2002/2003	2002/2003
	Mulberry	Grouped
	School	Schools
	£'000	£'000
Contracted payments due within 1 year	3,469	14,533
Contracted payments due within the following 5 years	13,258	58,056
Contracted payments after year 7 (1/4/2009)	44,244	241,032

11. ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulation 1990 requires authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than the market rate. At 31st March 2003 the Authority had no outstanding loan agreements of this nature.

12. RELATED PARTIES

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Authority and related parties on accordance with the Financial Reporting Standard 8. Material transactions with related parties not disclosed elsewhere in this Statement of Accounts are detailed below;

(i) Subsidiaries, Associated Companies and Joint Ventures

Details of the transactions with Cityside Regeneration Ltd, Leaside Regeneration Partnership Ltd, Cultural Industries Development Agency Partnership Ltd, Bromley-by-Bow Centre Partnership Ltd and the NBNS Partnership Ltd are disclosed in note 13 to the Balance Sheet on pages 31 and 32. The Authority also has partnership arrangements with the following organisations:

TS 2K
NDC (New Deal for the Community)

(ii) Pension Fund

The Authority borrows from the Pension Fund. The year end balance is shown in note 14 to the Consolidated Balance Sheet on page 32. The Pension Fund accounts are presented on pages 42 to 47 of this Statement.

12. RELATED PARTIES (cont...)

(iii) Membership of other organisations

Council members and chief officers have made declarations of their interests in the following organisation

		Payments by the Authority £'000
Alpha Grove Community Trust	Cllr B. Chattopaphyay	63
Apasenth	Cllr M.A. Salique	643
Bangladesh Youth Movement	Cllr F. Miah	120
Bromley-by-Bow Centre	Cllr H. Rahman	534
	Cllr S. Ullah	
Eastside Arts	Cllr D. Jones	10
Half Moon Young Peoples Theatre	Cllr D. Jones	55
National Association Against Racism	Cllr F. Miah	
	Cllr K. Murshid	27
Oxford House in Bethnal Green	Cllr S. Miah	213
St. Dunstan's Bengali Community Resource Centre	Cllr A. Rahman	431
Tower Hamlets Law Centre	Cllr M.A. Salique	177
	Cllr H. Rahman	
	Cllr L. Rahman	
Tower Hamlets Old Peoples Welfare Trust	Cllr R. Gipson	21
Tower Hamlets Community Housing	Cllr R. Brooks	151
Tower Hamlets Community Transport	Cllr R. Gipson	62
Youth Action Scheme	Cllr F. Miah	372
	Cllr K. Murshid	

13. PUBLICITY

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

	2002/2003 £'000	2001/2002 £'000
Personnel (mainly recruitment advertising)	1,099	1,235
Media and public relations	820	597
Other	263	276
Total expenditure	2,182	2,108

14. OFFICERS EMOLUMENTS

The numbers of employees whose remuneration, excluding pension fund contributions, was equal to or in excess of £50,000 were, in bands of £10,000;-

Remuneration Band £	2002/2003		2001/2002	
	Teaching Staff	Other Staff	Teaching Staff	Other Staff
50,000 - 59,999	42	52	41	26
60,000 - 69,999	15	12	6	12
70,000 - 79,999	2	11	4	6
80,000 - 89,999	1	4	-	2
90,000 - 99,999	-	1	-	2
100,000 - 109,000	-	2	-	-
110,000 - 119,000	-	1	-	-
120,000 - 129,000	-	-	-	-
130,000 - 139,000	-	-	-	1
140,000 +	-	1	-	-
Total employees	60	84	51	49

15. EURO COSTS

The Authority has not incurred any commitments in respect of the potential entry of the United Kingdom into European Monetary Union (EMU). No indication will be made of the likely costs for the Authority until the terms of entry have been established.

16. PENSION FUND : CONTRIBUTION RATES

The Authority participates in a number of defined benefit pension schemes which require employer contribution to be made.

(i) Sundry employees

In 2002/2003 the Authority paid £26.0m (£23.7m:2001/2002) into the Pension Fund representing 24.22% (23.00%) of pensionable pay.

The contribution rate was determined by the Fund Actuary based on the triennial actuarial revaluation undertaken on the 31st March, 2001. The revaluation calculated the deficit to be £68m and the contribution rate envisages recovering this over a fourteen year period. The future service contribution rate and the rate necessary to recover the deficit are set out as below: -

	2002/2003 £'000	2001/2002 £'000	2002/2003 Pensionable Pay %	2001/2002 Pensionable Pay %
Future service rate	14,192	13,602	13.20	13.20
Deficit recovery rate	22,384	21,454	20.82	20.80

The Code of Practice on Local Government Accounting requires that the Authority discloses the capital costs c discretionary increases in pensions payments agreed. The relevant costs are as follows:-

	2002/2003 £'000	2001/2002 £'000
In year	1,735	1,248
Earlier years for which payments are still being made	1,524	1,643
	3,259	2,891

(ii) Education Employees

The Authority pays contributions into the Teacher's Pension Scheme and the London Pensions Fund Authority for pension provision relating to education employees. In 2002/2003 the relevant sums were: -

	2002/2003 £m	2001/2002 £m	2002/2003 Pensionable Pay %	2001/2002 Pensionable Pay %
London Pensions Fund Authority	0.47	0.66	19.30	17.20
Teacher's Pension Scheme	4.26	3.78	8.35	7.40
	4.73	4.44		

In addition the Authority is responsible for all pension payments relating to added years benefits which it has awarded with related increases. In 2002/2003 the relevant amounts are as follows: -

	2002/2003 £m	2001/2002 £m	2002/2003 Pensionable Pay %	2001/2002 Pensionable Pay %
Annual pension payments	0.211	0.206	0.43	0.37
Lump sum payments on retirement	0.016	0.011	0.03	0.02
	0.227	0.217		

The London Borough of Tower Hamlets Pension Fund is a funded scheme, meaning that the Authority and employees pay contributions into the Fund, calculated at a level estimated to balance the pension liabilities with investment assets. It is a defined benefit scheme.

In 2002/2003, pension costs have been charged to the Consolidated Revenue Account on the basis of contributions payable for the year to the Pension Fund (based on a formal actuarial valuation for 31st March 2001) and the pensions payable in the year to retired officers.

16. PENSION FUND CONTRIBUTIONS (cont...)

However, as at 31st March 2003, the Council had the following share of overall assets and liabilities for pensions that have not been included in the balance sheet:

	2002/2003	2001/2002
	£'000	£'000
Present value of scheme liabilities	611,200	589,400
Present value of unfunded liabilities	0	43,900
Estimated liabilities	611,200	633,300
Estimated assets	(368,800)	(423,600)
Net pension liability	242,400	209,700

The breakdown of the movement in the net liability is shown on the following table:

	2002/2003
	£'000
Surplus/(Deficit) B/f	209,700
Current Service Cost	14,600
Employer Contributions	(25,700)
Impact of settlements and curtailments	3,900
Net return on assets	12,500
Actuarial gains / (losses)	27,400
Net (Asset) /Liability	242,400

Financial Assumptions

	Nominal %	Real %	Nominal %	Real %
	per annum	per annum	per annum	per annum
	31/3/2003	31/3/2003	31/3/2002	31/3/2002
Price inflation	2.50		2.50	
Salary increases	4.25	1.75	4.25	1.75
Pension increases	2.50		2.50	
Discount rate	6.10	3.51	6.10	3.51

Asset Values

The Fair Value of the attributable asset of the Pension Fund at 31st March 2003 is as follows:

	Value	Proportion	Long Term	Expected
	2002/2003	of Total	Return	Annual
	£'000	2002/2003	2002/2003	Return
		%	%	2002/2003
				£'000
Assets				
Equities	195,100	52.04	8.00	15,610
Bonds	85,700	22.86	4.80	4,110
Property	44,600	11.90	6.00	2,680
Cash	49,500	13.20	4.00	1,980
	374,900	-	6.50	24,380

HOUSING REVENUE ACCOUNT

for year ended 31st March 2003

The Housing Revenue Account deals with the provision, maintenance and sales of all types of council housing. There is a statutory requirement to keep this account separate from those for other housing activities.

	2002/2003 £'000	2001/2002 £'000
INCOME		
Rents of dwellings (3/4)	87,007	88,371
Non dwelling rents	5,043	5,015
Charges for services and facilities	10,870	9,888
Contributions towards expenditure	338	523
Government Subsidies (6)	108,198	107,825
TOTAL INCOME	211,456	211,622
EXPENDITURE		
Management	45,969	45,413
Maintenance	23,966	25,051
Rents, rates and taxes	2,563	2,649
Rent rebates (2)	56,506	56,033
Increase in Provision for bad debts	1,730	1,838
Capital charges (9)	112,436	97,437
Debt management costs	147	165
TOTAL EXPENDITURE	243,317	228,586
NET COST OF SERVICES	31,861	16,964
Transfer from Asset Management Revenue A/c	(47,544)	(28,399)
Interest receivable	(574)	(428)
NET OPERATING EXPENDITURE	(16,257)	(11,863)
APPROPRIATIONS		
Revenue Contributions to Capital	3,337	0
Housing Minimum Revenue Provision	9,844	10,491
Transfer to/(from) Major Repairs Reserve (10)	(2,291)	(2,203)
SURPLUS FOR YEAR	(5,367)	(3,575)
Balance at the beginning of the year	8,167	4,592
BALANCE AT THE END OF THE YEAR	13,534	8,167

NOTES TO THE HOUSING REVENUE ACCOUNT

1. The Account has been compiled in accordance with the principles of Resource Accounting

2. RENT REBATES

During the year 65% of tenants were in receipt of some form of Housing Benefit in comparison to the figure of 69% in 2001/2002.

3. RENT ARREARS

	2002/2003	2001/2002
Gross rent arrears at 31st March (£)	7,088	5,682
Arrears as % of rent receivable	8.1	6.4
Provision made for bad debts (£)	4,071	4,211

4. AVERAGE RENTS OF DWELLINGS

	2002/2003 Weekly (£)	2001/2002 Weekly (£)
Flats:		
- 1 bedroom	58.89	56.41
- 2 bedrooms	68.11	65.72
- 3 bedrooms	77.95	75.33
Houses:		
- 1 bedroom	69.20	67.15
- 2 bedrooms	80.20	77.79
- 3 bedrooms	92.31	89.41

5. HOUSING STOCK

Low rise flats (1-2 storeys)	967	986
Medium rise flats (3-5 storeys)	13,238	14,099
High rise flats (6 or more storeys)	8,685	9,149
Houses and bungalows	1,440	1,511
TOTAL HOUSING STOCK AT 31st MARCH	24,330	25,745

6. GOVERNMENT SUBSIDIES

	2002/2003 £'000	2001/2002 £'000
HRA Subsidy	39,069	39,320
Major Repairs Allowance	22,031	22,855
Housing Benefits	47,098	45,650
TOTAL GOVERNMENT SUBSIDIES	108,198	107,825

7. MAJOR REPAIRS ALLOWANCE

	2002/2003 £'000	2001/2002 £'000
Balance at 1st April	0	0
MRA due	22,031	22,855
MRA applied	(22,031)	(22,855)
BALANCE AT 31st MARCH	0	0

8. FIXED ASSETS

The balance sheet value of assets within the Authority's HRA were as follows:

	31/3/2003 £'000	1/4/2002 £'000
Dwellings	1,365,667	1,122,936
Other land and buildings	2,042	2,257
Other assets	13,821	13,541
Operational Assets	1,381,530	1,138,734
Non-operational assets	46,094	49,571
TOTAL NET BOOK VALUE	1,427,624	1,188,305

The vacant possession value of dwellings within the Authority's HRA was £2,983 million in 2002/2 (£2,458 million : 2001/2002). This represents the value of the dwellings if they were available to be sold on the open market as vacant properties.

9. CAPITAL CHARGES

The figure for capital charges of £112.4 million (£97.4 in 2001/2002) comprises of 2 items:

- 1) A charge for the cost of capital based on 6% of the value of assets amounting to £88.1 million (£72.3 in 2001/2002).
- 2) A depreciation charge of £24.3 million (£25.1 in 2001/2002) made up of £22.0 million (£22.9 in 2001/2002) in respect of council houses and £2.3 million (£2.2 in 2001/2002) in respect of other housing assets. In the case of Council Housing, assets have been depreciated in line with the Major Repairs Allowance as this is the amount (based on a 30 year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an acceptable measure of depreciation. Other housing assets have been depreciated using a 40 year life cycle.

10. MAJOR REPAIRS RESERVE

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000	2001/2002 £'000
Balance at 1st April		0		0
Transfer from reserve				
Council dwellings	22,031		22,855	
Other land and buildings	105		588	
Other fixed assets	2,186		1,615	
		24,322		25,058
MRA applied		(22,031)		(22,855)
Transfer from/(to) reserve		(2,291)		(2,203)
BALANCE AT 31st MARCH		0		0

11. CAPITAL EXPENDITURE and FINANCING

	Dwellings £'000	Other land & buildings £'000	Other £'000	Total £'000
Expenditure	34,148	3,039	2,822	40,009
Sources of finance				
Credit approvals	4,658	849	857	6,364
Useable capital receipts	2,593	473	477	3,543
Capital grants	2,359	1,271	1,039	4,669
Major repairs allowance	22,031			22,031
Revenue contribution	2,443	446	449	3,338
Creditors	64			3,402
TOTAL CAPITAL FINANCING	34,148	3,039	2,822	40,009

12. CAPITAL RECEIPTS

Capital receipts in 2002/2003 from the disposal of fixed assets within the HRA amounted to:

	Dwellings £'000	Other land & buildings £'000	Other £'000	Total £'000
TOTAL CAPITAL RECEIPTS	62,414	75	948	63,437

COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

for year ended 31st March 2003

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000
Income			
Council Tax (2)		55,848	51,927
Non domestic rates (3)		145,250	131,373
Adjustment for previous years Community Charges (4)		(19)	(1,752)
Distribution of prior year surplus on Collection Fund		(2,361)	(1,842)
TOTAL INCOME		198,718	179,706
Expenditure			
Precepts and demands			
London Borough of Tower Hamlets	42,919		41,033
Greater London Authority	11,619		9,328
Residual Receiver	0		0
		54,538	
Non domestic rates:			
Payment to National Pool	144,387		129,908
Cost of collection allowances	863		844
		145,250	
Provision for bad debts		(15)	(743)
TOTAL EXPENDITURE		199,773	180,370
INCREASE/(DECREASE) IN FUND BALANCE		(1,055)	(664)
Balance at the beginning of the year		7,888	8,552
(Deficit)/Surplus for the year		(1,055)	(664)
BALANCE AT THE END OF THE YEAR		6,833	7,888

NOTES TO THE INCOME & EXPENDITURE ACCOUNT

1. GENERAL

These accounts represent the transactions of the Collection Fund which is a statutory fund separate from the main accounts of the Authority. The Collection Fund accounts independently for income from Council Tax and non domestic rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund (see page 14).

2. COUNCIL TAX

Council Tax income derives from the charges raised according to the value of residential properties which are classified into 8 valuation bands estimated at 1st April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Authority and other Preceptors for the forthcoming year and dividing this by the Council Tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discount, amounts to 66,824 for 2002/2003 (65,164: 2001/2002). This basic amount of Council Tax for a Band D property, £816.15 in 2002/2003 (£780.56 in 2001/2002), is multiplied by the proportion specified for that particular band to give an individual amount due.

2. COUNCIL TAX (cont.)

Council Tax bills were based on the following proportions for bands A to H:

Proportion of Band D charge	
Band A	0.67
Band B	0.78
Band C	0.89
Band D	1.00
Band E	1.22
Band F	1.44
Band G	1.67
Band H	2.00

The income of £55.3m for 2002/2003 (£51.9m in 2001/2002) is receivable from the following sources:

	2002/2003 £'000	2001/2002 £'000
Billed to Council Tax Payers	38,836	35,954
Council Tax Benefits	17,012	15,973
Total Council Tax	55,848	51,927

3. NATIONAL NON DOMESTIC RATES (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (43.7p in 2002/2003 and 43.0p in 2001/2002) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Authority is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into a NNDR "pool" administered by the Government. The Government redistributes the sums paid into the "pool" back to local authorities General Funds on the basis of a fixed amount per head of population. The NNDR income after reliefs and provisions of £145.3m in 2002/2003 (£131.4m: 2001/2002) was based on an average rateable value for the Authority's area of £532.6m for the year (£516.5m: 2001/2002).

4. ADJUSTMENTS FOR PRIOR YEARS COMMUNITY CHARGES

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

CONSOLIDATED BALANCE SHEET

as at 31st March 2003

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000
Fixed Assets (1-6)			
Operational assets			
Dwellings	1,365,667		1,122,936
Other land and buildings	388,429		542,865
Infrastructure assets	59,185		54,699
Equipment	1,975		9,852
Community assets	50,563		46,637
Non-operational assets			
Investment properties	54,221		51,435
		1,920,040	1,828,424
Deferred Charges (7)		8,068	0
		3,938	4,407
Long Term Debtors (8)			
Total Long Term Assets		1,932,046	1,832,831
Current Assets			
Stocks and Works in Progress (9)	4,019		3,204
Debtors (11&13)	92,844		88,452
Investments (10)	157,748		121,044
	254,611		212,700
Current liabilities			
Short Term Borrowing (14)	67,868		48,222
Creditors (12 & 13)	96,445		106,961
Cash and Bank Overdraft	11,164		10,634
	175,477		165,817
Total Assets less Current Liabilities		2,011,180	1,879,714
Long Term Borrowing (15 & 16)	566,655		592,266
Deferred Liabilities (17)	2,353		3,642
Capital Contributions Deferred	77,186		54,230
Provisions (18)	15,029		9,829
		661,223	659,967
TOTAL ASSETS LESS LIABILITIES		1,349,957	1,219,747
Representing			
Fixed Asset Restatement Reserve (20)		943,710	860,062
Capital Financing Reserve (21 & 22)		320,808	277,957
Capital Receipts and Grants Unapplied (23)		8,687	5,167
Deferred Capital Receipts (24)		6,228	6,090
Collection Fund (see page 24)		6,833	7,888
Street Trading Account (25)		(641)	(505)
Balances:-			
General Fund (see page 14)		11,660	15,757
Housing Revenue Account (see page 21)		13,534	8,167
Sundry Earmarked Balances (26)		39,138	39,164
TOTAL EQUITY		1,349,957	1,219,747



Martin Smith CPFA
Director of Finance and Personnel
22nd December 2003

NOTES TO THE BALANCE SHEET

1. FIXED ASSETS

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non- Operational £'000	Totals £'000
Value as at 1st April 2002	1,185,724	580,281	63,770	24,823	47,899	54,837	1,957,334
Additions	39,043	9,710	5,723	1,515	4,092	27	60,110
Disposals	(53,591)	(149,402)	0	0	(612)	(1,141)	(204,746)
Revaluations	279,311	851	187	0	1,115	5,642	287,106
Adjustments (see note below)	0	0	0	(3,623)	0	0	(3,623)
Value at 31 March 2003	1,450,487	441,440	69,680	22,715	52,494	59,365	2,096,181
Depreciation as at 1st April 2002	62,788	37,416	9,071	14,971	1,262	3,402	128,910
Depreciation for the year	22,032	15,595	1,424	5,769	669	1,742	47,231
Depreciation as at 1st April 2003	84,820	53,011	10,495	20,740	1,931	5,144	176,141
TOTAL NET BOOK VALUE at 31st March 2003	1,365,667	388,429	59,185	1,975	50,563	54,221	1,920,040

Capital expenditure on dwellings relates principally to the conversion, improvement and enhancements to existing stock.

The figure for disposals of Other Land and Buildings includes £140m relating to a transfer of schools under PFI arrangements

The valuation adjustment on equipment relates to expenditure charged to fixed assets in 2001/2002 but which was subsequently reclassified as a deferred charge in 2002/2003 in accordance with the adopted accounting policy (see page 7).

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non- Operational £'000	Totals £'000
Housing Revenue Account	1,365,667	2,355	181	589	13,893	46,780	1,429,465
General Fund	0	386,074	59,004	1,386	36,670	7,441	490,575
TOTAL NET BOOK VALUE at 31st March 2003	1,365,667	388,429	59,185	1,975	50,563	54,221	1,920,040

2. FIXED ASSET VALUATION

The freehold and leasehold properties which comprise the Authority's property portfolio were revalued as at 1st April 2000 by independent external valuers and the Head of Corporate Property Services. A further valuation of the commercial properties as at the 31st March 2002 was undertaken by the Head of Corporate Property services. The rolling programme of revaluations was continued in 2002/2003, with community buildings and offices being revalued as at 31st March 2002. The valuations carried out complied with the requirements of Financial Reporting Standard (FRS) 15; Tangible Fixed Assets, issued by the Accounting Standards Board. The valuation of Housing Revenue Account assets has been carried out in accordance with guidelines produced by central government in the Guidance on Stock Valuation for Resource Accounting.

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

Community assets have been included at historic cost.

All assets with the exception of community assets are depreciated on a straight line basis. The projected asset lives which form the basis of the depreciation charges have been assessed by the independent external valuers and the Head of Corporate Property Services. For council dwellings the Major Repairs Allowance has been used as a reasonable estimate of depreciation, as it represents the estimated average annual cost of maintaining the condition of the housing stock over a 40 year period.

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

3. LEASING

Finance Leases

The Authority has undischarged liabilities under finance leases relating to property. These are included in Fixed Assets and Deferred Liabilities at a value of £2.4m (£3.6m 2001/2002). The payments in 2002/2003 on these leases amounted to £2.1m (£2.6m: 2001/2002).

Operating Leases

The Authority has a number of operating leases principally relating to computer equipment and vehicles. The outstanding obligations under these arrangements are £0.07m (£0.09m: 2001/2002) and the payments on on these in 2002/2003 amounted to £0.07m (£0.4m: 2001/2002). The assets are not included in the Consolidated Balance Sheet and lease payments were charged to the revenue accounts.

4. CAPITAL EXPENDITURE

	2002/2003 £'000	2001/2002 £'000
Fixed assets		
Council dwellings	39,043	44,748
Other land and buildings	9,710	8,527
Infrastructure	5,723	4,718
Equipment	1,515	3,924
Community assets	4,092	3,317
Non operational assets	27	0
Other fixed assets	0	2
Total Fixed Assets	60,110	65,236
Deferred charges		
Improvement grants	1,012	909
Private Finance Initiatives	8,399	0
Other	20,238	13,897
Total Deferred Charges	29,649	14,806
Long term debtors		
Housing associations	1,027	0
Total Long Term Debtors	1,027	0
TOTAL CAPITAL EXPENDITURE	90,786	80,042

SOURCES OF FINANCE

Credit approvals	19,083	15,179
Capital receipts/grants	47,567	35,785
Major repairs allowance	22,032	22,855
Direct revenue financing	4,249	4,370
Planning Gains	2,852	3,528
Creditors	(4,997)	(1,675)
Other	0	0
TOTAL CAPITAL FINANCING	90,786	80,042

In line with advice contained in Capital Accounting Arrangements, given that they do not represent tangible assets, Deferred Charges are amortised to revenue in the year in which the expenditure is incurred.

The Authority obtained a direction, under the provisions of the Local Government and Housing Act 1989, Part IV, Section 40(6) :Treatment of costs as Capital Expenditure, which enabled the capitalisation of staff redundancy costs.

5. CAPITAL COMMITMENTS

The Authority had contractually binding capital commitments, in excess of £1.00m, totalling £20.51 million at 31st March 2003. This total includes the payments due to be made in 2003/2004 in respect of creditors provision made in the 2002/2003 accounts. The main committed capital schemes are outlined below:-

	£m
Housing schemes:-	
Sulkin & Trevelyan Houses - structural & roof	1.48
Cookham House - roof and windows renewal and communal heating	1.69
1-53 Troon House - structural and external decorations	1.00
Anglia House - windows, roof, concrete repairs and services	1.13
Total Housing schemes	5.30
Non-Housing schemes:-	
Whitechapel and Chrisp Street Ideas Stores	9.49
Local e-government National Projects Initiative	4.27
George Green School inclusion project	1.45
Total Non-Housing schemes	15.21
TOTAL CAPITAL COMMITMENTS AT 31st MARCH 2003	20.51

6. ANALYSIS OF FIXED ASSETS

In accordance with the CIPFA SORP the number of fixed assets of the Authority are analysed below:-

	2002/2003	2001/2002
Land & buildings		
Dwellings	24,330	25,745
Administrative buildings	51	53
Commercial properties	848	850
Depots	10	12
Cemeteries	2	2
Public mortuary	1	1
Recreation and leisure facilities	59	59
Schools	53	81
Social services establishments - Residential Homes, Day Centres etc.	33	37
Other	68	69
Parks and open spaces (hectares)	236	236
Infrastructure		
Principal built up roads (km)	13.9	13.9
Other built up roads (km)	217.3	217.3

7. DEFERRED CHARGES

	PFI Schemes £'000	Improvement Grants £'000	Other £'000	Totals £'000
Value as at 1st April 2002	0	0	0	0
Expenditure in year	8,399	1,012	20,238	29,649
Amounts written off in year	(331)	(1,012)	(20,238)	(21,581)
TOTAL NET BOOK VALUE at 31st March 2003	8,068	0	0	8,068

The balance on deferred charges relating to PFI schemes reflects the Council's capital contribution to refurbishment and improvement works to schools included in the PFI contract, which will be amortised to revenue over the period of the contract life.

8. LONG TERM DEBTORS

	Balance at 1/4/2002 £'000	Capital advances in year £'000	Other income & adjusts £'000	Balance at 31/3/2003 £'000
Mortgages				
Housing associations	666	1,027	(1,033)	660
Right to buy	2,516	0	(473)	2,043
Housing act advances	10	0	(1)	9
TOTAL MORTGAGES	3,192	1,027	(1,507)	2,712
Sundry loans	1,215	767	(756)	1,226
TOTAL LONG TERM DEBTORS	4,407	1,794	(2,263)	3,938

9. STOCK AND WORK IN PROGRESS

	2002/2003 £'000	2001/2002 £'000
Works in progress: rechargeable works	4,007	3,121
Stocks	12	83
TOTAL STOCKS AND WORKS IN PROGRESS	4,019	3,204

10. TEMPORARY INVESTMENTS

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

	2002/2003 £'000	2001/2002 £'000
General Fund	157,748	121,044
TOTAL TEMPORARY INVESTMENTS	157,748	121,044

11. DEBTORS AND PAYMENTS IN ADVANCE

	2002/2003 £'000	2001/2002 £'000
Government	23,696	23,246
Inland Revenue/Customs and Excise	9,313	8,116
Other authorities	25	27
Ratepayers, Community Charge and Council Tax payers	19,394	26,224
Rents: sundry tenants	7,088	5,682
Rents: homeless families	6,264	5,105
Employees	170	163
Payments in advance	1,979	950
Sundry other	72,089	59,056
TOTAL DEBTORS	140,018	128,569
Provisions for bad debts		
Rents: sundry tenants	(4,071)	(4,211)
Rents: homeless families	(6,034)	(4,932)
Controlled parking fees	(15,488)	(8,703)
Ratepayers, Community Charge and Council Tax payers	(8,012)	(9,684)
Sundry debtors	(13,569)	(12,587)
TOTAL PROVISIONS FOR BAD DEBTS	(47,174)	(40,117)
TOTAL NET DEBTORS	92,844	88,452

12. CREDITORS AND RECEIPTS IN ADVANCE

	2002/2003 £	2001/2002 £'000
Government	24,595	28,059
Inland Revenue/Customs and Excise	4,856	4,767
Other authorities	317	140
Ratepayers, Community Charge and Council Tax payers	12,532	11,613
Rents: sundry tenants	2,129	1,181
Rents: homeless families	230	173
Employees	214	344
Receipts in advance	2,135	1,409
Sundry other	49,437	59,275
TOTAL CREDITORS	96,445	106,961

13. SINGLE REGENERATION BUDGET

The totals for both Government debtors and creditors include balances relating to the following companies and their activities within the Authority's Single Regeneration Budget.

Cityside Regeneration

The Cityside Regeneration Ltd was incorporated on 3rd June 1997 as a company limited by guarantee. Its mission is to deliver economic regeneration in the western part of the borough. The Company's Board has 17 members representing public, private, voluntary and community sector interests. Two members on the board represent Tower Hamlets.

13. SINGLE REGENERATION BUDGET (cont.)

In 2002/2003 Central Government provided £4.6 (£7.9: 2001/2002) in Single Regeneration Budget grant for projects managed by the Cityside company. This grant was administered by Tower Hamlets and is reflected in the Authority's accounts.

New Beginning New Settlements (NBNS)

NBNS Partnership Ltd was incorporated on 23rd November 2000 as a company limited by guarantee. The scheme aims to support and enhance the activity of Black Minority and Ethnic (BME) voluntary organisations working in Tower Hamlets by creation "settlements" to act as bases for delivering programmes and activities to areas of greatest need. The Company Board has 17 members, none being a direct representative of the Authority. In 2002/2003 Central Government provided £1.6m (£1.0m: 2001/2002) Single Regeneration Budget grant for projects managed by the NBNS company. This grant was administered by Tower Hamlets and is reflected in the Authority's accounts.

Leaside Regeneration

The Leaside Regeneration Ltd was incorporated in 1998 as a company limited by guarantee. Its mission is to deliver economic regeneration in the eastern part of the borough. The Company's board has 44 members representing public, private, voluntary and community sector interests. 4 Members of the Council sit on the Board. In 2002/2003 Central Government provided £5.7m (£5.0m: 2001/2002) in Single Regeneration Budget grant for projects managed by the Leaside company. This grant was administered by Tower Hamlets and is reflected in the Authority's accounts.

The totals for **Sundry Other** debtors and creditors include the following balances: -

Cultural Industries Development Agency (CIDA)

CIDA was incorporated in 1999 as a private company limited by guarantee. It aims to promote the diverse cultural industries in the borough and work in partnership with others to develop business markets and employment opportunities. The Company Board has 11 members, 2 of which are Members of Tower Hamlets Council. CIDA expenditure as reflected in the Authority's accounts for 2002/2003 was financed by Single Regeneration Budget, European Regional Development Fund monies and a contribution from City Fringe.

Bromley-by-Bow

Bromley-by-Bow was incorporated on 17th June 1994 as a private company limited by guarantee. The company's purpose is to promote and improve health, housing and education and reduce crime via community led regeneration, which will release potential of local people and promote self reliance and community involvement. The Company Board has 12 members representing public, private, voluntary and community sector interests. One Member of the Tower Hamlets Council represents the Authority. In 2002/2003 Central Government provided £0.3m (£0.4m: 2001/2002) in Single Regeneration Budget grant for the project which is managed by Bromley-by-Bow centre.

14. SHORT TERM BORROWING

	2002/2003	2001/2002
	£'000	£'000
Borrowing payable within 1 year	25,611	25,413
Pension fund (see page 45)	42,257	22,809
TOTAL SHORT TERM BORROWING	67,868	48,222

15. LONG TERM BORROWING

	Int. rate payable %	2002/2003	2001/2002
Source of loan:-		£'000	£'000
Public Works Loans Board	2.5 - 12	566,655	582,266
Money market	8.7 - 9.8	0	10,000
TOTAL LONG TERM BORROWING		566,655	592,266

16. LOANS MATURITY SCHEDULE

	2002/2003	2001/2002
	Total	Total
	£'000	£'000
1-2 Years	22,139	25,611
2-3 Years	17,887	22,140
3-4 Years	22,069	17,887
4-5 Years	24,002	22,069
5-6 Years	21,457	24,002
6-10 Years	115,067	108,672
10-15 Years	171,014	169,864
15+ Years	173,020	202,021
TOTAL LOANS OUTSTANDING	566,655	592,266

17. DEFERRED LIABILITIES

Deferred Liabilities represent the principal element of finance leases.

18. PROVISIONS

	B/f		Transfer (to)/	C/f
	1/4/2002	Expend're	from Revenue	31/3/2003
	£'000	£'000	£'000	£'000
Insurance Fund (a)	8,114	2,695	5,575	10,994
Single Status/Minimum Wage (b)	528	0	186	714
Communal use of buildings (c)	235	0	309	544
Asylum Seekers (d)	0	0	1,250	1,250
Customer Services: sundry	23	0	(1)	22
Housing: sundry	50	0	(50)	0
Social Services: sundry	67	20	653	700
Education: sundry	499	29	110	580
Chief Executive: sundry	313	47	(41)	225
TOTAL PROVISIONS	9,829	2,791	7,991	15,029

The following balances provide/provided specifically: -

- (a) to cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property,
- (b) for additional costs resulting from the single status agreement which changed employees conditions of service,
- (c) for backdated lease liability on rent grant.
- (d) as cover for repayment of Asylum Seekers Grant

19. CONTINGENT LIABILITIES

Poplar Housing and Regeneration Community Association (HARCA) and Tower Hamlets Community Housing (THCH)

Between March 1998 and February 2001 the Authority transferred tenanted and leasehold properties, 4,974 to the the Poplar HARCA and 1,551 to THCH. The Authority has to offer warranties to provide the Funders with a level of comfort in relation to their loans. The giving of such warranties means that there is a potential liability to the Authority.

Investigation into Financial Irregularities

Investigations into the activities of a number of organisations in receipt of public funding for which the Council is Accountable Body have identified financial irregularities. In view of the seriousness of the findings, and the potent for criminal proceedings, the Council has referred the matter to the Metropolitan Police. The investigation has potential financial consequences for the Council, but until the police investigation and the results of any civil or criminal action are known it is not clear whether any liability will arise.

20. FIXED ASSET RESTATEMENT RESERVE	2002/2003	2001/2002
	£'000	£'000
Balance at 1st April	860,062	912,705
Surplus on revaluation and restatement	287,106	3,955
Disposal of fixed assets (net)	(203,458)	(56,598)
BALANCE AT 31st MARCH	943,710	860,062

The account was established under capital accounting regulations effective from 1st April 1994. Initially the balance on the account represented the difference between the valuation of assets under the previous capital accounting system, and the valuation at 1st April 1994. Subsequent movements represent the further revaluation and restatement of assets and the write down of the net book value of assets sold during the year. The credit balance at the 31st March 2003, has arisen largely as a result of the upward revaluation of the Authority's stock of dwellings, investment properties and other land and buildings relative to the capital expenditure incurred on the stock. The revaluation was undertaken by the Authority in accordance with guidelines set out in the "Appraisal and Valuation Manual" published by the Royal Institution of Chartered Surveyors.

21. CAPITAL FINANCING RESERVE	2002/2003	2001/2002
	£'000	£'000
Balance at 1st April	277,957	253,694
Capital Receipts set aside	47,774	28,443
Capital Financing:-		
Capital receipts	13,544	10,429
Capital grants	19,136	1,872
Direct revenue financing	4,249	4,370
Major Repairs Allowance	22,032	22,855
Planning gain monies	2,852	3,528
Minimum revenue provision (net of depreciation)	(32,437)	(32,428)
Write down of Deferred Charges	(34,299)	(14,806)
BALANCE AT 31st MARCH	320,808	277,957

The capital financing reserve contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

22. PROVISION FOR CREDIT LIABILITIES	2002/2003	2001/2002
	£'000	£'000
Balance at 1st April	0	0
Reserved capital receipts	47,774	28,443
Minimum revenue provision	14,793	15,283
	62,567	43,726
Repayment of debt	(43,721)	(43,726)
BALANCE AT 31st MARCH	18,846	0

This account, which forms an element within the Capital Financing Reserve, reflects the amount of capital receipts and revenue provision set aside to redeem debt.

23. CAPITAL RECEIPTS AND GRANTS UNAPPLIED

	Housing £'000	Other £'000	Capital Grants £'000	Total £'000
Balance at 1st, April, 2002	3,134	505	1,528	5,167
Receipts from sales of assets	62,405	2,141	0	64,546
Other receipts	0	0	25,916	25,916
Total receipts for year	62,405	2,141	25,916	90,462
Receipts set aside as provision for credit liabilities (see notes 21 and 22)	(45,653)	(2,121)	0	(47,774)
Receipts applied to finance capital expenditure (see page 29)	(13,544)		(25,624)	(39,168)
BALANCE AT 31st MARCH 2003	6,342	525	1,820	8,687

Unapplied capital receipts and grants are, respectively, amounts arising mainly from the sale of fixed assets and other external sources which have not yet been used to finance capital expenditure.

24. DEFERRED CAPITAL RECEIPTS

This balance represents amounts due to the Authority which will be received in instalments over an agreed period of time. It includes £2.03 million of principal repayments due for mortgages raised from the sale of council dwellings. It also includes £4.2 million of income due from Right to Buy Leaseholders for major works undertaken to their dwellings within the Council's capital programme.

25. STREET TRADING ACCOUNT

	2002/2003 £'000	2001/2002 £'000
Expenditure		
Employee costs	529	580
Refuse collection and disposal	912	1,029
Support services	360	301
Other expenditure	128	48
Total Expenditure	1,929	1,958
Income		
Street trading charges	1,789	1,716
Other income	1	1
Decrease in provision for bad debts	3	2
Total Income	1,793	1,719
Deficit for the year	136	239
Balance at 1st April	(505)	(266)
Deficit for the year	(136)	(239)
BALANCE AT 31st MARCH	(641)	(505)

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

26. EARMARKED RESERVES

	2002/2003 £'000	2001/2002 £'000
Insurance Fund (a)	8,377	10,165
Schools delegated balances (b)	11,619	8,113
Parking Control (c)	3,029	2,845
Planning Gains (d)	5,144	7,251
Miscellaneous IT projects (e)	380	380
Trading Account net balances (f)	(110)	457
Directorates/Departments other - specific		
Education:-		
Unapplied Rate Rebate Monies (g)	2,363	1,122
Customer Services:-		
Administration Buildings Dilapidations (h)	2,769	2,769
Housing:-		
HPD Dilapidations (i)	322	322
Corporate:-		
Housing Choice (j)	500	0
Directorates/Departments other(k)		
Education	45	45
Customer Services	67	115
Housing	852	652
Social Services	19	277
Chief Executive	1,441	1,614
Corporate	2,321	3,037
TOTAL EARMARKED RESERVES AT 31st MARCH	39,138	39,164

- (a) The Authority is self insured for most liability and property risks.
- (b) This represents as yet unapplied revenue resources held by the Authority on behalf of schools with delegated spending authority.
- (c) See note 3 to the Consolidated Revenue Account on page 15.
- (d) These represent monies received under Section 106 of the Town and County Planning Act 1990. The agreement specifies the purpose to which the monies can be applied and the sums are held in an interest bearing accounts until such a time as they are required.
- (e) Earmarked for various I.T. projects to be carried out with a view towards developing Best Value within the Authority and meeting nationally set targets for e-government.
- (f) This balance represents the accumulated net deficit/under recovery on Trading accounts as at the 31st March 2003,
- (g) This represents income from backdated NNDR rebates earmarked for Education use.
- (h) against potential dilapidation claims from leasors of administrative buildings utilised by the Authority,
- (i) against potential dilapidation claims from landlords of premises utilised by the Homeless Persons Unit,
- (j) the Authority is currently considering the transfer of its housing stock, if agreed by tenants. An initial amount was set aside in 2002/2003 towards the anticipated future corporate cost to the General Fund of making the transfer.
- (k) This balance represents £2.3 million of accumulated General Fund underspends allocated to Directorates/ Central Departments to fund specific service provision in 2003/04.

27. TRUST FUNDS

The Authority administers a number of Trust Funds, the principal ones being shown below. It should be noted that the statement on page 26 does not include all Trust Fund assets and liabilities and so does not comply fully with relevant accounting standards.

	B/f 1/4/2002 £'000	Exp'ture £'000	Income £'000	C/f 31/3/2003 £'000
Welfare Savings (a)	292	102	165	355
King Bequest Fund (b)	11	0	0	11
Childrens Trust Funds (c)	133	360	263	36
Social Services Trust Funds: sundry other (d)	59	335	340	64
Tower Hamlets Further Education Trust (e)	686	123	1	564
Globe Town Picture Fund (f)	179	24	6	161
Millwall Park Compensation Fund (g)	508	0	17	525
Poplar Arts Trust (h)	20	15	1	6
Sundry Other	5	1	1	5
Total Trust Funds	1,893	960	794	1,727

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

The Authority also holds a number of deposits relating to Trust Funds administered by the Authority. The funds are held in an interest bearing account maintained by the Authority. The account is excluded from the financial statements relating to the Authority. The relevant Trusts and transactions during the financial year ended 31st March 2003 may be summarised as follows:-

- (e) This was established by the Authority in conjunction with Canary Wharf Ltd with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Authority is the sole Trustee and the Trust is registered with the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.
- (f) This Fund was established with the proceeds of the sale of a painting by the Authority.
- (g) Funds received from the Docklands Light Railway to reinstate and improve Millwall Park following construction works.
- (h) This was established by the former Poplar Neighbourhood Committee from an insurance settlement after the theft of a statue.

STATEMENT OF TOTAL MOVEMENTS ON RESERVES
for year ended 31st March 2003

	2002/2003 £'000	2002/2003 £'000
Surplus/(deficit) for the year:		
General Fund	(4,097)	
Housing Revenue Account	5,367	
add back movements on specific revenue reserves	<u>(3,409)</u>	
Total increase/(decrease) in revenue resources		(2,139)
 Increase/(decrease) in useable capital receipts	3,228	
Increase/(decrease) in unapplied capital grants	<u>292</u>	
Total increase/(decrease) in realised capital resources (1)		3,520
 Gains/(losses) on revaluation of Fixed assets	287,106	
Impairment losses on Fixed Assets due to general changes in prices	<u>0</u>	
Total increase/(decrease) in unrealised value of fixed assets (2)		287,106
 Value of assets sold, disposed of or decommissioned (3)		(203,458)
 Capital receipts set aside	61,318	
Revenue resources set aside	(37,603)	
Movement on Government Grants Deferred	<u>33,692</u>	
Total increase/(decrease) in amounts set aside to		
finance capital investment (4)		57,407
TOTAL RECOGNISED GAINS AND LOSSES		142,436

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	2002/2003 £'000	2002/2003 £'000
1. Movements in realised capital resources	Useable Capital Receipts	Unapplied Capital Grants and Conts.
Amounts receivable in 2002/2003	64,546	25,916
Amounts applied to finance new capital investment in 2002/2003	<u>(61,318)</u>	<u>(25,624)</u>
Total increase/(decrease) in realised capital resources in 2002/2003	3,228	292
Balance brought forward at 1st April 2002	3,639	1,528
Balance carried forward at 31st March 2003	6,867	1,820

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES (cont.)

	2002/2003 £'000		
	Fixed Asset Restatement Reserve		
2. Movements in unrealised value of fixed assets			
Gains/(losses) on revaluation of Fixed assets	287,106		
Impairment loss on Fixed Assets due to general changes in prices	0		
Total increase/(decrease) in unrealised capital resources in 2002/2003	287,106		
3. Value of assets sold, disposed off or decommissioned			
Amounts written off fixed asset balances for disposals in 2002/2003	(203,458)		
Total movement on reserve in 2002/2003	83,648		
Balance brought forward at 1st April 2002	860,062		
Balance carried forward at 31st March 2003	943,710		
4. Movements in amounts set aside to finance capital expenditure	Capital Financing Reserve	Government Grants Deferred	Totals
Capital receipts set aside in 2002/2003:			
Reserved receipts	47,774	0	
Useable receipts applied	13,544	0	
Total capital receipts set aside in 2002/2003	61,318	0	61,318
Revenue resources set aside in 2002/2003:			
Capital expenditure financed from revenue	29,133	0	
Reconciling amount for provisions for loan repayment	(66,736)	0	
Total revenue resources set aside in 2002/2003	(37,603)	0	(37,603)
Grants applied to capital investment in 2002/2003	19,136	25,624	
Amounts credited to AMRA in 2002/2003	0	(11,068)	
Movement on Government Grants Deferred	19,136	14,556	33,692
Total increase/(decrease) in amounts set aside to finance capital investment			57,407
Total movement on reserve in 2002/2003	42,851	14,556	
Balance brought forward at 1st April	277,957	54,230	
Balance carried forward at 31st March	320,808	68,786	

CASH FLOW STATEMENT

for year ended 31st March 2003

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000	2001/2002 £'000
REVENUE ACTIVITIES				
Expenditure				
Cash paid in respect of employees	305,798		293,191	
Payments to NNDR Pool	150,231		116,851	
Payments of precepts	11,619		9,328	
Other operating costs	408,699		383,859	
Housing Benefit paid out	55,399		47,048	
		931,746		850,277
Income				
Receipts from NNDR Pool	(55,316)		(50,141)	
Non domestic rate income	(147,308)		(139,074)	
Receipts from Council Tax payers	(38,335)		(34,663)	
Receipts from Community Charge payers	(17)		(70)	
Revenue Support Grant	(241,134)		(237,934)	
DSS grants for rent allowances	(50,069)		(45,738)	
Other Government grants (2)	(245,281)		(194,177)	
Rents (after rebates)	(38,853)		(39,833)	
Other revenue income	(184,650)		(179,732)	
		(1,000,963)		(921,362)
NET CASH INFLOW FROM REVENUE ACTIVITIES (1)		(69,216)		(71,085)
SERVICING OF FINANCE				
Expenditure: interest paid	62,690		55,110	
Income: interest received	(6,525)		(3,713)	
NET CASH OUTFLOW FROM THE SERVICING OF LOANS		56,165		51,397
CAPITAL ACTIVITIES				
Expenditure:				
Purchase of fixed assets	61,318		65,786	
Advances to long term debtors	1,027		692	
Deferred charges	29,649		14,806	
		91,994		81,284
Income:				
Sale of fixed assets	(64,546)		(40,208)	
Other capital cash payments/(income)	(53,724)		(55,202)	
Housing Association Grant	(2,121)		0	
Receipts from long term debtors	(691)		(469)	
		(121,082)		(95,879)
NET CASH INFLOW FROM CAPITAL ACTIVITIES		(29,088)		(14,595)
NET CASH INFLOW FROM ALL ACTIVITIES BEFORE FINANCING		(42,139)		(34,283)
MANAGEMENT OF LIQUID RESOURCES				
Short Term Investments	36,704		(3,988)	
Short Term Borrowing	(19,448)		(2,053)	
		17,256		(6,041)
FINANCING				
Repayments of amounts borrowed	25,413		30,166	
New loans raised	0		0	
NET CASH OUTFLOW FROM THE REPAYMENT OF LOANS		25,413		30,166
INCREASE IN CASH AND CASH EQUIVALENTS (3)		530		(10,158)

NOTES TO THE CASH FLOW STATEMENT

	2002/2003	2001/2002
	£'000	£'000
(1) Reconciliation of Revenue Cash Flow		
Net General Fund Revenue Expenditure	4,097	1,776
Net Housing Revenue Account Expenditure	(5,367)	(3,575)
Net Statutory Street Trading Account Expenditure	136	239
Net Collection Fund Revenue Expenditure	1,055	664
Deduct interest paid	(62,690)	(55,110)
Deduct Minimum revenue provision	(14,793)	(15,283)
Deduct Revenue Contributions		
to Capital	(7,102)	(7,898)
(Increase)/decrease in creditors	9,309	(17,699)
Increase/(decrease) in stocks	815	642
Add interest received	6,525	3,713
Deduct contributions to Reserves		
& Provisions (net)	(5,174)	5,746
Increase/(decrease) in debtors	3,973	15,700
Revenue net cash flow	(69,216)	(71,085)

	£'000	£'000
(2) Other Government Revenue Grants		
Alcohol and Drug Misuse	1,227	391
HIV/Aids	448	477
Asylum Seekers Accommodation	4,733	4,857
Promoting Independence	1,738	2,438
Preserved Rights	1,512	0
Childrens' Services	5,825	3,938
Dept of Health: Other	4,007	1,928
Other Social Services	879	526
DSS: Benefits: Administration	1,645	1,397
DSS: Benefits: Prior Years	55	703
DSS: Benefits: Council Tax	16,132	14,705
DSS: Benefits: Rent Rebates	15,025	7,874
ODPM: Housing Subsidy	101,175	108,463
ODPM : Single Regeneration Grant	23,425	5,672
ODPM: Home Insulation & Improvement Grants	211	288
ODPM: Rent Officer Service	(10)	10
ODPM Traffic Controller	17	240
Home Office: Civil Defence	92	80
Standards Fund	36,307	17,817
Mandatory Awards	333	207
Rich Mix	730	60
FEFC Access	328	359
Education maintenance allowances	2,293	901
Learning Schools Council - sundry	2,324	1,923
Other Education and Training	6,123	5,101
Nursery and other childrens grants	1,581	573
European Regional Development Grants	2,248	2,569
European Social Grants	715	1,436
New Deal	4,786	3,611
Neighbourhood Renewal Fund	7,968	5,312
Pump Priming Grant	937	0
Other Revenue Grants	472	321
Total other revenue grants	245,281	194,177

	31/3/03	31/3/02	Net movts	31/3/02	31/3/01	Net movts
	£'000	£'000	£'000	£'000	£'000	£'000
(3) Movement in cash equivalents						
Cash overdrawn	(33,978)	(32,044)	(1,934)	(32,044)	(25,585)	(6,459)
Other cash and officer balances	22,814	21,410	1,404	21,410	4,793	16,617
Net increase in cash and cash equivalents	(11,164)	(10,634)	(530)	(10,634)	(20,792)	10,158

PENSION FUND ACCOUNTS for year ended 31st March 2003

DEALINGS WITH MEMBERS ACCOUNT

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000
Income			
Contributions receivable:-			
Employees (5)		6,451	6,183
Council's related (5)		26,043	23,712
		32,494	29,895
Transfer values receivable		6,506	6,136
Total income		39,000	36,031
Expenditure			
Property expenses		(25)	(26)
Benefits payable (7)		23,044	22,802
Transfer values payable		4,646	2,854
Payments to leavers: repayment of contributions		74	95
Administration (8)		719	742
Other expenses		13	(22)
Total expenditure		28,471	26,445
NET ADDITIONS FROM DEALINGS WITH MEMBERS		10,529	9,586

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000
RETURN ON INVESTMENTS			
Investment income (6)		12,917	13,105
Change in market value: Realised	(20,140)		(5,840)
Change in market value: Unrealised	(62,311)		(12,547)
		(82,451)	
Investment management expenses (8)		(989)	(1,085)
Net assets brought forward		434,826	431,607
New money available for investment		10,529	9,586
		374,832	434,826

	2002/2003 £'000	2002/2003 £'000	2001/2002 £'000
NET ASSETS STATEMENT			
Investments at market value (10)		376,714	434,548
Current assets: debtors (13)	1,943		2,506
Current liabilities: creditors (14)	(3,825)		(2,228)
		(1,882)	
		374,832	434,826

NOTES TO THE PENSIONS FUND

- The financial statements have been prepared in accordance with guidelines issued by the Chartered Institute of Public Finance and Accountancy and Statement of Recommended Practice No.1 (the "SORP").

The accounts have been prepared on an accruals basis.

2. ACTUARIAL REVALUATION

The accounts summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future.

The statutory triennial revaluation undertaken by the actuary (Watson Wyatt Partners) in 2001 calculated the deficit on the Fund to be approximately £68 million and the funding level to be 88%. This compares to a deficit at the previous revaluation of £56m and a corresponding funding level of 85%. The revaluation incorporated the following assumptions: -

	2001	1998
Investment returns (Equities)	6.8%	8.8%
Pay increases	4.8%	6.0%
Price inflation	2.5%	4.5%
Dividend growth	4.0%	5.0%
Discount rate after retirement	5.9%	3.4%
Discount rate before retirement	6.8%	4.5%

The actuary has discretion to phase in recovery of the deficit and recommended that the employers contribution be stabilised at 2002/2003 level of £8.4 million per annum. The revised Regulations also provide that a full valuation be undertaken every three years and consequently the next valuation date will be the 1st April, 2004.

3. ACCOUNTING POLICIES

Inclusion of income and expenditure

- (i) Contribution income - Ordinary contributions relating to wages and salaries earned in the financial year are included on an accruals basis. The contribution rate for employees is determined by the Secretary of State and that of the employers by the Consultant Actuary.
- (ii) Transfers to and from other schemes - Transfer values represent the amounts receivable and payable during the year for members who have either joined or left the scheme. Provision is made for amounts receivable or payable based 'on actual receipts and payments in the subsequent financial year when the 'relevant individual has left or joined in previous years.
- (iii) Investment income - Dividends are credited to income on an accruals basis. Dividends and interest are grossed up for the amount of any taxation recoverable.

Purchases and sales of investments are accounted for on an accruals basis
- (iv) Benefits payable - Benefits payable represent all valid benefit claims in respect of the scheme year.
- (v) Foreign currency translation - Foreign income is translated into sterling at the rate ruling on the date the income is received. Investments and current assets and liabilities denominated in foreign currencies are translated using the sterling rate of exchange ruling at the year end. Exchange gains and losses arising on translation of investments are included as part of the change in market value of investments
- (vi) Rents receivable - rental income is incorporated into the accounts on an accruals basis.

3. ACCOUNTING POLICIES (cont...)

- (vii) These comprise investment managers fees and internal management fees. The external managers fees are based on the value of the funds under management . The internal fees are based on an apportionment of employees salaries and relate to the monitoring of performance and administration of the investment panel.

4. VALUATION OF INVESTMENTS

Investments are included in the net assets statement at their market values at 31st March, which are determined as follows:-

- (i) UK listed securities and foreign securities quoted on a recognised stock exchange are stated at mid-market values ruling at the year end;
- (ii) Managed fund investments are stated at the average of the latest bid and offer prices quoted by the trust managers prior to the 31st March;
- (iii) Unlisted securities are stated at the trustees' valuation based on the advice of the scheme's investment managers;
- (iv) Commercial properties are stated at their open market value at 31st March having been valued by the Fund's property advisor, Royal London Asset Management, in accordance with the guidance notes on the valuation of assets published by the Royal Institution of Chartered Surveyors. Independent external valuations will be undertaken of properties on a three year rolling programme basis.

5 CONTRIBUTIONS RECEIVABLE	2002/2003	2001/2002
	£'000	£'000
From members		
Ordinary contributions	6,451	6,183
	<u>6,451</u>	<u>6,183</u>
From employers		
Ordinary contributions	13,850	12,231
Additional contributions	12,193	11,481
	<u>26,043</u>	<u>23,712</u>
Total contributions receivable	32,494	29,895

6. INVESTMENT INCOME	2002/2003	2001/2002
	£'000	£'000
Dividends from equities	8,120	8,544
Interest on loans and mortgages	1,569	1,250
Underwriting commission	584	2
Transfer value interest	(601)	(537)
Rents	3,245	3,846
Total investment income	12,917	13,105

7. BENEFITS PAYABLE	2002/2003	2001/2002
	£'000	£'000
Pension payments to retired members	20,833	20,009
Lump sums paid on retirement	1,864	2,473
Death grants	347	320
Total benefits payable	23,044	22,802

8. ADMINISTRATIVE EXPENSES	2002/2003	2001/2002
	£'000	£'000
Pension administration costs	719	742
Investment management fees	989	1,085
Total administrative expenses	1,708	1,827

9. GROSS PURCHASES AND SALES OF INVESTMENTS

Gross purchases of investments were £249.2m (£219m :2001/2002) and sales were £241m (£206.6m: 2001/2002)

The change in investment market values reflects both those on investments sold during the year as well as movements in the value of investments still held at the year end arising from both changes in their market values and foreign exchange rates.

10. INVESTMENT ASSETS AT MARKET VALUES

	2002/2003			2001/2002		
	U.K	Foreign	Total	U.K	Foreign	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed interest securities:-						
Public sector	18,541	0	18,541	23,606	0	23,606
Other	8,528	0	8,528	2,073	1,069	3,142
Equities:-						
Listed	106,356	62,610	168,966	169,955	72,782	242,737
Unlisted	259	0	259	0	0	0
Index linked securities	58,586	0	58,586	43,457	172	43,629
Managed funds:-						
Property	20,003	0	20,003	0	0	0
Other	10,777	15,063	25,840	12,572	34,531	47,103
	223,050	77,673	300,723	251,663	108,554	360,217
Direct property investments						
Freehold	22,660	0	22,660	45,905	0	45,905
Leasehold	1,925	0	1,925	1,855	0	1,855
Cash deposits						
Temporary loan to Authority (see note 14 on page 32)	42,257	0	42,257	22,809	0	22,809
Managers' cash	9,149	0	9,149	3,762	0	3,762
Total investments at market value	299,041	77,673	376,714	325,994	108,554	434,548

11. CONCENTRATION OF INVESTMENTS

The scheme complies with the investment requirements of Part P of the Local Government Superannuation Regulations 1986. No individual investment constitutes more than 10% of the total Fund.

12. INVESTMENT MANAGERS

The fund currently employs the following investment managers: -

	2002/2003 £'000	2002/2003 %	2001/2002 £'000	2001/2002 %
Balance Fund Managers				
Schroders	178,817	47.5	196,605	45.2
Deutsche	130,422	34.6	166,267	38.3
Property Managers				
Royal London Asset Managers	25,159	6.7	48,584	11.2
Residual Funds with Former Manager				
Guinness Flight	57	0.1	282	0.1
Other	42,259	11.1	22,809	5.2
Total investments at market value	376,714		434,547	

13. DEBTORS

	2002/2003 £'000	2001/2002 £'000
Dividends receivable	1,416	1,518
Income tax recoverable	88	106
Interest receivable	24	7
Investment receipts	311	548
Rents	104	327
Total debtors	1,943	2,506

14. CREDITORS

	2002/2003 £'000	2001/2002 £'000
Administration	258	310
Benefits payable	67	518
Investment payments	3,651	1,320
Property expenses	(151)	80
Total creditors	3,825	2,228

15. FUND MEMBERSHIP

The Funds membership as at the 31st March comprised the following:-

	2002/2003	2001/2002
Contributors	5,492	5,706
Pensioners	3,434	3,402
Total membership	8,926	9,108

16. CONTINGENT LIABILITIES

The accounts do not take account of liabilities to pay pensions and other benefits in the future. On this basis, in the opinion of the trustees the scheme had no contingent liabilities at the end of the year.

17. TAX STATUS

The scheme is an exempt approved scheme under the provisions of chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. It is therefore exempt from U.K. income and capital gains taxes.

18. REGULATIONS

The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 1999 requires administering authorities to publish a Statement of Investment Principles. This document was approved by the Council on the 22nd March 2000.



Martin Smith CPFA
Director of Finance and Personnel
22nd December 2003

Independent Auditor's Report to Tower Hamlets London Borough Council

I have audited the financial statements for 2002/2003 on pages 6 to 41 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 6 to 10 and the pension fund accounts on pages 42 to 47, which have been prepared in accordance with the accounting policies applicable to pension funds as set out on pages 43 to 44.

This report is made solely to the Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Finance and Personnel and the Auditor

As described on page 11 the Director of Finance and Personnel is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2002. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly:

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

I review whether the statement on pages 12 and 13 reflects compliance with the requirements of the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2002. I report if it does not meet the requirements specified by CIPFA/LASAAC or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement on the system of internal financial control covers all risks and controls, or to form an opinion on the effectiveness of the Council's system of internal financial control. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly the financial position of Tower Hamlets London Borough Council as at 31 March 2003 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

In my opinion the financial statements present fairly the financial transactions of Tower Hamlets London Borough Council's pension fund during the year ended 31 March 2003 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pension and benefits after the end of the scheme year.

Certificate

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



Jon Hayes
Audit Manager
Audit Commission
4th Floor, Millbank Tower
Millbank
London SW1P 4QP

22 December 2003