

# Statement of Accounts for the Year ended 31 March 2011

## Contents

	<b>Page</b>
<b>Explanatory foreword</b>	<b>2</b>
<b>Responsibilities for the Statement of Accounts</b>	<b>17</b>
<b>Independent Auditors Report</b>	<b>18</b>
<b>Comprehensive Income and Expenditure Statement</b>	<b>21</b>
<b>Movement in Reserves Statement</b>	<b>22</b>
<b>Balance Sheet</b>	<b>23</b>
<b>Cash Flow Statement</b>	<b>25</b>
<b>Notes to the Accounts</b>	<b>26</b>
<b>Housing Revenue Account</b>	<b>93</b>
<b>The Collection Fund</b>	<b>100</b>
<b>Notes to the Collection Fund</b>	<b>101</b>
<b>Group Accounts</b>	<b>102</b>
<b>Notes to the Group Accounts</b>	<b>107</b>
<b>Pension Fund</b>	<b>109</b>
<b>Glossary of Financial Terms</b>	<b>122</b>

## EXPLANATORY FOREWORD

**1. Presentation of Accounts and Changes in Presentation**

The Council's Accounts are presented in accordance with statutory requirements under the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011. These are based on International Financial Reporting Standards and Best Value Accounting Code of Practice 2010/2011 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**2. Explanation of the Statement of Accounts**

The Council's accounts are set out on pages **21** to **121**, and consist of the following:

- **The Comprehensive Income and Expenditure Statement**, which summarises the Council's Comprehensive Income and Expenditure for all services provided during the year and the movements in the net worth of the council. This also shows how much is received from Council Tax receipts and central government.
- **The Movement in Reserves Statement**, which shows how the surplus or deficit in the Comprehensive Income and Expenditure Statement links with the movement on the General Fund balance for the year. The General Fund balance is key in determining Council Tax levels.
- **The Balance Sheet**, which gives the Council's financial position as at the 31 March 2011 for the above mentioned areas and services, but excludes the Pension and Trust/Gift Funds. This shows what the Council owns and what is owed.
- **The Cash Flow Statement**, showing the movements in the Council's cash balances resulting from transactions with external organisations for both capital and revenue purposes.
- **Notes to the accounts**, which cover supplementary information to the above statements. This includes the Statement of Accounting Policies which explains the basis of the figures in the accounts and includes changes in policy, the basis of charges to revenue and the calculation of balance sheet items.
- **The Housing Revenue Account (HRA)**, which provides details of the Comprehensive Income and Expenditure of the Council's dwellings and associated properties for which it is responsible as a landlord. This section includes a Statement of Movement on the HRA balance, which shows how the HRA Comprehensive Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year and supplementary notes.
- **The Collection Fund**, which shows how income from Council Tax is used to meet expenditure by the Council and its preceptors, and shows the collection and distribution of Business Rates. The Council is required to maintain this separately from other funds and accounts.
- **The Group Accounts**, which include a Comprehensive Income and Expenditure Statement, Group Balance Sheet and Group Cash Flow Statement for the Council's wholly owned subsidiary (Newham Homes). Newham Homes is responsible for the provision of services associated with the Council's housing stock, such as repairs.
- **The Pension Fund Accounts**, which provide information about the financial position, performance and the financial adaptability of the statutory pension fund. They show the results for the fund for the year and its assets at the period end.
- **Glossary of Financial terms**, which provides an explanation of terms used within the Accounts.

## 3. Actual and Budgeted Expenditure and Income for 2010/11

<i>Actual v Budget 2010/11</i>	<i>Actual</i>	<i>Original Budget</i>
	<i>£000s</i>	<i>£000s</i>
Service Expenditure	1,278,609	1,256,178
less Service Income	(1,013,741)	(994,618)
	<b>264,868</b>	<b>261,560</b>
Capital Financing Costs (net of interest receipts)	29,653	31,194
<b>Total Net Expenditure</b>	<b>294,521</b>	<b>292,754</b>
Contribution to / (use of ) Reserves	(330)	1,770
<b>Budget Requirement</b>	<b>294,291</b>	<b>294,524</b>
<b>Breakdown of movements in Reserves:</b>		
<i>General Fund</i>	(330)	1,770
<i>Earmarked Reserves (incl. Schools' balances)</i>	0	0
Contribution To / (use of ) Reserves	<b>(330)</b>	<b>1,770</b>

Below is an extract of the Council's Budget Monitor for 2010/11. This shows the Council's expenditure against service control budget totals (these categories are different from the Income and Expenditure statutory headings).

<i>Expenditure Compared to Control Budget 2010/11</i>	<i>Control Budget</i>	<i>Outturn</i>	<i>Variance</i>	<i>% Variation</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	
<b>1. Service Spend</b>				
Adults Social Care	97.2	97.2	0	0.0%
Children and Young People	94.3	94.3	0	0.0%
Cleansing, Waste and Recycling	33.1	32.7	(0.4)	(1.2%)
Corporate and Strategic Management	9.4	9.4	0	0.0%
Community Safety	10.6	9.9	(0.7)	(6.6%)
Customer Services	24.7	26.4	1.7	6.88%
Housing and Public Protection	16.4	16.6	0.2	1.2%
Highways, Transport and Parking	12.1	12.1	0	0.0%
Leisure	10.8	10.8	0	0.0%
Regeneration and Development	15.5	15.2	(0.3)	(1.9%)
Resources	7.0	6.6	(0.4)	(5.7%)
	<b>331.1</b>	<b>331.2</b>	<b>0.1</b>	
2. Reversal of Notional Capital Charges	(25.7)	(25.6)	0.1	(0.4%)
3. Capital Financing (interest costs)	31.2	29.6	(1.6)	(5.1%)
4. Central Budget Items	(2.1)	2.7	4.8	228.6%
5. Area Based Grant	(42.4)	(42.6)	(0.2)	0.5%
6. Implementation costs	5.1	1.7	(3.4)	66.7%
7. Budgeted use of balances	(2.5)	(2.5)	0.0	0.0
	294.7	294.5	(0.2)	
<b>8. Net Budget Framework Underspend</b>			<b>(0.2)</b>	
9. Budgeted use of balances			(2.5)	
10. Transfer from other reserves			2.3	
11. Decrease in General Fund balance			<b>(0.4)</b>	
12. General Fund Balance B/Fwd			25.1	
<b>13. Usable Balances C/Fwd</b>			<b>24.7</b>	

The General Fund Outturn is showing a £0.051m underspend for 2010/11. It should be noted that the budget has been delivered against the backdrop of significant in year cuts announced by the Coalition Government during 2010 and other key budget pressures. Other pressures to the budget in 2010/11 have included the delivery of savings due to timing issues related to the Customer Access Programme and pressures from within the Housing Benefit and Council Tax service.

Following the Emergency Budget in June the Comprehensive Spending Review (CSR) was announced on the 20th October 2010. The announcements in the CSR have had very significant and far-reaching implications for local Coalition Government, for local service provision and for the communities and citizens that the Council serves. A wide range of cuts were introduced that will place great pressures on Council services. The "front loading" of grant cuts and the time taken to deliver many of the more significant savings and transformation programmes places an extra pressure upon the 2011/12 budget. Financial risks and pressures which services must manage if the Council's budget strategy is to be successfully implemented in 2011/12 have been drawn up.

The General Fund outturn position was £51k greater than the budget, or 0.02% of the total budget requirement. This is despite the many pressures that arose during the year that amounted to over £11m as summarised below;

- Grant Cuts £5.3m
- Change in Local Housing Allowance (extension to Leased Property Schemes) £3.3m
- Acceleration of Star Chamber costs £1m
- Rephasing of Customer Access Programme £1.8m

The Council undertook a range of measures through which to manage the impact upon its Budget. Together with further subsequent under and overspending they resulted in the eventual minor overspend of £51k.

- Recruitment Moratorium £2m
- Capital Financing £1.5m
- Rephasing of budget growth £1.3m
- Claw back of pay award provision (no award made) £1.75m
- Acceleration of SC4 savings in CYPS £1.9m
- Star Chamber and other savings programmes, net of implementation costs £3.2m
- Directorate Outturn (£0.3m)

2010/11 saw the first measures taken by the Coalition Government to reduce public spending. The Coalition Government has since announced major, front loaded cuts in grant support for local authorities that resulted in a loss to the Council in 2011/12 alone of over £40m, with a further £22m in 2012/13 and inevitably further losses in subsequent years. The Council has addressed this in its medium term budget strategy.

Capital expenditure in 2010/11 was within the overall budget framework parameters approved by Council in February 2010, and within the individual project budgets allocated by the Mayor in March 2010.

#### **Key Service variances were:**

The following section provides brief details of the key variances within the outturn positions of individual Services.

#### **Adult Social Care summary position**

Adult Social Care Services underspent by £0.011m against a budget of £97.16m. However there were a number of budget pressures throughout the year which needed to be mitigated through management action and maximising the use of Supporting People funding.

Key variances:

- The Community Mental Health Service overspent by £0.901m against a budget of £8.8m
- Older People's Care Packages and Placements overspent by £0.603m on a budget of £18.4m
- There was an overspend of £0.888m on the Transport SLA

#### **Children and Young People summary position**

The provisional outturn position for the Children and Young Peoples' Service is to breakeven against a budget of £94.3m. The Service position contained a number of budget pressures (outlined below) which were offset

through the management of vacant posts while the Service structure is redesigned, and the maximisation of grants such as General Sure Start Grant.

Key variances:

- Corporate Parenting Foster Care Placements overspent by £0.415m against a budget of £14.9m
- Corporate Parenting Leaving Care Services overspent by £0.337m against a budget of £2.3m
- There was an overspend in Disability Care Packages of £0.511m against a budget of £0.85m

### **Customer Services**

Customer Services over spent by £1.808m against a net budget of £24.7m. The introduction of a new computerised benefits system led to a shift in the relative timing of benefit payments and subsidy claims. A number of payments were processed in 2010/11 for which the subsidy was claimed in 2009/10 – under the old system, these would have been offset by payments at year end falling into the 2011/12 financial year. Under the new system, these all fell into 2010/11, resulting in a one-off overspend in this financial year. In effect the over spend has been caused by a technical accounting adjustment.

### **Leisure Services**

The provisional outturn for Leisure Services is to breakeven on a budget of £10.8m.

Key variances:

- There was an overspend in Community Services of £0.116m against a budget of £3.69m
- Sports and Activities underspent by £0.105m against a budget of £5.29m

### **Environment**

#### **Cleansing Waste and Recycling summary position**

The Cleansing Waste and Recycling Service underspent their £33.12m budget by £0.437m. This under spend was mostly due to additional trade waste income and the management of agency staff costs within Street Cleansing.

Key Variances:

- Refuse overspent by £0.362 against a budget of £6.58m
- The Recycling Service underspent by £0.407m against a budget of £1.29m. This was largely offset by the additional cost of separate collections in Refuse (above)
- Trade Waste underspent by £0.205m against a budget of £0.768m

#### **Community Safety summary position**

The Community Safety Service has underspent by £0.7m against a budget of £10.6m. This is largely due to reduced salary costs resulting from the early implementation of Star Chamber 4 savings programmes, including the closure of the Family Justice Centre.

Key Variances:

- The CCTV budget of £0.92m was overspent by £0.353m.
- Environmental Management underspent by £0.325m against a budget of £0.03m.
- The Diamond Initiative underspent by £0.391m against a budget of £0.47m

#### **Housing and Public Protection summary position**

The Housing and Public Protection Service overspent by £0.233m against a budget of £16.36m. The key budget pressure was in Temporary Accommodation, where the hand-back of PSL properties led to a significant increase in the void rate. The use of Nightly Accommodation also increased during the year, increasing costs for the Service.

#### **Highways, Transport and Parking summary position**

The Highway, Transport and Parking Service budget was underspent by £0.028m against a budget of £12.1m. There were no significant variances.

#### **Newham Catering and Cleaning Services (NCCS) summary position**

The Newham Catering and Cleaning Services generated surplus income of £0.094m above the budget.

#### **Regeneration Planning and Property summary position**

The directorate underspent by £0.274m against a budget of £15.5m. There were a number of compensating under and overspends, as outlined below. The main reason for the overall under spend was increased rental income on commercial properties and reduced management fees for external properties brought back in-house.

Key Variances:

- Property Services under spent by £0.342m against a budget of (£2.45m)
- Regeneration underspent by £0.201m against a net budget of £8.58m
- The Directorate Management budget overspent by £0.145m against a budget of £0.64m
- Technical Resources had a shortfall of £0.117m against a net income budget of £1.04m
- Facilities Management under spend by £0.223m against a budget of £4.95m

### **Resources Summary Position**

The provisional outturn for Resources shows an under spend of £0.4m against a budget of £7.0m.

### **Corporate and Strategic Management summary position**

The provisional outturn position for Corporate and Strategic Management is to breakeven against a budget of £9.42m. Overspends in the Chief Executive Office were offset by under spends in Policy, Partnership and Communications.

### **Housing Impairment Loss**

The 2010/11 statement of accounts includes impairment on Council House dwellings of £414M. This is due to the change in the social housing discount rates applied to all council dwellings. New guidance was released by the CLG in January of this year. The % rate changes from 37% to 25% (for inner London) which had caused the large impairment this year. The impairment has been included in the accounts within the Local Authority Housing (HRA) line within Cost of Services.

### **IAS 19 Pension Adjustments**

The move from RPI to CPI based pension uplift has implicated in the 2010/11 financial statements. Based on UITF 48 paragraph 5 any reduction in liabilities can be recognised in "Other Comprehensive Income and Expenditure" within "actuarial gains or losses on pension assets and liabilities. This presentation does not impact on the General Fund nor the Housing Revenue Account balances

#### 4. Major Contracts in 2010/11

During the year, the Council entered into the following contracts where expenditure will be incurred beyond 2010/11. The minimum contract sum reported has been set at £1,000,000.

<i>Major Contracts</i>	<i>£000s</i>
<b>Non Housing Schemes:</b>	
Forest Gate BSF - Major refurbishment / extensions	13,200
Eastlea BSF - Major refurbishment / extensions	13,300
Langdon BSF - Major refurbishment / extensions	26,770
Royal Docks BSF and Muga - Major refurbishment / extensions	2,333
Brampton Primary PCP Expansion - Major refurbishment / extensions	5,294
Vicarage Primary PCP Expansion - Major refurbishment / extensions	5,679
Dersingham/ Sheringham PCP Expansion - Major refurbishment / extensions	14,534
Curwen Primary PCP Expansion - Major refurbishment / extensions	1,920
Ellen Wilkinson Primary Phase 3 - Major refurbishment / extensions	1,250
Customer Access ICT	1,950
Stratford Town Centre Public Realm - Enhancements	6,008
Stratford Town Centre Public Realm - Art Screen	4,164
North Woolwich and Silver town - Pier Parade Improvements	1,282
East Ham Integrated Front Office and Campus	1,082
Purchase and delivery of recycling bins	1,500
<b>Housing Schemes:</b>	
371 Prince Regent Lane E16 - New build scheme for six properties.	1,300
Tall Block Enveloping - Roof cladding, window renewal and renewal and refurbishment	1,247
Street Properties - Internal and external refurbishment	10,699
Low Rise Enveloping - Windows, roofs and renewal/refurbishment of lighting and door entry/CCTV systems	12,336
Internal Modernisation - Internal works (including kitchens, bathrooms, central heating and rewiring)	7,493

\*BSF: Building Schools for Future \*PCP: Primary Care Programme

\*ICT: Information Communication and Technology

Expenditure on these contracts in 2010/11 is included within overall capital expenditure - details in note 15

#### 5. Future Service Developments within the Corporate Plan - "The Vision"

##### NEWHAM'S CORPORATE PLAN 2011 TO 2014

##### Introduction and Context

Newham's Corporate Plan for 2011/2014 summarises the key priorities for the Council over the coming years to improve services for residents and sets out the actions the Council will take to fulfil those priorities. It is based on an understanding of residents' concerns and wishes gathered through borough wide surveys, user surveys and through ongoing contacts with residents, both directly and via their elected representatives.

The activity set out in the Mayor's Contract reflects three key themes:

- On your side in tough economic times
- Protecting opportunities for Newham's residents against national cuts
- Continuing to Invest in your priorities - you told us what was important to you and this is what we are doing

The actions to be taken are in line with the themes set out in Newham's Sustainable Community Strategy, agreed by the Newham Partnership which comprises the range of public and voluntary sector providers working to make Newham a place where people choose to live, work and stay. The Council will work in them following areas:

The Corporate Plan is closely linked to the seven themes of the Sustainable Community Strategy, which are:

- Safer Newham
- Cleaner, Greener Newham
- Young Newham
- Ambitious (Working) Newham
- Housing Newham
- Active and Connected Newham
- Healthy Newham

As part of measuring our success in delivering these priorities, we closely monitor our performance, both as a Council and in terms of how well we work with Partners. Together as Newham Partnership we have agreed a Local Area Agreement for 2008 to 2011. This includes 35 priority indicators for measuring the difference we are making for local residents in key areas such as crime, children's services, health, jobs, and housing. The Corporate Plan also sets out how the Council will ensure it is fit for purpose and is able to meet the needs of residents. Our aim is to continually improve our efficiency and effectiveness with a committed and talented workforce, so we can deliver a high performing Council for a High Performing Newham.

## Our Vision

Making Newham a place where people **choose** to live, work and stay requires a shared vision and commitment - our aim is to transform the lives of the people of Newham by investing in services, to help them to achieve and succeed in what they want to do. We are the **future of the capital** - our population is the youngest in the country and this is reflected through the vibrancy and confidence you will find in the borough. We are also an **ambitious** place with ambitious plans; and young people are at the heart of those plans. We are committed to improving people's lives, helping them fulfil their potential and boost aspirations. Our aim is to build an **inspirational place** in which everyone plays their part, regardless of social or economic circumstances.

**By 2030**, we fully expect Newham to be recognised across Europe as a leading economic and residential district of London. Newham will be known as a prosperous and forward-looking borough, synonymous with health, opportunity and **sustainable employment**. We will have a **strong and innovative local economy**, served by some of the best transport links in the country and focused on modern low carbon industries including high quality retail and leisure. Most importantly we will be a net contributor to London's economy, with our residents enjoying the same standard of living as other Londoners. Newham is well-placed to deliver this vision. **London is moving east** at an accelerated pace. Regeneration on a massive scale continues to progress, from the Olympic Park and Stratford City in the North of the borough, down through the £3.7 billion regeneration of Canning Town and Custom House and on to the rejuvenation of the Royal Docks. We have a once in a lifetime opportunity in one of the most deprived areas in the capital to create new chances for our residents - in terms of jobs, decent homes and modern high quality public services.

Newham's strength also lies in the wealth of diversity you find in the borough and which is underpinned by a strong commitment to delivering opportunities for all our residents. The key principles of our approach are:

- **Building personal and economic capacity:** Getting people into work, out of benefits and providing a more flexible and responsive education system that addresses vocational training as well as academic. We will also tailor services more to the needs of the individual, and improve support for residents, including the vulnerable.
- **Trust and fairness:** Creating transparent services where there is no ambiguity, such as in housing allocations. We will also strengthen community spirit, employment opportunities, and push to get the basics right, notably cleaner and safer streets.
- **Connecting people: Getting people together through activities, from sports to events and ensuring our places and community are mixed by class, ethnicity and tenure.** We will build communities, friendship and common purpose through cohesion. We also have a special responsibility as a Partnership and a wider community in helping to keep more vulnerable residents safe and supporting them to participate fully in the community.

**The 2012 Olympic and Paralympics Games** will also provide a catalyst for our existing plans to redevelop the borough and will provide an once-in-a-lifetime opportunity for monumental change. Newham and the four other host boroughs in East London have joined together to develop a shared vision and action plan - the **Strategic Regeneration Framework**. Together we want to ensure a real and long-lasting legacy so that within 20 years those communities who host the Games have the same social and economic chances as their neighbours across the rest of London. We refer to this as 'convergence'. What does convergence mean for Newham's residents? It is about ensuring residents have the skills and qualifications to take advantage of new job opportunities - and giving them the confidence and aspiration to go for it. It is about using those employment opportunities to reduce worklessness, child poverty and a dependence on benefits. It's about ensuring the quality and affordability of new and existing homes. It is also about our communities - ensuring people are able to live healthy and active lives, where they participate and have pride in their community, making it a safer and more content place. By achieving all of this we want to ensure East London is seen as a place where people choose to live because of the high quality of life its residents enjoy.

## Delivering residents' priorities in 2010/2011

### Safer Newham

#### Residents' Priorities

Fear of crime or antisocial behaviour, is a major concern for most people - regardless of actual crime levels. We want an environment which rewards citizenship and provides positive activities, as an alternative to disruptive and intimidating behaviour, where standards of good behaviour and the law are understood and shared. The Council will quickly remove the visible effects of anti-social behaviour such as graffiti and fly-tips and work with the police to take action against those responsible. We will focus on persistent offenders and will continue to work with the courts to push for reflective sentencing to break the cycle of re-offending. Through collaborative partnership working we will build a community where people feel safe and are able to be actively involved in making the place they live more socially cohesive. Residents and visitors to the borough will benefit from an area which has their safety in mind at all times, and where partner organisations and local people engage together to make it look and feel more attractive and safe.

#### How we are meeting residents' priorities

In 2009 the Council introduced a strengthened enforcement service, which focuses on area-based joint tasking with the police and an intelligence-led approach to tackling enviro-crime and anti-social behaviour. Working hand-in-hand with the Police our team of 51 Enforcement Officers during 2010/11 will be focussing on tackling the issues that are important to local residents, including dealing more effectively with fly-tipping and businesses that dump waste illegally on the streets. Our aim is to get unsightly bags off our streets and provide a more pleasant and cleaner public environment. The five Council-funded Safer Neighbourhood Teams will continue to focus on tackling and deterring crime and anti-social behaviour around our parks, schools and estates.

### Cleaner, Greener Newham

#### Residents' Priorities

A clean borough, along with a safe borough, is one of the top priorities for Newham residents, which is why we are improving street cleanliness. Key to this is ensuring that businesses take their waste management responsibilities seriously and cracking down on fly-tipping and poor living conditions. We will be making an unprecedented level of investment in roads, pavements and street lighting across the borough over the next three years, while we also look to create more spaces and encourage the development of others, such as the new Olympic Park. We care about the environment, and Newham residents have some of the lowest carbon footprints in the UK largely due to living on lower incomes. As the population prospers we will need to encourage people to make more sustainable choices.

#### How we are meeting residents' priorities

Over the past year we have significantly improved productivity in our cleansing and waste service through a modernisation of terms and conditions, investment in technology and a sharper focus on performance management. During 2011/2012 we will be working to further improve the effectiveness of our staff through improved training and supervision arrangements. In 2009 the Council commissioned a review of its approach to recycling and in 2011 we will be introducing improvements to our recycling arrangements in order to continue building on recent improvements in the borough's recycling rate.

This will be based on a twin-tracked approach of improving the collection and sorting process plus continuing to communicate and inform residents about the recycling service. During 2011/2012 we will deliver our first year targets for the Council's Carbon Reduction Programme, which aims to reduce our carbon emissions by 40% within 5 years, and to also make more efficient use of both natural and financial resources, thus saving money as well as carbon.

We will also continue to invest in our public spaces, improving the facilities in our parks and continuing to make them safer. We will be making an unprecedented level of investment in our public realm over the next three years, investing in both our high streets and residential areas, upgrading roads, paving and street lighting. When investing in improvements across the borough local Councillors play a key role in understanding residents' priorities and ensuring that the local schemes that will make the most difference for residents are prioritised in each area. We also remove fly-tips and graffiti within one working day of it being reported and provide a free bulky waste collection for our residents.

## Young Newham

### Residents' Priorities

We must ensure young people have aspirations and opportunities - otherwise we risk losing their skills and talent in the long term. Learning choices should be flexible for different needs, abilities and interests, with the end result being a realistic prospect of getting a job, and the knowledge, skills and results needed to build a career. Despite impressive Key Stage 2 and GCSE results, we must demand more for our young people by challenging coasting performance, improving facilities and expanding after schools activities. We are investing in buildings and services to improve childcare, healthy eating, advice, support and education, while bolstering child safeguarding, tackling child poverty and promoting civic participation in the community and involvement in decision-making through our Young Mayor and Youth Council.

### How we are meeting residents' priorities

In 2009 GCSE results continued to improve - 64% of Newham's students gained 5 A\*-C grades and 47% did so with English and Maths included. This represents strong performance and improved outcomes for our young people, but we recognise that further improvement must be achieved quicker in order to achieve convergence in outcomes with the rest of the Capital, so we are establishing a challenging and staged approach in primary and secondary education. We are also providing a greater range of learning and skills options. We are supporting non-traditional methods of qualification, offering the largest range of 14 -19 Diplomas, with places for 800 students this year. In addition to Building Schools for the Future and the Primary Capital programme, we have increased our extended services provision, investing £11 million and putting in place a complete network of 24 children's centres covering the borough.

With one of the youngest populations in the country, ensuring representation of young people is crucial. The Young Mayor and Youth Council provide direct channels for young people to address their issues and to influence their own futures in the borough. Protecting our young people from harm is our paramount concern and the Council will continue to work with partners to ensure we improve the well being and safety of vulnerable children and young people, enabling them to have the same opportunities and experiences as other young people. The Council will also look to deliver more opportunities for young people to participate in sports and cultural activities, which are both enjoyable, rewarding and enable them to develop new skills.

## Ambitious (Working) Newham

### Residents' Priorities

Building job opportunities and helping people out of benefits strengthens communities, gives people economic capacity and builds personal responsibility. This is why we provide a guarantee in our employment schemes that people will be better off in work. Our Workplace programme and The Mayor's Employment Project are already creating jobs and we are working to ensure new regeneration leads to new employment opportunities for our residents. Our economy will focus on meeting the needs of new and innovative industries as well as high quality leisure and retail. We must ensure our residents, including the disabled and vulnerable, have the skills to access jobs both in the borough and across the wealth of opportunities in London and the Thames Gateway. Training and skills development will therefore need to be tailored to meet these new opportunities.

**How we are meeting residents' priorities**

During 2009 we helped our residents through tougher economic times with a freeze in Council tax, the introduction of a free first parking permit to any residential property and the introduction of universal free school meals for all our primary school students. During 2011 we will be working to expand our successful Workplace and Mayor's Employment Projects with new Workplace hubs opening across the borough.

We will continue our work with Westfield and the major retailers who will be opening stores at the new Stratford City shopping centre in 2011 to develop pathways to work programmes. We will be looking to work with other retailers in similar agreements to the one agreed with John Lewis to provide training for 250 long term unemployed. We will also work in partnership with the new Retail Academy for Stratford City which will aim to provide local people with the skills required to access retail employment opportunities.

As an employer, the Council will continue to look to expand the opportunities available for local people to gain access to more jobs working for the Council. We will continue to work with East London Business Alliance to offer short term apprenticeships to help people become 'job ready' for interviews and will look to expand this approach with other local public sector partners. Newham is undertaking the largest and most ambitious regeneration programme in the country, from the Olympic Park and Stratford City, through the 'arc of opportunity' which encompasses Canning Town and Custom House and down through the Royal Docks. During 2010 the Council will be developing a new Economic Development Strategy and revising its employment strategy to ensure we gain maximum benefit from the opportunities. This will provide us with a clear understanding of the future economic opportunities coming to the borough in order for us to ensure our local workforce has the skills and training to access new jobs in the coming years.

## Housing Newham

**Residents' Priorities**

Our approach to housing is integral to tackling worklessness and serves a fundamental role in making Newham a place where people choose to live, work and stay. While Newham has a proud and continuing history of welcoming people, of supporting them through difficult times and providing a springboard to greater things, the supply, quality and the price of a decent home are all major factors for residents - simply put, we need to have the housing that will ensure people choose to stay in the borough as they achieve more and their families grow. New development must be based on high quality sustainable design which meets differing needs. It must complement community cohesion and be supported by local public services and a good transport infrastructure. However, growth must be balanced, sustainable and earmarked for local people – we do not accept the need to deliver numbers above all else. Good quality housing is also important for all our residents, whether they be a Council tenant, renting privately or owning their own home. Poor quality or overcrowded housing can impact on people's health and their personal development.

**How we are meeting residents' priorities**

Newham's regeneration programme provides an opportunity to tackle some of the key housing needs of our residents. During 2011 we will continue to work with key developers and key agencies including the London Thames Gateway Development Corporation, the Olympic Delivery Authority, the Olympic Park Legacy Company and the London Development Agency to ensure new housing meets the varied needs of our residents and contributes towards ensuring sustainable and cohesive communities. In partnership with Newham Homes, we have already brought 11,000 existing properties up to the Government's Decent Homes Standard. We also carry out over 1,000 handy van jobs each year for our elderly and disabled residents across all housing tenures at no cost to the householder. We will continue to focus on ensuring private sector housing, in particularly private rented and houses of multiple occupations are improved. Our Warm Zone project will continue to offer home improvements to improve energy efficiency, thus helping residents to keep warmer and save money. The Council wishes to encourage and reward residents who are in employment to access opportunities to buy their home through shared equity and other schemes.

## Active and Connected Newham

**Residents' Priorities**

Newham has a proud history of welcoming new communities to Britain and of strong community kinship. Physical and social development must build that sense of belonging for everyone. Knowing and socialising with the people around you, sharing past times and swapping favours is all part of a strong community and happy neighbourhood. Bringing people together and getting physically active helps to dissolve prejudice, provides a sense of community, builds good health and prevents social exclusion. We do more than most other local

Authorities to provide opportunities for people to get together and be active. We want to work across the Partnership to provide support and make activities accessible for everyone. It also means ensuring that our community has access to an infrastructure that gives them greater choice about how to access services, for example through greater accessibility to broadband services.

### **How we are meeting residents' priorities**

During 2011 the Council will continue to offer a wide range of activities and services for our older residents through our 24 Warm Centres during the winter months and an ongoing annual programme of clubs and events, including monthly free tea dances and walking clubs. Having been the first local authority to introduce free swims for young people, free swims for the under-16s and over 60s at extended times will help to make access to sport easier for those who are restricted by cost, especially families.

We have a strong participation programme for young people including sports, culture, volunteering, citizenship and award schemes. The Tell Us5 survey has shown Newham's performance in terms of young people's participation in positive activities to be the fourth best in London at 73.8%; this is above the London average of 67.9% and the England average of 69.5%. We will continue to develop our annual events programme including the Stratford Fun Day, Mayor's Town Show, Under the Stars and Firework Nights. We will also focus on developing our Community Forum events in order that local people have an opportunity to share ideas and experiences about their local area.

## **Healthy Newham**

### **Residents' Priorities**

Our aims are that the health of people in Newham will be better than other Londoners by 2020 and that the quality of health services will be as good as anywhere in the country by 2012. This is a challenging target in a borough with high levels of health inequality. Our focus will be on ensuring high quality healthcare, which is delivered around the individual's needs, from maternity care to end-of-life care. We also recognise the important links between good health and employment and that keeping active is an important element of helping our older residents maintain an independent life for longer. We know that our residents as they grow older want reassurance that hard work and commitment to their community will be rewarded with support, whether that be to help maintain an active lifestyle or helping to meet their care needs in a way that best suits them. We have a special responsibility to ensure our more vulnerable residents are safe and in supporting them to participate fully in their local community, particularly those residents with disabilities and mental health needs.

### **How we are meeting residents' priorities**

In 2011 we will continue to focus on ensuring more older and vulnerable people remain in their own homes with appropriate and personalised support through our new Putting People First Strategy. This includes Self-Directed Support, whereby users and their families have control over the money for their care and can decide how it should be spent to best meet their needs. Over 800 people are now accessing Self-Directed Support (as at January 2010) and this figure will grow considerably over the coming year. We will continue to increase opportunities for people to participate in physical and social activities, and increase people's access to the full range of community and employment opportunities. Our focus will be on not only ensuring high quality services and healthcare, which is delivered around the individual's needs, from maternity care to end-of-life care but also services that impact positively on the wider determinants of health with an aim of reducing health inequalities. We will be proactive in encouraging people, both young and old, to lead an active and healthy life through understanding how their lifestyle can contribute to a longer and more rewarding life.

We are committed to improving opportunities and outcomes for people who use services and their carers, or who may need support in the future. We are transforming how adult social care is provided. Our aim is to ensure there is a personalised system of support that improves choice and control for individuals. With our key partners, we are committed to developing services that promote independence, health, wellbeing, choice, rights and inclusion.

## **Making sure the council can deliver residents' priorities**

This part of the Corporate Plan sets out how the Council as an organisation ensures it is fit for purpose to deliver residents' priorities. This means ensuring we have in place effective plans for financial resources, ICT, our workforce, ensuring an effective mainstream approach to equalities, the more effective management of property and assets, customer services and our approach to working with other partner organisations such as the health service, local businesses, the voluntary sector and the police.

During 2009 we received our first Comprehensive Area Assessment (CAA). In 2011/12 the Council will look to build on its organisational assessment of 'improving well' and the broadly positive Area Assessment the Local Strategic Partnership received.

**Key developments include:**

- Improved access to universal services ensuring a clear focus on preventing ill health and social isolation
- Early intervention and enablement approaches to help prevent people needing long-term care
- Self-Directed Support, (mainly through individual budgets) becoming the default opportunity for people eligible under Newham's FACS (Fair Access to Care Services) criteria.
- Improved support for people of working age to gain and keep employment.
- We are developing joint approaches to promoting health and wellbeing and preventing ill health across the Council, NHS and voluntary sector. We have recently established an Integrated Commissioning Transformation Board with NHS Newham, which links with the health and social care Partnership Boards for Mental Health, Learning Disability, Disability, Substance Misuse, Older People, the Carers Strategy Group and the Better Health and Wellbeing Partnership Action Board.

In 2011 the Council will be reviewing our work across a number of these areas including a strategy review of property, the development of a new workforce strategy focusing on talent management and rewarding good performance, an ICT Strategy focused on delivering improvements for residents in service provision and implementing our Customer Access improvement programme. The Council will also continue to identify more efficient and effective ways to use its financial resources through the Revenue and Capital Star Chamber programmes, which focus on delivering better value for money and ensuring every pound of taxpayer's money is focused on residents' priorities.

The Council will also continue to focus on delivering improvements in performance across all service areas, with regular monitoring of key performance indicators by the Chief Executive and the Mayor and Executive Members. As an organisation we will also be implementing a new Equality and Diversity Strategy and developing a new Single Equality Scheme which will focus on delivering improvements in mainstream service provision for all residents and identifying a programme of Equalities Impact Assessments for key services and projects.

**Newham's Key Performance Indicators – Local Area Agreement Targets**

The Council, together with its partners in the Local Strategic Partnership, have agreed 45 key national indicators which reflect our priorities for improving the lives of Newham residents. Together these form the Local Area Agreement and are the primary form by which the Council and its Partners monitor our progress.

Many of the targets rely on a cross-partnership approach with different service providers contributing to ensure we deliver effective solutions to problems and we spend public money in the most effective and efficient way.

**In addition to the seven priorities in the Corporate Plan, the Council has to spend wisely**

The Council is committed to delivering excellent services, while keeping Council Tax low. Effective use of financial resources means that Newham has frozen Council Tax for 2010/11 at the same levels as 2009/10. Newham has the lowest Council Tax of all outer London Boroughs. The Council's highly rated Financial Management Framework has allowed for a Medium Term Financial Strategy that is designed to meet the needs and aspirations of Newham beyond the Olympics.

The on-going Star Chamber process will achieve nearly £48 million of savings in 2011/12 to generate resources for ploughing back into the Council's priorities. The recent relocation of back office services to a new office at Newham Dockside will reduce ongoing costs and allow savings to be directed towards the community's priorities.

## Future Capital Investment

The Capital Investment Programme for 2011/12 to 2013/14 is set out in more detail under the "Capital Expenditure Commitments" note (note 16). Total planned expenditure is £351 million over the next three years, which is to be met from the following resources:

<i>Resources</i>	<i>£ millions</i>	<i>£ millions</i>
<b>Borrowing</b>		
Anticipated Government supported loans	22	
Other	116	<b>138</b>
<b>External Grants and Contributions</b>		
Department for Education	76	
Major Repairs Allowance	37	
Transport for London	11	
Homes and Communities Agency	8	
London Thames Gateway Development Corporation	5	
Section 106	12	
Other Grants and Contributions	14	<b>163</b>
<b>Internal</b>		
Receipts from Asset Sales	7	
Revenue and Reserves	13	
HRA Self Financing	30	<b>50</b>
<b>TOTAL</b>		<b>351</b>

## Revenue Programme

'In 2010/11 the Council's net budget requirement is £294.5 million (to be met from Revenue Support Grant (RSG), National Non Domestic Rates (NNDR) and Council Tax). The table below shows how the budget has changed between 2010/11 and 2011/12.

<i>Summary of Revenue Budget Changes</i>	<i>£millions</i>	<i>£millions</i>	<i>% Increase/ (Decrease) from 2010/11</i>
<b>Total 2010/11 Revenue Budget</b>		<b>294.5</b>	
<b>Efficiency Savings</b>			
Children and Young People	(13.0)		
Corporate and Strategic Management	(3.6)		
Environment	(3.9)		
Regeneration and Development	(3.6)		
Resources	(2.0)		
Other services	(0.4)	(26.5)	
<b>Other Budget Changes</b>			
Area Based Grant /other Grants		38.8	
Central Budgets		(9.1)	
Change In Use Of Balances		(6.3)	
<b>Total 2011/12 Revenue Budget</b>		<b>291.4</b>	<b>(1.0)</b>

## 6. Financial Instruments – Borrowing Facilities and Investments

**Borrowing** - The Council is able to borrow to finance capital expenditure, and to meet day-to-day cash flow needs, as long as the total debt outstanding does not exceed the Authorised Limit set by the Council under the requirements of the Prudential Code. The Council has recourse to a wide range of borrowing facilities, although in practice most of its debt is with the Public Works Loans Board - note 22 provides further details. Total external borrowing at 31 March 2011 was £1,186 million of principal (£1,146 million at 31 March 2010), which was well within the Council's approved borrowing limit.

The basis of accounting for premia and discounts is outlined in accounting policies (note 1.11). The cost of redeeming debt early was spread over the length of replacement borrowing in accordance with legislation. Receipts from rescheduling loans were credited to income over a maximum of 10 years, again in line with legislation.

**Investments** - The Council had investments of £308 million (principal) as at 31 March 2011 (£297 million at 31 March 2010). Further information on borrowings and investments is within notes 22 and 23 of the Accounts.

**Impairment** - Icelandic banks Glitnir and Landsbanki held £5 million and £2 million respectively of the Council's investments when they went into administration in early October 2008. The impairment charge for 2010/11 has been made in accordance with the latest guidance published in May 2011 by CIPFA. The Council had taken advantage of Capital Finance Regulations to defer the impact of the impairment to 2010/11 resulting in a charge of £213k to the General Fund on 31 March 2011.

## 7. Asset Transactions

During 2010/11 the Council undertook the following major (over £250,000) asset purchases and disposals;

<i>Purchases and Disposals</i>	<i>£000s</i>	<i>£000s</i>
<b>Purchases</b>		
Canning Town Buybacks E16	3,497	3,497
<b>Disposals</b>		
268 - 270 Romford Rd E7	305	
24 Buckingham Rd E15 1SP	310	
Little Ilford Sites E12	1,292	
1 - 4 Park Lane E15	500	
		2,407

All capital receipts received by the Council are shown in Note 14 to the Accounts.

## 8. Pension Fund

Notes and Accounts for the Pension Fund are shown in note 33 on page 76. The former represents accounting disclosure which aims to link the position on the Fund at the year end to the Council's overall financial position as reflected in its Balance Sheet (page 23).

These figures have been prepared in accordance with the actuary's understanding of International Accounting Standard 19 (IAS19) and comply with all Generic Technical Actuarial Standards (TAS) and the Pensions TAS.

Under IAS19 valuation techniques, the deficit on the Council's Pension Fund at 31 March 2011 is shown as £413 million (£757m as at 31 March 2010) (page 81) - this is excluding the Newham Homes' post trading pension deficit of £5.8 million (£5.1 as at 31 March 2010) but includes the deficit of Newham Homes' employees whilst they were working for the Council pre 2005.

It is important to recognise that the IAS19 is based on the assumptions that are set as part of the accounting standard and do not reflect the funding strategy of the fund nor the payments made for the employers in 2010/11.

The table below shows that the funding level calculated by IAS19 shows the funding position has increased during the 2010/11 financial year from 44% (as at 31 March 2010) to 61% (as at 31 March 2011).

**The Council's share of the Net Pension Liability (included in the Balance Sheet):**

	31/03/09 £000s	31/03/10 £000s	31/03/11 £000s
Fair Value of Employer Assets	451,153	587,022	649,755
Present value of funded liabilities	(802,496)	(1,294,558)	(1,038,008)
Net (Under)/Overfunding in Funded Plans	<b>(351,343)</b>	<b>(707,536)</b>	<b>(388,253)</b>
Present Value of Unfunded Liabilities			
Unrecognised Past Service Cost	(42,026)	(48,973)	(24,386)
<b>Net Asset/(Liability)</b>	<b>(393,369)</b>	<b>(756,509)</b>	<b>(412,639)</b>
<i>Amount in the Balance sheet:</i>			
Liabilities	(844,522)	(1,343,531)	(1,062,394)
Assets	451,153	587,022	649,755
<b>Net Asset/(Liability)</b>	<b>(393,369)</b>	<b>(756,509)</b>	<b>(412,639)</b>
<b>IAS19 Funding Level</b>	<b>53%</b>	<b>44%</b>	<b>61%</b>

The more important Triennial Valuation is the statutory basis for assessing the Fund's liabilities and for setting the employer's contribution rate. The last triennial valuation took place in March 2010 and showed a funding level of 72% for the whole fund. The Actuary estimates that the funding level at March 2011 was 74.5%. The pension fund investment strategy is seeking a fully funded position within 20 years. This long-term strategy allows for short-term market volatility.

The actuarial process involves sophisticated modelling techniques that look far ahead at the level and flow of pensions out of the Fund and the performance of its assets and contributions from employees and the Council. The IAS19 valuation however, is a far more basic approach and only refers to a specific point in time.

## 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.
- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- To approve the Statement of Accounts.

### The Responsibilities of the Director of Finance

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011. In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

In accordance with the Accounts and Audit Regulations 2011, I certify that the Accounts set out on pages 21 to 121 present a true and fair financial position of the Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

**Date:** 30<sup>th</sup> September 2011

**Signature:**

**D Hindson  
Director of Finance**

**Independent auditor's report to the Members of London Borough of Newham**

We have audited the financial statements of the London Borough of Newham and its Group for the year ended 31 March 2011 which comprise the London Borough of Newham and Group Comprehensive Income and Expenditure Statement, the London Borough of Newham and Group Movement in Reserves Statement, the London Borough of Newham and Group Balance Sheet as at the end of the period, the London Borough of Newham and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom supported by the Best Value Accounting Code of Practice 2010/11.

**Respective responsibilities of the Director of Finance and auditors**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts on page 17, the Director of Finance is responsible for the preparation of the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11 and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the London Borough of Newham's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the group financial statements:

- give a true and fair view of the state of the London Borough of Newham's and Group's affairs as at 31 March 2011 and of the Authority and Group income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11.

**Opinion on other matters**

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

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

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Julian Rickett  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
30 September 2011

***Opinion on the pension fund accounts***

We have audited the pension fund accounting statements for the year ended 31 March 2011 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

***Respective responsibilities of the Director of Finance and auditors***

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, the Director of Finance is responsible for the preparation of the pension fund accounting statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the London Borough of Newham's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

***Scope of the audit of the pension fund accounts***

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

**Opinion on the pension fund accounting statements**

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31 March 2011, and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

***Opinion on other matters***

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

Julian Rickett  
For and on behalf of PricewaterhouseCoopers LLP  
Appointed auditors  
London  
30 September 2011

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

### ***Authority's responsibilities***

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

### ***Auditor's responsibilities***

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

### ***Basis of conclusion***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

### ***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, the London Borough of Newham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

### ***Certificate***

We certify that we have completed the audit of the Authority and Group accounts of the London Borough of Newham and the Newham Pension fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Julian Rickett  
For and on behalf of PricewaterhouseCoopers LLP  
Appointed auditors  
London  
30 September 2011

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2009 / 2010 Restated			COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT			2010 / 2011			Note
Expenditure	Income	Net		Expenditure	Income	Net			
£000s	£000s	£000s		£000s	£000s	£000s			
			<b>SERVICES</b>						
99,427	(81,405)	18,022	Central Services to the Public	27,073	(12,508)	14,565			
76,017	(1,067)	74,950	Corporate and Democratic Core	10,026	(110)	9,916			
205	0	205	Court and Probation Services	0	0	0			
109,080	(21,186)	87,894	Cultural, Environmental and Planning Services	105,902	(20,766)	85,136			
720,791	(599,825)	120,966	Education Services	576,009	(429,910)	146,099			
30,697	(13,230)	17,467	Highways, Roads and Transport Services	24,095	(14,297)	9,798			
138,757	(98,207)	40,550	Local Authority Housing (HRA)	470,030	(112,538)	357,492			
416,297	(384,194)	32,103	Housing Services	412,380	(347,663)	64,717			
116,640	(32,167)	84,473	Social Services	110,409	(31,757)	78,652			
5,415		5,415	Non Distributed Costs	3,993	(103,525)	(99,532)			
<b>1,713,326</b>	<b>(1,231,281)</b>	<b>482,045</b>	<b>COST OF SERVICES</b>	<b>1,739,917</b>	<b>(1,073,074)</b>	<b>666,843</b>			
		743	Precepts and Levies			661		7	
		0	Contribution to Housing Pooled Capital Receipts			598		14	
		0	Gains or Losses on the Disposal of PPE			8,851			
		743	<b>OTHER OPERATING EXPENDITURE</b>			<b>10,110</b>			
		54,029	Interest Payable and Similar Charges			58,266		22b	
		25,983	Pensions Interest Cost/Expected Return on Pensions Assets			22,379		33	
		(1,109)	Net (Surplus) on Trading Accounts			(492)			
		(7,694)	Other Investment Income			(7,076)			
		71,209	<b>FINANCIAL AND INVESTMENT INCOME AND EXPENDITURE</b>			<b>73,077</b>			
		(70,574)	Council Tax Income			(70,543)			
		(177,028)	NNDR Distribution			(195,581)			
		(40,860)	Revenue Support Grant			(28,409)			
		(36,937)	Area Based Grant			(42,573)			
		(355)	LABGI Grant			(1,127)			
		(68,563)	Capital Grant			(104,379)		39	
		(191)	Contribution to Collection Fund Deficit			224			
		(394,508)	<b>TAXATION AND NON-SPECIFIC GRANT INCOME</b>			<b>(442,387)</b>			
		159,489	<b>Surplus or Deficit on Provision of Services</b>			<b>307,643</b>		MIRS	
		50,321	Surplus or Deficit on Revaluation of Assets			18,776			
		(1,817)	Surplus or Deficit on Revaluation of Available for Sale Financial Assets			(2,117)			
		353,904	Actuarial Gains/Losses on Pension Assets/Liabilities			(262,726)		33	
		402,408	<b>Total – Other Comprehensive Income and Expenditure</b>			<b>(246,067)</b>		MIRS	
		561,897	<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>61,576</b>			

## MOVEMENT IN RESERVES STATEMENT

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

<i>Movement in Reserves Statement</i>	<i>General Fund</i>	<i>Earmarked Reserves</i>	<i>Housing Revenue Account</i>	<i>Major Repairs Reserve</i>	<i>Capital Receipts Reserve</i>	<i>Capital Grants Unapplied Reserves</i>	<i>Total Usable Reserves</i>	<i>Unusable Reserves</i>	<i>Total Reserves</i>
Balance at 31 March 2009 Restated	15,592	55,828	5,347	11,853	9,497	1,639	99,756	957,934	1,057,690
Surplus / (Deficit) on provision of services (accounting basis)	(159,491)	0	0	0	0	0	(159,491)	0	(159,491)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(402,408)	(402,408)
<b>Total Comprehensive Expenditure and Income</b>	<b>(159,491)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(159,491)</b>	<b>(402,408)</b>	<b>(561,899)</b>
Adjustments between accounting basis and funding basis under regulations (note 2)	159,258	0	(628)	(3,710)	(1,924)	(668)	152,328	(152,328)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(233)</b>	<b>0</b>	<b>(628)</b>	<b>(3,710)</b>	<b>(1,924)</b>	<b>(668)</b>	<b>(7,163)</b>	<b>(554,736)</b>	<b>(561,899)</b>
Transfers to / from Earmarked Reserves (note 3)	9,691	(24,296)	0	0	0	0	(14,605)	14,605	0
<b>Increase / Decrease in Year</b>	<b>9,458</b>	<b>(24,296)</b>	<b>(628)</b>	<b>(3,710)</b>	<b>(1,924)</b>	<b>(668)</b>	<b>(21,768)</b>	<b>(540,131)</b>	<b>(561,899)</b>
Balance at 31 March 2010	25,050	31,532	4,719	8,143	7,573	971	77,988	417,803	495,791
Surplus or (deficit) on provision of services (accounting basis)	(307,643)	0	0	0	0	0	(307,643)	69,473	(238,168)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	246,067	246,067
<b>Total Comprehensive Expenditure and Income</b>	<b>(307,643)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(307,643)</b>	<b>315,540</b>	<b>7,897</b>
Adjustments between accounting basis and funding basis under regulations (note 2)	409,002	0	(765)	0	0	0	408,237	(408,237)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>101,359</b>	<b>0</b>	<b>(765)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100,594</b>	<b>(92,697)</b>	<b>7,897</b>
Transfers to / from Earmarked Reserves (note 3)	(101,689)	5,816	0	12,379	(5,219)	102	(88,611)	88,611	0
<b>Increase / Decrease in Year</b>	<b>(330)</b>	<b>5,816</b>	<b>(765)</b>	<b>12,379</b>	<b>(5,219)</b>	<b>102</b>	<b>11,983</b>	<b>(4,086)</b>	<b>7,897</b>
Balance at 31 March 2011	24,720	37,348	3,954	20,522	2,354	1,073	89,971	413,717	503,688

## BALANCE SHEET

<i>Restated 1 April 2009</i>	<i>Restated 31 March 2010</i>	<i>BALANCE SHEET AT 31 MARCH</i>	<i>31 March 2011</i>	<i>Notes</i>
<i>£000s</i>	<i>£000s</i>		<i>£000s</i>	
1,118,671	1,114,428	Council Dwellings	764,727	
866,212	891,459	Other Land and Buildings	929,786	
113,252	128,465	Infrastructure	160,417	
21,982	24,110	Community Assets	24,875	
23,870	25,155	Vehicles, Plant and Equipment	37,459	
766	926	Surplus Properties	485	
21	5,662	Assets Under Construction	21	
<b>2,144,774</b>	<b>2,190,205</b>	<b>Property, Plant and Equipment</b>	<b>1,917,770</b>	12
1,207	1,209	Intangible Assets	1,579	12
111,522	94,255	Investment Properties	102,403	12
79,396	136,256	Long-Term Investments	112,464	22a
133,133	111	Long-Term Debtors	113,922	
<b>325,258</b>	<b>231,831</b>	<b>Non-Current Assets</b>	<b>330,368</b>	
70,787	97,036	Short-Term Investments	195,370	22a
1,403	744	Inventories	1,030	26
165,088	180,185	Trade and Other Receivables	203,797	24
(42,476)	(46,841)	Allowances for Receivables	(42,163)	24
68,681	54,505	Cash And Cash Equivalents	(2,822)	38
41	0	Assets held for Sale	<b>0</b>	
<b>263,524</b>	<b>285,629</b>	<b>Current Assets</b>	<b>355,212</b>	
(279,190)	(257,551)	Short Term Borrowing	(346,868)	22a
(121,395)	(130,022)	Short-Term Payables	(99,467)	25
(15,784)	(16,677)	Employee Benefits (Accumulated Absence Prov)	(17,462)	41
<b>(416,369)</b>	<b>(404,250)</b>	<b>Current Liabilities</b>	<b>(463,797)</b>	
(69,811)	(69,591)	Long-Term Payables	(112,587)	36
(738,021)	(911,240)	Long Term Borrowing	(863,952)	22a
(45,453)	(57,001)	Capital Grants Receipts in Advance Account	(69,056)	40
(393,836)	(756,976)	Other Long-Term Liabilities	(577,210)	37
(12,376)	(12,816)	Provisions	(13,060)	27
<b>(1,259,497)</b>	<b>(1,807,624)</b>	<b>Long Term Liabilities</b>	<b>(1,635,865)</b>	
<b>1,057,690</b>	<b>495,791</b>	<b>Net Assets</b>	<b>503,688</b>	

55,828	31,532	Earmarked reserve	37,348	MIRS
15,592	25,050	General Fund	24,720	MIRS
5,347	4,719	Housing Revenue Account	3,954	MIRS
11,853	8,143	Major Repairs Reserve	20,522	3 HRA
9,497	7,573	Capital Receipts	2,354	14 MIRS
1,639	971	Capital Grants Unapplied Reserve	1,073	MIRS
<b>99,756</b>	<b>77,988</b>	<b>Usable Reserves</b>	<b>89,971</b>	
(393,369)	(756,509)	Pensions Reserve	(412,639)	33
54,853	149,454	Revaluation Reserve	174,225	19
(13,226)	(11,773)	Financial Instruments Adjustment Account	(10,020)	
1,326,696	1,055,210	Capital Adjustment Account	680,555	18
(15,784)	(16,677)	Accumulated Absences Account	(17,462)	41
486	486	Equalisation Fund	158	
(1,722)	(2,388)	Collection Fund Adjustment Account	(1,100)	
<b>957,934</b>	<b>417,803</b>	<b>Unusable Reserves</b>	<b>413,717</b>	
<b>1,057,690</b>	<b>495,791</b>	<b>Taxpayers Equity</b>	<b>503,688</b>	

Date: 30th September 2011

Signature:

D. Hindson  
Director of Finance

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

2009/10		2010/11	Notes
£'000		£'000	
<b>(159,491)</b>	<b>Net surplus or (deficit) on the provision of services</b>	<b>(307,643)</b>	
(78,532)	Adjustment to surplus or deficit on the provision of services for noncash movements	494,039	<b>31</b>
178,268	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(110,068)	<b>31</b>
<b>(59,755)</b>	<b>Net Cash flows from Operating activities</b>	<b>76,328</b>	
(79,761)	Net Cash flows from Investing Activities	(86,894)	<b>31b</b>
133,599	Net Cash flows from Financing Activities	16,707	<b>31c</b>
<b>(5,917)</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>6,141</b>	
(3,373)	Cash and cash equivalents at the beginning of the reporting period	(9,290)	<b>31d</b>
(9,290)	Cash and cash equivalents at the end of the reporting period	(3,149)	<b>31d</b>

## NOTES TO THE ACCOUNTS

## NOTE 1 - Statement of Accounting Policies for 2010/11

## 1.1 General

The accounts have been prepared in accordance with International Financial Reporting Standards (interpreted for local authorities by the Code of Practice for Local Authority Accounting in the UK 2010/11) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with the requirements issued by IASB (International Accounting Standards Board) framework established for England by the Accounts and Audit Regulations 2011 and the Best Value Code of Practice 2010/2011.

The Accounting convention adopted in the Statement of Accounts is Historical cost, modified by revaluation of certain categories of non-current assets and financial instruments where applicable.

## 1.2 Property Plant and Equipment (PPE)

All PPE are shown in the Balance Sheet at a value consistent with the recommendations of CIPFA contained within the Capital Accounting Provisions of the code of practice on local authority accounting and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. Components of assets will be shown separately for new schemes/assets where material and have significantly different asset lives. PPE are classified into the groupings required by code of practice on local authority accounting.

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

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

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

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

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

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

### **Impairment**

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

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuers
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

### **Disposals and Non-Current Assets held for sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been

classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. None of the assets disposed of during the year were held for sale as at 31 March 2011.

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

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

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

### **Investment Properties**

Assets used solely to earn rentals or for capital appreciation or both are classified as investment properties and these assets are measured at fair value. Any gain or loss arising from a change in the fair value recognised in the Comprehensive Income and Expenditure Statement and then transferred to the capital adjustment account via the Movement in Reserves Statement. Industrial estates held by the council are held for economic regeneration purposes and are not classified as investment properties.

Investment property under construction is held at cost until value can be determined or brought into use.

### **Valuations**

The revaluation exercise for 2010/11 was completed by the District Valuation Office. The valuations were made in accordance with the International Financial Reporting Standards (IFRS) as applied to the United Kingdom public sector and interpreted by the CIPFA Code of Practice for Local Authority Accounting 2010/11. Also, in accordance with the RICS Valuation standards 6th Edition. Fair Value is used as the basis of valuations with the exception of those assets where there is no market-based evidence to support the use of EUV to arrive at Fair Value. In these instances the Depreciated Replacement costs (DRC) approach has been used. Non HRA properties are valued on a 5 year rolling basis and there are yearly beacon valuations for HRA properties.

## **1.3 Leases**

Leases are classified into finance lease or operating at the inception of the lease. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless the value of the land is negligible. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

### **Finance Leases – the Authority as Lessee**

Any property, plant and equipment held under a finance lease is recognised as an asset in the Balance Sheet at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. This asset is matched by a long term liability representing the total future obligation to pay the Lessor. The Authority uses assets under a long term contract which is deemed to incorporate an embedded finance lease. The lease obligations and asset values have been assessed to have a de minimis impact on the Authority's accounts.

Annual lease rental payments are apportioned between the finance charge and the reduction of the long term liability, with the finance charge being debited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement. The amount that is debited to offset the long term liability is then also debited to the appropriate service revenue account within the Comprehensive Income and Expenditure Statement and credited against the asset value in the Balance Sheet as depreciation. The entry to the Comprehensive Income and Expenditure Statement is then reversed in the Movement in Reserves

Statement to the Capital Adjustment Account, since the settling of the liability represents capital expenditure. Any depreciation, revaluation or impairment losses arising on leased assets are reversed to the Capital Adjustment Account in the Movement in Reserves Statement.

Under the Prudential Framework the setting up of the long term liability is deemed to be a credit arrangement, the cost of which must be included in the calculation of the Authority's Capital Financing Requirement and is therefore taken into account in the calculation of the Authority's Minimum Revenue Provision.

#### **Finance Leases – the Authority as Lessor**

Where the Authority enters into a finance lease as Lessor, the relevant item of property, plant and equipment is written out of the Balance Sheet as a disposal (loss) to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. The Authority's net investment in the lease is correspondingly credited to the same line in the Comprehensive Income and Expenditure Statement and matched to a long term debtor in the Balance Sheet. The credit posted to the Comprehensive Income and Expenditure Statement must be treated by statute as a capital receipt through a reversal in the Movement in Reserves Statement to the Deferred Capital Receipts Reserve. The debit posted to the Comprehensive Income and Expenditure Statement is reversed in the Movement in Reserves Statement to the Capital Adjustment Account. The Deferred Capital Receipts Reserve is used because the gain comprises the receipt of rentals in future years.

Lease rentals receivable are split between the charge for the acquisition of the property and the charge for finance. The former is accounted for by writing down the long term debtor and debiting the Capital Adjustment Account. The finance income is credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement. The credit to the Comprehensive Income and Expenditure Statement is then matched by a debit to write down the Deferred Capital Receipts Reserve, whilst the reversal of the entry to the Comprehensive Income and Expenditure Statement in the Movement in Reserves Statement is offset by a credit to the Capital Receipts Reserve.

#### **Operating Leases – the Authority as Lessee**

Where assets are held under operating leases, the leasing rentals payable are charged to the revenue accounts of the services that use those assets as they are become payable. Any hire purchase contracts that have similar characteristics to an operating lease are accounted for as an operating lease and disclosed in a note to the financial statements. Charges are accounted for on a straight line basis over the term of the lease regardless of the actual payments stream.

#### **Operating Leases – the Authority as Lessor**

Where the Authority grants an operating lease in respect of an item of property, plant and equipment the asset is retained in the Balance Sheet and depreciated over its useful life. Rental income from operating leases is credited as Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease, regardless of the pattern of payments. The initial direct cost of negotiating and arranging the lease may be added to the carrying value of the asset and charged as an expense over the term of the lease.

Any hire purchase contracts that have similar characteristics to a finance lease and are of a financing nature are accounted for as finance leases. Leases are classed as operating leases if assets are worth less than £1/2 million or annual rental payments are less than £100,000. Property leases of up to twenty years are normally classed as operating leases. The estimated remaining life of property assets beyond the term of lease agreements is fundamental in the consideration of if an asset is under a finance or operating lease. Assets acquired under operating leases are not shown in the balance sheet - lease rentals on these assets are charged directly to service revenue accounts and are outside the arrangements for capital charges to revenue - see Charges to Revenue (Section 1.5)

Where assets held under a finance lease and the Council is the lessee, these assets will be included within the balance sheet and valued and depreciated in the same way as owned assets.

Under a finance lease, if the Council is a Lessor, it will recognise the asset as receivable at an amount equal to the net investment in the lease.

## 1.4 Depreciation

Depreciation is charged on all property, plant and equipment assets over their useful life. The exceptions being, assets without a finite useful life eg freehold land, assets which are under construction and therefore not available for use and Investment Properties.

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. The requirement for componentisation for depreciation is applicable to; enhancement and acquisition expenditure incurred, and revaluations carried out, from 1<sup>st</sup> April 2010. The effects of this full componentisation of all relevant assets would not be completed until 1st April 2014. Depreciation charges would be calculated using the life of the building as a single asset until such time as that asset gets revalued and componentised.

- Vehicles, equipment, intangible assets and assets not mentioned elsewhere are written down over their useful lives, as estimated at the time of purchase. For assets acquired under finance lease this is taken as the period of the lease agreement.
- Infrastructure assets are written down over 40 years, unless it is clear that any particular such asset has a shorter operational life. Community assets are not depreciated, as they are held in perpetuity.
- Land and non-operational investment property is not depreciated.
- Operational property is depreciated on a straight line basis over the individual assets remaining life. The District Valuer re-assesses the remaining life each time the asset is re-valued. Where an asset has been componentised, an individual life outstanding will apply to each individual component. Conversely, where assets have not yet been componentised the single asset life will apply to all prospective components even though their individual lives may be materially different.
- Assets under construction are not depreciated until they are brought into use.

Depreciation on vehicles, equipment and infrastructure is calculated using the straight-line method. It is based on the asset value at the commencement of the year, thus newly acquired assets are not depreciated until the following year.

## 1.5 Charges to Revenue

- The charge to each revenue account is the sum of the charges on each of its assets. The Council is not required to raise council tax to cover depreciation.
- The amount charged to services for depreciation is reversed out in the Movement in Reserves Statement by way of an adjusting transaction within the Capital Adjustment Account. This is replaced by the repayment of external loans - minimum revenue provision (MRP).
- Legislation allows that MRP on schemes financed from unsupported borrowing is based on annual depreciation or the useful life of the asset. In theory this means debt has been repaid when a replacement asset is required at a later date, therefore the purchase of a replacement asset with a similar value will not have a material financial impact. MRP chargeable on 'large and novel' projects were affected when assets became operational and the calculation was based on the asset life method. The acquisition of offices at Newham Dockside (Building 1000) has been classed as a large and novel project.
- External interest payable on the Council's debt is debited to the Comprehensive Income and Expenditure Statement.
- However, in certain cases the Council continues to receive reimbursement for external interest and repayments of external loans (debt charges). This reimbursement is credited to the appropriate service revenue accounts, thus the relevant proportions of external interest and debt repayment are also charged to those revenue accounts.

## 1.6 Financial Instruments – Loans and Investments

The Council has borrowed monies to fund the Council's Capital Programme. Loans are shown at amortised cost on the Balance Sheet in accordance with financial reporting standards.

Long-term investments are intended to be held for use on a continuing basis in the activities of the authority. Investments that do not meet this criterion are classified as current assets. The Authority's investments fall into this latter category and are therefore shown within current assets. Investments are split between Money Market Funds and Cash deposits. One external cash manager is employed.

Impairment – The impairment loss on Council investments held by Glitnir and Landsbanki have been recognised in the Income and Expenditure account in 2008/09. The Council has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund by transferring the sum to the Financial Instruments Adjustment Account.

The Financial assets at fair value through the Comprehensive Income and Expenditure Statement include forward dealt investments. A £20 million investment was settled in March 2011 to start in April 2011; in October 2007 three forward deals were agreed to be settled in October 2009, 2010 and 2011 for maturity in October 2012; these three forward deals were intended to cover the cash flow requirements for the potential interest payment of a loan commitment. The gain represents the value compared with prevailing market rates as at the balance sheet date.

Financial Instruments - Embedded Derivatives. If the Council has an embedded derivative within a service contract, then the impact of the derivative has to be accounted for separately under IFRS regulations (IFIRC9). Contracts in excess of £1 million over the term of the contract will be reviewed. It is considered that any contract worth less than £1 million would not have an embedded derivative that would materially impact upon the financial statements.

## 1.7 Deferred Sums

### Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute represent expenditure which may properly be capitalised but which does not represent tangible PPE, such as expenditure on Renovation Grants and other forms of assistance to third parties. This is written down to service revenue accounts over an appropriate period (usually one year), after deduction of any capital grant payable in respect of the deferred charge. There is a corresponding credit to the Movement in Reserves Statement in order to ensure no overall impact upon council tax and grant levels.

### Deferred Capital Receipts

This is the sum due in future years from persons to whom the Council has made a loan in respect of the purchase of council houses (mainly under Right to Buy). It is written down each year by the sum repaid, this sum being shown as a capital receipt, and increased by the value of new loans made. There is a corresponding sum within the value of Long Term Debtors.

## 1.8 Investments

Long-term investments are investments that are intended to be held for use on a continuing basis in the activities of the authority. Investments that do not meet this criterion are classified as current assets. The Council's investments fall into this latter category and are therefore shown within current assets. The investment of surplus cash by the Council is governed by CLG Investment Guidance.

Before the start of each financial year, the Annual Investment Strategy is approved by the Council setting out limits on each category of investment and investments are broadly split into two categories: Specified and Non-Specified investments. Specified investments include investments of less than one year in highly credit rated institutions. Non-specified investments cover all other categories of investment and there use must be supported in detail in the Investment Strategy.

## 1.9 Long Term Debtors

Long term debtors shown in the accounts relate to loans made to house purchasers and to Housing Associations.

## 1.10 Basis of Debt Redemption

In accordance with statutory requirements, certain sums must be set aside for the redemption of debt.

### Minimum Revenue Provision

Under the Local Authorities (Capital Finance and Accounting) Regulations 2003, the Council must provide each year from its revenue account, a sum equivalent to four per cent of its non-Housing Capital Financing Requirement. This sum is charged within the Movement in Reserves Statement (and not to individual service revenue accounts). Assets financed from unsupported borrowing have MRP over the estimated life of the asset.

The statement forms part of the Council's Treasury Management Strategy Statement 2010/11 which was approved by Council on the 22<sup>nd</sup> February and is available on the Council's web site.

The major proportion of the MRP for 2010/11 relate to historical debt liability that is charged at the rate of 4% in accordance with option 1 of the Guidance. Certain expenditure reflected within the debt liability is under delegated powers subject to MRP under option 3 of the Guidance.

### Capital Receipts

Capital receipts arise from the disposal of PPE and the repayment of mortgages. The Local Authorities (Capital Finance and Accounting) Regulations 2003 introduced pooling arrangements whereby 75% of receipts from Housing Right to Buy (RTB) receipts and 50% of housing non-RTB receipts must be paid to the Communities and Local Government (CLG). However, a housing non-RTB receipt is not subject to the pooling arrangements if it will be used to fund regeneration or future affordable housing schemes. The remainder of the receipt, the usable part, is available for use in financing capital expenditure on PPE or to voluntarily repay debt. Whilst income from the disposal of assets is accounted for on an accruals basis, the reserved receipts calculation only applies to the cash actually received.

## 1.11 Debt Rescheduling

The Council conducted some debt rescheduling in the previous years. The impact of paying the premia and receiving the discounts is allowed to be deferred in line with legislation (Statutory Instrument 2007 Number 573, as amended by SI 2008 Number 414). This allows premia to be deferred over the longer of the period of the replacement loans or the remaining term of the repaid loan.

There was no debt rescheduling in 2010/11. The value of premia paid and discounts received in previous financial years are charged to the Comprehensive Income and Expenditure Statement 2010/11 in line with 2010 SORP requirements. However the impact of paying the premia and receiving the discounts is allowed to be deferred in line with legislation (Statutory Instrument 2007 Number 573, as amended by SI 2008 Number 414). This allows premia to be deferred over the longer of the period of the replacement loans or the remaining term of the repaid loan. To follow the guidance in SI 2007 Number 573, discounts received were deferred over the shorter of the outstanding term on the replaced loan or 10 years.

## 1.12 Grants

### Capital Grants

Where the acquisition or enhancement of a fixed asset is financed either wholly or in part by a government capital grant or other capital contribution, the whole amount of all capital grants and contributions is credited, on an accruals basis, as Taxation and Non Specific Grant Income to the Comprehensive Income and Expenditure Statement provided that all conditions attached to the grant are met. If those conditions are not met immediately the income is held as Capital Grants and Contributions Receipts in Advance in the Creditors section of Balance Sheet.

Capital grants credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund balance in the Movement in Reserves Statement. If the grant has not been used to finance capital expenditure in the year it is posted to the Capital Grants Unapplied Reserve. If it has been used to finance capital expenditure in the year it is posted to the Capital Adjustment Account.

### Revenue Grants

Whatever the basis of payment, specific revenue government grants, other contributions and donations are matched with the relevant service expenditure in the Comprehensive Income and Expenditure Statement, unless they have conditions attached that cannot be immediately met. If there are conditions which cannot immediately be met the income is credited to Receipts in Advance which forms part of the Creditors figure in the Current Liabilities section of Balance Sheet.

Grants received to finance the general activities of the Authority or to compensate for a loss of income are credited to the Comprehensive Income and Expenditure Statement in the period in respect of which they are payable.

### 1.13 Provisions and Reserves

#### **Provisions:**

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions need to be recognised when;

The Council has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The Council has established a number of specific provisions which includes an insurance provision, to meet the estimated liability of outstanding insurance claims against the Council. Provisions have been made up to 2010/11 for estimated re-organisation costs that the Council knew it will incur in the following year and a reliable estimate could be made. These provisions are shown within service expenditure costs charged to the Comprehensive Income and Expenditure Statement.

The adequacy of existing provisions and the need for new ones, is reviewed annually - contributions to provisions are charged to the relevant service revenue account, and are part of operating expenditure shown within the Comprehensive Income and Expenditure Statement.

#### **Reserves:**

Amounts set aside for specific future purposes or for general purposes are known as reserves. Movements in reserves (where such movements arise from revenue activities) are shown within the Movement in Reserves Statement, and are therefore excluded from the cost of individual services. The Council has both usable and unusable reserves. Usable reserves are those reserves that the Council may use to provide services and those reserved which the Council is not able to use to provide services are classified under unusable reserves. A short description of these reserves follows:

#### **Usable Reserves:**

**General Fund** - this reserve has arisen due to an overall surplus on revenue activities over a number of years. It is not earmarked for any specific purpose but is available to support future expenditure

**Housing Revenue Income and Expenditure Account** - this reserve has arisen due to an overall surplus within the HRA. It is ring-fenced by statute and may only be used for HRA purposes.

**Earmarked Revenue Reserves** - these reserves have been set up for a specific purpose. The Council reviews the level of Earmarked Reserves, and their intended purpose, annually as part of its Medium Term Financial Investment Strategy. Major Repairs Reserve and Schools are included.

**Capital** - to meet the cost of future planned expenditure including the "Investment Strategy" and a number of earmarked schemes.

**Schools** - this reserve represents the accumulated surpluses and deficits of schools. It is ring-fenced and may only be used by the schools themselves. It is included within Earmarked reserves.

#### **Unusable Reserves:**

**Employee Benefits** – an accrual is made for the value of short term compensated absences, such as annual leave and other leave benefits rolled over to the following financial year. To avoid impacting upon revenue reserves, a negative employee benefit reserve has been created to implement section 8 of Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010.

#### **Capital Accounting Reserves**

The Revaluation Reserve Account (RR) represents principally the balance of surpluses or deficits arising on the periodic revaluation of assets. Surpluses or deficits arising on revaluation of PPE are included in the Comprehensive Expenditure and Income Statement.

The Capital Adjustment Account (CAA) represents the amounts set aside from revenue resources or capital receipts to finance expenditure on PPE or for the repayment of external loans.

## Financial Instrument Reserves

The Financial Instrument Adjustment Account (FIAA) is required for regulatory adjustments made to the accounts. These adjustments have been introduced by the Government to mitigate some of financial effects arising from the accounting changes applying to financial liabilities. The current FIAA balance holds the balance on historical premia and discounts arising from loan rescheduling, that was initially charged in full to the Income and Expenditure Account on 1st April 2007 to comply with the SORP. This charge was then reversed through the General Fund / HRA balance into the FIAA before being charged or credited to the General Fund / Housing Revenue Account in future years according to historical practices. Further details of the Council's Reserves and Provisions can be found in later sections of the Statement of Accounts.

### 1.14 Debtors and Other Receivables and Creditors and Other Payables

The Council's accounts are maintained on an accruals basis, sums due to or from the Council are included in the accounts whether or not the cash has actually been received or paid. An exception to this relates to electricity and other similar periodic supplies, where apportionment is not made between years. This policy is applied each year to ensure consistency, and the effect on the accounts is not considered to be material. Regeneration scheme balances are included as debtors or creditors as relevant. All debtors and creditors relate to individual services and supplies, thus there are no significant estimates in the sums shown in the accounts.

### 1.15 Inventories

The stock in the Council's stores (Inventories) is valued at the lower of historical cost or net realisable value. Work in progress is valued based on the cost of work completed by the end of the year.

### 1.16 Cost of Central Support Services

The Council operates a Support Service Framework through which the cost of central support services is allocated to service revenue accounts using the most appropriate basis e.g. time spent by individual staff, area of office space occupied, number of staff on the payroll, etc. Allocations are made to all revenue accounts, including trading accounts and the Housing Revenue Comprehensive Income and Expenditure Account. Some costs are retained centrally as per BVACOP such as Corporate and Democratic Core and non distributed Costs.

### 1.17 Employee Benefits

#### Benefits Payable during employment

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

#### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for

pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

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

## 1.18 Post Employment Benefits

The Council participates in two separate pension schemes:

- Local Government Pension Scheme, for employees other than teachers, administered by Newham Council.
- Teachers Pensions Scheme, sponsored by the Department for Education (DfE).

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

### Teachers' Pension Scheme

The arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the Balance Sheet and revenue accounts are charged with the employer's contributions payable to the DfE in the year.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

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

Liabilities are discounted to their value at current prices, using a discount rate. A discount rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is used.

The assets of the London Borough of Newham Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities - bid value
- unquoted securities - professional estimate
- unitised securities - bid value
- property - bid value

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

- **Current service cost** - the increase in liabilities as a result of years of service earned this year, allocated to the revenue accounts of services for which the employees worked.
- **Past service cost** - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is charged to the Net Cost of Services as part of Non Distributed Costs.
- **Interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is charged to Net Operating Expenditure.
- **Expected return on assets** - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return. This is credited to Net Operating Expenditure.

- **Gains/losses on settlements and curtailments** - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. These are charged to the Net Cost of Services as part of Non-Distributed Costs.
- **Actuarial gains and losses** - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- debited to Pension Reserve.
- **Contributions** paid to the London Borough of Newham Pension Fund. This is cash paid as employer's contributions to the Pension Fund.

Statutory provisions limit the Council raising Council tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Statement of Movement on the General Fund balance there is an appropriation to the Pensions Reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the fund but unpaid at the year-end.

**Transactions relating to retirement benefits - CIES Charges:**

The Council recognises the cost of retirement benefits in the Cost of Services on Continuing Operations when they are earned by employees, rather than when the benefits are eventually paid as pensions.

The net charge to the CIES is calculated in the table below:

	2009/10 £000s	2010/11 £000s
<b>Net cost of services:</b>		
Current service cost	15,139	35,808
Past service cost/(gain)	0	(103,524)
Gains and losses on settlements or curtailments	5,680	838
<b>Net operating expenditure:</b>		
Interest cost	56,299	63,230
Expected return on scheme assets	(30,316)	(40,851)
<b>Net charge to the CIES</b>	<b>46,802</b>	<b>(44,499)</b>
<b>Adjustments between accounting basis and funding basis under regulations:</b>		
Reversal of net charges made for retirement benefits in accordance with IAS 19	(46,802)	44,499
<b>Actual amount charged against the general fund balance for pensions in the year:</b>		
Employers' contributions payable to scheme	37,566	34,815
<b>Net charge to the General Fund Summary</b>	<b>(9,236)</b>	<b>79,314</b>

Past Service cost above includes a negative cost of £103.5. This has arisen because of the announcement by the Chancellor of the Exchequer in May 2010 that future indexation of pensions in payment and to deferred pensions will be in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as has been past practice. Since CPI has in the past been on average lower than RPI this has the effect of reducing the expected future cash flows in respect of pensions. As a result the Authority's liability to fund these pensions is reduced, creating a negative cost of past service.

In addition to the recognised gains and losses included in the CIES, actuarial gains/losses of a £255 million loss (£336 million in 2009/10) were included in other comprehensive income and expenditure in the CIES.

## Discretionary Benefits

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

### 1.19 Prior Period Adjustments – Note 41

2009/10 prior period equivalents have been updated to reflect IFRS regulations. In particular employee benefits have been accrued under IFRS; this has required the inclusion of an employee benefit reserve. Surplus properties have been reclassified as property, plant and equipment, investment properties or assets held for sale.

### 1.20 Redundancy Costs

Payments made under the Council's Redundancy Scheme, arising from budget reductions are charged to the revenue account of the "employing" service, and are therefore included in the cost of services, and in operating expenditure. Corporate provision has been made for redundancies as part of the Star Chamber reviews. Provisions made for projected costs are shown against the appropriate service area.

### 1.21 Joint Venture

Caboodle Solutions Ltd. was a joint venture limited company owned by London Borough of Newham and Steria Holdings Ltd. and had been incorporated within the Council's group accounts as a joint venture. Caboodle discontinued operations and the Council sold its share in the joint venture in 2009/10.

### 1.22 Value Added Tax

All transactions are shown net of any Value Added Tax (VAT), whether capital or revenue, unless for some specific reason it is not recoverable. As is the case for all Local Authorities, the Council is able to recover a major part of VAT incurred from H.M. Revenue and Customs. Any balance due to the Council is included within the debtors figure shown in the Balance Sheet.

### 1.23 Private Finance Initiative (PFI) Schemes

The Council has entered into PFI contracts to oversee the building of four schools and housing initiatives in Canning Town and Forest Gate.

PFI accounting arrangements apply where control tests (a) and (b) below have been applied and met: (a) The Council controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and (b) the Council controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

Assets under PFI accounting arrangements are recognised at fair value and recognise the corresponding financial liability to reflect requirement to pay for the asset over the period of the contract.

All PFI PPE are valued as at 1st April by the District Valuer. PFI assets are valued and depreciated in the same way as other categories of council assets.

In line with disclosure information required under the code, the value of assets held under PFI arrangements and payments due are disclosed in the accounts.

## 1.24 Service Concession Arrangements

### Other Service Concessions

If a contract involves the Council having sole use of an asset, then there is the potential that the contract may contain an embedded lease. Contracts in excess of £1 million over the contract term have been reviewed to identify if an embedded lease agreement is within the contract.

## 1.25 Area Based Grant

These are now part of a non-ring-fenced Grant, with no conditions imposed on its use as part of the grant determination, ensuring full local control over how funding can be used. It is paid directly to the Council as part of a three-year settlement. It is credited to Taxation and non-specific Grant Income in the Comprehensive Income and Expenditure Statement.

## 1.26 Cash and Cash Equivalents

Cash is represented by cash in hand and demand deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Demand deposits will include accounts where additional funds may be deposited and withdrawn at any time without prior notice e.g. a bank current account.

Cash equivalents are investments instantly repayable to the Council on demand which are readily convertible to known amounts of cash with insignificant risk of change in value. These will be balances held in Call Accounts and Money Market Funds with associated accrued interest.

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

## 1.27 Intangible Assets

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

Intangible assets are measured initially at cost. Since the fair value of these assets cannot be determined by reference to an active market, they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure statement.

## 1.28 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## Note 2. Adjustments between Accounting Basis and Funding Basis under Regulations

<b>Usable Reserves</b>					
<b>2010/11</b>	<b>General Fund Balance</b>	<b>Housing Revenue Account</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grants Unapplied</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Adjustments involving the Capital Adjustment Account:</b>					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non current assets	(470,564)				
Revaluation losses on Property Plant and Equipment					
Capital grants and contributions	104,272				
Capital Grants Receivable and Unapplied in year including capital grants unapplied carried forward which have been used for financing in this year.					
Revenue expenditure funded from capital under statute	(33,359)				
Loans/Lease principal repayments during the year					
Transfer grants/conts on impaired spend					
Grants relating to assets disposed of during Housing Revenue Account Transfers	765	(765)			
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Minimum Revenue Position For Capital Funding	12,819				
Capital expenditure charged against the General Fund and HRA balances	(598)				
<b>Adjustments involving the Capital Receipts Reserve:</b>					
Use of the Capital Receipts Reserve to finance new capital expenditure					
Proceeds From Sale of Non Current Assets					
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals					
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.					
<b>Adjustment involving the Major Repairs Reserve</b>					
Reversal of Major Repairs Allowance credited to the HRA	(7,055)				
Use of the Major Repairs Reserve to finance new capital expenditure					
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>					
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.					
	(60,204)				
<b>Adjustments involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 1.18)					
Employer's pensions contributions and direct payments to pensioners payable in the year					
	44,499				
<b>Adjustments involving the Collection Fund Adjustment Account:</b>					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements					
<b>Adjustment involving the Unequal Pay Back Pay Adjustment Account:</b>					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements					
	(362)				
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>					
Adjustments in relation to Short-term compensated absences					
	785				
<b>Total Adjustments</b>	<b>(409,002)</b>	<b>(765)</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Usable Reserves</b>					
<b>2009/10</b>	<b>General Fund Balance</b>	<b>Housing Revenue Account</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grants Unapplied</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Adjustments involving the Capital Adjustment Account:</b>					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non current assets	(244,034)				
Revaluation losses on Property Plant and Equipment					
Capital grants and contributions	319,938				
Capital Grants Receivable and Unapplied in year including capital grants unapplied carried forward which have been used for financing in this year.					(668)
Revenue expenditure funded from capital under statute	8,790				
Carrying amount of non-current assets sold					
Loans/Lease principal repayments during the year					
Transfer grants/conts on impaired spend 09/10					
Grants relating to assets disposed of during 09/10					
Housing Revenue Account Transfers		(628)			
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Minimum Revenue Position For Capital Funding*	(25,204)				
Capital expenditure charged against the General Fund and HRA balances	23,659				
<b>Adjustments involving the Capital Receipts Reserve:</b>					
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,924)		
Proceeds From Sale of Non Current Assets					
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals					
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.					
<b>Adjustment involving the Major Repairs Reserve</b>					
Reversal of Major Repairs Allowance credited to the HRA	12,089			(3,710)	
Use of the Major Repairs Reserve to finance new capital expenditure					
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>					
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	26,328				
<b>Adjustments involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)					
Employer's pensions contributions and direct payments to pensioners payable in the year	9,236				
<b>Adjustments involving the Collection Fund Adjustment Account:</b>					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(624)				
<b>Adjustment involving the Unequal Pay Back Pay Adjustment Account:</b>					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements					
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>					
Adjustments in relation to Short-term compensated absences	29,080				
<b>Total Adjustments</b>	<b>159,258</b>	<b>(628)</b>	<b>(1,924)</b>	<b>(3,710)</b>	<b>(668)</b>

\*Figure includes £17M of balances used by the HRA during the year to fund repair projects

## Note 3. Trading Activity

		Trading Activity				
Income	Expenditure	2009/10 (Surplus) /Deficit		Income	Expenditure	2010/11 (Surplus) /Deficit
£000s	£000s	£000s		£000s	£000s	£000s
			Newham Catering and Cleaning Services			
(21,857)	20,748	(1,109)		21,055	20,563	(492)
(7,896)	7,896	0	NEWCO	8,566	8,822	256
<b>(29,753)</b>	<b>28,644</b>	<b>(1,109)</b>	<b>Total</b>	<b>29,621</b>	<b>29,385</b>	<b>(236)</b>
0	0	0	Less credit/(debit) to HRA	0	0	(256)
<b>(29,753)</b>	<b>28,644</b>	<b>(1,109)</b>	<b>Shown in the Comprehensive Income and Expenditure Statement</b>			<b>(492)</b>

**Newham Catering and Cleaning Services** provides cleaning services in respect of public buildings and education buildings (including Secondary Schools) plus school meals to Primary and Secondary Schools.

**NEWCO** - This is part of Housing Services. This organisation provides employment opportunities for disabled people. Activities include construction of kitchen units and windows.

## Note 4. Pooled Budgets

The Council operates a pooled budget arrangement with Newham Primary Care Trust (PCT) for the Integrated Community Equipment Service (ICES). In 2010/11 the Council contributed £1.2 million in total against this service. The gross revenue budget expenditure for the pooled venture was £2.0 million against gross income of £2.1 million. The revised accumulated trading surplus for the pool is £0.2 million.

2009/10 Gross Income	2009/10 Gross Expenditure	2009/10 Net Exp / (Income)	Newham Primary Care Trusts	2010/11 Gross Income	2010/11 Gross Expenditure	2010/11 Net Exp / (Income)
£000s	£000s	£000s		£000s	£000s	£000s
(1,756)	1,820	64	Integrated Community Equipment Service	(2,084)	2,019	(65)
<b>(1,756)</b>	<b>1,820</b>	<b>64</b>	<b>TOTAL</b>	<b>(2,084)</b>	<b>2,019</b>	<b>(65)</b>

<b>Newham Primary Care Trusts - Trading Surplus</b>		2010/11 Surplus
		£000s
Accumulated Trading Surplus as at 1st April 2010		(168)
Net deficit for year		(65)
Accumulated Trading Surplus at 31 March 2011		<b>(233)</b>
<b>Allocation of Trading Surplus</b>		
- LB Newham		(133)
- PCT		(100)
<b>TOTAL</b>		<b>(233)</b>

The Comprehensive Income and Expenditure Statement summarises the Council's revenue income and expenditure for all services during the year and shows the resultant change in the levels of reserves.

## Note 5. Dedicated Schools Grant

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

2009/10		2010/11	2010/11	2010/11
Total	Schools Budget Funded By Dedicated School Grant	Central Expenditure	Individual Schools Budget	Total
£000s		£000s	£000s	£000s
253,929	Original grant allocation to Schools Budget	24,168	241,302	265,470
(1,294)	Adjustment to finalised grant allocation	(2,315)	3,175	860
252,635	Dedicated Schools Grant receivable for the year	21,853	244,477	266,330
259,694	Actual expenditure for the year	14,301	240,818	255,119
(7,059)	(Over) / under spend for the year	7,552	3,659	11,211
9,885	(Over) / under spend brought forward	(4,879)	7,705	2,826
2,826	(Over) / under spend carried forward	2,673	11,364	14,037

## Note 6. Leases

**Authority as Lessor****Finance Leases**

The Authority has a gross Investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquires by the lessee and Finance income earned by the Authority.

The Gross Investment is made up of the following amounts:-

	2009/10	2010/11
	£000s	£000s
<b>Finance Lease Debtor</b>		
Current	3,435	3,435
Non - Current	113,830	110,395
Interest	7,015	6,792
<b>Gross Investment in the Lease</b>	<b>124,280</b>	<b>120,622</b>

<i>Gross Investment in Lease</i>	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
No later than one year	3,658	3,658
Later than one year and not later than five years	14,631	14,631
Later than five years	105,991	102,334
<b>Total</b>	<b>124,280</b>	<b>120,622</b>

<i>Minimum Lease Payments</i>	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
No later than one year	3,435	3,435
Later than one year and not later than five years	13,738	13,738
Later than five years	100,092	96,657
<b>Total</b>	<b>117,265</b>	<b>113,830</b>

### Authority as a Lessee

#### Finance Leases

The Assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:-

	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
Other Land and Building	33,544	30,573
Vehicles, Plant and Equipment	6,613	4,921
<b>Total</b>	<b>40,157</b>	<b>35,494</b>

The future minimum lease payments at the end of each reporting period are set out below:-

	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
Finance Lease liabilities (net present MLP)		
Current	2,678	2,469
Non - Current	50,274	47,805
Finance Costs Payable in future years	3,440	3,266
<b>Minimum Lease payments</b>	<b>56,392</b>	<b>53,540</b>

## Note 7. Levies

Under the Levying Bodies (General) Regulations 1990, from 1st April 1990 all levying bodies recover their expenses from constituent Local Authorities by way of a charge per head of relevant (adult) population.

<b>2009/10</b>	<b>Levies</b>	<b>2010/11</b>
<b>£000s</b>		<b>£000s</b>
230	Lee Valley Regional Park	228
363	London Pensions Fund Authority	285
150	Environment Agency	148
<b>743</b>	<b>Total</b>	<b>661</b>

## Note 8. Resource Allocation

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

The income and expenditure of the Authority's committee services recorded in the budget reports for the year is as follows:

2010/11	Adults Social Care	Children and Young People	Cleansing, waste and recycling	Corporate and Strategic Management	Community Safety	Customer Services	Housing and Public Protection	Highways, Transport and Parking	Leisure	Regene- ration and Develop- ment	Resources	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other service income	2,444	15,124	1,589	690	887	6,474	58,833	14,100	3,638	6,112	9,139	<b>119,030</b>
Government grants	22,210	34,042	0	0	30	286,238	1,145	119	0	0	418	<b>344,202</b>
<b>Total Income</b>	<b>24,654</b>	<b>49,166</b>	<b>1,589</b>	<b>690</b>	<b>917</b>	<b>292,712</b>	<b>59,978</b>	<b>14,219</b>	<b>3,638</b>	<b>6,112</b>	<b>9,557</b>	<b>463,232</b>
Employee expenses	24,695	41,232	17,310	11,190	6,486	18,226	14,419	7,883	3,348	9,802	27,152	<b>181,743</b>
Other service expenses	30,895	79,023	28,817	5,871	4,421	301,726	57,062	19,220	8,654	8,073	15,584	<b>559,346</b>
Support service recharges	66,217	23,227	(11,858)	(6,955)	(139)	(712)	5,085	(821)	2,432	3,430	(26,579)	<b>53,327</b>
<b>Total Expenditure</b>	<b>121,807</b>	<b>143,482</b>	<b>34,269</b>	<b>10,106</b>	<b>10,768</b>	<b>319,240</b>	<b>76,566</b>	<b>26,282</b>	<b>14,434</b>	<b>21,305</b>	<b>16,157</b>	<b>794,416</b>
<b>Net Expenditure</b>	<b>97,153</b>	<b>94,316</b>	<b>32,680</b>	<b>9,416</b>	<b>9,851</b>	<b>26,528</b>	<b>16,588</b>	<b>12,063</b>	<b>10,796</b>	<b>15,193</b>	<b>6,600</b>	<b>331,184</b>

2009/10	Adults Social Care	Children and Young People	Cleansing, waste and recycling	Corporate and Strategic Management	Community Safety	Customer Services	Housing and Public Protection	Highways, Transport and Parking	Leisure	Regener- ation and Develop- ment	Resources	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other service income	23,964	14,049	1,755	383	863	12,697	82,272	13,178	0	5,251	21,810	<b>176,222</b>
Government grants	15,041	16,015	0	0	105	0	878	33	0	236	291,667	<b>323,975</b>
<b>Total Income</b>	<b>39,005</b>	<b>30,064</b>	<b>1,755</b>	<b>383</b>	<b>968</b>	<b>12,697</b>	<b>83,150</b>	<b>13,211</b>	<b>0</b>	<b>5,487</b>	<b>313,477</b>	<b>500,197</b>
Employee expenses	28,287	46,424	18,427	3,787	7,659	11,163	14,761	9,491	0	10,321	51,435	<b>201,755</b>
Other service expenses	88,755	62,037	29,628	5,134	4,122	10,589	65,950	18,347	0	6,034	335,470	<b>626,066</b>
Support service recharges	9,853	22,562	(13,553)	(1,715)	(357)	7,015	5,786	(2,107)	0	(3,428)	(35,909)	<b>(4,997)</b>
<b>Total Expenditure</b>	<b>126,895</b>	<b>131,023</b>	<b>34,502</b>	<b>7,206</b>	<b>11,424</b>	<b>28,767</b>	<b>86,497</b>	<b>25,731</b>	<b>0</b>	<b>19,783</b>	<b>350,996</b>	<b>822,824</b>
<b>Net Expenditure</b>	<b>87,890</b>	<b>100,959</b>	<b>32,747</b>	<b>6,823</b>	<b>10,456</b>	<b>16,070</b>	<b>3,347</b>	<b>12,520</b>	<b>0</b>	<b>14,296</b>	<b>37,519</b>	<b>322,627</b>

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

	2010/11	2009/10
	£,000	£,000
Net expenditure in the Directorate Analysis	331,184	322,627
Net expenditure of services and support services not included in the Analysis	439,183	159,418
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(708,791)	79,852
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	0	0
<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<b>61,576</b>	<b>561,897</b>

	<i>Directorate Analysis</i>	<i>Services and Support Services not in Analysis</i>	<i>Amounts not reported to management for decision making</i>	<i>Amounts not included in I&amp;E</i>	<i>Allocation of Recharges</i>	<i>Cost of Services</i>	<i>Corporate Amounts</i>	<i>Total</i>
<b>2010/11</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Fees, charges & other service income	119,030	0	-	-	0	0	-	<b>119,030</b>
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	7,076	<b>7,076</b>
Income from council tax Government grants and contributions	344,202	0	-	-	-	0	70,543	<b>70,543</b>
							370,556	<b>714,758</b>
<b>Total Income</b>	<b>463,232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>448,175</b>	<b>911,407</b>
Employee expenses	181,743	785	0	0	0	0	-	<b>182,528</b>
Other service expenses	559,346	80,161	-	-	0	0	-	<b>639,507</b>
Support Service recharges	53,327	-	-	-	0	-	-	<b>53,327</b>
Depreciation, amortisation and impairment	-	357,504	0	-	-	0	-	<b>357,504</b>
Interest Payments	-	-	-	-	-	-	80,645	<b>80,645</b>
Precepts & Levies	-	-	-	-	-	-	661	<b>661</b>
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	598	<b>598</b>
Gain or Loss on Disposal of PPE	-	-	-	-	-	-	0	-
<b>Total expenditure</b>	<b>794,416</b>	<b>438,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,904</b>	<b>1,314,770</b>
<b>Surplus or deficit on the provision of services</b>	<b>331,184</b>	<b>438,450</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-366,271</b>	<b>403,363</b>

<b>2009/10</b>	<b>Directorate Analysis</b>	<b>Services and Support Services not in Analysis</b>	<b>Amounts not reported to management for decision making</b>	<b>Amounts not included in I&amp;E</b>	<b>Allocation of Recharges</b>	<b>Cost of Services</b>	<b>Corporate Amounts</b>	<b>Total</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Fees, charges & other service income	176,222	0	0	0	0	0	0	<b>176,222</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0	<b>0</b>
Interest and investment income	0	0	0	0	0	0	7,694	<b>7,694</b>
Income from council tax	0	0	0	0	0	0	70,574	<b>70,574</b>
Government grants and contributions	323,975	0	0	0	0	0	323,310	<b>647,285</b>
<b>Total Income</b>	<b>500,197</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>401,578</b>	<b>901,775</b>
Employee expenses	201,755	0	0	0	0	0	0	<b>201,755</b>
Other service expenses	626,066	116,614	0	0	0	0	0	<b>742,680</b>
Support Service recharges	(4,997)	0	0	0	0	0	0	<b>(4,997)</b>
Depreciation, amortisation and impairment	0	38,935	0	0	0	0	0	<b>38,935</b>
Interest Payments	0	0	0	0	0	0	80,012	<b>80,012</b>
Precepts & Levies	0	0	0	0	0	0	743	<b>743</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	0	<b>0</b>
Gain or Loss on Disposal of PPE	0	0	0	0	0	0	0	<b>0</b>
<b>Total expenditure</b>	<b>822,824</b>	<b>155,549</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>80,755</b>	<b>1,059,128</b>
<b>Surplus or deficit on the provision of services</b>	<b>322,627</b>	<b>155,549</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(320,823)</b>	<b>157,353</b>

## Note 9. Audit Fee Disclosure

2009/10		2010/11
£000s		£000s
480	Fees payable to appointed auditors for external audit services work	533
20	Fees payable to Audit Commission for statutory inspection	0
92	Fees payable to appointed auditors for certification of claims and returns	85
0	Fees payable for other services provided by the appointed auditor	0
<b>592</b>	<b>Total Audit Fee</b>	<b>618</b>

## Note 10. Employee Emoluments

The Accounts and Audit Regulations 2011 require local authorities to disclose the numbers of other employees who earned £50,000 (taxable income and non-taxable compensation payments) or more in the financial year. This is to be shown in bands of £5,000.

2009/10 Non Teaching Employees	2009/10 Teaching Employees	2009/10 Total Employees	Earnings Band	2010/11 Non Teaching Employees	2010/11 Teaching Employees	2010/11 Total Employees
88	300	388	50,001 – 55,000	94	338	432
66	133	199	55,001 – 60,000	73	180	253
19	53	72	60,001 – 65,000	25	70	95
33	39	72	65,001 – 70,000	33	32	65
16	26	42	70,001 – 75,000	14	40	54
23	19	42	75,001 – 80,000	20	26	46
8	15	23	80,001 – 85,000	16	20	36
2	9	11	85,001 – 90,000	5	5	10
9	1	10	90,001 – 95,000	10	6	16
2	4	6	95,001 – 100,000	2	6	8
2	6	8	100,001 – 105,000	1	4	5
2	0	2	105,001 – 110,000	3	4	7
1	0	1	110,001 – 115,000	4	2	6
0	2	2	115,001 – 120,000	3	1	4
2	0	2	120,001 – 125,000	2	1	3
2	1	3	125,001 – 130,000	3	0	3
0	0	0	130,001 – 135,000	1	0	1
0	0	0	135,001 – 140,000	5	0	5
0	0	0	150,001 – 170,000	0	0	0
0	0	0	170,001 – 175,000	0	0	0
0	0	0	185,001 – 200,000	0	0	0
<b>275</b>	<b>608</b>	<b>883</b>	<b>Total £50,000 and over</b>	<b>314</b>	<b>735</b>	<b>1049</b>

**Senior Employees**

The remuneration of senior employees whose annual salary for the year was equal to or greater than £150,000 (Pro Rata)

**2009/10**

<i>Name and position</i>	<i>Salary Fees and Allowances</i>	<i>Compensation for loss of employment</i>	<i>Council's contribution to Pension Fund</i>	<i>Total Remuneration</i>
	£	£	£	£
Mr. J Duckworth - Chief Executive	241,483	0	39,602	281,085
Mr. K Bromley Derry - Executive Director Children, Schools and Families	170,417	0	27,887	198,304
Mr. R Heaton - Executive Director Resources	151,826	0	24,899	176,725
Mr. C Dutton - Executive Director Regeneration and Property (see note 1)	120,417	0	14,176	134,593
Executive Director - Environment (see note 2)	104,205	0	16,890	121,095
<b>Total</b>	<b>788,348</b>	<b>0</b>	<b>123,454</b>	<b>911,802</b>

Note 1 - Not full year costs - started 28/09/09

Note 2 - Not full year costs - started 01/05/09

**2010/11**

<i>Name and position</i>	<i>Salary Fees and Allowances</i>	<i>Compensation for loss of employment</i>	<i>Council's contribution to Pension Fund</i>	<i>Total Remuneration</i>
	£	£	£	£
Mr. K Bromley Derry - Chief Executive (Note 2)	188,022	0	46,761	234,783
Mr. C Dutton - Executive Director Regeneration, Planning and Property	170,040	0	42,289	212,329
Mr. R Heaton - Executive Director Resources	160,002	0	0	160,002
Mr. G Betts - Executive Director Adults, Community and Leisure	152,562	3,135	36,810	192,507
Mr. J Duckworth - Chief Executive (note 1)	147,352	20,123	21,633	189,108
Acting Executive Director Children and Young People (note 3)	126,758	0	34,463	161,221
Executive Director Environment	135,756	0	33,763	169,519
Executive Director Customer Services (note 4)	86,666	0	26,023	112,689
<b>Total</b>	<b>1,167,158</b>	<b>23,258</b>	<b>241,742</b>	<b>1,432,158</b>

Note 1 – Left 10/8/10

Note 2 – Started 12/7/10

Note 3 – Started 01/07/10

Note 4 – Started 31/08/10

**Note 11. Members' Allowances**

The total of members' allowances paid in 2010/11 (excluding National Insurance Contributions) was £1,222,000 (£1,299,000 in 2009/10). Full details of members' allowances paid are available on the website and upon request in writing to Member Services, 4th Floor, West Wing, Newham Dockside, London E16 2QU.

## Note 12. Intangibles, Property, Plant and Equipment

	Total Intangible Assets	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Total Operational Assets	Assets under Construction	Surplus Assets	Investment Properties	Total Non Operational Assets	TOTAL ASSETS
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Opening Values</b>												
Gross Value as at March 10	2,817	1,142,919	912,440	39,277	180,564	24,110	2,299,310	5,662	950	94,255	100,867	2,402,994
Revaluation as at April 10	0	0	9,008	0	0	0	9,008	0	0	2,313	2,313	11,321
Revaluation Impairment 1 April 10	0	(414,261)	(28,157)	0	0	0	(442,418)	0	0	(970)	(970)	(443,388)
<b>Value at 1st April 10</b>	<b>2,817</b>	<b>728,658</b>	<b>893,291</b>	<b>39,277</b>	<b>180,564</b>	<b>24,110</b>	<b>1,865,900</b>	<b>5,662</b>	<b>950</b>	<b>95,598</b>	<b>102,208</b>	<b>1,970,927</b>
<b>Transactions</b>												
PFI Revaluation Aug 10	0	0	11,567	0	0	0	11,567	0	0	0	0	11,567
Additions	844	2,180	27,348	13,347	0	0	42,875	0	0	0	0	43,719
Transfers	0	0	(31)	0	0	0	(31)	0	485	(454)	31	0
Corrections and Conversions	0	636	(19,656)	15,123	0	0	(3,897)	0	0	8,677	8,677	4,780
Enhancements	0	58,064	47,619	0	35,372	765	141,820	0	0	0	0	141,820
Reclassifications	0	(1,784)	7,425	0	0	0	5,641	(5,641)	0	0	(5,641)	0
Disposals/Scrapped	0	(3,235)	(5,560)	0	0	0	(8,795)	0	(950)	(1,418)	(2,368)	(11,163)
Transaction Totals	844	55,861	68,712	28,470	35,372	765	189,180	(5,641)	(465)	6,805	699	190,723
<b>Gross Value at 31 March 11</b>	<b>3,661</b>	<b>784,519</b>	<b>962,003</b>	<b>67,747</b>	<b>215,936</b>	<b>24,875</b>	<b>2,055,080</b>	<b>21</b>	<b>485</b>	<b>102,403</b>	<b>102,907</b>	<b>2,161,650</b>
<b>Depreciation</b>												
Cumulative at 1 April 10	(1,608)	(28,491)	(20,981)	(14,121)	(52,099)	0	(115,692)	0	(25)	0	(25)	(117,325)
Depreciation written back on Revaluation/Disposal/Scrap	0	28,486	5,053	0	0	0	33,539	0	0	0	0	33,539
Depreciation written back on Disposal/Scrap	0	180	824	0	0	0	1,004	0	25	0	25	1,029
Depreciation for the year	(474)	(19,966)	(17,111)	(16,168)	(3,420)	0	(56,665)	0	0	0	0	(57,139)
<b>Depreciation at 31 March 11</b>	<b>(2,082)</b>	<b>(19,792)</b>	<b>(32,215)</b>	<b>(30,289)</b>	<b>(55,519)</b>	<b>0</b>	<b>(137,814)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(139,896)</b>
<b>Net Value 31 March 11</b>	<b>1,579</b>	<b>764,727</b>	<b>929,788</b>	<b>37,458</b>	<b>160,417</b>	<b>24,875</b>	<b>1,917,265</b>	<b>21</b>	<b>485</b>	<b>102,403</b>	<b>102,907</b>	<b>2,021,752</b>
<b>Net Value 31 March 10</b>	<b>1,209</b>	<b>1,114,428</b>	<b>891,459</b>	<b>25,155</b>	<b>128,465</b>	<b>24,110</b>	<b>2,183,617</b>	<b>5,662</b>	<b>926</b>	<b>94,255</b>	<b>100,843</b>	<b>2,285,669</b>
<b>Net Value 31 March 09</b>	<b>1,207</b>	<b>1,118,671</b>	<b>866,212</b>	<b>23,870</b>	<b>113,252</b>	<b>21,982</b>	<b>2,143,987</b>	<b>21</b>	<b>766</b>	<b>111,522</b>	<b>112,309</b>	<b>2,257,503</b>

## Note 12a. Intangible Assets

Intangible Assets acquired during 2010/11 are analysed below

<i>Intangible Assets</i>	<i>Carrying Amount £000s</i>
Internally generated	0
Other	844
<b>Total Intangible Assets</b>	<b>844</b>

Intangible assets have an assumed finite useful life of 5 years but are considered on an asset by asset basis. Depreciation charges are included within the Cost of Services line in the Comprehensive Income & Expenditure statement.

<i>Intangible Assets</i>	<i>Carrying Amount £000s</i>
Government Grants	44
Other	800
<b>Total Intangible Assets</b>	<b>844</b>

Initially recognised at cost, with the 'Cost Model' has been adopted after this initial recognition

## Note 13. Analysis of Capital Expenditure 2010/11

2009/10		Total Intangible Assets	Infra structure	Community Assets	Equipment Plant and Vehicles	Asset Acquisition	Housing Enhancement	Assets under Construction	Other	Total PPE	Revenue funded under Capital	Total Assets
£000s		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
43,656	Children and Young People	44	0	0	3,913	0	0	0	47,165	51,078	10,976	62,098
91,968	Housing – HRA	25	0	0	47	3,311	58,064	0	0	61,422	62	61,509
11,478	Housing - General Fund	0	0	0	0	0	0	0	3	3	13,983	13,986
4,255	Culture and Community	0	0	765	1,897	0	0	0	259	2,921	297	3,218
9,570	Corporate	484	0	0	1,754	120	0	0	148	2,022	1,980	4,486
3,391	Adults	231	0	0	258	0	0	0		258	1,748	2,237
8,888	Environment/Regeneration	0	35,372	0	1,579	0	0	0	44	36,995	213	37,208
392	NDC/NFR	0	0	0	42	0	0	0		42	0	42
16,896	Custom House and Canning Town	59	0	0	3,857	0	0	0		3,857	3,967	7,883
<b>190,494</b>	<b>Total Expenditure</b>	<b>843</b>	<b>35,372</b>	<b>765</b>	<b>13,347</b>	<b>3,431</b>	<b>58,064</b>	<b>0</b>	<b>47,619</b>	<b>158,598</b>	<b>33,226</b>	<b>192,667</b>

<i>The main items of capital expenditure during the year were:</i>	£000s	<i>Capital expenditure in the year was financed as follows:</i>	£000s
Improvement and Modernisation of existing housing	57,943	Supported Borrowing - SCE(R)*	64,577
Disabled Facilities and Renovation Grants	1,341	Unsupported Borrowing	10,575
Private Sector Renewal Scheme (ELRP)	6,585	Capital Grants and Contributions	103,129
		Major Repairs Allowance	0
Curwen Primary, new pupil places	2,895	Use of Capital Receipts	10,314
Essex Primary, new pupil places	4,139	Revenue Finance	0
Dersingham Infants, new pupil places	1,173		188,595
Sheringham Junior, new pupil places	6,739	Reduction in Capital Creditors	4,072
Newham Telecom Network Convergence	1,560	<b>Total Expenditure</b>	<b>192,667</b>
Children's Centres Early Years	4,982		
BSF Programme	33,838	<u>Reconciliation to Note 12</u>	
Stratford Town Centre Public Realm	5,383	Additions	43,719
NDS Modernisation Programme	1,392	Enhancements	141,820
Quality and Access	2,832	PFI additional cost included in enhancement above	(26,098)
Custom House and Canning Town Project - Demolitions	4,291	REFCUS	33,226
Custom House and Canning Town Project - Canning Town Roundabout	11,900	<b>Total Expenditure</b>	<b>192,667</b>
Whole Systems Demonstrator	1,328		
TFL Infrastructure Projects	5,493		

\* SCE (R) - Supported Capital Expenditure (Revenue)

**Note 14. Capital Receipts**

The table below shows the sums received by the Council and the use to which they were put in 2010/11. None of the assets disposed of during the year were held for sale as at 31 March 2011.

	<i>Sales of Council Houses</i>	<i>Disposal of other Land and Buildings</i>	<i>Repayments of Grants and Loans</i>	<i>Other</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
<i>Amounts available at 1st April 2010</i>	0	7,572	0	0	7,572
Amounts received in 2010/11	1,653	4,059	0	14	5,726
	1,653	11,631	0	14	13,298
<b>Less</b>					
Costs of Disposal	32	0	0	0	32
Pooling Payments	598	0	0	0	598
Amounts used toward expenditure	1,023	9,277	0	14	10,314
<b>Balance available 31 March 2011</b>	<b>0</b>	<b>2,354</b>	<b>0</b>	<b>0</b>	<b>2,354</b>

### Note 15. Capital Grants and Contributions

The following capital expenditure incurred in 2010/11 has been met from Government Grants and other contributions. Revenue Grants are not shown separately.

2009/10		2010/11
£000s		£000s
	<b>Government Grants</b>	
31,855	Department for Education	53,780
2,121	Department of Health	1,501
3,482	Communities and Local Government	5,865
819	Housing Specified Capital Grant/DFG	894
4,725	Transport for London	5,238
658	Other Government Grants	205
43,660		67,483
17,051	<b>Major Repairs Allowance</b>	0
	<b>Other Grants and Contributions</b>	
6,306	GLA (including East London Renewal Partnership)	5,963
4,573	London Thames Gateway Development Corporation	11,904
4,816	Homes and Communities Agency	13,280
-	LDA	1,509
2,408	Lottery Funds	347
548	Football Foundation	135
3,224	Developers Contributions (including Section 106)	1,698
927	Leaseholder Contributions	-
748	Contributions from schools budgets	458
1,021	Other Contributions	353
24,571		35,647
<b>85,282</b>	<b>Total</b>	<b>103,130</b>

### Note 16. Capital Expenditure Commitments

The Council has authorised capital expenditure of £351 million under its Capital Investment Programme over the three year period 2011/12 - 2013/14, of which £220 million has been committed at 31 March 2011 either through contracts or by virtue of statutory obligations. A further £131 million relates to schemes and programmes approved to proceed but which were not committed at that time. Further analysis is shown below:

	2011/12	2012/13	2013/14	Total
	£000s	£000s	£000s	£000s
Committed	142,393	67,238	10,282	219,913
Uncommitted	42,799	57,747	30,047	130,593
<b>Total</b>	<b>185,192</b>	<b>124,985</b>	<b>40,329</b>	<b>350,506</b>

<b>Commitment Comprises</b>	<b>£000s</b>
Acquisition of property, plant & equipment	11,581
Acquisition of intangible assets	3,268
Other commitments	205,064
<b>Total commitments</b>	<b>219,913</b>

Commitments include the following major schemes and programmes:

<b>Commitments (over £5 million)</b>	<b>£000s</b>
Housing Expenditure 2011/12 (HRA)	47,344
Building Schools for the Future (Wave 1) – Non PFI Element	58,346
Brampton Primary - PCP/ New Pupil Places	5,507
Vicarage Primary - PCP/ New Pupil Places	4,976
Stratford Town Centre Public Realm Project	6,425

Approvals to proceed include the following major items and schemes:

<b>Approvals to Proceed</b>	<b>£000s</b>
Housing Expenditure (HRA) 2012/13 and 2013/14	32,400
Schools Capital Programmes (including Primary Capital Programme)	38,243
Customer Access – East Ham IFO	14,142
Newham Town Hall	11,750
Highways Borough Roads	9,700
Transport for London Projects	6,900

The Council monitors its capital programme on a regular basis, taking action where necessary to ensure that its expenditure does not exceed resources available.

The Council secures the majority of its new capital resources by bidding for specific projects or programmes. In addition, “mainstream” resources from government departments are also targeted at specific schemes and programmes. Thus, the majority of the Council’s capital resources are “earmarked” to specific schemes and programmes and there is very little flexibility to move resources between schemes. While schemes may not yet be committed in contractual or statutory terms, their postponement or cancellation would merely result in an equivalent loss of capital resources. There would be little, if any, capital resource advantage, and it would not enable other, currently unfunded, schemes to proceed.

Should expenditure exceed the levels identified above, in the absence of any further resources this additional expenditure would need to be met from the Council’s remaining revenue reserves, possibly resulting in an increase in Council Tax levels for future years.

#### Note 17. Revenue Expenditure Funded From Capital under Statute

<b>2009/10</b>	<b>Revenue Expenditure Funded from Capital under Statute</b>	<b>2010/11</b>	
<b>£000s</b>		<b>£000s</b>	<b>£000s</b>
	<b>Balance at 31 March 2010</b>		
25,934	Expenditure in year	33,359	
(17,994)	Less capital grant due	0	
850	Prior year adjustment	0	
			33,359
8,790			
(8,790)	Less written off to Comprehensive Income and Expenditure Statement (and HRA)	(33,359)	
<b>0</b>	<b>Balance at 31 March 2011</b>		<b>0</b>

Revenue Expenditure Funded from Capital under Statute was previously known as deferred charges.

## Note 18. Capital Adjustment Account

		<b>CAPITAL ADJUSTMENT ACCOUNT</b>	
		<b>2009/10</b>	<b>2010/11</b>
<b>£000s</b>	<b>£000s</b>		<b>£000s</b>
<b>(1,057,808)</b>		<b>Balance at 1st April</b>	<b>(1,055,210)</b>
		<b>Capital Financing in the year</b>	
	(4,430)	Usable Capital Receipts	(10,314)
(21,481)	(17,051)	HRA use of Major Repairs Allowance	(1,736)
		Minimum Revenue Provision	(12,819)
(11,330)		Depreciation - HRA	21,170
54,451	30,035	Depreciation - Non HRA	25,766
	24,416	Impairment	423,626
189,583		PFI	3,419
102,523		Government Grants	(104,272)
(319,938)		Write Down of Revenue Expenditure by Capital under Statute	33,359
8,790		Leases- CAA adjustment	(3,544)
<b>(1,055,210)</b>		<b>Balance at 31 March</b>	<b>(680,555)</b>

## Note 19. Revaluation Reserve

<b>2009/10</b>	<b>REVALUATION RESERVE</b>	<b>2010/11</b>
<b>£000s</b>		<b>£000s</b>
<b>(54,853)</b>	<b>Balance at 1st April</b>	<b>(149,455)</b>
(116,781)	Revaluation gain	(32,739)
18,364	Revaluation loss	3,868
0	Revaluation removal – lease classification	2,335
0	Depreciation in year	1,146
3,816	Write out asset on disposal	620
<b>(149,454)</b>	<b>Balance at 31 March</b>	<b>(174,225)</b>

The closing balance on the Revaluation Reserve at 31 March 2011 only shows revaluation gains accumulated since 1st April 2007.

## Note 20. Contingent Liabilities

There is a contingent liability for stamp duty on the transfer of properties to Local Space. If this liability becomes payable, then it would have to be financed from capital reserves. At present the situation is subject to legal review. At this point in time it is not practicable to include an estimate.

## Note 21. Related Party Transactions

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

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 34. Grant receipts outstanding at 31st March 2011 are shown in note 24.

The Council has prepared this disclosure in accordance with its interpretation and understanding of IAS24 and its applicability to the public sector utilising current advice and guidance.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2010/11 is shown in Note 11. During 2010/11, there are no declarable related party transactions with the exception of the following:-

- a) Councillors Holland, Ahmad MBE and McAuley were board member of Newham Homes, to which the Council paid £24,338k in 2010/11.
- b) Councillor Furness was appointed to Newham Primary Care Trust to which the Council paid £1.1m in 2010/11.
- c) Councillor McAuley is a non-executive director of the Newham Primary Care Trust and East London Foundation Trust. He is also a member of London Thames Gateway Development Trust. The Council paid £2.6m in 2010/11 to the East London Foundation Trust

### Officers

There are no known declarable related party transactions with Officers.

### Other Public Bodies

The Council has a controlling interest in Newham Homes (a wholly owned subsidiary).

### Pension Fund

During the financial year, the pension fund had an average balance of £82k of surplus cash deposited with the Authority. The Authority paid the fund a total for interest of £425k on these deposits. From 1 April 2011 the Pension Fund will have a separate bank account from the Council and will earn interest on this account through active investment.

Companies and joint ventures – the Council has a controlling interest in Newham Homes (a wholly owned subsidiary).

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2010/11 is shown in note 11. Members of the Authority participate in and are members of a variety of other public bodies and community groups. The Council has well established mechanisms and procedures for preventing undue influence. Part of this mechanism is the disclosure of interests in the register of members' interests which is open to public inspection on the LBN website.

The Council have had transactions with the related parties disclosed in Note 29. All transactions have been made on an arms length basis and commercial terms. These transactions have not been disclosed separately as it is impractical to do so. Enquiries can be made with the Council regarding these transactions via Freedom of Information requests

## Note 22. Financial Instruments Balance

## Note 22a. Disclosure of Financial Assets and Liabilities 1st April 2011

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

£000s	Long-Term		Current	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
Financial liabilities (principal amount)	860,442	907,684	325,406	238,505
+ Accrued Interest	0	0	21,462	19,046
+/- Other accounting adjustments	3,510	3,556	-	-
Financial liabilities at amortised cost (1)	863,952	911,240	346,868	257,551
Financial liabilities at fair value through profit or loss (2)	-	-	-	-
<b>Total borrowings</b>	<b>863,952</b>	<b>911,240</b>	<b>346,868</b>	<b>257,551</b>
<b>Loans and receivables (principal amount)</b>	<b>110,300</b>	<b>133,600</b>	<b>193,000</b>	<b>158,500</b>
+ Accrued interest	3,818	3,021	2,696	3,090
+/- Accounting adjustments	(1,654)	(365)	-	(759)
<b>Loans and receivables at amortised cost (1)</b>	<b>112,464</b>	<b>136,256</b>	<b>195,696</b>	<b>160,831</b>
<b>Total investments</b>	<b>112,464</b>	<b>136,256</b>	<b>195,696</b>	<b>160,831</b>
<b>of which Cash Equivalents</b>			<b>(326)</b>	<b>(63,795)</b>
<b>Short term Investments</b>			<b>195,370</b>	<b>97,036</b>
<b>Soft loans provided (4)</b>	<b>1,123</b>	<b>1,329</b>	<b>0</b>	<b>0</b>

1. Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price. The Council's financial liabilities have increased as a result of borrowing to finance the capital programme.

2. Fair value has been measured by:

- Direct reference to published price quotations in an active market; and/or
- Estimating using a valuation technique.

3. Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. This council has not made any financial guarantees.

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

During the year no financial instruments were re-classified. The Council also has not pledged any collateral for financial liabilities, nor does it hold any collateral which it is permitted to sell or re-pledge. The amounts above include the principal amounts of the impaired investments with Icelandic banks. Normal provisions have been made for trade and similar debtors, and there have been no defaults of breaches.

#### Note 22b. Financial Instruments Gains/Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows.

<b>Financial Instruments Gains and Losses 2010/11</b>					
	<b>Financial Liabilities</b>	<b>Financial Assets</b>			
	<b>Liabilities measured at amortised cost £000s</b>	<b>Loans and receivables £000s</b>	<b>Available-for-sale assets £000s (1)</b>	<b>Fair value through the landE £000s (2)</b>	<b>Total £000s</b>
Interest expense	(58,266)				(58,266)
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	(58,266)				(58,266)
Interest income		7,133		(326)	6,807
<b>Total income in Surplus or Deficit on the Provision of Services</b>		7,133		(326)	6,807
Gains on revaluation		269			269
<b>Net gain/(loss) for the year</b>	(58,266)	7,402		(326)	(51,190)
<b>Financial Instruments Gains and Losses 2009/10</b>					
	<b>Financial Liabilities</b>	<b>Financial Assets</b>			
	<b>Liabilities measured at amortised cost £000s</b>	<b>Loans and receivables £000s</b>	<b>Available-for-sale assets £000s (1)</b>	<b>Fair value through the landE £000s (2)</b>	<b>Total £000s</b>
Interest expense	(54,029)				(54,029)
Impairment losses		(665)			(665)
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	(54,029)	(665)			(54,694)
Interest income	0	7,994	0	365	8,359
<b>Total income in Surplus or Deficit on the Provision of Services</b>	0	7,994	0	365	8,359
<b>Net gain/(loss) for the year</b>	(54,029)	7,329	0	365	46,335

The Financial asset at fair value through the Comprehensive Income and Expenditure Statement includes forward dealt investments. In March 2011 a £20m investment was agreed to be settled in April 2011, in October 2007 three forward deals were agreed to be settled in October 2009, 2010 and 2011 for maturity in October 2012; these deals were intended to cover the cash flow requirements for the potential interest payment of a loan commitment. The gain represents the value compared with prevailing market rates as at the balance sheet date.

### Note 22c. Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011		31 March 2010	
	Carrying Amount	Fair value	Carrying Amount	Fair value
	£000s	£000s	£000s	£000s
PWLB Debt	620,808	811,572	623,084	792,997
Non-PWLB Debt	590,013	624,507	545,707	600,279
<b>Total Debt</b>	<b>1,210,821</b>	<b>1,436,079</b>	<b>1,168,791</b>	<b>1,393,276</b>
Trade creditors - sundry	102,462	102,462	130,022	130,022
<b>Total Liabilities</b>	<b>1,313,283</b>	<b>1,538,541</b>	<b>1,298,813</b>	<b>1,523,298</b>

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

31 March 2010			31 March 2011	
Carrying Amount	Fair value		Carrying Amount	Fair value
£000s	£000s		£000s	£000s
297,087	299,056	Money market investments	308,161	303,558
144,797	144,797	Trade debtors - sundry	137,695	137,695
<b>441,884</b>	<b>443,853</b>	<b>Total Assets</b>	<b>445,856</b>	<b>441,253</b>

The differences are attributable to fixed interest instruments receivable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

Fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and include accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

## Note 23. Disclosure of Nature and Extent of Risk Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk** – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### Note 23a. Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's Annual Council Tax Setting Budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 22/02/10 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2010/11 was set at £1,526m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £1,430m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £1,149m and £350m based on the Council's net debt.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

### Note 23b. Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Ratings Services. The Annual Investment Strategy considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criterion is applied. Details of the Investment strategy (part of the annual treasury management strategy mentioned above) can be found on the Council's website.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

#### Icelandic Banks

Investments included in current assets figure in the Balance Sheet include the following investments that have been impaired because of the financial difficulties experienced by Icelandic Banks.

<i>Bank</i>	<i>Date Invested</i>	<i>Maturity Date</i>	<i>Amount Invested</i>	<i>Interest Rate</i>	<i>Carrying Amount</i>	<i>Impairment</i>
			<b>£000s</b>	<b>%</b>	<b>£000s</b>	<b>£000s</b>
Landsbanki	10/12/07	10/12/12	2,000	7.03	1,581	817
Glitnir Bank	03/12/07	03/12/12	5,000	7.01	5,205	994

The carrying amounts of the investments included in the balance sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate.

The Balance Sheet shows the net impact of the impairment of the Icelandic Banks investment in the Financial Instruments Adjustment Account (FIAA) regulations issued in March 2009 allow the authority to defer the impact of an impairment loss on the General Fund. Such amounts are instead transferred to the FIAA, an account that records the timing differences between charging these amounts to the General Fund in accordance with proper practice and in accordance with the regulations. The Authority has taken advantage of the regulations, and has transferred the amounts shown in the following table to the FIAA.

<i>Bank</i>	<i>Amount Transferred to Financial Instruments Adjustment Account</i>
	<b>£000s</b>
Landsbanki	817
Glitnir Bank	994

Under the regulations, the Authority had to transfer the balance on the FIAA to the General Fund by 31 March 2011 and credit the FIAA. The Authority made the following credits to the FIAA:

<i>Bank</i>	<i>Balance on FIAA at 31/3/10</i>	<i>Change in Principal Impairment 2010/11</i>	<i>Transfer to the General Fund</i>	<i>Balance on FIAA at 31/3/11</i>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Landsbanki	508	(89)	419	0
Glitnir Bank	(28)	(178)	(206)	0

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

The Council requested a Capitalisation Direction to cover the expected impairment loss but this was refused by the CLG.

#### Glitnir Bank hf and Landsbanki

The impairment for Glitnir and Landsbanki in 2010/11 is based on the assumption that local authority deposits with the bank have priority status, and would therefore be repaid ahead of any creditors that did not have priority status. This was based on the legal advice obtained by local authorities, and on announcements made by the banks.

Local authorities' legal advice remains that deposits have priority status under Icelandic law however decisions on the priority status of local authority deposits will be made by the Icelandic courts. The Icelandic District Court confirmed the position on 1st April 2011 in relation to priority status of UK local authorities' claims but an appeal has been lodged with the Icelandic Supreme Court. It is unlikely that the position on priority status will be known until mid 2011/12 however the impairment for 2010/11 has been calculated on the basis that priority status for Glitnir will be confirmed and a 100% repayment received in 2011/12, and for Landsbanki 94.86% received between December 2011 and December 2018.

Deposits with the Icelandic-domiciled banks were converted to Icelandic Krona on 22nd April 2009. Repayments by the banks will be based on the value of the deposit in ISK; the sterling value received by authorities will depend on the prevailing exchange rate, and may therefore be lower than the equivalent value on 22nd April 2009.

Therefore in calculating the impairment the Council has made the following assumptions with regard to the timing of recoveries:

Glitnir: 100% recoverable in December 2011.

Landsbanki:

Date	Repayment	Date	Repayment
December 2011	22.17%	December 2015	8.87%
December 2012	8.87%	December 2016	8.87%
December 2013	8.87%	December 2017	8.87%
December 2014	8.87%	December 2018	19.47%

If the Council does not receive priority status the expected repayments will be for Glitnir 29% between December 2011 and December 2015 and for Landsbanki 38.19% between December 2011 and December 2018.

The Council has decided to use part of its provision of £1.245 million for Icelandic Bank deposit impairment charges established in 2009/10 from the capital financing budget. £213k has been applied from the provision to fund the crystallised impairment charge in 2010/11 based on both bank claims receiving priority status.

#### Note 23c. Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well through cash flow management procedures required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

### Note 23d. Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

<i>Amount at 31 March 2010</i>	<i>Maturity Analysis of Financial Liabilities</i>	<i>Amount at 31 March 2011</i>
<b>£000s</b>		<b>£000s</b>
257,551	Less than 1 year	346,869
102,837	Between 1 and 2 years	50,000
42,334	Between 2 and 5 years	100,000
136,244	Between 5 and 10 years	155,584
629,825	More than 10 years	558,368
<b>1,168,791</b>	<b>Total</b>	<b>1,210,821</b>

The maturity analysis of financial assets is as follows:

<i>Amount at 31 March 2010</i>	<i>Maturity Analysis of Financial Assets</i>	<i>Amount at 31 March 2011</i>
<b>£000s</b>		<b>£000s</b>
160,831	Less than 1 year	195,696
59,716	Between 1 and 2 years	85,285
66,620	Between 2 and 3 years	9,941
9,920	More than 3 years	17,239
<b>297,087</b>	<b>Total</b>	<b>308,161</b>
144,797	Trade debtors	137,695
<b>441,884</b>	<b>Total</b>	<b>445,856</b>

The amounts shown above include principal amounts for the Icelandic banks.

### Note 23e. Market Risk

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing liability will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Statement of Adjustments between Accounting Basis and Funding Basis under regulations, unless the investments have been designated as Fair Value through the Comprehensive Income and Expenditure Statement, in which case gains and losses will be posted to the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team monitors market and forecast interest rates within the year to adjust exposures appropriately.

For instance during periods of falling interest rates, and where economic circumstances make it favourable fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

An increase of 1% in discount rates would affect fair value as follows:

<i>Amount at 31 March 2010</i>	<i>Interest Rate Variance Calculation</i>	<i>Amount at 31 March 2011</i>
<b>£000s</b>		<b>£000s</b>
139,891	Increase in interest payable on variable rate borrowings	90,483
1,407	Increase in interest receivable on variable rate investments	1,467
141,298	<b>Impact on Comprehensive Income and Expenditure Statement</b>	91,950

The approximate impact of a 1% fall in discount rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

**Price risk** - The Council, excluding the Pension Fund, does not generally invest in equity shares and therefore is not exposed to losses arising from movements in share prices.

**Foreign exchange risk** - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Cash investments are valued at nominal value.

## Note 24. Analysis of Trade and Other Receivables / Allowance for Receivables

1 April 2009	31 March 2010		31 March 2011
<b>£000s</b>	<b>£000s</b>	<b>Trade and Other Receivables</b>	<b>£000s</b>
35,610	33,386	Government Departments	23,199
5,137	1,611	Other Statutory Authorities	16,887
900	1,782	Other Local Authorities	648
26,958	31,118	Ratepayers/Charge payers	28,919
23,544	24,092	Housing Rents	19,861
2,399	2,432	Other Rents	2,077
513	577	Staff Loans	591
3,367	7,198	Housing Benefit Claimants (overpayments)	0
28,221	34,520	Sundry Debtors	35,380
6,339	8,081	Prepayments	76,167
32,100	35,388	Other Balances	68
<b>165,088</b>	<b>180,185</b>		<b>203,797</b>
		<b>Allowance for Receivables</b>	
(3,513)	(4,553)	NNDR	(2,346)
(10,819)	(10,801)	Council Tax	(12,992)
(19,807)	(20,547)	Housing Rents	(16,238)
(3,271)	(4,362)	Housing Benefit (overpayments)	(4,362)
(878)	(1,043)	NNDR Costs	(1,044)
(499)	(589)	Residential Accommodation Charges	(108)
(3,689)	(4,946)	Sundry Debts	(5,073)
<b>(42,476)</b>	<b>(46,841)</b>		<b>(42,163)</b>

## Note 25. Analysis of Short term Payables

1 April 2009	31 March 2010		31 March 2011
<b>£000s</b>	<b>£000s</b>		<b>£000s</b>
(57,972)	(60,315)	Government Departments	(25,029)
(287)	(538)	Other Statutory Authorities	(1,214)
(2,197)	(4,422)	Other Local Authorities	(2,701)
(5,320)	(5,400)	Ratepayers/Charge payers	(5,486)
(3,268)	(3,247)	Housing Rents	(3,556)
(44,924)	(38,896)	Sundry Creditors	(35,127)
(7,427)	(17,204)	Receivables in advance	(18,446)
0	0	Other Balances	(7,908)
<b>(121,395)</b>	<b>(130,022)</b>		<b>(99,467)</b>

## Note 26. Inventories and Work in Progress

1 April 2009	31 March 2010		31 March 2011
£000s	£000s	<b>Trade and Other Receivables</b>	£000s
931	612	Stocks	681
472	132	Work in Progress	349
<b>1,403</b>	<b>744</b>		<b>1,030</b>

## Note 27. Provisions

The Council has made the following provisions;

2009/10 Total	PROVISION	Insurance	Other	2010/11 Total
£000s		£000s	£000s	£000s
(12,376)	Balance at 1 <sup>st</sup> April	(6,087)	(6,729)	(12,816)
(10,388)	Contribution to Provision	(3,713)	(2,341)	(6,054)
9,211	Charge to Provision	2,800	3,010	5,810
737	Transfer to/(from) Reserve	0	0	0
<b>(12,816)</b>	<b>Balance at 31 March</b>	<b>(7,000)</b>	<b>(6,060)</b>	<b>(13,060)</b>

**Insurance** - A provision of £7million has been recognised for expected claims notified to the Council at 31 March 2011 under the Council's internal insurance arrangements. Further details are included in Note 28 below. Timing of future cash flows is uncertain due to the nature of the settlement of insurance claims.

**Other** - There are other provisions of £6.1 million in place for matters yet to be resolved. This includes a £0.693 million provision for future re-organisation costs. A total of £13.1 million has been set aside in 2007/08, 2008/09 and 2009/10 for the cost of the Council's continuing re-structuring. The medium term budget strategy has provided a total of £17 million for the re-structuring process, the remaining £3.9 million will provided within the 2010/11 and 2011/12 budgets. The balance within the provision will be reviewed as the re-structuring progresses.

**Note 28. Risks covered by Internal Insurance arrangements**

The Council's insurance arrangements involve both internal and external cover. Internal cover is provided by way of a Provision for all claims notified to the Council at 31 March each year (the amount provided for those claims being based on advice from the Council's Insurers), and a Reserve for claims not yet reported but likely to have been incurred. Some risks are not fully funded, with losses up to a specified amount being met from revenue as they arise. The nature of risks covered by the internal arrangements is shown below:

<i>Risk</i>	<i>Maximum Cover per Claim</i>
Employers Liability	£100,000 - amounts in excess of this covered externally
Third Party	As above
Fire Damage	£150,000 - excess as above
Fidelity Guarantee	£50,000 - excess as above
Loss of School Contents	All claims, but the first £400 is charged to the school
Loss of School Computers/building	The first £200 is charged to the school, but the first £400 when it is computers and building in one incident.
Cash Loss	The first £100 of each claim is met by the service concerned – amounts in excess of this are covered externally
Loss of Computers	As in Cash Loss, but excess is £500
Damage/Theft of Vehicles and Third Party risks.	£100,000 – amounts in excess of this are covered externally

The level of the Provision at 31 March 2011 was £7million, with the balance on the Reserve within the General Fund Account being £13.3 million. External cover is provided by way of premiums paid to the Council's Insurers. Following Insurance tender in December 2010, the level of excess for liability remains at £100,000.

## Note 29. Council Association with External Bodies

In order to achieve its aims and objectives, the Council pursues an active policy of “partnership” arrangements with other bodies active in the Borough. In many cases these arrangements result in the Council having a formal “association” with such bodies.

The Council’s formal association with other bodies would normally be via the appointment of Council representative(s) to the board of the organisation. This association may lead to the Council having a financial interest in the organisation e.g. through voting rights at board meetings, or the allocation of shares in the organisation.

The Council reviews its appointments to other bodies at its meetings. Full details of all such appointments are contained in minutes of the meetings. It is Council policy that its representatives serving on Management Committees of voluntary organisations are there as observers without voting rights.

The Council has also reviewed its interests in other bodies, including share ownership and voting rights, and considers that it does not have any material interests in other organisations that require disclosure under the Accounts Code. However, while not requiring formal disclosure, the Council’s relationships with external bodies are set out below for information:

Organisation	Purpose and Relationship
London East Connexions Partnership (LECP)	The London East Connexions service spans 10 Local Authorities. It provides integrated careers information, guidance and advice to young people and employers. The delivery of the service is managed and monitored by local management groups. Newham Connexions LMG is one such group. The Council appoints one member to the group. This organisation was previously known as Newham Connexions Local Management Group.
Gateway to London Ltd	To secure inward investment and business retention in Newham and associated Thames Gateway Boroughs. Newham currently has one Councillor on the board of Gateway to London representing Thames Gateway Partnership.
Greater London Enterprise Ltd (GLE)	To promote the economic regeneration of Greater London. The Council is one of 13 “original ordinary members” of the company.
Newcred	Newcred provides low cost loans and financial products to its members, who must live or work within Newham. Two members of the Council are on a board of 12 directors.
Newham Education Employer Partnership Ltd	To advance the education and training of children and young persons within the Borough, with particular reference to future employment. Councillors were formerly members of a steering group. The steering group has now been disbanded.
Newham Music Trust	To provide tuition in musical instruments. The Council appoints three members to a board of 12 Trustees.
Local Space	Housing Association with the aim of creating high quality, long-term social housing. Merged with Passmore Urban Renewal to create a neighbourhood regeneration offer.
Royal Docks Trust (London)	To support the community in that part of Newham that lies to the south of the A13. The Council appoints two members to a board of 7-17 (including co-optees) trustees.
Thames Gateway London Partnership	To promote economic growth and inward investment for the regeneration of the Thames Gateway in partnership with the private sector and local community. It is an unincorporated association of public bodies. Newham has two Councillors on a board of ten.
Winsor Park Management Company	To monitor and maintain the integrity of reclamation works at Winsor Park, to maintain common landscaped areas and to recover costs by way of service charges. The Royal Docks Trust (London) is a “special share” holder.

West Ham and Plaistow New Deal Partnership Ltd	A community based regeneration programme funded by New Deal for Communities (NDC) to improve the West Ham and Plaistow areas. The Council appoints three members to a board of 24.
--	--

Newham Homes is a wholly owned subsidiary of the Council. It has been classified as a group undertaking and included in the Council's group accounts. Newham Homes is to be re-integrated to Newham Council as of 1st April 2011.

Local Space is a provider of short term leased accommodation to Newham Council. It was formed on the 10th February 2006 when the Council transferred 450 properties to Local Space providing the working capital required enabling the acquisition of further accommodation. Newham Council appoints three members to a board of nine. The Council does not have access to the profits of Local Space and as such it is not appropriate to consolidate Local Space accounts within the Council group, instead this note to the accounts has been provided.

The Council have had transactions with the related parties disclosed in Note 29. All transactions have been made on an arms length basis and commercial terms. These transactions have not been disclosed separately as it is impractical to do so. Enquiries can be made with the Council regarding these transactions via Freedom of Information requests

### Note 30. Post Balance Sheet Events

The Statement of Accounts for 2010/11 is to be approved by Audit Board on 21<sup>st</sup> September 2011. Any material post balance sheet events are considered before the final accounts receive audit opinion.

Newham Homes has ceased to be an Arms Length Management Organisation with effect from the 1<sup>st</sup> April 2011. All functions undertaken by the ALMO have been transferred back to the London Borough of Newham from the same date. Net Assets transferred on the 1<sup>st</sup> April 2011 total £5.1m with reserves of £1.8m.

An IAS19 pension liability of £23.6 million exists to provide for the pension deficit of Newham Homes employees as at 31 March 2011. Newham Homes liability relates to the period of service carried out by the ALMO's employees up to 1st December 2005, the point at which they transferred to the ALMO; and to Newham Estate's employees up to 1st April 2008, the point at which they transferred. From 1st April 2011 Newham Homes was reintegrated into the Council and this deficit will be incorporated into the Council's liabilities.

## Note 31. Cash Flow Statement

	2010/11 £000	2009/10 £000
<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(307,643)</b>	<b>(159,491)</b>
<b><u>Adjust net surplus or deficit on the provision of services for non cash movements</u></b>		
Depreciation	46,936	(65,934)
Impairment and downward valuations	413,277	0
Adjustments for effective interest rates	(314)	0
Increase/Decrease in Interest Creditors	(40,508)	0
Increase/Decrease in Creditors	4,674	4,509
Increase/Decrease in Interest and Dividend Debtors	(402)	(7,694)
Increase/Decrease in Debtors	60,140	(1,276)
Increase/Decrease in Inventories	(286)	659
Pension Liability	(24,210)	(9,236)
Contributions to/(from) Provisions	(206)	440
Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	11,103	0
Carrying amount of short and long term investments sold	24,896	0
<b>Other</b>		
Other Operating Expenditure	13	0
Stratford School Movements	(236)	0
Recoupment of CYPS Provision 09/10	450	0
Contribution to Collection Fund Deficit	(1,288)	0
	<b>494,039</b>	<b>(78,532)</b>
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
Capital Grants credited to surplus or deficit on the provision of services	(104,374)	178,268
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(5,694)	0
	<b>(110,068)</b>	<b>178,268</b>
<b>Net Cash Flows from Operating Activities</b>	<b>76,328</b>	<b>(59,755)</b>

## Note 31a. Cash Flow Statement – Operating Activities (Interest)

	2010/11 £,000	2009/10 £,000
<b>Operating activities within the Cash Flow statement include the following cash flows relating to interest</b>		
Ordinary interest received	7,076	7,694
Other adjustments for differences between Effective Interest Rates and actual interest receivable- <i>Investments</i>	(268)	(364)
Opening Debtor	6,111	7,300
Closing Debtor	(6,513)	(5,747)
<b>Interest Received</b>	<b>6,406</b>	<b>8,883</b>
Interest charge for year	(58,266)	(54,029)
Adjustments for differences between Effective Interest Rates and actual interest payable	(46)	709
Opening Creditor	(19,045)	(19,945)
Closing Creditor	21,463	22,557
<b>Interest Paid</b>	<b>(55,894)</b>	<b>(50,708)</b>

## Note 31b. Cash Flow Statement – Cash Flows from Investing Activities

	2010/11 £,000	2009/10 £,000
Property, Plant and Equipment Purchased	(76,490)	(15,234)
Purchase of Investment Properties		
Other Capital Payments	(141,819)	(162,323)
Add back PFI assets (non cash flow item)	50,761	72,981
Movement on other capital creditors	4,072	(417)
Purchase of Property, Plant and Equipment, investment property and intangible assets	<b>(163,476)</b>	<b>(104,993)</b>
Purchase of short term investments	(35,625)	(58,247)
Purchase of short and long term investments	<b>(35,625)</b>	<b>(58,247)</b>
Proceeds from the sale of property plant and equipment, investment property and intangible assets	<b>5,695</b>	<b>3,946</b>
Other capital cash receipts	19	0
Capital Grants Received	<b>106,493</b>	<b>79,533</b>
Other Receipts from Investing Activities	<b>106,512</b>	<b>79,533</b>
<b>Total Cash Flows from Investing Activities</b>	<b>(86,894)</b>	<b>(79,761)</b>

**Note 31c. Cash Flow Statement – Cash Flows from Financing Activities**

	2010/11	2009/10
	£,000	£,000
Cash receipts of short and long term borrowing	72,478	255,678
Billing Authorities - Council Tax and NNDR adjustments	(12,272)	(4,232)
Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account	0	0
Repayment of Short-Term and Long-Term Borrowing	(30,143)	(104,076)
Other receipts from financing activities	0	0
Payments for the reduction of a finance lease liability	(2,678)	(2,678)
Payments for the reduction of a PFI liability	(10,678)	(11,093)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	<b>(13,356)</b>	<b>(13,771)</b>
<b>Total Cash Flows from Financing Activities</b>	<b>16,707</b>	<b>133,599</b>

**Note 31d. Cash Flow Statement – Make up Cash and Cash Equivalents**

	2010/11	2009/10
	£,000	£,000
Cash at Hand	39,528	30,150
Bank Overdraft	(42,677)	(39,440)
Cash and Bank Balances	(3,149)	(9,290)
Transfer from Short Term Investments	327	63,795
<b>Cash and Bank Equivalents (Balance Sheet)</b>	<b>(2,822)</b>	<b>54,505</b>

## Note 32. Trust and Gift Funds

The Council administered trust and gift funds with a value of £2.829 million at the end of the year (£1.834 million at 31 March 2010). These are not included in the Balance Sheet.

2009/10	<i>Trust and Gift Funds</i>	2010/11
<i>£000s</i>		<i>£000s</i>
1,994	Fund Balances at 1st April	1,834
612	Income	2,242
(772)	Payments	(1,247)
<b>1,834</b>	Fund balances at 31 March	<b>2,829</b>
	<b>The following individual fund balances are held:</b>	
497	Social Care Trust Funds	1,468
1,337	Newham Mayors' Trust Fund	1,361
<b>1,834</b>	<b>TOTAL</b>	<b>2,829</b>

These funds represent cash and investments held by but not belonging to the Authority. Property funds are those amounts held on deposit from third party organisations occupying Newham Dockside offices. The deposits have now been returned.

## Note 33. Pension Note

**Teachers** - In 2010/11 the Council paid £16.8 million (£16.0 million in 2009/10) to the Department for education in respect of teachers' pension costs. This was based on a contribution rate of 14.1%.

The teachers' scheme is a Defined Benefit Scheme. As it is a pooled scheme, the Authority is unable to identify its share of the underlying assets and liabilities.

**Other Employees** - As part of the terms and conditions of its officers and other employees, the Council offers retirement benefits. Although these will not be payable until employees retire, the Council has a commitment to make these payments and this commitment needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme. This is a Defined Benefit Statutory Scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level estimated to balance the pension liabilities with investment assets.

In 2010/11, pension costs have been charged to the Comprehensive Income and Expenditure Statement on the basis of current service cost of contribution as determined by IAS19 (Accounting for Retirement Benefits).

In 2010/11, the Council paid an employer's contribution of £32.6 million (£37.4 million in 2009/10) into the Pension Fund, representing 22.7% of pensionable pay.

The contribution rate is determined by the Fund's Actuary following an actuarial valuation that is carried out every three years. Under Pension Fund Regulations, contribution rates are set to meet 100% of the overall liabilities of the fund.

The contribution rates used in 2010/11 are based on the valuation at 31 March 2007, which recommended a contribution rate of 22.7%. This level of contribution is set by the Actuary in order to reduce the shortfall in the scheme's funding.

Following a triennial valuation in 2010, the actuary agreed a stepped employer contribution rate of 21.7% in 2011/12 and 22.9% for 2012/13 and 2013/14 – this equates to an average rate of 22.5% over these three years.

The Full service contribution rate is 13.7% and can be viewed as a fixed rate for the three years. The Deficit recovery rate will be 8% in 2011/12 and then 9.2% in 2012-14.

The Council is responsible for all pension payments relating to added years it has awarded, together with subsequent pension increases. In 2010/11 these amounted to £1.7 million, representing 1.2% of pensionable pay (£1.9 million and 1.2% in 2009/10).

Further details on the Council Pension Fund Scheme are on note 39 (IAS19) and the Pension Fund Account of this publication.

#### Transactions relating to retirement benefits - CIES Charges:

The Council recognises the cost of retirement benefits in the Cost of Services on Continuing Operations when they are earned by employees, rather than when the benefits are eventually paid as pensions.

The net charge to the CIES is calculated in the table below:

#### Pension Costs

##### Charges to the statements of performance

The amount charged to the Comprehensive Income and Expenditure Statement, HRA Income and Expenditure Account and the Statement of Total Recognised Gains and Losses for employees' pensions should be in accordance with IAS19 Retirement Benefits.

#### Pensions Reserve

The amount chargeable to the General Fund for providing pensions for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Where this amount does not match the amount charged to the Comprehensive Income and Expenditure Statement for the year the difference should be taken to the Pensions Reserve.

Where the pension costs charged to the Comprehensive Income and Expenditure Statement are:

- larger than the amount payable for the year in accordance with the scheme requirements, the General Fund Balance should be credited and the Pensions Reserve debited; or
- Smaller than the amount payable for the year in accordance with the scheme requirements, the General Fund Balance should be debited and the Pensions Reserve credited. The debit or credit to the General Fund should be shown as a reconciling item in the Statement of Movement on the General Fund Balance.

The adjusted net return on assets is as follows:

2009/10		2010/11
£000s		£000s
56,299	Interest on Pension Liabilities	63,230
(30,316)	Expected Return on Assets	(40,851)
<b>25,983</b>	<b>Total Per Comprehensive Income and Expenditure Statement</b>	<b>22,379</b>

#### Fair Value of Plan Assets:

	31/03/09 £,000	31/03/10 £,000	31/03/11 £,000
Equity investments	340,684	405,322	436,392
Bonds	66,232	80,336	112,792
Property	39,434	68,648	85,164
Diversified	43,768	41,744	82,339
Cash	9,735	6,266	12,012
<b>Total</b>	<b>499,853</b>	<b>602,316</b>	<b>728,699</b>

The above asset values are at bid value as required by IAS 19.

### Note 33.a Pension Commitments

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

**Actuarial Position** - The level of contribution payable by the Council to the Fund during 2010/11 was based on the actuarial valuation as at 31 March 2007. An actuarial valuation was undertaken as at 31 March 2007 to set contribution rates for the three years commencing 2008/09.

The market value of the Fund's assets at 31 March 2007 was £618.5 million, compared to liabilities of £862.2 million, representing 72% of the Fund's accrued liabilities, allowing for future pay increases.

In 2010 a triennial valuation was completed to cover the period 1<sup>st</sup> April 2011 to 31 March 2014. The market value of the Fund's assets at 31 March 2010 was £636.7million, compared to liabilities of £886.8 million, representing 72% of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rates have been calculated using the projected unit actuarial method, the key feature of this method is that in assessing the future service cost the actuary can calculate the contribution rate which meets the cost of one year of benefit accrual. The main actuarial assumptions used in the 2007 and 2010 valuations are shown in the following table.

Assumptions	2007 Valuation	2010 Valuation
Rate of Return on Investments	6% Equities	6.7% Equities
Rate of General Pay Increases	4.9% per annum	4.7% per annum
Rate of Increase to Pensions in Payment (in excess of GMPs)	3.1% per annum	3.5% per annum
Valuation of Assets	Market value based on average values of assets in the 12 months prior to 31 March 2008	Assets have been valued at a 6 month smoothed market value straddling the valuation date.

The 2010 valuation sets the required rate of contribution by the Council for 2011/12 at 21.7% of pensionable pay. This rate of contribution is that which, when added to the contributions paid by the members, is sufficient to meet the following:

- 100% of the liabilities arising in respect of service after the valuation date; plus
- an adjustment over a period of 20 years to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets from 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

**Deficit Recovery Period** - in order to address this deficit whilst managing the costs of the Scheme to the taxpayer, the Fund continued to follow Communities and Local Government guidance and stabilise contribution rates by adopting a deficit recovery period of 20 years from 1st April 2011, (17 years at the 2007 Valuation). It was necessary to extend the deficit recovery period due to investment returns being lower than forecast in the 2007 valuation.

The 2008 IAS19 exercise as at the 31 March 2010 calculated that the Council had the following overall assets and liabilities for pensions:

Financial Assumptions	As at 31 March 2010	As at 31 March 2011
Assumptions	% per annum	% per annum
Price Increases - RPI	3.9	3.5
- CPI	N/a	2.7
Salary Increases	5.7	5.0
Pension Increases	3.9	2.7
Discount Rate	5.5	5.5

<i>Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses in Reserves</i>	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2008</i>	<i>Year to 31 March 2009</i>	<i>Year to 31 March 2010</i>	<i>Year to 31 March 2011</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Actual return less expected return on pension scheme assets	7,990	(76,793)	(156,742)	93,886	(6,116)
Experience gains and losses arising on the scheme liabilities	0	(23,945)	198,949	0	114,315
Changes in Financial Assumptions underlying the present value of the scheme	96,757	(596)	0	(429,827)	146,983
<b>Actuarial gain/(loss) recognised in reserves</b>	<b>104,747</b>	<b>(101,334)</b>	<b>42,207</b>	<b>(335,941)</b>	<b>255,182</b>
<i>Movement in Surplus/Deficit During the Year</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Surplus/(deficit) at beginning of the year	(429,743)	(323,280)	(428,306)	(393,369)	(756,509)
Current Service Cost	(26,065)	(23,188)	(23,394)	(15,139)	(35,808)
Employer contributions	31,374	35,754	33,527	33,456	32,854
Contributions in respect of Unfunded Benefits	3,139	3,392	4,142	4,110	1,961
Past service costs	0	(6,398)	0	0	103,524
Impact of settlements and curtailments	(600)	(958)	(754)	(5,680)	(838)
Net return on assets	(11,221)	(9,034)	(21,980)	(25,983)	(22,379)
Actuarial gains/(losses)	104,747	(101,334)	42,207	(335,941)	255,182
Newham Homes pension liability	5,089	(3,260)	2,229	(17,963)	9,374
Asset Value Restated	0	0	(1,040)	0	0
<b>Surplus/(deficit) at end of year</b>	<b>(323,280)</b>	<b>(428,306)</b>	<b>(393,369)</b>	<b>(756,509)</b>	<b>(412,639)</b>

<i>History of Experience Gains and Losses</i>	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2008</i>	<i>Year to 31 March 2009</i>	<i>Year to 31 March 2010</i>	<i>Year to 31 March 2011</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Difference between the expected and actual return on assets	7,990	(76,793)	(156,742)	93,886	(6,116)
Value of assets	598,730	538,062	423,404	552,027	616,463
<b>Percentage of assets</b>	<b>1.3%</b>	<b>14.2%</b>	<b>37.0%</b>	<b>17.0%</b>	<b>0.99%</b>
Experience gains/(losses) on liabilities	0	(23,945)	198,949	0	114,315
Present value of liabilities	908,056	950,194	801,788	1,275,588	1,005,528
<b>Percentage of the present value of liabilities</b>	<b>0.0%</b>	<b>2.5%</b>	<b>24.8%</b>	<b>0.00%</b>	<b>11.37%</b>
Actuarial gains/(losses) recognised in reserves	96,757	(596)	0	(429,827)	146,983
<b>Percentage of the present value of liabilities</b>	<b>(10.7%)</b>	<b>(0.1%)</b>	<b>0.0%</b>	<b>33.7%</b>	<b>14.6%</b>

An IAS19 pension liability of £23.6 million exists to provide for the pension deficit of Newham Homes employees as at 31 March 2011. Newham Homes liability relates to the period of service carried out by the ALMO's employees up to 1st December 2005, the point at which they transferred to the ALMO; and to Newham Estate's employees up to 1st April 2008, the point at which they transferred. From 1st April 2011 Newham Homes was reintegrated into the Council and this deficit will be incorporated into the Council's liabilities.

### Changes in actuarial assumptions

#### Demographic and Statistical Assumptions

The actuary adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2007 and these are the same as those used for the report for the period to 31 March 2010. The post retirement mortality tables adopted were the PA92 Year of Birth Tables with the medium cohort projection and a +2 year age rating.

The assumed life expectations from age 65 are:

Life Expectancy in years from age 65		
<b>Retiring today</b>	2009/10	2010/11
Males	20.3	21.2
Females	23.2	23.5
<b>Retiring in 20 years</b>		
Males	21.3	23.2
Females	24.1	25.4

### Financial Assumptions

The financial assumptions used are set with reference to market conditions at 31 March 2011. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. The Retail Price Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England. This measure has historically overestimated future increases in the RPI and so the actuary has made a deduction of 0.25% to get the RPI assumption of 3.5%. As future pension increases are expected to be based on CPI rather than RPI, the actuary has made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.7%. Salary increases are assumed to be 1.5% above RPI in addition to a promotional scale but the actuary has also assumed that there is a pay freeze for all members earning over £21,000 per annum until 31 March 2012.

To assess the value of the Employer's liabilities as at 31 March 2011, the actuary has rolled forward the value of the Employer's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken to calculate the liabilities in 2009/10.

The full actuarial valuation involved projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2011 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2011 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation.

To calculate the asset share the actuary has rolled forward the assets allowing for investment returns contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

### Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2009/10	2010/11
	£,000	£,000
<b>Balance as at 1 April</b>	(844,522)	(1,343,531)
Current service cost	(15,139)	(35,808)
Interest cost	(56,299)	(63,230)
Contributions by members	(9,781)	(9,544)
Actuarial losses/(gains)	(429,827)	236,898
Past service (costs)/gains	0	103,524
Losses/(gains) on curtailments	(5,680)	(838)
Liabilities assumed in a business combination	(25,209)	11,077
Liabilities extinguished on settlements	0	0
Estimated unfunded benefits paid	4,110	1,961
Estimated benefits paid	38,816	37,097
<b>Balance as at 31 March</b>	<b>(1,343,531)</b>	<b>(1,062,394)</b>

Reconciliation of present value of the scheme assets:

	2009/10	2010/11
	£,000	£,000
<b>Balance as at 1 April</b>	451,153	587,022
Expected return on assets	30,316	40,851
Contributions by members	(9,781)	(9,544)
Contributions by employer	37,566	34,815
Contributions in respect of unfunded benefits	0	0
Actuarial gains/(losses)	93,886	18,284
Liabilities assumed in a business combination	26,808	(56,809)
Assets distributed on settlements	0	0
Unfunded benefits paid	(4,110)	(1,961)
Benefits paid	(38,816)	37,097
<b>Balance as at 31 March</b>	<b>587,022</b>	<b>649,755</b>

Statutory provisions limit the Council raising council tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Movement in Reserves Statement there is an appropriation to the Pensions Reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the fund but unpaid at the year-end.

Scheme history

Analysis of scheme assets and liabilities

	31/03/07	31/03/08	31/03/09	31/03/10	31/03/11
	£,000	£,000	£,000	£,000	£,000
Fair Value of Assets in pension scheme	598,730	539,102	451,153	587,022	649,755
Present Value of Defined Benefit Obligation	(922,010)	(967,408)	(844,522)	(1,343,531)	(1,062,394)
Surplus/(deficit) in the Scheme	<b>(323,280)</b>	<b>(428,306)</b>	<b>(393,369)</b>	<b>(756,509)</b>	<b>(412,639)</b>

Amount recognised in Other Comprehensive Income and Expenditure:

	31/03/07	31/03/08	31/03/09	31/03/10	31/03/11
	£,000	£,000	£,000	£,000	£,000
Actuarial gains/(losses)	104,747	(101,334)	42,207	(335,941)	255,182
Actuarial gains/(losses) recognised in Other Comprehensive Income and Expenditure	104,747	(101,334)	42,207	(335,941)	255,182
Cumulative actuarial gains and losses	<b>(74,482)</b>	<b>(175,816)</b>	<b>(133,609)</b>	<b>(469,550)</b>	<b>(214,368)</b>
<b>History of experience gains and losses:</b>					
Experience gains and (losses) on assets	7,990	(76,793)	0	0	89,915
Experience gains and (losses) on liabilities	0	(23,945)	(156,742)	93,886	18,284

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1.06m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Newham Pension Fund will be made good by increased contributions over the remaining working life of employees, assessed.

## Note 34. Analysis of Revenue Grants

2009/10	Grants	2010/11
<b>£000s</b>		<b>£000s</b>
305,510	Council Tax and Housing Benefit Subsidy	285,528
285,551	Dedicated Schools Grant	271,265
31,196	Housing Revenue Account subsidy	30,572
5,298	Learning and Skills Council Grants	5,220
12,212	Schools Standards Grant	7,406
44,634	Standards Fund	100,460
12,458	Supporting People Grant	0
15,588	Sure start Grants (including general grant)	12,434
26,882	Other	15,023
<b>739,329</b>		<b>727,908</b>

## Note 35. Area Based Grants

The Area Based Grant (ABG) is made up of specific grants, many of which were previously made to the Council under separate and specific performance and accountability arrangements. These are now part of a non-ring-fenced grant, with no conditions imposed on its use as part of the grant determination, ensuring full local control over how funding can be used.

## Note 36. PFI Notes to the Accounts

In previous years the Council had four PFI schemes, two schemes for the building of new schools and another two schemes for the refurbishment of Housing properties. The first school scheme involved the building of the following schools: Kingsford Secondary, Plaistow and Kaizen Primary schools. The second school PFI scheme involve Cumberland Secondary school. Both PFI school schemes are for twenty five (25) years. The two Housing PFI schemes involve properties in Canning Town, and Forest Gate respectively. The Canning Town PFI scheme is for thirty (30) years, while the Forest Gate PFI scheme is for twenty (20) years. During 2010/11 an additional schools PFI scheme became operational – Building Schools for the future Wave 1 PFI scheme. This has involved the building of Lister and Rokeby schools. Further information regarding the Council's PFI schemes is disclosed in the tables shown immediately below:

## PFI Disclosure Notes – Value of Liabilities and Movements

	Value of PFI Liabilities held on each Balance Sheet					Analysis of Movement
	31 March 2010	31 March 2011	Movement	Cash Paid	Increase in Liability	Total Movement
	£000s	£000s	£000s	£000s	£000s	£000s
3 Schools PFI (Schools PFI 1)	21,134	20,193	(941)	(941)	0	(941)
Cumberland school PFI (Schools PFI 2)	20,860	20,303	(557)	(557)	0	(557)
Canning Town PFI (Housing PFI 1)	17,472	16,422	(1,050)	(1,050)	0	(1,050)
Forest Gate PFI (Housing PFI 2)	13,038	33,201	20,163	(603)	20,766	20,163
BSF Wave 1	0	22,468	22,468	0	22,468	22,468
	<b>72,504</b>	<b>112,587</b>	<b>40,083</b>	<b>(3,151)</b>	<b>43,234</b>	<b>40,083</b>

## PFI Disclosure Notes – Payments due to be made

Value of PFI Assets held on each Balance Sheet £'000							Analysis of Movement £'000								
	3 Schools PFI 1			Cumberland School PFI 2			Canning Town PFI 1			Forest Gate PFI 2			Total 2009/10		
	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge
<b>2009/2010</b>															
Within 1 Yr	1,174	1,733	938	828	1,549	937	225	1,396	3,076	686	1,024	586	2,913	5,702	5,537
Within 2-5	4,696	5,969	4,160	3,530	5,566	4,132	1,037	5,394	13,191	2,745	3,557	2,559	12,008	20,486	24,042
Within 6-10	5,871	5,295	5,934	4,992	5,406	6,068	1,883	6,214	18,444	3,431	1,886	4,157	16,177	18,801	34,603
Within 11-15	5,871	2,888	6,714	5,746	3,444	7,189	3,082	5,261	20,668	3,431	1,886	4,157	18,130	13,479	38,728
Within 16-20	3,522	578	3,550	5,764	1,189	7,428	4,289	3,872	23,657	2,745	539	3,514	16,320	6,178	38,149
Within 21-25	0	0	0	0	0	0	6,593	1,816	25,261	0	0	0	6,593	1,816	25,261
Within 26-30	0	0	0	0	0	0	363	29	1,484	0	0	0	363	29	1,484
	<b>21,134</b>	<b>16,463</b>	<b>21,296</b>	<b>20,860</b>	<b>17,154</b>	<b>25,754</b>	<b>17,472</b>	<b>23,982</b>	<b>105,781</b>	<b>13,038</b>	<b>8,892</b>	<b>14,973</b>	<b>72,504</b>	<b>66,491</b>	<b>167,804</b>

Value of PFI Assets held on each Balance Sheet							Analysis of Movement								
	3 Schools PFI 1			Cumberland School PFI 2			Canning Town PFI 1			Forest Gate PFI 2			BSF Wave 1		
	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge	Repay of Liab	Interest	Service Charge
<b>2010/2011</b>															
Within 1 Yr	518	1,865	816	369	2,257	632	909	789	2,682	863	3,967	2,667	812	4,277	1,357
Within 2-5	2,523	6,952	3,473	1,826	8,581	2,627	3,432	2,723	10,788	5,253	14,671	10,744	5,136	16,297	5,373
Within 6-10	4,793	7,113	4,341	4,113	9,281	3,488	2,418	2,609	13,395	7,816	14,845	13,412	7,533	17,921	6,250
Within 11-15	7,455	4,451	4,341	7,058	6,366	3,690	1,426	2,181	13,383	12,275	9,596	13,412	10,251	14,583	6,024
Within 16-20	4,903	728	868	6,937	1,734	3,024	3,528	1,706	13,447	9,870	2,134	7,377	13,237	10,089	6,024
Within 21-25	0	0	0	0	0	0	4,709	626	10,793	0	0	0	18,270	4,000	5,287
Within 26-30	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	<b>20,192</b>	<b>21,109</b>	<b>13,839</b>	<b>20,303</b>	<b>28,219</b>	<b>13,461</b>	<b>16,422</b>	<b>10,634</b>	<b>64,488</b>	<b>36,077</b>	<b>45,213</b>	<b>47,612</b>	<b>55,239</b>	<b>67,167</b>	<b>30,315</b>

<b>2010/11</b>			
<i>Information for disclosure notes</i>	<i>£'000 Repayment of Liability</i>	<i>Total Interest</i>	<i>£'000 Service Charges</i>
Within 1 Year	3,471	13,155	8,154
Within 2 to 5 years	18,170	49,224	33,005
Within 6 to 10 years	26,673	51,769	40,886
Within 11 to 15	38,465	37,177	40,850
Within 16 to 20	38,475	16,391	30,740
Within 21 to 25	22,979	4,626	16,080
Within 26 to 30	0		
	<b>148,233</b>	<b>172,342</b>	<b>169,715</b>

## Note 37. Analysis of Other Long Term Liability

1 April 2009	31 March 2010	Other Long-Term Liabilities	31 March 2011
<b>£000s</b>	<b>£000s</b>		<b>£000s</b>
(467)	(467)	Other Liabilities	(164,571)
(393,369)	(756,509)	Liability Related to Defined Benefit Pensions Scheme	(412,639)
<b>(393,836)</b>	<b>(756,976)</b>		<b>(577,210)</b>

## Note 38. Analysis of Cash and Cash Equivalents

1 April 2009	31 March 2010		31 March 2011
<b>£000s</b>	<b>£000s</b>		<b>£000s</b>
308	177	Petty cash	508
18,238	29,973	School Bank Balances	39,020
72,054	63,795	Short Term Investments	327
(21,919)	(39,440)	Bank Overdraft	(42,677)
<b>68,681</b>	<b>54,505</b>		<b>(2,822)</b>

**Note 39. Credited to Taxation and Non Specific Grant Income**

The Authority credited the following Capital grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11

<i>Grant Income</i>	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
Age Concern	0	(21)
Big Lottery Fund	0	(33)
Bonny Downs	(89)	(21)
Communities & Local Government	(3,970)	(6,758)
Contributions - Heritage Economic Regeneration Schemes	0	0
Cross Rail	0	(33)
Dept. of Energy & Climate Change	(72)	(48)
Dept. of Transport	(50)	0
Developers Contribution	(3,280)	(1,697)
Dept. for Education	(33,865)	(53,987)
Dept. of Health	(3,142)	(1,545)
Electrical Safety Council	0	(3)
English Cricket Board	0	(37)
European Union	(4)	(110)
Football Foundation	(571)	(135)
Greater London Authority	(6,875)	(5,963)
Homes & Communities Agency	(6,205)	(13,280)
Heritage Lottery Fund	(1,292)	(314)
Home Office	0	(157)
Housing Associations	0	(19)
London Development Agency	(66)	(1,509)
London Docklands Development Corporation	(19)	0
Housing Revenue Account - Leaseholders Contributions	(927)	0
London Thames Gateway Development Corporation	(1,803)	(12,530)
New Opportunities Fund	(675)	0
Primary Care Trust	(114)	(28)
Schools Contribution	(787)	(458)
Sports England	0	0
Transport for London	(4,649)	(5,494)
Thames Water	0	(18)
University of East London	(40)	(75)
Shared Equity Scheme	0	(106)
Other - Housing General Fund	(68)	0
<b>Total</b>	<b>(68,563)</b>	<b>(104,379)</b>

**Note 40. Capital Grants Receipts in Advance**

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

<i>Funding Body</i>	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
Big Lottery Fund	(40)	(48)
Communities & Local Government	(550)	(221)
Dept. of Energy & Climate Change	0	(71)
Developers Contribution	(20,867)	(27,234)
Dept. for Education	(21,734)	(25,224)
Dept. of Health	(2,633)	(1,671)
Football Foundation	(52)	0
Greater London Authority	(10,012)	(10,863)
Homes & Communities Agency	0	(1,396)
London Development Agency	0	(339)
Housing Revenue Account - Leaseholders Contributions	0	(587)
London Thames Gateway Development	(389)	(399)
Olympic Delivery Authority	0	(194)
Primary Care Trust	(111)	(113)
Schools Contribution	(563)	(394)
Vaillant	0	(268)
Other	(50)	(34)
<b>Total</b>	<b>(57,001)</b>	<b>(69,056)</b>

## 41. First-time adoption of IFRS

These are the Council's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 April 2009.

The Council's IFRS accounting policies presented in Note 1 have been applied in preparing the financial statements for the year ended 31 March 2011, the comparative information and the opening statement of financial position at the date of transition.

The Council has applied the IFRS 1 First-time Adoption of International Financial Reporting Standards in preparing these first IFRS compliant financial statements, except in cases where interpretations or adaptations to fit the public sector, have been prescribed by the Code of Practice on Local Authority Accounting (The Code). Material differences between amounts presented under the SORP 2009 and the IFRS-based Code are explained below.

### Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a result of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- A. The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet
- B. Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures
- C. A grant was received in 2009/10 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Government Grants Deferred Account within the liabilities section of the balance sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet

These have resulted in the following changes being made to the 2009/10 financial statements:

#### Opening 1 April 2009 Balance Sheet

	<i>2009/10 Statements</i>	<i>Adjustments Made</i>
	£	£
Government Grants Deferred Account	(283,880)	283,880
Capital Adjustment Account	1,057,808	268,888
Capital Grants Unapplied Account	0	1,639

#### 31 March 2010 Balance Sheet

	<i>2009/10 Statements</i>	<i>Adjustments Made</i>
	£	£
Government Grants Deferred Account	(332,329)	332,329
Capital Adjustment Account	748,039	(1,057,972)
Capital Grants Unapplied Account	0	971

There is no change to the General Fund balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

### Short Term Accumulating Absences

Short-term accumulating compensated absences refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to

future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

Regulations have been issued that mean local Councils are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used. Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements	Adjustments Made
	£	£
Short Term Creditors	0	(16,677)
Accumulated Absences Account	0	16,677

31 March 2010 Balance Sheet

	2009/10 Statements	Adjustments Made
	£	£
Short Term Creditors	0	(17,462)
Accumulated Absences Account	0	17,462

2009/10 General Fund Summary

	2009/10 Statements	Adjustments Made
	£	£
Central Services to the Public	18,025	(3)
Corporate and Democratic Core	74,261	689
Court and Probation Service	205	0
Cultural, Environmental, Regulatory and Planning Services	85,897	1,997
Education and Children Services	112,455	8,511
Highways, Roads and Transport Services	15,310	2,157
Local Authority Housing	39,637	913
Other Housing Services	20,717	11,386
Adult Social Care	81,045	3,428
Non Distributed Costs	2,654	0
Other Services		0
	<b>450,206</b>	<b>29,078</b>

**Leases**

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

For leases entered into after 1st April 2010, where the Council is Lessor, new arrangements will necessitate revenue being accounted for in accordance with the code. However, for existing arrangements prior to that date, where the Council is a Lessor, and where Operating Leases are reclassified to Finance Leases under the Code, statutory guidance permits the amount now recognised as a capital receipt to be retained in the General Fund. Therefore, the Council will report a transfer to the General Fund from the Capital Receipts Reserve in the Movement in Reserves Statement.

Financial details under the code of the London Borough of Newham as both Lessor and Lessee are shown in Note 6 on pages 42 and 43.

**Note 42. Critical Judgements in Applying Accounting Policies****Critical Judgements in Applying Accounting Policies**

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision. The London Borough of Newham has agreed a budget for 2011/12 and a Medium Term Financial Plan allowing for reduced levels of government funding.

**Note 43. Assumptions About the Future and Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from Assumptions</b>
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.
Provisions	The Authority has made a reorganisation provision of £693k for the coming year.	An increase over the forthcoming year of 10% in either the total number of redundancies or the estimated average settlement would each have the effect of adding £70k to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability.

	applied.	
Arrears	<p>At 31 March 2011, the Authority had a balance of sundry debtors for £36.6m. A review of significant balances suggested that an impairment of doubtful debts of 5% (£1.8m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £3m to set aside as an allowance.</p>

## HOUSING REVENUE ACCOUNT

## 1. Housing Revenue Account

The Housing Revenue Account is a record of expenditure on, and income from, the provision of local authority housing, and the form and content of the Account is prescribed by statute. The Housing Revenue Account is "ring fenced" and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the General Fund) are limited to special circumstances)

<i>Housing Revenue Account Income and Expenditure Account</i>	<i>2010/11</i>	<i>2009/10</i>
	<i>£000s</i>	<i>£000s</i>
Domestic Rent Income	(67,660)	(67,281)
Commercial Rent	(2,795)	(3,054)
Charges for facilities and services	(12,396)	(13,842)
Housing Revenue Accounts Subsidy Receivable (inc MRA)	(30,421)	(31,196)
<b>Total Income</b>	<b>(113,272)</b>	<b>(115,373)</b>
Repairs and Maintenance	12,927	12,931
Supervision and Management	41,778	42,412
General - Trading account deficits	255	0
Rent, Rates and Taxes	1368	2281
Depreciation and Impairment of Plant, Property and Equipment	404,310	29,139
Debt Management Costs	366	358
Allowances for Receivables	(14)	230
<b>Total Expenditure</b>	<b>460,990</b>	<b>87,351</b>
<b>Net cost of HRA Services as included in the authority Comprehensive Income and Expenditure Statement</b>	<b>347,718</b>	<b>(28,022)</b>
HRA services share of Corporate and Democratic Core	609	609
<b>Net Cost of HRA Services</b>	<b>348,327</b>	<b>(27,413)</b>
Interest Payable and similar charges	35,406	36,578
HRA Investment Income	(122)	(146)
<b>Deficit for the year on HRA services</b>	<b>383,611</b>	<b>9,019</b>

## Statement of Movement on the Housing Revenue Account balance

<i>Items included in the HRA Income and Expenditure Account but excluded from the movement on Housing Revenue Account Balance for the year</i>	<i>2010/11</i>	<i>2009/10</i>
	<i>£000s</i>	<i>£000s</i>
Revaluation and Impairment of Plant, Property and Equipment	383,140	0
Net Charges made for retirement benefits in accordance with IAS19	(34)	(93)
	<b>383,106</b>	<b>(93)</b>
<i>Items not included in the HRA Income and Expenditure Account but included in the movement on Housing Revenue Account Balance for the year</i>	<i>2010/11</i>	<i>2009/10</i>
	<i>£000s</i>	<i>£000s</i>
Transfers to Major Repairs Reserve	7,055	15,799
Transfer from Reserves	(7,315)	(7,315)
	<b>(260)</b>	<b>8,484</b>
<b>Net additional amounts required by statute to be debited/credited to the HRA balance for the year</b>	<b>382,846</b>	<b>8,391</b>
<b>Difference being Government Grants deferred written down</b>	<b>382,846</b>	<b>8,391</b>
<i>Statement of Movement on the Housing Revenue Account Balance</i>	<i>2010/11</i>	<i>2009/10</i>
	<i>£000s</i>	<i>£000s</i>
Deficit for year on HRA Services	383,611	9,019
Net additional amounts required by statute to be debited/credited to the HRA balance for the year	(382,846)	(8,391)
<b>Decrease in HRA Balance</b>	<b>765</b>	<b>628</b>
HRA Account Balance B/Fwd	4,718	5,346
<b>HRA Account Balance C/Fwd</b>	<b>3,953</b>	<b>4,718</b>

## 2. Housing Stock

The number of dwellings in the Authority's housing stock, as at 31 March 2011, totalled 18,200 properties. The type of properties and the period in which they were built, were as follows:

	<i>Pre 1945</i>	<i>1945-64</i>	<i>&gt;64</i>	<i>Total</i>
	<i>No</i>	<i>No</i>	<i>No</i>	<i>No</i>
<b>Property Type</b>				
Low Rise Flats (Blocks up to and incl. 2 Storey)				
1 Bed	289	250	484	1,023
2 Bed	195	414	739	1,348
3 Bed	176	1,008	518	1,702
<b>Sub-Total</b>	<b>660</b>	<b>1,672</b>	<b>1,741</b>	<b>4,073</b>
Medium Rise Flats (Blocks of 3 up to and incl. 5 Storey)				
1 Bed	20	992	1,769	2,781
2 Bed	123	1,216	573	1,912
3 Bed	21	576	136	733
<b>Sub-Total</b>	<b>164</b>	<b>2,784</b>	<b>2,478</b>	<b>5,426</b>
High Rise Flats (Blocks of 6 Storey's or more)				
1 Bed	0	610	1,156	1,766
2 Bed	0	862	1,106	1,968
3 Bed	0	47	118	165
<b>Sub-Total</b>	<b>0</b>	<b>1,519</b>	<b>2,380</b>	<b>3,899</b>
Houses / Bungalows				
1 Bed	31	38	218	287
2 Bed	374	279	351	1,004
3 Bed	944	666	1,339	2,949
4 or More	102	83	377	562
<b>Sub-Total</b>	<b>1,451</b>	<b>1,066</b>	<b>2,285</b>	<b>4,802</b>
<b>Total Dwellings 31 March 2011</b>	<b>2,275</b>	<b>7,041</b>	<b>8,884</b>	<b>18,200</b>

### Dwelling Rents (Domestic Rents)

The total rent income from dwellings was £67.7 million compared to £67.3 million in 2009/10. This reflects the reduction in stock numbers between the years and void property levels and an increase in the average rent during 2010/11 of 6.9% or an average increase of £5.31 per week (for a 52-week year).

### 3. Major Repairs Reserves

The Major Repairs Allowance is an element of Housing Revenue Account Subsidy. The movement on the Major Repairs Reserve during the year ended 31 March 2011 is summarised below:

	2010/11	2009/10
	£,000	£,000
Balance on Major Repairs Reserve at 1 April	(8,143)	(11,853)
Depreciation	(18,997)	(26,089)
Capital Expenditure	1,736	17,051
Amount transferred from the Major Repairs Reserve for capital expenditure on HRA Land, Houses and Other Property	4,881	12,748
<b>Balance on Major Repairs Reserve at 31 March</b>	<b>(20,523)</b>	<b>(8,143)</b>

### 4. Housing Repairs Reserve

	2010/11	2009/10
	£,000	£,000
Balance on 1 April	1,357	1,357
Expenditure in year	0	0
<b>Income in year</b>	<b>0</b>	<b>0</b>
Surplus Balance on 31 March (17) (102)	1,357	1,357

No contribution has been made in 2010/11 from the HRA to the Housing Repairs Reserve. This reserve (£1.36 million) will be used to help maintain the level of repairs to Council houses.

### 5. Housing Revenue Account Capital Expenditure

	2010/11	2009/10
	£,000	£,000
<b>Capital investment</b>		
Operational assets	58,247	88,326
Revenue Expenditure funded from Capital under Statute	62	3,642
	<b>58,309</b>	<b>91,968</b>
<b>Sources of funding</b>		
Supported Borrowing	(56,223)	(73,023)
Major Repairs Reserve	(1,736)	(17,050)
Government grants and other contributions	(350)	(1,895)
	<b>(58,309)</b>	<b>(91,968)</b>

## 6. Capital Receipts from Disposal of Land, Houses and Other Property within the Housing Revenue Account

	2010/11	2009/10
	£,000	£,000
<b>Council dwellings -</b>		
Right to Buy	1,641	759
Discounts repaid	13	0
<b>Other Receipts -</b>		
Land sales	1,753	0
	<b>3,407</b>	<b>759</b>
Less Pooled (Paid to Central Government)	(598)	0
	<b>2,809</b>	<b>759</b>

## 7. Housing Revenue Account Subsidy

Government Subsidy on the Housing Revenue Account is calculated based upon a notional account, which takes into account the housing stock numbers and local influences. The elements of expenditure are calculated for items such as management, day to day maintenance, capital financing charges etc. Off set against these costs is an element for notional income calculated on stock numbers and guideline rents.

The elements of Housing Revenue Subsidy for the year ended 31 March 2010 are as follows:

	2010/11	2009/10
	£,000	£,000
Management and Maintenance	40,532	38,079
Major Repairs Allowance	14,115	13,341
Charges For Capital	39,638	39,012
Other Items of Reckonable Expenditure	7,315	9,265
Interest on Receipts	0	0
Guideline Rent Income	(71,180)	(68,501)
<b>Total In year HRA Subsidy Payable</b>	<b>30,420</b>	<b>31,196</b>
Previous years Adjustment	538	473
<b>Total HRA Subsidy Due</b>	<b>30,958</b>	<b>31,669</b>

## 8. Rents Arrears

During 2010/11 total rent arrears decreased by £0.8million. A summary of rent arrears and prepayments is shown in the following table

	31/03/11	31/03/10
	£,000	£,000
Current Tenant Arrears	3,873	3,870
Former Tenant Arrears	2,226	2,940
Total Rent Arrears	6,099	6,810
Prepayments	(1,723)	(1,610)
Net Rent Arrears	<b>4,376</b>	<b>5,200</b>

## 9 Allowances for Receivables

The Allowance for receivables relating to the Housing Revenue Account is £5.1million. The figure for 2009/10 was £5.9million.

## 10. Depreciation and Impairment of PPE

	2010/11			2009/10		
	Impairment	Depreciation	Impairment	Impairment	Depreciation	Impairment
Land	0	0	0	0	0	0
Houses	414,261	19,966	0	0	28,830	0
Other Property - Operational Assets	0	1,204	0	0	310	0
Non Operational	0		0	0		0
	<b>414,261</b>	<b>21,270</b>	<b>0</b>	<b>0</b>	<b>29,140</b>	<b>0</b>

Depreciation for 2010/11 is charged on the Balance Sheet value of assets, based on their estimated useful life. Depreciation for 2010/11 was £19.97 million for dwellings (£28.83 million in 2009/10), £1.2 million for other assets (£0.31million in 2009/10).

The 2010/11 statement of accounts includes impairment on Council House dwellings of £414M. This is due to the change in the social housing discount rates applied to all council dwellings. New guidance was released by the CLG in January 2011. The % rate changes from 37% to 25% (for inner London) which had caused the large impairment this year.

	Intangible	Dwellings	Other Land and Buildings	Equipment, Vehicles etc.	Non-operational Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Balance Sheet value 1st April 2010	38	1,114,428	10,696	58	42,733	1,167,953
Depreciation	(10)	8,699	(29)	(13)	18	8,665
Additions	25	59,096	43,275	47	(41,619)	60,824
Impairment	0	(414,261)	0	0	0	(414,261)
Disposals/Transfers	0	(3,235)	(2,320)	0	(647)	(6,202)
Revaluation	0	0	4,880	0	0	4,880
Balance Sheet value 31 March 2011	<b>53</b>	<b>764,727</b>	<b>56,502</b>	<b>92</b>	<b>485</b>	<b>821,859</b>

## 11. Pension Costs

As part of the terms and conditions of employment of its officers, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement Newham Council participates in the Local Government Pension Scheme administered by Newham Council. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge required to be made against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Housing Revenue Account after Net Operating Expenditure. The following transactions have been made in the Housing Revenue Account during the year:

	2010/11	2009/10
<i>HRA Income and Expenditure Account</i>	£,000	£,000
Current Service Cost	0	0
Past Service Costs	0	0
Expected Return on Employer Assets	0	0
Interest on Pension Scheme Liabilities	0	0
<b>Total</b>	0	0
Amount to be met from HRA	<b>(34)</b>	<b>(93)</b>
<b>Movement on Pension Reserve</b>	<b>(34)</b>	<b>(93)</b>

It has not been possible to determine how much of the pension interest costs and expected return on assets per the actuarial report relate to the Housing Revenue Account, so these have been fully allocated to the General Fund.

## 12. Newham Homes

In December 2005, the Council formed Newham Homes, an Arms Length Management Organisation (ALMO). Newham Homes is responsible for the provision of services associated with the Council's Housing stock (repairs, lighting, cleaning). The housing stock remains in the ownership of the Council and rents are collected by Newham Homes. The Council has entered into a contract with Newham Homes to provide these services. Newham Homes is required by law to prepare a set of accounts which shows its management and administrative cost.

The transactions of Newham Homes have been incorporated within the Council's group financial statements.

## 13. Internal Trading Balances

Surpluses or losses on trading accounts are redistributed, pro rata, to the appropriate services. The table below sets out the share allocated to the HRA.

2009/10		2010/11
£000s		£000s
1	NEWCO	256
1	<b>Total surplus (Deficit)</b>	<b>256</b>

**COLLECTION FUND**  
**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

Collection Fund Statement shows the Income and Expenditure transactions of London Borough of Newham (as the billing authority) relating to Council Tax and Non-Domestic Rates. It also shows how the income is distributed between the council's General Fund and Greater London Authority (GLA).

2009/10	COLLECTION FUND	2010/11	Note
£000s		£000s	
	Income		
(94,629)	Council Tax	(96,606)	1
(77,319)	Non Domestic Rates	(75,463)	2
(575)	Recovery of previous years' Council Tax surplus	(2,008)	
(172,523)			
	Expenditure		
	Precepts and Demands		
70,782	Newham	70,543	
23,190	Greater London Authority (GLA)	23,112	3
	Business Rate		
77,004	Payment to National Pool	75,109	
339	Costs of Collection	341	
(24)	Appropriated credits to Balance Sheet creditors	13	
77,319		75,463	
	Provisions for non collection		
676	Council Tax		3,290
(556)	(Surplus)/Deficit for the year		(1,669)
2,288	(Surplus)/Deficit at 1st April		1,732
<b>1,732</b>	<b>(Surplus)/Deficit at 31 March</b>		<b>63</b> 4
	<b>(Surplus)/Deficit consists of:</b>		
1,723	Newham's Previous year Council Tax (surplus)/deficit		1,304
565	Greater London Authority's Current year Council Tax (surplus) / deficit		428
(419)	Newham's year Council Tax (surplus)/deficit		(1,257)
(137)	Greater London Authority's Previous year Council Tax (surplus) / deficit		(412)
<b>1,732</b>	<b>(Surplus) / Deficit at 31 March</b>		<b>63</b> 4

**Note 1. Council Tax**

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands with estimated values at 1st April 1991 being used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and Greater London Authority (GLA) for the forthcoming year, and dividing 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 then adjusting for discounts which in 2010/11 were 14,965 (10,633 in 2009/10). This basic amount of Council Tax for a Band D property of £1,255.45 (£1,255.45 in 2009/10) is multiplied by the proportion specified for the particular band to give an amount due. Council Tax bills were based on the following proportions for bands A to H:

<b>Council Tax Band</b>	<b>Proportion of Band D Charge</b>
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 from Council Tax in 2010/11, of £96.61 million was receivable from the following sources:

<b>2009/10</b>		<b>2010/11</b>
<b>£000s</b>		<b>£000s</b>
(65,023)	Bills to Council Taxpayers	(66,315)
(29,606)	Council Tax Benefits	(30,291)
<b>(94,629)</b>		<b>(96,606)</b>

**Note 2. National Non Domestic Rates**

NNDR is organised on a national basis. The Council is responsible for collecting rates from the ratepayers in its area which are calculated by multiplying their rateable values by a uniform rate specified by the Government. The proceeds, less certain reliefs and other reductions, are paid into an NNDR pool administered by the Government who then redistributes the sums back to Local Authorities' General Funds on the basis of a fixed amount per head of population.

The total non-domestic average rateable value for the Council's area for 2010/11 was £245.3 million as per the District Valuer (£191.9 million in 2009/10) and the national non-domestic multiplier for the year was 41.4p (48.5p in 2009/10) resulting in notional NNDR income of £101.6 million. The NNDR income for 2010/11 of £75.5 million (£77.3 million in 2009/10) is net of reliefs and provisions.

**Note 3. Greater London Authority (GLA)**

Following the creation of the GLA, there is now only one precept covering the Police, Fire and Emergency Planning, and GLA/London-wide bodies. The precept was £23.1 million in 2010/11 (£23.2 million in 2009/10).

**Note 4. Contribution to/from Collection Fund Deficitis/(Surpluses)**

<b>Collection Fund</b>	<b>GLA</b>	<b>Newham</b>
	<b>£000s</b>	<b>£000s</b>
<b>Deficit 31 March 2010</b>	<b>428</b>	<b>1,304</b>
Recovery Of Previous Year's Deficit	(496)	(1,512)
Balance Pre 2010-11	(68)	(208)
Movement In Year	83	256
<b>Deficit 31 March 2011</b>	<b>15</b>	<b>48</b>

## GROUP ACCOUNTS

The Group Accounts present the financial position of the Council's group of organisations. The Council's Group includes Newham Homes, a wholly owned subsidiary.

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2009/10	GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	31 March 2011			Note
		Expenditure	Income	Net	
Net Spend					
<b>£000s</b>	<b>SERVICES</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	
18,022	Central Services to the Public	27,073	(12,508)	14,565	
74,950	Corporate and Democratic Core	10,026	(110)	9,916	
205	Court and Probation Services	0	0	0	
87,894	Cultural, Environmental and Planning Services	105,902	(20,766)	85,136	
120,966	Education Services	576,009	(429,910)	146,099	
17,467	Highways, Roads and Transport Services	24,095	(14,297)	9,798	
40,550	Local Authority Housing (HRA)	470,030	(112,538)	357,492	
32,103	Housing Services	412,380	(347,663)	64,717	
84,473	Social Services	110,409	(31,757)	78,652	
5,415	Non Distributed Costs	3,993	(103,525)	(99,532)	
<b>482,045</b>	<b>COST OF SERVICES</b>	<b>1,739,917</b>	<b>(1,073,074)</b>	<b>666,843</b>	
743	Precepts and Levies			661	7
0	Contribution to Housing Pooled Capital Receipts			598	
0	Gains or Losses on the Disposal of PPE			8,851	
<b>743</b>	<b>OTHER OPERATING EXPENDITURE</b>			<b>10,110</b>	
54,029	Interest Payable and Similar Charges			58,266	22b
25,983	Pensions Interest Cost/Expected Return on			22,379	33
(1,109)	Pensions Assets			(492)	3
(7,694)	Net (Surplus)/Deficit on Trading Accounts			(7,076)	
	Other Investment Income				
<b>71,209</b>	<b>FINANCIAL AND INVESTMENT INCOME AND EXPENDITURE</b>			<b>73,077</b>	
(70,574)	Council Tax Income			(70,543)	
(177,028)	NNDR Distribution			(195,581)	
(40,860)	Revenue Support Grant			(28,409)	
(36,937)	Area Based Grant			(42,573)	
(355)	LABGI Grant			(1,127)	
(68,563)	Capital Grant			(104,379)	39
(191)	Contribution to Collection Fund Deficit			224	
<b>(394,508)</b>	<b>TAXATION AND NON-SPECIFIC GRANT INCOME</b>			<b>(442,388)</b>	
(224)	<b>SUBSIDIARY ACCOUNTED FOR ON AN EQUITY BASIS</b>			(465)	
<b>159,267</b>	<b>Surplus or Deficit on Provision of Services</b>			<b>307,177</b>	
50,321	Surplus or Deficit on Revaluation of Assets			18,776	
(1,817)	Surplus or Deficit on Revaluation of Available for Sale Financial Assets			(2,117)	
353,904	Actuarial Gains/Losses on Pension Assets/Liabilities			(262,725)	
402,408	Total - Other Comprehensive Income and Expenditure			(246,066)	
<b>561,675</b>	<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>61,111</b>	

## RECONCILIATION OF AUTHORITY'S SURPLUS/DEFICIT TO THE GROUP SURPLUS/DEFICIT

<i>Restated 2009/10 £000s</i>	<i>Reconciliation of Newham's Deficit to Group Deficit</i>	<i>2010/11 £000s</i>
561,899	(Surplus) / deficit for the year on the Comprehensive Income and Expenditure Statement	61,576
(224)	Subsidiaries – Newham Homes	(465)
<b>561,675</b>	<b>(Surplus) / deficit for the year on the Group Comprehensive Income and Expenditure Statement</b>	<b>61,111</b>

## GROUP BALANCE SHEET

2008/09	2009/10	BALANCE SHEET AT 31 MARCH	2010/11	Notes
<b>£000s</b>	<b>£000s</b>		<b>£000s</b>	
1,118,671	1,114,428	Council Dwellings	764,727	
866,253	891,459	Other Land and Buildings	929,786	
113,252	128,465	Infrastructure	160,417	
21,982	24,110	Community Assets	24,875	
24,302	25,747	Property Plant and Equipment	38,254	
766	926	Surplus Properties	485	
21	5,662	Assets Under Construction	21	
<b>2,145,247</b>	<b>2,190,797</b>	<b>Property, Plant and Equipment</b>	<b>1,918,565</b>	
111,522	94,255	Investment Property	102,403	
1,207	1,209	Intangible Assets	1,579	
79,396	136,256	Long-Term Investments	112,464	
(224)	0	Investments in Associates and Joint Ventures	0	
133,133	111	Long-Term Debtors	113,922	
<b>325,034</b>	<b>231,831</b>	<b>Non-Current Assets</b>	<b>330,368</b>	
142,841	97,036	Short-Term Investments	195,371	
1,892	1,418	Inventories	1,609	5
134,629	182,581	Trade and Other Receivables	179,536	3
(42,581)	(46,942)	Allowances for Receivables	(42,163)	
(1,897)	55,851	Cash And Cash Equivalents	412	6
<b>234,884</b>	<b>289,944</b>	<b>Current Assets</b>	<b>334,765</b>	
(279,190)	(257,551)	Short Term Borrowing	(346,868)	
(123,825)	(130,169)	Short-Term Payables	(77,267)	4
(3,687)	(16,677)	Employee Benefits (Provision for accumulated absence)	(17,462)	
<b>(406,702)</b>	<b>(404,397)</b>	<b>Current Liabilities</b>	<b>(441,597)</b>	
(69,811)	(69,591)	Long-Term Payables	(112,587)	
(738,021)	(911,240)	Long Term Borrowing	(863,952)	
(20,000)	(57,001)	Capital Grants Receipts in Advance Account	(69,057)	
(394,905)	(758,043)	Other Long-Term Liabilities	(577,210)	
(12,376)	(12,816)	Provisions	(13,060)	
<b>(1,235,113)</b>	<b>(1,808,691)</b>	<b>Long Term Liabilities</b>	<b>(1,635,866)</b>	
<b>1,063,350</b>	<b>499,485</b>	<b>Net Assets</b>	<b>506,234</b>	

75,963	61,301	Revenue reserve	66,022	
11,853	8,143	Major Repairs Reserve	20,522	
9,497	7,573	Capital Receipts	2,354	
2,396	971	Capital Grants Unapplied Reserve	1,073	
<b>99,709</b>	<b>77,988</b>	<b>Usable Reserves</b>	<b>89,971</b>	
(392,744)	(755,884)	Pensions Reserve	(411,912)	
54,853	149,454	Revaluation Reserve	174,225	
(13,226)	(11,773)	Financial Instruments Adjustment Account	(10,020)	
1,319,292	1,057,972	Capital Adjustment Account	680,555	
(3,687)	(16,677)	Accumulated Absences Account( Employee Reserve -	(17,462)	
0	486	Equalisation Fund	158	
(415)	307	Group Companies General Reserves	1,819	2
(432)	(2,388)	Collection Fund Adjustment Account	(1,100)	
<b>963,641</b>	<b>421,497</b>	<b>Unusable Reserves</b>	<b>416,263</b>	
<b>1,063,350</b>	<b>499,485</b>	<b>Taxpayers Equity</b>	<b>506,234</b>	

## GROUP CASH FLOW STATEMENT

<i>2009/10</i>		<i>2010/11</i>
(59,722)	Net Cash flows from operating activities	78,418
(79,913)	Net Cash flows from Investing Activities	(87,098)
133,590	Net Cash flows from Financing Activities	16,707
<b>(6,045)</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>8,027</b>
(1,897)	Cash and cash equivalents at the beginning of the reporting period	(7,942)
<b>(7,942)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>85</b>

## NOTES TO THE GROUP ACCOUNTS

**Note 1. Group Accounts**

On 1st December 2005, the Council formed Newham Homes (ALMO). Newham Homes is responsible for the provision of services associated with the Council's Housing stock (repairs, lighting, cleaning). The housing stock remains in the ownership of the Council and rents are collected by Newham Homes.

Newham Homes has been accounted for on the acquisition basis of accounting. As this is a wholly owned subsidiary of the Council, there is a requirement to include its financial activities within the group accounts of Newham Council. Therefore the income and expenditure of Newham Homes is included within the Group Comprehensive Income and Expenditure Statement. Its assets and liabilities are shown on the face of the Group Balance Sheet.

**Note 2. Movement in Group Reserves**

<i>Group Reserves</i>	<i>Balance At 1st April 2010</i>	<i>Movement In Year</i>	<i>Balance At 31 March 2011</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Newham Homes – Subsidiary	307	1,512	1,819
<b>Total Group Reserves</b>	<b>307</b>	<b>1,512</b>	<b>1,819</b>

**Note 3. Analysis of Trade and Other Receivables**

In addition to the figures in **Note 24 (Page 68)**, the Group accounts includes a total of £1.09 million debtors and prepayments at year ending 31 March 2011, all of which were external to the group (£2.21 million at 31 March 2010).

**Note 4. Analysis of Payables**

In addition to the figures in **Note 25 (Page 68)**, the Group Accounts includes a total of £2.57 million creditors at year ending 31 March 2011 (£2.19 million at 31 March 2010).

**Note 5. Inventory and Work in Progress**

<i>Council 31 March 2010</i>	<i>Newham Homes 31 March 2010</i>	<i>Restated Group 31 March 2010</i>		<i>Council 31 March 2011</i>	<i>Newham Homes 31 March 2011</i>	<i>Group 31 March 2011</i>
<i>£000s</i>	<i>£000s</i>	<i>£000s</i>		<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
612	327	939	Stocks	681	282	963
132	347	479	Work in Progress	349	297	646
<b>744</b>	<b>674</b>	<b>1,418</b>	<b>Total</b>	<b>1030</b>	<b>579</b>	<b>1609</b>

## Note 6 Analysis of Cash and Cash Equivalents

<b>Council</b>	<b>Newham Homes</b>	<b>Restated Group</b>		<b>Council</b>	<b>Newham Homes</b>	<b>Group</b>
<b>31 March 2010</b>	<b>31 March 2010</b>	<b>31 March 2010</b>		<b>31 March 2011</b>	<b>31 March 2011</b>	<b>31 March 2011</b>
<b>£000s</b>	<b>£000s</b>	<b>£000s</b>		<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
54,505	1,346	55,851	Cash and Cash Equivalents	(2,822)	3,234	412
<b>54,505</b>	<b>1,346</b>	<b>55,851</b>	<b>Total</b>	<b>(2,822)</b>	<b>3,234</b>	<b>412</b>

## 2010/11 PENSION FUND

2009/10	FUND ACCOUNT	2010/11	2010/11
£000s		£000s	£000s
	<b>Contributions:</b>		
11,299	Contributions From Members (note 2)	11,213	
42,150	Contributions From Employers (note 2)	37,105	48,318
10,209	Transfer in (note 3)	9,803	9,803
	<b>Benefits:</b>		
(27,264)	Pensions (note 4)	(28,883)	
(11,732)	Lump Sum Benefits (note 4)	(9,867)	(38,750)
	<b>Payments to and on account of leavers:</b>		
(13)	Refunds of Contributions (note 3)	(10)	
(8,392)	Individual Transfers Out to Other Schemes (note 3)	(9,690)	(9,700)
(793)	Administration Expenses (note 10)	(998)	(998)
<b>15,464</b>	<b>Dealing With Members</b>		<b>8,673</b>
	<b>Return on Investments:</b>		
(2,356)	Investment Management Expenses (note 11)	(3,262)	
141,366	Gains and Losses on Investments (note 12)	46,733	
	Unrealised		
5,962	Investment Income (note 13)	9,821	
(197)	Taxation	(306)	
<b>144,775</b>	<b>Net returns on Investments</b>		<b>52,986</b>
<b>160,238</b>	<b>Net Increase /(Decrease) in the Fund During the Year</b>		<b>61,659</b>
<b>501,678</b>	<b>Opening Net Assets of the Scheme</b>		<b>661,916</b>
<b>661,916</b>	<b>Closing Net Assets of the Scheme</b>		<b>723,575</b>
<b>2009/10</b>	<b>NET ASSETS STATEMENT</b>		<b>2010/11</b>
661,795	Investment Assets (Note 6)		726,378
1,133	Current Assets (Note 14)		213
(1,012)	Current Liabilities (Note 14)		(3,016)
<b>661,916</b>	<b>Fund Balance at 31 March</b>		<b>723,575</b>

## NOTES TO THE PENSION FUND

**Note 1. Fund Operation And Membership**

The Newham Pension Fund is administered by Newham Council and provides pensions and other benefits for former, non-teaching employees of the Council (teachers are covered by a separate Pension Fund).

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations 1997 (as amended). Membership of the Fund is available for all local government employees including nonteaching staff of schools and further and higher education corporations in Newham, together with employees of admitted bodies. Subject to certain criteria, all non-teaching employees may choose to join the scheme. Membership of the Fund at the year-end was as follows:

	<i>At 31 March 2010</i>	<i>At 31 March 2011</i>
Contributing Members	6,913	6,758
Current Pensioners	6,083	6,231
Deferred Pensioners	5,596	6,017

Deferred pensioners include 1,568 of frozen members at 31 March 2011 (1,569 at 31 March 2010).

**Note 2. Contributions Benefits Payable**

The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investment of a Pension Fund administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits, including final salary based pensions, death grants and lump sum payments. The employee's basic contributions are based on salary bands and vary from 5.5% to 7.5% of pensionable pay for Officers and Manual Workers. Employers' contribution for 2010/11, paid by the Council, was 22.7% of pensionable pay.

The Local Government Pension Scheme Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body. The Admitted and Scheduled Bodies that contribute to the London Borough of Newham Pension Fund are:

**Scheduled Bodies:**

- Newham Sixth Form College (New Vic);
- Newham College of further education
- Stratford School;
- Stratford Regeneration Partnership;
- Thames Gateway London Partnership; and
- Newham Homes.

**Admitted bodies:**

- Greenwich Leisure;
- Carpenters TMO;
- FM Conway;
- MITIE;
- RM Education; and
- Community Links.

Contributions by employers and employees in the Fund are as follows:

Participating Body	Type	Contri- bution Rate	Employee's Contributions		Employer's Contributions	
			2009/10	2010/11	2009/10	2010/11
			£000s	£000s	£000s	£000s
LB Newham	Administering Authority	22.7	9,683	9,502	37,862	32,711
Carpenters TMO	Admitted Body	13.6	9	10	14	20
Community Links	Admitted Body	13.2	16	19	35	39
FM Conway	Admitted Body	15.5	7	3	13	8
Greenwich Leisure	Admitted Body	15.2	25	25	56	53
Mitie	Admitted Body	18.4	4	7	13	21
RM Education	Admitted Body	12.2	0	7	0	14
Newham College of Further Education	Scheduled	18.3	351	351	934	946
Newham Homes	Scheduled	17.8	1,058	1,127	2,954	2,987
New Vic	Scheduled	8.8	104	112	139	148
Stratford Regeneration Partnership	Scheduled	22.7	10	9	21	19
Stratford School	Scheduled	22.7	32	31	109	106
Thames Gateway London Partnership	Scheduled	22.7	0	10	0	33
<b>TOTAL</b>			<b>11,299</b>	<b>11,213</b>	<b>42,150</b>	<b>37,105</b>

. The contribution split is outlined below:

Employers	Total 2009/10	Total 2010/11
	£000s	£000s
<b>Employers</b>		
LB Newham	37,862	32,711
Scheduled	4,157	4,239
Admitted	131	155
<b>Employer Contribution Totals</b>	<b>42,150</b>	<b>37,105</b>
<b>Members</b>		
LB Newham	9,683	9,502
Scheduled	1,555	1,640
Admitted	61	71
<b>Employee Contribution Totals</b>	<b>11,299</b>	<b>11,213</b>

The Fund has a common rate of contribution of 12.5% of pensionable pay per annum required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The deficit funding rate is an average additional contribution rate of 10.2% of pensionable pay. In practice, each individual employer's position is assessed separately and the contributions required are set out by the actuary.

Contributions split between normal, augmentation and deficit funding are outlined below:

Employers	2009/10	2010/11
	£000s	£000s
Newham Pension Fund		
Ongoing Funding (12.5%)	20,597	20,053
Deficit Funding (10.2%)	16,808	16,363
Early Retirement Funding	4,745	689
<b>Employer Contribution Totals</b>	<b>42,150</b>	<b>37,105</b>

**Note 3. Payments to and on account of leavers and transfers in**

<i>Payments to and on account of leavers</i>	<i>Pensions</i>	
	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
<i>Transfer Value Received</i>	10,209	9,803
<i>Transfer Value Payable</i>	(8,392)	(9,690)
<i>Refunds of Contribution</i>	(13)	(10)
<b>Net Outflow</b>	<b>1,804</b>	<b>103</b>

**Note 4. Benefits Payable**

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme regulations.

<i>Participating Body</i>	<i>Pensions</i>	
	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
<i>LB Newham</i>	26,803	28,423
<i>Scheduled Bodies</i>	458	457
<i>Admitted Bodies</i>	3	3
<b>TOTAL</b>	<b>27,264</b>	<b>28,883</b>

<i>Participating Body</i>	<i>Lump Sums</i>		<i>Death grants</i>		<i>Total</i>	<i>Total</i>
	<i>2009/10</i>	<i>2010/11</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
<i>LB Newham</i>	9,772	7,680	1,120	671	10,892	8,351
<i>Scheduled Bodies</i>	743	1,039	45	357	788	1,396
<i>Admitted Bodies</i>	52	120	0	0	52	120
<b>TOTAL</b>	<b>10,567</b>	<b>8,839</b>	<b>1,165</b>	<b>1,028</b>	<b>11,732</b>	<b>9,867</b>

**Note 5. Additional Voluntary Contributions (AVC)**

Individuals hold assets invested separately from the main fund in the form of with profits, equity related, or building society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVCs). Members participating in this arrangement each receive an annual statement made up to 31 March confirming the value of their account and the movements in the year.

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, AVCs are not recognised in the accounting records of the fund, but are included for information only. The aggregate values of the AVC investments are as follows:-

	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
<i>Clerical Medical</i>	540	661
<i>Equitable Life</i>	341	323

## Note 6. Fund Manager's Holdings

The Council administers the Fund's investments. Specialist Fund Managers – Legal and General (LandG), Longview (LV), Neptune (NEP), Newton (NEW), Aberdeen Asset Management (AAM), ING Real Estate (ING), Morgan Stanley (MS) and Harbour Vest (HV) – have been appointed to invest 97.2% of the Fund. In addition, a small proportion of the Fund is held in infrastructure. The Fund does not form part of the Council's consolidated accounts. Axa Rosenberg (AR) managed a global equity mandate during 2010 but funds were withdrawn in August 2010.

Investments make up 99% of the fund's assets, with 1% held in cash. The statement below shows the market value of each type of investment held by the individual Fund Managers in £000s as at 31 March 2011.

The 31 March 2011 investment market values were as follows (in £000s):

<i>Investment</i>	<i>LandG</i>	<i>AAM</i>	<i>ING</i>	<i>HV</i>	<i>NEP</i>	<i>LV</i>	<i>NEW</i>	<i>MS</i>	<i>Other</i>	<i>TOTAL</i>
<i>Fixed Interest (UK)</i>	6,857	0	0	0	0	0	0	0	0	6,857
<i>Fixed Interest (OS)</i>	2,966	57,298	0	0	0	0	0	0	0	60,264
<i>Index Linked - UK</i>	19,333	0	0	0	0	0	0	0	0	19,333
<i>Equities Quoted (UK)</i>	74,209	14,149	0	0	12,120	9,253	6,833	0	0	116,564
<i>Equities Quoted (OS)</i>	47,438	0	0	0	94,945	90,304	83,501	0	0	316,188
<i>Private Equity</i>	0	0	0	30,869	0	0	0	0	0	30,869
<i>Partnerships</i>	0	0	0	0	0	0	0	0	6,462	6,462
<i>Infrastructure</i>	0	0	0	0	0	0	0	0	13,994	13,994
<i>Property</i>	0	0	82,191	0	0	0	0	0	0	82,191
<i>Hedge Equity</i>	0	0	0	0	0	0	0	16,228	0	16,228
<i>Hedge Fund Of Funds</i>	0	0	0	0	0	0	0	6,169	0	6,169
<i>High Yield Bonds</i>	0	0	0	0	0	0	0	4,837	0	4,837
<i>Senior Loans</i>	0	0	0	0	0	0	0	6,192	0	6,192
<i>Inflation Linked Assets</i>	0	0	0	0	0	0	0	3,563	0	3,563
<i>Frontier Equity</i>	0	0	0	0	0	0	0	2,220	0	2,220
<i>Real Estate</i>	0	0	0	0	0	0	0	2,650	0	2,650
<i>Emerging Markets Debt</i>	0	0	0	0	0	0	0	3,691	0	3,691
<i>Commodities</i>	0	0	0	0	0	0	0	6,534	0	6,534
<i>Currencies</i>	0	0	0	0	0	0	0	4,009	0	4,009
<i>Convertible Bonds</i>	0	0	0	0	0	0	0	6,241	0	6,241
<i>Private Equity</i>	0	0	0	0	0	0	0	1,091	0	1,091
<i>Emerging Markets Domestic Debt</i>	0	0	0	0	0	0	0	2,044	0	2,044
<b><i>Investment Subtotal</i></b>	<b>150,803</b>	<b>71,447</b>	<b>82,191</b>	<b>30,869</b>	<b>107,065</b>	<b>99,557</b>	<b>90,334</b>	<b>65,469</b>	<b>20,456</b>	<b>718,191</b>
<i>Cash and Liquid Assets</i>										
<i>Sterling Deposits</i>	0	4	1	5	537	2,379	3,216	382	0	6,524
<i>Foreign Currency</i>	0	1	0	75	593	335	0	148	3	1,155
<i>Other Investment Balances</i>	0	0	0	0	213	62	232	1	0	508
<b><i>TOTAL HOLDING</i></b>	<b>150,803</b>	<b>71,452</b>	<b>82,192</b>	<b>30,949</b>	<b>108,408</b>	<b>102,333</b>	<b>93,782</b>	<b>66,000</b>	<b>20,459</b>	<b>726,378</b>
<b><i>Percentage of total</i></b>	<b>20.8%</b>	<b>9.8%</b>	<b>11.3%</b>	<b>4.3%</b>	<b>14.9%</b>	<b>14.1%</b>	<b>12.9%</b>	<b>9.1%</b>	<b>2.8%</b>	<b>100.0%</b>

The 31 March 2010 investment market values were as follows (in £000s):

<i>Investment</i>	<i>LandG</i>	<i>AAM</i>	<i>ING</i>	<i>AXA</i>	<i>HV</i>	<i>Arcus</i>	<i>NEP</i>	<i>LV</i>	<i>NEW</i>	<i>MS</i>	<i>Other</i>	<i>TOTAL</i>
<i>Fixed Interest (UK)</i>	6,892	0	0	0	0	0	0	0	0	0	0	6,892
<i>Fixed Interest (OS)</i>	2,914	52,381	0	0	0	0	0	0	0	0	0	55,295
<i>Index Linked (UK)</i>	18,149	0	0	0	0	0	0	0	0	0	0	18,149
<i>Equities Quoted (UK)</i>	70,218	13,163	0	6,163	0	0	12,942	3,577	7,703	0	0	113,766
<i>Equities Quoted (OS)</i>	44,239	0	0	78,811	0	0	53,719	63,968	50,818	0	0	291,555
<i>Private Equity</i>	0	0	0	0	22,628	0	0	0	0	606	0	23,234
<i>Partnerships</i>	0	0	0	0	0	0	0	0	0	0	4,232	4,232
<i>Infrastructure</i>	0	0	0	0	0	14,885	0	0	0	0	0	14,885
<i>Property</i>	0	0	68,648	0	0	0	0	0	0	3,226	0	71,874
<i>Currency</i>	0	0	0	0	0	0	0	0	0	8,883	0	8,883
<i>Senior Loans</i>	0	0	0	0	0	0	0	0	0	8,805	0	8,805
<i>Global Macro</i>	0	0	0	0	0	0	0	0	0	3,016	0	3,016
<i>European High Yield</i>	0	0	0	0	0	0	0	0	0	4,293	0	4,293
<i>Hedge Funds</i>	0	0	0	0	0	0	0	0	0	14,780	0	14,780
<i>Emerging Market Debt</i>	0	0	0	0	0	0	0	0	0	7,435	0	7,435
<i>Commodities</i>	0	0	0	0	0	0	0	0	0	6,502	0	6,502
<i>Frontier Emerging Markets</i>	0	0	0	0	0	0	0	0	0	1,933	0	1,933
<b><i>Investment Subtotal</i></b>	<b>142,412</b>	<b>65,544</b>	<b>68,648</b>	<b>84,974</b>	<b>22,628</b>	<b>14,885</b>	<b>66,661</b>	<b>67,545</b>	<b>58,521</b>	<b>59,479</b>	<b>4,232</b>	<b>655,529</b>
<i>Cash and Liquid Assets</i>												
<i>Sterling Deposits</i>	0	0	258	46	0	0	23	382	443	1,260	251	2,663
<i>Foreign Currency</i>	0	0	0	520	0	0	2,815	30	0	0	1	3,366
<i>Other investment balances</i>	0	0	113	217	0	0	(976)	(34)	509	408	0	237
<b><i>TOTAL HOLDING</i></b>	<b>142,412</b>	<b>65,544</b>	<b>69,019</b>	<b>85,757</b>	<b>22,628</b>	<b>14,885</b>	<b>68,523</b>	<b>67,923</b>	<b>59,473</b>	<b>61,147</b>	<b>4,484</b>	<b>661,795</b>
<b><i>Percentage of total</i></b>	<b>21.5%</b>	<b>9.9%</b>	<b>10.4%</b>	<b>13.0%</b>	<b>3.4%</b>	<b>2.2%</b>	<b>10.4%</b>	<b>10.3%</b>	<b>9.0%</b>	<b>9.2%</b>	<b>0.7%</b>	<b>100.0%</b>

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## Note 7. Actuarial Position and Funding Position

The level of contribution payable by the Council to the Fund during 2010/11 was based on the actuarial valuation as at 31 March 2007. This valuation sets the contribution rates for the three years commencing 1<sup>st</sup> April 2008.

The market value of the Fund's assets at 31 March 2007 was £618 million, compared to liabilities of £862 million, representing 72% of the Fund's accrued liabilities, allowing for future pay increases. A full actuarial report of the actuarial present value of promised retirement benefits can be found at [www.newham.gov.uk](http://www.newham.gov.uk).

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions used in 2007 are shown in the following table:

<b><i>Assumptions</i></b>	<b><i>2007 Valuation</i></b>	<b><i>2010 Valuation</i></b>
Rate of Return on Investments	6% Equities	6.7% Equities
Rate of general pay increases	4.9% per annum	4.7% per annum
Rate of increase to pensions in payment (in excess of GMPs)	3.1% per annum	3.5% per annum
Valuation of Assets	Market value based on average values of assets in the 12 months prior to 31 March 2008	Assets have been valued at a 6 month smoothed market value straddling the valuation date

The 2010 valuation set the required rate of contributions by the Council for 2010/11 at 22.7% pensionable pay. This rate of contribution is that which, when added to the contributions paid by the members, is sufficient to meet the following:

- 100% of the liabilities arising in respect of service after the valuation date; plus
- an adjustment over a period of 17 years to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets from 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

A triennial valuation took place in 2010 with the employer contribution rate set for the three year period 2011/12 to 2013/14. The funding level for the whole fund was 72%, with an updated funding level of 76% as at 31/03/2011. The pension fund investment strategy is seeking a fully funded position within 20 years. This long-term strategy allows for short-term market volatility.

The present value of the retirement benefits of the Newham Pension Fund (including the London Borough of Newham, admitted and scheduled bodies) was valued at £887 million at the 2010 Triennial Valuation. A full version of this report can be found at [www.newham.gov.uk](http://www.newham.gov.uk) under the heading "Actuarial Valuation 2010".

## Note 8. Accounting Policies

**Accounting Standards** - The Pension Fund Accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice. However disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

**Basis of Preparation** - The accounts have been prepared on the accruals principle, with the exception of transfer values which are included on a cash basis.

**Valuation Principles** - Investments are shown in the accounts at their market value that has been determined as follows:

- Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the bid price. Other quoted investments are valued on the bid price quoted on the relevant stock market.
- Foreign currency is translated to sterling at the closing mid-market rate on the 31 March 2011.
- Unit Trusts and managed funds are valued at the bid prices.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represent fair value.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end, which is included separately within accrued investment income.
- Costs of trading are included as appropriate within purchase costs or sales revenues.
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

The Fund investments also include a cash balance or overdraft, which currently forms part of the balance on the Council's general bank account. This balance earns 7 day LIBOR. From 1 April 2011 the Fund will operate a separate bank account, which will be actively invested in the open market.

**Investment Income** – The following accounting policies are used:

- Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded gross of any withholding tax, which is reported separately.
- Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- Income from other investments is accounted for on an accruals basis.
- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.
- Foreign currencies – Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at an average rate for the period. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

**Contributions** – Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

**Benefits Payable** – Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension, these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the members leaves the Plan or on death.

Any individuals' retiring on the 31 March is accounted for in the new financial year. Similarly deaths on 31 March are accounted for in the new financial year.

**Transfers to and from other schemes** – Transfer values represent the capital sums either receivable in respect of members from other pension schemes or previous employers or payable to the pension schemes of new employers for members who have left the plan. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end and where the account of the transfer can be determined with reasonable certainty.

**Investment, Management and Administration** - A proportion of relevant Council officers' time, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment related matters.

**Other Expenses** – Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

**Statement of Investment Principles** - Details of the Council's Statement of Investment Principles is available for inspection on the Council website ([www.newham.gov.uk](http://www.newham.gov.uk)).

**Taxation** - withholding tax and any other tax deducted on trading activities is shown as a tax charge and the recovery of this tax is not anticipated by the raising of a debtor but is credited to other income only when received.

**Going Concern** - The Pension Fund Accounts have been prepared on a going concern basis.

**Note 9. Related Party Transactions**

Fund administration expenses payable to the administrating authority, the London Borough of Newham are outlined below

<b>Related Party Transactions</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£000s</b>	<b>£000s</b>
<i>Payroll Support</i>	151	151
<i>Central Finance</i>	109	104
<i>Accounting</i>	11	11
<i>Management Cost</i>	23	17
<i>General Charges</i>	7	7
<b>Total</b>	<b>301</b>	<b>290</b>

**Note 10. Administration costs**

Further analysis, supporting the information in the accounts is detailed below:-

<b>Administration Costs</b>	<b>2009/10</b>	<b>2010/11</b>
<b>Scheme Administration.</b>	<b>£000s</b>	<b>£000s</b>
<i>Officers' Salaries and Related Costs.</i>	568	559
<i>Direct Running Costs</i>	61	104
<i>Audit Fee</i>	51	35
<i>Legal Fees</i>	10	17
<i>Professional Fees</i>	103	283
<b>Total</b>	<b>793</b>	<b>998</b>

The main causes of the increase in professional fees, from £103k in 2009/10 to £245k in 2010/11, are due to the costs associated with a review of the custodian costs, a review of the investment strategy and due to a number of withholding tax claims being submitted in the European Union.

The review of the custodian fees resulted in a yearly saving of at least £100k, with the potential income from the tax reclaims in excess of £500k.

**Note 11. Investment Management Expenses**

<b>Investment Management Expenses</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£000s</b>	<b>£000s</b>
<i>Fund Management Expenses</i>	2,356	3,059
<i>Performance Fee</i>	0	203
<b>Total</b>	<b>2,356</b>	<b>3,262</b>

A performance fee of £233k, related to outperformance in 2010/11, was paid to one fund manager.

As the majority of fund manager costs are based on the size of the assets under management, the increase in fund manager expenses are predominantly due to the 44% increase in the value of the funds assets since April 2009.

## Note 12. Analysis of Purchases and Sales of Investments during 2010/11

<i>Investments</i>	<i>Value at</i>	<i>Purchases</i>	<i>Sales</i>	<i>Change in</i>	<i>Value at</i>
	<i>31.03.10</i>	<i>At cost</i>	<i>Proceeds</i>	<i>Market</i>	<i>31.03.11</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>Value</i>	<i>£000s</i>
				<i>£000s</i>	
<i>Fixed Interest (UK)</i>	6,892	0	420	385	6,857
<i>Fixed Interest (OS)</i>	68,457	0	10	5,966	74,413
<i>Index Linked (UK)</i>	18,149	1,570	1,610	1,224	19,333
<i>Equities - Quoted (UK)</i>	30,385	17,574	20,044	291	28,206
<i>Equities - Quoted (OS)</i>	247,316	144,096	143,961	21,301	268,752
<i>Pooled Investment Vehicles</i>	114,457	1,530	4,060	9,719	121,646
<i>Property</i>	71,874	14,498	3,939	2,980	85,413
<i>Alternative Investments</i>	101,225	44,911	34,210	4,871	116,797
<b>Subtotal</b>	<b>658,755</b>				<b>721,417</b>
<i>Cash Deposits</i>	6,029				7,678
<b>Subtotal</b>	<b>664,784</b>				<b>729,095</b>
<i>Investment income Due</i>	237				508
<b>Total</b>	<b>665,021</b>	<b>224,179</b>	<b>208,254</b>	<b>46,737</b>	<b>729,603</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Direct transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

## Note 13. Investment Income

<i>Investment Income</i>	<i>2009/10</i>	<i>2010/11</i>
	<i>£000s</i>	<i>£000s</i>
<i>Interest</i>	48	428
<i>Dividends</i>	3,845	5,800
<i>Rents</i>	2,032	3,423
<i>Miscellaneous</i>	0	169
<b>Sub total</b>	<b>5,925</b>	<b>9,820</b>
<i>Bank Interest</i>	37	1
<b>Total</b>	<b>5,962</b>	<b>9,821</b>

Investment income increased due to improved dividend payments from equity managers and an increase in rents due to an additional £25 million being invested in commercial property.

The increase in miscellaneous income was mainly as a result of a payment by the Netherlands government relating to withholding tax refunded.

## Note 14. Current Assets and Liabilities

<b>Current Assets</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£000s</b>	<b>£000s</b>
Contributions From Outside Bodies	49	213
Cash and Bank Balances	1,084	0
<b>Total</b>	<b>1,133</b>	<b>213</b>

<b>Current Liabilities</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£000s</b>	<b>£000s</b>
Tax Payable	(188)	(189)
Fees Due to Fund Managers	(665)	(675)
Investment Advisor Fees	(1)	(5)
Actuarial Fees	(9)	(11)
Administrator fees	(8)	0
Legal Fees	(4)	0
Custodian Fees	(137)	(29)
Cash and Bank Balances	0	(2,107)
<b>Total</b>	<b>(1,012)</b>	<b>(3,016)</b>

## Note 15. Derivatives

## Forward Foreign Exchange

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

Forward "over the counter" foreign exchange contracts are held by one of the investment managers to eliminate the impact of the currency on the sterling return.

<b>Contract</b>	<b>Manager</b>	<b>Loss on contract</b>
		<b>£000s</b>
Euro Forward Currency	Morgan Stanley	(848.1)

## Note 16. Investments exceeding 5% of total

<b>Fund Manager</b>	<b>Investment Type</b>	<b>Expected Performance</b>	<b>£M</b>	<b>%</b>
Legal and General	Global equities	Track the Benchmark	150.8	21.0%
Newton	Global equities	MSCI AC World + 4%	107.1	14.9%
Longview	Global equities	Outperform benchmark by 4%	99.6	13.9%
Neptune	Global equities	MSCI AC World + 4%	90.3	12.6%
ING	Property	Outperform the IPD by 0.75%	82.2	11.5%
Aberdeen	Fixed Interest	Barclays Capital Nominal Swap 30 Year Coupon GBP Total Return and Barclays Capital UK RPI 20 Year Real Rate Swap Total Return	71.4	9.9%
Morgan Stanley	Global equities	LIBOR plus 5.2%	65.5	9.1%
Other Investments			51.3	7.1%
<b>Total</b>			<b>718.2</b>	<b>100.0</b>

**Note 17. Value and Realisation of Investments**

The valuation of investments as the year-end incorporates the value of purchases, gains/losses realised on the sale of investments, and changes in the assessed market value of investments retained in the portfolio.

The majority of the Fund's assets are quoted in the major markets and are readily realisable. Property is relatively illiquid and makes up 12% of the Fund benchmark assets. Private Equity and Infrastructure are also illiquid and make up 4% and 2% respectively. Diversified alternatives are a mixture of liquid and illiquid assets, with 10% of these assets currently classed as illiquid. The allocation to Diversified Alternative will be less liquid than the Equity and Bond portfolios. Whilst the Fund enjoys a positive cash flow there will not be a need to realise investments quickly and this is likely to remain so at least in the medium term.

The investment managers are required to realise investments as soon as it becomes appropriate to do so under their mandates. In general the Fund's investment managers have discretion with regard to the realisation of investments.

**Note 18. Post Year-End Transactions**

There were no major events following the end of the financial year, which would affect the validity of the figures shown in the accounts statement

**Note 19. Stock Lending**

There were no stock lending arrangements in place during the financial year ended 31 March 2011.

**Note 20. Risk and Return**

There are a number of risks involved in the investment of the assets of the Pension Fund. An outline of the risk and how they are mitigated are outlined below:-

**Geopolitical and currency risks:** are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

**Manager risk:** is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager (s) investment process.

**Solvency and mismatching risk:** are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

**Liquidity risk:** is measured by the level of cash flow required over a specified period; and managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

**Custodial risk:** is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody; and Funding of the LBN Pension Fund is based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within section 7 of the FSS. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Managers from deviating significantly from the intended approach while permitting the flexibility for Managers to enhance returns
- The appointment of more than one Manager with different mandates and approaches provides for the diversification of Manager risk
- The investment management agreements constrain the Manager's actions in areas of particular risk and set out the respective responsibilities of both the Manager and LBN

The Fund is managed 80% on an active and 20% on a passive basis. The assets managed on an active basis are expected to out perform their respective benchmarks over the long term. In achieving the level of return managers are also required to limit underperformance. The passive manager has a target of achieving a return as close as possible to the respective benchmark index return for each market. Overall the Fund is expected to produce a return at least in line with the return assumed by the actuary in the last valuation

The Fund's custodian, Northern Trust, monitor the performance of each of the Managers and the Fund overall. Reports are considered quarterly and there is an annual review. The annual review also examines the impact of the Fund's benchmark. Performance of the Fund is monitored internally on a monthly basis. There is a statutory obligation for triennial valuation of the Fund with the option for interim valuations as required.

In addition, risks are measure and managed via a risk register which is constantly revised and updated. The risk register is included in the Statement of Investment Principles and can be found at [www.newham.gov.uk](http://www.newham.gov.uk).

#### Note 21. Hutton Review

At the emergency budget meeting in June 2010, the Chancellor invited John Hutton, as Head of the Independent Public Service Pensions Commission (the Commission), to conduct an independent review of public sector pension provision and to make recommendations on a provision that is sustainable, affordable and fair in the long term. In addition Hutton was asked to consider the case for delivering savings on public service pension ahead of the Government's spending review.

In March 2011, the Commission provided its final report, in which it confirmed a number of changes to public service pension schemes, including the use of the Consumer Prices Index as the measure of inflation and an imminent rise in employee contributions of an average of 3%.

A further 27 recommendations were proposed with our main principles of public service pension reform including:

- **Affordable and sustainable:** Expenditure needs to remain affordable over time, and affordability cannot be addressed in the short term alone. Reform also has the potential to have an impact on the up-take of other, means tested, benefits;
- **Adequate and fair:** An adequate level of retirement income with a reasonable degree of certainty is necessary, but the system must also be fair in terms of distribution, contribution and benefits;
- **Support productivity:** Pensions are also a method of recruitment and retention, and good pension provision tends to attract a certain type of employee who value the future more highly; and
- **Transparent and simple:** Pension's must be widely understood, both for scheme members and the wider population.

The Commission has concluded that public service pension schemes should aim to ensure adequate incomes in retirement for those who have worked a full career in the public service. In addition to the Commissions report, the 2011 Pensions Bill was announced which proposes accelerating the planned increases in the State Pension Age. The State Pension Age is now planned to be 66 for both men and women by 2020.

Officers and elected Members of the Fund are monitoring the effects of the proposed changes and will participate in discussions on the future of Local Government Pension Schemes.

## UNAUDITED GLOSSARY OF FINANCIAL TERMS

This glossary explains the meaning of commonly used financial terms used within Local Government financial reporting.

**Accounting Period**

The timescale during which accounts are prepared. Local Authority accounts have an overall accounting period (financial year) of one year from 1st April to 31 March. In year monitoring is on a monthly basis.

**Accounting Standards**

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices'. The hierarchy of proper accounting practices are set out in Acts of Parliament, and if guidance is not set out within this then professional Financial Reporting Standards (FRS). IFRS apply to Councils from 2010/2011

**Accruals**

An accounting principle where expenditure and income are taken into account in the year in which they are incurred rather than when invoices are actually paid and/or monies received.

**Acquisitions**

The Council spends funds from the capital programme to buy assets such as land and buildings. In some cases this is because a compulsory purchase order has been made so that the land can be used for development.

**Actuals**

Short for 'actual expenditure'. The term is usually used to denote the amount spent against a particular budget or by a service for the year. (Also referred to as "outturn").

**Agency Services**

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

**Aggregate External Finance (AEF)**

This is a Central Government revenue support. Net AEF comprises of Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR). In the case of gross AEF it also includes certain specific grants.

**Approved Capital Programme**

All projects in the capital programme, which have been approved by the Council.

**Approved Investments**

The investment of surplus cash by the Authority can be broadly split into Specified and Non-Specified investments. Specified investments include investments of less than one year in highly credit rated institutions. Non-specified investments cover all other categories of investment. Before the start of each financial year, the Annual Investment Strategy is approved by Council setting out limits on each category of investment.

**Area Based Grant (ABG)**

A category of government grant from 2008/09, which replaces Local Area Agreement (LAA) grant arrangements. It is made up of specific grants, many of

which were previously made to the Council under separate and specific performance and accountability arrangements. These are now part of a non-ring-fenced grant, with no conditions imposed on its use as part of the grant determination, ensuring full local control over how funding can be used. It is paid directly to the Council as part of a three-year settlement.

**Area Cost Adjustment (ACA)**

The scaling factor applied to the Formula Grant calculation to reflect higher costs (mostly pay) in some Council areas.

**Arms Length Management Organisations (ALMOs)**

An ALMO is a not-for-profit housing management company that is wholly owned by a local authority. With the end of the Decent Homes programme, the Council's ALMO Newham Homes will return to the Council from 1st April 2011.

**Asset Management Plan**

This plan is prepared to assist the Council in managing its property assets effectively and to contribute towards the vision of making Newham a place where people choose to live and work. The plan sets the framework for how to manage assets and outlines the key actions the Council needs to take during the coming year.

**Asset Register**

A record of Council assets including land and buildings, housing, infrastructure, vehicles, equipment. This is maintained for the purpose of calculating capital charges that are made to service Revenue Accounts. It is updated annually to reflect new acquisitions, disposals, re-valuations and depreciation.

**Audit Commission**

The body responsible for the Appointment of external Auditors to Local Authorities, co-ordinating audits throughout the country, setting standards and carrying out Comprehensive Performance Assessments (CPAs).

**Balances**

The amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves. There is no fixed statutory level for reserves. The Council follows draft Audit Commission guidance that General Reserves should be 5% of annual operating expenditure plus the value of the Council's "Bellwin Scheme" threshold (a scheme under which local authorities can claim financial support from the government toward costs of dealing with emergencies and disasters e.g. flood or storm damage).

**Base Budget**

In broad terms this represents the budget that would be required to continue to provide services at their current level. Base budgets for 2010/2011 were prepared in June and were used to establish cash limits for each service area. The budgets were then reviewed in detail to bring spending requirements within the agreed cash limit.

**Base Budget Review**

This is the process that turns the initial base into the final base budget. It involves working out the detailed

spending requirements for each area of service and moving budgets accordingly within the agreed cash limit.

### **Best Value**

There is a statutory duty (required by law) on local authorities (and some other public bodies) to make arrangements to achieve continuous improvements in the way their functions are carried out. This is achieved by providing services in a cost effective manner.

### **Best Value Accounting Code of Practice (BVACOP)**

BVACOP sets the financial reporting guidelines for Local Authorities under the best value regime. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (SORP), by establishing practice for consistent reporting below the Statement of Accounts level. BVACOP provides guidance in three key areas:

- The definition of total cost
- Trading accounts and in-house trading
- Service Expenditure Analysis (SEA)

### **Billing Authority**

Those local authorities responsible for collecting Council Tax i.e. London Boroughs and Districts.

### **Budget Forecast**

An initial assessment of what next year's budgets will look like. The assessment is prepared and updated by Financial Services on a regular basis throughout the year to give members an early indication of the issues that will have to be faced during the budget. Also included are projections for two further years to provide a Medium Term Strategy - see 'Medium Term Strategy'.

### **Budget Head**

An individual budget against which costs are charged.

### **Budget Monitoring**

The comparison of the amount spent to date against the approved budget to see if any under or over spending is occurring. This process enables service areas to take corrective action in the event of any deviations and control their budgets.

### **Budget Reduction**

A reduction in the amount of money that can be spent on a particular service.

### **Budget Requirement**

Budget requirement is the amount the Council estimates as its planned spending, after deducting any funding from reserves and any income it expects to raise (other than from the Council Tax and general funding from government). General funding from government is Revenue Support Grant, redistributed business rates and some specific and special grants. The budget requirement is set before the beginning of the financial year.

### **Capital Adjustment Account (CAA)**

This account records the consumption of historical cost over the life of the asset and deferred charges over the period that the authority benefits from the expenditure. The account also records the resources set aside to finance capital expenditure.

### **Capital Charges**

In accordance with arrangements for capital accounting, capital financing costs are not charged to individual

## **London Borough of Newham**

revenue accounts, but 'Capital Charges' are made. The Capital Charges represent the actual annual depreciation of assets. These charges relate to all capital assets i.e. land and buildings over £25,000 in value and vehicles, equipment, etc. over £10,000, used by individual services

### **Capital Expenditure**

Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools, roads, etc. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with proper accounting practices and regulations.

### **Capital Financing Requirement (CFR)**

The Capital Financing Requirement is the measure of the Council's underlying indebtedness as calculated from its annual accounts. It increases by capital expenditure and decreases by the application of capital receipts, other resources and the Minimum Revenue Provision.

### **Capital Grants**

Monies received by service areas from Government and other statutory bodies towards the Council's capital expenditure. The main sources include the Major Repairs Allowance (MRA), Transport for London and Standards Fund.

### **Capitalisation**

Costs are capitalised to the extent that they create or improve any tangible Fixed Asset with a useful economic life greater than one year. The Local Authority Statement of Recommended Practice (SORP) requires capitalisation and depreciation of tangible PPE.

### **Capital Investment Strategy**

This document sets out the five-year plan that demonstrates how capital investment will support the achievement of the Council's 'Vision'. The current strategy covers the period 2010 to 2015.

### **Capital Receipts**

Monies received from the sale of the Council's assets. These receipts are used to pay for additional capital expenditure or to reduce the Council's indebtedness. See Pooling Arrangements.

### **Cash Budgets/Cash Prices**

The actual amount of money that can be spent during the year after allowing for pay awards and inflation. The budget is expressed as 'cash prices'.

### **Cash Limit**

An upper limit on the amount of money that can be spent. This can either apply to an overall budget or individual elements within it. The use of cash limits is an integral part of the budget process.

### **Central Support Services**

The costs of central support services such as legal and finance are reallocated to other service areas so as to provide a more accurate picture of how much those services cost in their totality. In the case of the housing revenue account and trading accounts, the law requires the reallocation of such costs.

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy, which in common with other Chartered Accountancy Bodies promotes best practice by issuing guidelines and Codes of Practice. CIPFA has particular expertise in the field of Public Sector and Local Government Finance.

### Collection Fund

A separate account kept by every billing authority into which Council Tax and Business Rates are paid.

### Collection Rate

The amount of Council Tax likely to be collected expressed as a percentage of the total amount due. For 2010/2011 the Council's collection rate is 94.3%.

### Communities and Local Government (CLG)

Formerly the Department for Communities and Local Government. Created with a powerful remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

### Consultation

A process the Council uses in reaching a decision. Individuals can be consulted in three main capacities: As consumers, when they are asked for their views about particular services that they either deliver or might use.

As taxpayers, when consultation focuses on the balance between the level of services provided and their cost; and

As citizens, when consultation focuses on what people think about policy questions, such as the type of development that might take place in their community. Local businesses can be consulted as service users, as business ratepayers and as organisations with a wider interest in the community.

### Contingent Liabilities

Potential losses for which a future event will establish whether a payment is required. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial statements, but disclosed separately in a note to the Balance Sheet.

### Contingency for Pay and Price Increases

The base budget is initially prepared at pay and price levels applicable in the current year. A sum of money is then set aside centrally to reflect the cost of pay awards and price increases that are likely to take place in the 'budget year'. This contingency is allocated to individual service areas after the overall budget has been approved to provide them with cash budgets.

### Corporate and Democratic Core (CDC)

Under CIPFA Codes of Practice, Local Authorities are required to identify separately the costs of being a publicly accountable body. These are known as the Corporate and Democratic Core, which is split between Democratic Representation and Management (DRM) and Corporate Management (CM). DRM includes all costs relating to members' allowances and expenses, the costs associated with officer time spent on appropriate advice and subscriptions to the Local Authority associations. CM concerns activities and costs

which provide the infrastructure and the information which is required for public accountability.

### Cost Centre

An individual function or service area for which a specific budget is prepared and the costs are separately identifiable e.g. libraries, housing advice.

### Cost Centre Management

A form of financial control where for every cost centre an officer is identified as the designated budget holder. He or she is then responsible for monitoring and controlling spending on the cost centre.

### Cost Increase Factor

The indices used to uplift the budget from one price base to another. Different percentages are used for each category of expenditure and income.

### Council Tax

A local charge set by the Council and the precepting authority in order to collect sufficient revenue to provide Services. Council Tax is based on the value of the property and the number of residents. The Valuation Office assesses the properties in each district area and assigns each property to one of eight valuation bands; A to H. The Council Tax is set on the basis of the number of Band D equivalent properties. Tax levels for dwellings in other bands are set relative to the Band D baseline.

### Council Tax Benefit

Reductions in the amount of Council Tax people have to pay based on their income and personal circumstances.

### Creditors

Amounts owed by the Authority at 31 March for goods received or services rendered but not yet paid for.

### Dedicated Schools Grant (DSG) \ Dedicated Schools Budget (DSB)

DSG is a specific grant which must be used in support of defined educational activities. 2010-11 was the final year of a three-year funding cycle (2008 - 2011). Future funding periods will coincide with subsequent Comprehensive Spending Review periods thereafter. 2011/2012 is a single year funding period. The grant is geared to pupil numbers. The DSB covers expenditure both by schools and by the local authority on central items.

### Debtors

Amounts owed to the Authority which are collectable or outstanding at 31 March.

### De Minimis

Projects costing below £25,000 (£10,000 for vehicles) are not considered to be 'large' enough to be called capital, and must therefore be met from revenue. The same term is used for assets considered 'too small' for inclusion in the Asset Register.

### Depreciation

A provision made in the accounts to reflect the value of assets used during the year. For example a vehicle purchased for £10,000 with a life of five years would depreciate on a straight-line basis at the rate of £2,000 per year. The 'Capital Charge' comprises of the depreciation charged to service revenue accounts.

**Disposals**

Sale of Council assets - see Capital Receipts.

**Early Years**

Early Years service gives all children under five in Newham tailored access to Children's Services, including health, education and family support. It is a part of the Extended Services provision within the Children and Young Peoples Services.

**Earmarked Reserves**

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

**East London Waste Authority (ELWA)**

ELWA has the statutory responsibility for the disposal of household, commercial, industrial and civic amenity site waste collected by the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge.

**Employee Overheads**

Costs which are automatically incurred by the Council when staff are employed. These comprise of the Employer's National Insurance and Pension Contributions.

**Environmental Works**

Work to improve the landscape (e.g. paving, clearing derelict spaces).

**External Auditors**

The Auditor appointed by the Audit Commission to carry out an audit of the Council's accounts. Currently the Council's auditors are PricewaterhouseCoopers, who have statutory responsibilities in relation to: Showing the accounts is 'presented fairly' Good corporate governance - oversee CAA process Best Value Performance Plans, Fair Value Overall duties relating to public accountability.

**Fees**

Projects require fees to pay for the design, costing and supervision of schemes. These are part of the cost of the scheme and are included in the capital programme.

**Financial Code of Practice (FCoP)**

A set of rules about how service areas should monitor, control and report on their budgets. The Code of Practice also contains rules on the investment of trading surpluses and is approved each year by the Council.

**Financial Regulations**

A set of rules about how service areas should monitor, control and report on their budgets. The Financial Regulations also contain rules on the investment of trading surpluses and is approved each year by the Council.

**Full-year Effects**

New items of expenditure or savings are often implemented part way through the financial year. When this happens, only part of the additional costs or savings will occur in the first year. The full year effects are the additional costs or savings that arise in the following year.

**Gearing Effect**

As RSG and NNDR are fixed, any increase in Council spending has to be met from Council Tax. Council Tax only accounts for 25% of the Council's budget requirement, thus a 1% increase in the latter would

**Statement of Accounts 2010/2011**

result in a 4% increase in Council Tax. This is known as the 'gearing effect'.

**General Fund (GF)**

The Council's main Revenue Account that covers the net cost of all services other than the provision of Council housing for rent.

**General Ledger**

The Council's computerised financial accounting system.

**Greater London Authority (GLA)**

The Strategic Authority for London created on 1st July 2000. (see preceptor).

**Growth**

Expenditure on any item which is not included in the approved budget. The term is usually used to refer to new initiatives and service developments.

**Historical Cost**

The actual amount of money paid for a particular item. Assets such as buildings that have been bought in the past will often have a current value that is much greater than their historical cost. However, other items tend to lose their value over time. This is known as depreciation. Generally speaking, Council assets are now shown at market value.

**Housing Benefit**

Rent rebates due to Council tenants and rent allowances to private sector tenants based on a needs assessment.

**Housing General Fund (HGF)**

That part of the Housing service's budget which does not relate to the Council's landlord functions. This includes the costs of homelessness and rent allowances. These services appear within the General Fund Budget.

**Housing Revenue Account (HRA)**

A statutory account that contains all expenditure and income on the provision of Council Housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance i.e. income must equal expenditure. Local Authorities are not allowed to contribute to any HRA deficit from the General Fund.

**Housing Subsidy**

The grant paid by Central Government to Local Authorities to subsidise the cost of Council Housing. The grant is paid into the Housing Revenue Account.

**Incremental Budget**

An approach to budgeting which starts with the current year's budget and makes adjustments for price changes, growth and savings. This is the opposite of zero-based budgeting.

**Indirect Employee Expenses**

Employee overheads and other costs incurred by employing staff apart from pay (e.g. training costs or employee insurance).

**Initial Base Budget**

The starting point in the budget process. The initial base for next year is the current year's approved budget adjusted for the full year effect of growth, savings etc.

The initial base provides a cash limit for each service area

### **Interest on Cash Balances**

The interest earned on cash flow investment balances.

### **International Financial Reporting Standards (IFRS)**

Local Authorities are to prepare their accounts on an International Financial Reporting Standards from 1st April 2010. The first accounts to be published will be for 2010/2011 and authorities will need to restate their 2009/2010 accounts for comparatives.

### **Investments**

The investment of surplus cash by an authority is governed by CLG Investment Guidance (March 2004) and revised in November 2009. Before the start of each financial year, an Annual Investment Strategy is approved by Council setting out limits on each category of investment. Investments are broadly split into two categories: Specified and Non-Specified investments. Specified investments include investments of less than one year in highly secure institutions. Non-specified investments cover all other categories of investment and here use must be supported in detail in the Investment Strategy.

### **Investment Strategy**

The Council has adopted a three-year strategy for the redirection of annual revenue resources and the one-off investment of reserves into strategies aimed at achieving the Council's Vision for Newham.

### **Leases**

Contracts granting the use of PPE, such as building and computers, for a specified time in exchange for rent. The owner is called the lessor and the user is referred to as the lessee. Finance Lease transfers substantially all the risks and rewards incidental to ownership. If it is not a Finance Lease, it is an Operating Lease.

### **Leasing Charges**

The annual rental payments on items which have been leased by the Council are charged to revenue.

### **Lender's Option Borrower's Option (LOBO)**

A loan (usually a long-term loan from a bank) where the lender has the option of requesting an interest rate increase at certain points in the term of the loan. The borrower can accept the rate increase or use their option to repay the loan without any early repayment penalties.

### **Levies**

Payments to London-wide bodies such as the Lee Valley Regional Park Authority. The cost of these bodies is borne by Local Authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

### **Local Area Agreement (LAA)**

A three year agreement between the Council and Central Government covering the period 2008 to 2011. It sets out agreed shared outcomes for each of the themes in the Council's Community Strategy and pools and aligns a range of government funding streams.

### **Local Authority Business Growth Incentives (LABGIs)**

Local Authority Business Growth Incentives should enable authorities to benefit from increases in non-

## **London Borough of Newham**

domestic (business) rate revenues. They aim to introduce incentives to encourage economic development partnerships with businesses at both local and regional level.

### **Local Strategic Partnership**

Local Strategic Partnerships (LSPs) have been set up to tackle social exclusion and encourage the main service providers in the Borough to work together to produce better outcomes for local residents and to help create sustainable development in the area. The Government, the Council and other service providers are working together to reallocate resources and adapt work programmes to meet objectives.

### **Major Repairs Allowance (MRA)**

Is an element of the Housing Revenue Account subsidy which provides each authority with an estimated long term average amount of capital spending resources required to maintain a local authority's stock in its current condition.

### **Management and Support Services (MSS)**

Proper accounting regulations require that support service costs are charged to all direct services, which benefit from that support. The same is true for service management. Charges are called Management and Support Service Charges.

### **Medium Term Strategy**

The Council has adopted a 'medium term' approach to its budget that enables it to plan ahead over a three-year period. In this way, it is able to consider the impact of any decisions and investments over the medium term rather than concentrating on just one year. This approach enables budget and investment strategies to be linked to the Vision for the borough and key aims and objectives, all of which extend over a number of years.

### **Minimum Revenue Provision (MRP)**

The minimum amount that the Council must charge to the Revenue Accounts in the year, in respect of the repayment of principal of borrowing for capital purposes. The minimum provision on supported borrowing programmes is calculated as a percentage of the Council's total outstanding non - HRA debt (4%). In the accounts, the minimum revenue provision is included within the Statement of Movement of Reserves Account. From 1st April 2008, MRP on capital schemes financed from unsupported borrowing has MRP charged over the useful life of assets. E.g. if some equipment has a life of five years, the cost of the equipment will be charged to revenue over five years as MRP.

### **Multiplier (Rate in the £)**

The rates payable by businesses are calculated by multiplying the rateable value of the property by a multiplier (rate in the £), expressed in pence. The rates payable on a particular property next year are the rateable value x either 41.4p or 40.7p (as appropriate).

### **Non Domestic Rates (NNDR)**

The rates paid by businesses. The amount paid is based on rateable value set by the Inland Revenue multiplied by a rate in the £ set by the Government which is the same throughout the country. The rates are collected by local authorities and paid over to the Government. They are then redistributed on the basis of resident

population. Also referred to as National Non-Domestic Rates or NNDR.

### **NDR Pool**

The NDR pool is the fund operated by the Government into which all business rates are effectively paid and then from which they are redistributed to local authorities.

### **Oncosts**

The same as 'overheads' but usually expressed as a percentage of direct costs.

### **Out-turn**

This is how much a Council (or individual service) spends in a financial year. Also known as 'actuals'.

### **Out-turn Budget**

Another term for the 'cash budget'.

### **Overheads**

Any costs to the Council, which do not relate directly to the provision of a service.

### **Overhead Account**

An Overhead Account may be used to recover the cost of overheads related to an activity e.g. a stores overhead account would be used to collect the costs of operating a store, and to recover these costs via an overhead charged on stock issued.

### **Partnerships**

An agreement relationship or contract between organisations, whereby the parties agree to work together with the aim of enabling the service providers to give the client a more effective service.

### **Part Year Effects**

Growth and budget reductions are often implemented part way through a year. When this happens the full cost or savings will not be realised until the following financial year. The part year effects are the additional expenditure or savings, which occur in the year of implementation. Also see 'full-year effects'.

### **Policy and Procedural Rules**

The capital programme has strict rules that are a combination of legislation and Council policy. All spending is subject to the Council's budget rules and financial regulations

### **Pooling Arrangements (Capital Receipts)**

Since 1st April 2004, 75% of "Right to Buy" capital receipts have to be paid to the CLG, the remaining element can be used to finance capital expenditure or reduce the Council's indebtedness. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects.

### **Preceptor**

The Greater London Authority (GLA) is the only preceptor in London. The GLA calculates its total spending needs for the year and sets its own Council Tax in the same way as a London Borough. Each Billing Authority then collects the tax for them.

### **Price Base**

The basis on which costs are shown in the budget. Budgets can be either expressed at constant prices

### **London Borough of Newham**

(usually November) i.e. the prices ruling at a particular point in time, or at cash/outturn prices. Cash prices include an allowance for assumed pay and price increases during the period covered by the budget. Budgets shown in this book are at cash prices.

### **Primary Care Trust (PCT)**

Newham Primary Health Care Trust exists to improve the health of the local population and address health inequalities. It does this by providing a range of services in the borough including GP practices, pharmacies, opticians and dentists. Also clinical psychology and counselling, foot health, physiotherapy, occupational therapy, speech and language therapy, community and specialist nursing services, family planning and sexual health services.

### **Priority-Base Budgeting**

See zero-based budgeting.

### **Private Finance Initiative (PFI)**

A scheme where the Local Authority enters into public-private partnership (PPP) with the private sector to purchase a service associated with an asset such as a school or leisure centre. The Council will not buy the asset but instead pays for use of the asset held by the private sector organisation.

### **Problem Budget**

A situation where expenditure is, or is projected to be, in excess of the budget available or an income budget is being under-achieved.

### **Provisions**

Monies set aside for liabilities and losses which are likely to be incurred but where exact amounts or dates on which they will arrive are uncertain.

### **Provision for Losses on Collection**

Local authorities are required to make an allowance for income which is unlikely to be collected. A provision for losses has to be taken into account when calculating the Council Tax levy - see 'collection rate'.

### **Prudential Code (CIPFA)**

This code allows all Local Authorities to determine their own borrowing levels to finance projects, thus allowing more flexibility in establishing the most cost effective way of funding a project. The Council has to demonstrate that borrowing undertaken under the Prudential Code framework is affordable in the long term.

### **Public-Private Partnership (PPP)**

A joint venture where the private sector partner agrees to provide a service to a public sector organisation. (Also see PFI).

### **Public Service Agreements (PSA)**

An arrangement where a Local Authority agrees with the Government to deliver stretching outcomes in key areas of activity (exceeding performances required under best value obligations) reflecting a mix of national and local priorities, in return for financial incentives and greater freedoms in terms of service delivery.

### **Rateable Value**

The value of a property for rating purposes. The VOA sets rateable values. The rate payable by a business is

calculated by multiplying the rateable value of the property by the rate in £ set by the Government.

### Recharges

A change from one account to another to reflect the cost of a service provided. They are included under the heading of 'support services'.

### Recharges to Capital

The salaries of architects and other technical staff working on capital schemes, the costs of which are charged initially to the revenue budget but are then reallocated to the relevant schemes within the capital programme. Also known as 'fees'.

### Reserves

The amounts held by way of balances and funds that are free from specific liabilities or commitments. The Council is able to earmark some of its reserves towards specific projects, whilst leaving some free to act as a working balance.

### Resource Accounting

The Government introduced a form of resource accounting relating to the Housing Revenue Account from 1st April 2001 as part of its financial framework for local authority housing aiming at encouraging more efficient use of housing assets, increasing the transparency of the HRA and achieving consistency and comparability between all authorities' revenue accounts.

### Resource Equalisation

The way in which the formula grant system takes into account a Council's relative ability to raise Council Tax.

### Revaluation Reserve (RR)

The revaluation reserve accounts for amounts where the current net book value of an asset is above its historical cost.

### Revenue Contribution to Capital Outlay (RCCO)

The use of revenue monies to pay for capital expenditure - also known as RCCO and Direct Revenue Financing (DRF).

### Revenue Expenditure

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, RSG, NNDR and Council Tax.

### Revenue Support Grant (RSG)

The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NDR pool and Council Tax. RSG is distributed as part of Formula Grant.

### Right to Buy

The Council is legally required to sell Council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the DCLG under pooling arrangements.

### Ring-fencing

This term is usually applied to the Housing Revenue Account and describes the requirement that all expenditure on the provision of housing for rent must be met from HRA income. Local Authorities are no longer

## London Borough of Newham

allowed to make a contribution to the HRA from the General Fund. In Newham, a similar arrangement is applied to the Housing capital programme. The Dedicated Schools Grant is also an example of ring-fencing.

### Section 114 Responsibilities

Section 114 of the Local Government Finance Act 1988 gives the Chief Financial Officer specific personal statutory duties to make reports to the Council if an item of spending is, or could be, unlawful and/or the Council has or is about to spend in excess of its resources.

### Section 151 Responsibilities

Section 151 of the Local Government Act 1972 (as amended) sets down responsibilities on the Council concerning the appointment of a Chief Financial Officer and the management of its financial affairs.

### Service Area Support

A service provided for other service areas within the Council rather than directly to the public. Examples include payroll, computing, central personnel and legal services.

### Service Area Support Costs

The cost of service area management, administration and support services. Under Accountancy Codes of Practice, these are reallocated to each service area to show the full cost of each function.

### Service Expenditure Analysis (SEA)

The analysis of income or expenditure by reference to its different purposes, usually different services.

### Service Income

Income received by the Council, which relates directly to a service provided. The main examples are fees, charges and specific grants.

### Service Level Agreements (SLAs)

Written contracts for internal services to be provided by one service area (the provider) to another (the client or user). They set out the service to be provided, the duration, the price and conditions of service and are agreed before the financial year begins.

### Service Reporting Code of Practice for Local Authorities (SeRCOP)

Previously known as the Best Value Accounting Code of Practice, but has been renamed to deliver the UK Government's transparency agenda. SeRCOP establishes proper practices with regard to consistent financial reporting for Local Authority Services. It is an official CIPFA statement and all local authorities in the U.K are expected to adopt its mandatory requirements and detailed recommendations. It applies to all UK Council budgets from 1st April 2011 for preparation of 2011/12 budgets, performance indicators and financial statements.

### Specific Grants

A grant receivable from a Government Department that relates to expenditure incurred on providing a particular service e.g. Education Standards Fund.

### Standards Fund

The Standards Fund is the Government's main grant for targeting funds towards national Education priorities to

be delivered by LEAs and schools .From 1st April 2011, now incorporated into Dedicated Schools Grant.

### Statement of Recommended Practice (SORP)

SORP are guidance on accounting practices for specialised industries or sectors. The Council is subject to the requirements of the CIPFA code of practice on Local authority accounting in the United Kingdom and the annually published SORP. These were replaced by International Financial Reporting Standards on 1st April 2010.

### Statutory Account

Any account which the Council is, by law, required to maintain.

### Subjective Analysis

A classification of the budget according to the nature of the expenditure or income incurred (e.g. employee costs, premises costs, transport costs, fees and charges, grants to voluntary sector, etc.).

### Supported Capital Expenditure (SCE)

Capital expenditure funded by Government, either as a One-Off grant called SCE (Capital) or as part of annual RSG settlement to cover annual financing costs of monies borrowed called SCE (Revenue). From 1st April 2010, only SCE(Capital) applies.

### Tenant Management Organisation (TMO)

An organisation set up by tenants to take over certain housing management responsibilities from the housing authority. TMO's have taken the opportunity offered by regulations to run their local housing services such as collecting rents and service charges, organising repairs and maintenance, and making sure that buildings are kept clean and tidy The Council will still own the homes but the TMO becomes a partner with the Council in providing services to the local community and Council representatives can be invited on to the committee.

### Tenant Services Authority (TSA)

The Tenant Services Authority (TSA) was created by the Housing and Regeneration Act 2008 and replaces the Housing Corporation. The TSA has extensive powers to regulate social housing providers including local authorities. The powers reflect the TSA's key role of tenant protection and to enable a wider domain of housing providers than the Corporation was able to do. These powers include: explicit power to set standards for social housing provision, particularly around key areas such as tenancy terms, rents, tenant involvement, viability and contributions to sustainable communities.

### Thames Gateway London Partnership (TGLP)

The London Thames Gateway is an area represented by 13 local authorities, 8 local universities, the Local Learning and Skills Council and the Strategic Health Authority. The TGLP is a strategic advocacy and lobbying organisation representing all these bodies. The Council is a member and has acted as accountable body for the partnership since April 2010.

### Total Cost

The Total Cost of an activity is defined as the sum of all expenditure relating to the activity in question, whether or not it is recorded within one cost centre. For example where there is a surplus or deficit on a Trading or Overhead Account, this should be reallocated to the activity for financial reporting purposes, in order to assist in comparing information across Authorities.

### Statement of Accounts 2010/2011

### Trading Account

The profit and loss accounts of a trading activity. All support services operate on a trading account basis.

### Transfer Payments

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the Council. The main examples are mandatory student awards and housing benefit. In most cases the cost of transfer payment is either fully or partially reimbursed by Central Government.

### Turnover

This term has two entirely different meanings: The value of work carried out by a trading organisation The rates at which staff change within the Council's employment.

This is usually expressed as a percentage; e.g. if there are 50 staff in a service and 10 leave during the course of the year, the annual turnover is 20%. This should be allowed for when preparing a staffing budget as high turnover will usually result in vacancies occurring between the time that staff leaves and new appointments are made.

### Ultra Vires

This literally means 'beyond the powers'. Local authorities are only allowed to do things for which they have specific legal powers. If they spend money on anything else, this is illegal and is referred to as being 'ultra vires'.

### Unsupported Borrowing

This is borrowing undertaken by the Authority to finance capital expenditure and which does not receive government support. Any debt servicing costs (principal repayment and interest) arising from any unsupported loans has to be met from Council tax payer or housing rents.

### Value for Money (VFM)

A much-used term that describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. A VFM audit takes into account the economy, efficiency and effectiveness (known as the 'three Es') of a local authority service, function or activity.

### Variable Costs

Costs that vary directly according to the level of service provided.

### Virement

The process by which one budget is increased and another budget reduced by the same amount to reflect a change in spending priorities, (i.e. a switch of resources between budget heads).

### Volume Change

Changes in the amount of a service provided. This is in contrast to price changes, where the level of service remains the same but the cost either increases or decreases.

### Wellbeing Powers

Local Authorities now have powers to incur expenditure that will benefit the general wellbeing of the communities they serve.

**Write-offs**

Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected, the income is already shown in the accounts and has to be reduced or written off in accordance with financial procedures.

**Zero-base Budgeting**

An approach to budgeting in which you start with a blank piece of paper and then work out the key spending priorities and how much they cost. This approach, which is also referred to as priority-base budgeting, is the opposite of incremental budgeting in which you take existing expenditure as the starting point

**Reader Feedback**

If there is any additional information that you would like to see in future editions of the Statement of Accounts, please contact Barry Stratfull, the Council's Chief Accountant and e-mail [barry.stratfull@newham.gov.uk](mailto:barry.stratfull@newham.gov.uk). This document can be made available in different formats and languages upon request.

If you have any questions on the financial terms use within this document, please contact the Chief Accountant.