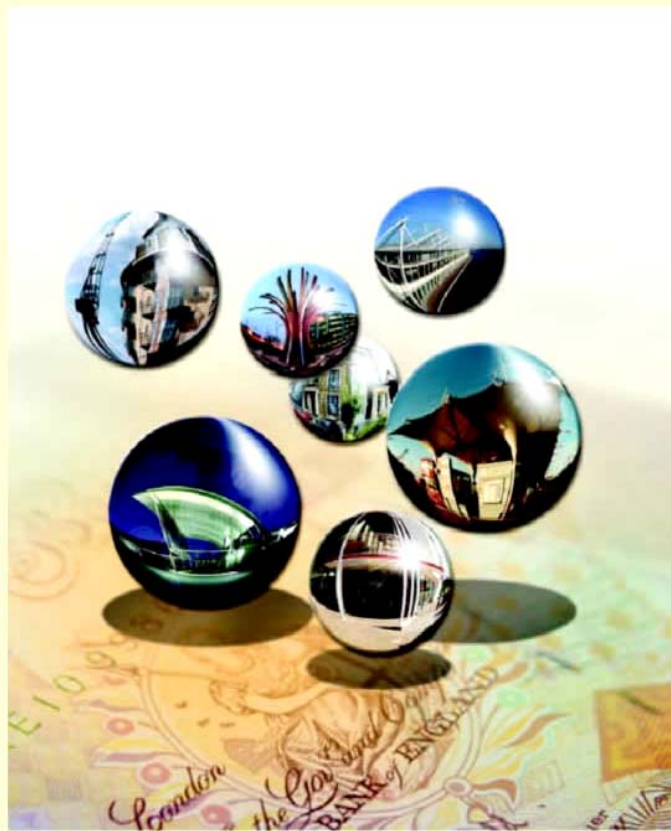




STATEMENT OF ACCOUNTS
FOR THE YEAR ENDING 31st MARCH 2008



LONDON BOROUGH OF NEWHAM

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31st MARCH 2008

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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 2003 as amended by the Accounts and Audit (Amendment)(England) Regulation 2006, and the Code of Practice on Local Authority Accounting in Great Britain, Statement of Recommended Practice (SORP) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council's accounts for 2007/08 are different from 2006/07 mainly due to changes in accounting requirements for fixed assets and the presentation of financial instruments (loans, investments, debtors and creditors). The changes aim to bring the statements more into line with the UK GAAP (Generally Accepted Accounting Principles). The Annual Governance Statement replaces the Statement of Internal Control.

2. Explanation of the Statement of Accounts

The Council's accounts are set out on pages 20 to 84, and consist of the following:

- The **Income and Expenditure Account**, which summarises the Council's revenue income and expenditure for all services provided during the year. This also shows how much is received from Council Tax receipts and central government.
- **Statement of the Movement on the General Fund Balance**, which shows how the surplus or deficit in the Income and Expenditure Account links with the movement on the General Fund balance for the year. The General Fund balance is key in determining Council Tax levels.
- **The Statement of Total Recognised Gains and Losses (STRGL)**, which shows movements in the net worth of the Council. This links the movement in Balance Sheet reserves in the year to Council gains and losses.
- **The Balance Sheet**, which gives the Council's financial position as at the 31st March 2008 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.

3. Actual and Budgeted Expenditure and Income for 2007/08

| <i>Actual v Budget 2007/08</i> | <i>Actual</i> | <i>Original Budget</i> |
|---|----------------|------------------------|
| | <i>£000s</i> | <i>£000s</i> |
| Service Expenditure | 1,249,255 | 1,244,768 |
| less Service Income | (1,013,985) | (1,000,128) |
| | 235,270 | 244,640 |
| Capital Financing Costs (net of interest receipts) | 18,349 | 19,153 |
| Total Net Expenditure (excluding precepts) | 253,619 | 263,793 |
| Contribution To / (Use of) Reserves | 7,064 | (3,110) |
| Budget Requirement | 260,683 | 260,683 |
| Breakdown of movements in Reserves: | | |
| General Fund Deficit ** | (19,252) | 3,110 |
| Earmarked Reserves (including Schools' balances)** | 26,316 | 0 |
| Budget Requirement | 7,064 | 3,110 |

- 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 explain 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 Income and Expenditure Account (HRA)**, which provides details of the 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 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 an Income and Expenditure Account and Group Balance Sheet for the Council's wholly owned subsidiary (Newham Homes) and joint venture, Caboodle. Newham Homes is responsible for the provision of services associated with the Council's housing stock, such as repairs.
- **The Pension Fund**, which shows the income and expenditure relating to pensions payable to former employees, and investment transactions. To comply with Financial Reporting Standard 17: Retirement Benefits (FRS17), the actuarially calculated Pension Fund deficit is disclosed on the face of the Balance Sheet as the pension provision.
- **Glossary**, which provides an explanation of terms used within the Accounts.

**See Note 2 (Page 31) of Movement in Revenue Resources

In overall terms, the use of general fund reserves and balances was £2.1 million less compared with the revised budget before allowing for Single Status payments and a provision for re-organisation. The main service variances being as follows:

Below is an extract of the Council's Budget Monitor for 2007/08. 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 2007/08</i> | <i>Control Budget</i> | <i>Outturn</i> | <i>Variance</i> | <i>% Variation</i> |
|---|-----------------------|------------------|------------------|--------------------|
| | <i>£ million</i> | <i>£ million</i> | <i>£ million</i> | |
| 1. Service Spend | | | | |
| Adults Social Care | 75.8 | 77.1 | 1.3 | 1.7% |
| Children and Young People | 87.2 | 85.6 | (1.6) | (1.8%) |
| Corporate and Strategic Management | 9.2 | 9.7 | 0.5 | 5.4% |
| Crime & ASB | 3.5 | 4.0 | 0.5 | 14.3% |
| Culture and Community | 24.9 | 24.8 | (0.1) | (0.4%) |
| Housing and Public Protection | 1.7 | 1.6 | (0.1) | (5.9%) |
| Public Realm | 36.1 | 37.0 | 0.9 | 2.5% |
| Regeneration and Development | 6.8 | 6.7 | (0.1) | (1.5%) |
| Resources | 15.5 | 15.2 | (0.3) | (1.9%) |
| | 260.7 | 261.7 | 1.0 | 0.4% |
| 2. Reversal of Notional Capital Charges | (17.3) | (17.1) | 0.2 | 1.2% |
| 3. Capital Financing (interest costs) | 17.7 | 16.2 | (1.5) | (8.5%) |
| 4. Central Budget Items | 3.4 | 1.6 | (1.8) | (52.9%) |
| 5. Expected Use of Balances (Feb 2007 Council) | (3.8) | (3.8) | 0 | 0.0% |
| | 260.7 | 258.6 | (2.1) | (0.8%) |
| 6. Net Budget Framework Underspend | | | (2.1) | |
| 7. Single Status (equal pay) Settlements | | | 15.4 | |
| 8. Re-organisation Provision | | | 6.0 | |
| 9. Reduction in General Fund Balances | | | 19.3 | |
| 10. General Fund Balance B/Fwd | | | (36.8) | |
| 11. General Fund Balance C/Fwd | | | (17.5) | |
| 12. Other Balances | | | (2.5) | |
| 13. Usable Balances C/Fwd | | | (20.0) | |

Key Service variances were:

- Adults Social Care overspent by £1.3 million due to independent sector care payments being higher due to higher demand for long term care.
- Public Realm overspent by nearly £0.9 million due to reductions in parking and penalty notice income.
- Crime and ASB overspent by £0.5 million mainly due to higher Parks Constabulary and CCTV costs.
- Corporate and Strategic Management overspent by nearly £0.5 million due to an underachievement of income from the Newham Magazine and higher spend by the Communications Section.
- These overspends were offset by higher investment income of £1.5 million, LABGI (Local Area Business Growth Incentive Scheme) income of £1.7 million and an underspend in CYPS by £1.5 million - one significant factor was an underspend in Locality Social Care Work due to recruitment problems.
- A reduction in required insurance provision of £0.9 million was identified.
- These issues had been identified during the year as part of the budget monitoring process and have been reported to Executive and Overview & Scrutiny meetings as part of the Council's formal budget monitoring process.

4. Major Contracts in 2007/08

During the year, the Council entered into the following contracts where expenditure will be incurred beyond 2007/08. The minimum contract sum reported has been set at £1 million.

| <i>Major Contracts</i> | <i>£000s</i> |
|--|--------------|
| Abbey Lane Children's Centre E15 – Remodelling and Extension | 1,334 |
| Sheringham Nursery School E12 – New Children's Centre | 1,615 |
| Beckton Bus Station – New Terminal | 2,300 |
| Newham Indoor Athletics Centre – Construction of Centre, new floodlit artificial pitches & car parking | 4,400 |
| Housing Schemes:- | |
| Tanner and Nicholls Point E13 – Tower Block Refurbishment | 9,000 |
| Manor Park E12 Low Rise Package 1 – External Refurbishment | 1,054 |
| Low Rise Pilot E15 Area - External Refurbishment | 1,182 |
| Low Rise Pilot E16 Area - External Refurbishment | 1,515 |
| Willis & Charlebury E12 – External Refurbishment | 2,223 |
| Settle & Victoria Point E13 – External Refurbishment | 2,600 |
| Queensland & Westland House E16 - External Refurbishment | 3,239 |
| Outborough Low Rise Hutton Houses – External Refurbishment | 1,146 |
| Marlow Road, St George's Court & St Mary's Court E6 - External Refurbishment | 3,255 |
| Brentwood Area Low Rise Pilot – External Refurbishment | 4,800 |
| Annie Taylor/Richard Fell/Susan Lawrence & Stewart Rainbird House E12 – External Refurbishment | 5,436 |
| Brentwood Area – Internal Renewal | 1,500 |
| Little Ilford Area E12 – Internal Renewal Pilot | 3,000 |
| East Ham Area E6 – Internal Renewal Pilot | 3,000 |
| Stratford Area E15 – Internal Renewal Pilot | 3,200 |
| Canning Town South Area E16 - Internal Renewal Pilot | 5,000 |
| Canning Town North Area - Internal Renewal Pilot | 6,000 |
| Priory Court E6 – Heating Renewal | 1,168 |
| Queensland House E16 – Heating Renewal | 1,218 |
| Leather Gardens E15 – Environmental Improvements | 1,500 |
| Internal Modernisation – Scoping Surveys | 2,101 |
| Heating Plus Pilot United House E6 – Heating and Internal Renewal | 13,011 |
| Heating plus Scheme E16 - Heating and Internal Renewal | 13,508 |

Expenditure on these contracts in 2007/08 is included within overall capital expenditure - details in note 17 (Page 38).

5. Future Service Developments and Expenditure Plans - "The Vision"

Newham Council has an ambitious agenda which reflects our intention to be a high performing council that delivers quality service and real improvements in the life chances of our residents. Our agenda focuses on achieving the shared vision of 'Newham: a major business location and place where people chose to live, work and stay'.

The Council's Community and Corporate Plan has been drawn up to address the Community's priorities and to achieve the overall Vision. The priorities, expressed around six broad themes, are outlined below, together with examples of investment proposed for 2008/09 and beyond.

The Council's Medium Term Financial Strategy includes potential to direct a total of £54.5 million of capital resources as part of its commitment to improve performance and service delivery and invest in the Mayor's priorities over the next three years.

Investing in Children and Young People

We are committed to making sure that all Newham's children and young people fulfil their potential in every aspect of their lives. We will work together with children, young people, their families and Newham's communities to achieve this.

It is important that young people have the right environment in which to learn. Building Schools for the Future is a Government initiative to promote a change in the quality of the nation's secondary education provision. £260 million will be

spent on Newham's schools over the next few years. All of Newham's 17 maintained secondary schools will see improvements.

2008/09 will see a service review within Children and Young Peoples Services to ensure children's needs are addressed.

Better Health and Wellbeing

The Council, in partnership with Newham Primary Care Trust and the Local Strategic Partnership, has a vision for better health and wellbeing: that the health of people in Newham will be better than other Londoners by 2020 and that the quality of services which affect health will be as good as anywhere in the country by 2012.

A £15 million investment in leisure facilities and parks has just been announced. The Council has worked with partners to secure investment into 16 projects across Newham, upgrading existing facilities and introducing several new developments over the next year, such as £1.9 million of landscape and facility improvements in Central Park from lottery funding. Part of Custom House is being restored to parkland, and sports facilities in Canning Town and Plaistow are being improved.

Making Newham Safer

Our vision is that Newham will be safer and feel safer with levels of crime and fear of crime no worse than the average for London by 2011.

Crime is an area of great concern for residents. An additional £4 million will be invested in enforcement through the Crime and ASB service, during 2008/09.

Building an Active and Inclusive Community

Everyone in the Borough should have the same chances in life whatever their background and Newham should be a place where people live harmoniously and respect each other.

Newham's nine Community Forums encourage people to be involved in their neighbourhoods by joining community teams to oversee the allocation of the Mayor's local fund monies for local priorities. Further investment in 2008/09 includes £1.4million for a festivals and events promotion programme, and £1.25 million for increasing activities and participation.

Shaping Sustainable Communities

To ensure that the development taking place in the Borough brings the range of benefits that people living and working in the Newham need, and that high quality environmental services are provided for both these and existing communities.

The provision of affordable housing for the community is being addressed through housing initiatives. The Council's Local Space Housing Initiative has bought properties from the private sector to provide homes for Newham families. Poor housing affects people's health and the Council has been working hard to improve homes. The creation of an Arms Length Management Organisation (ALMO) Newham Homes has given government approval for £240.5 million of investment into the modernising of Council properties.

More needs to be done to improve the cleanliness of streets in Newham. A programme to improve waste collection and street cleaning is underway. A combined "orange bag" recycling and general waste collection service has reduced collection services by £10 per household per year. This will provide money for other recycling initiatives such as the new waste treatment plant in Jenkins Lane.

Additional investment in 2008/09 includes £1.65million Capacity in Planning including Local Development Framework, improvement in quality of Public Realm Services, and the Local Fund Plus will work with the community to put resources into local infrastructure such as roads, pavements and play areas. There is the potential to invest £15 million into Controlled Parking Zones (CPZs), highways and traffic management over the next three years.

Business Growth and Access to Jobs

Our vision is that local people and businesses are linked into the opportunities resulting from new developments in and around the Borough, thus driving up employment and activity rates.

A shortage of employment opportunities in the Borough is a major concern for the Community, so action is being taken. The Council is working together with other local organisations to increase the number of local people who have jobs. Our vision is for local people to have the independence that employment brings.

With the 2012 Olympic Games and Paralympic Games coming to London and 60% of the Olympic Park based in Newham, the Borough is already seeing major physical changes. This, alongside the development of Stratford City and the regeneration of Canning Town, will lead to an increase in employment and business opportunities in the Borough.

A further £2 million will be invested in employment initiatives in 2008/09 to address barriers to employment.

Use of Resources

The Council is committed to delivering excellent services, while keeping Council Tax low. Effective use of financial resources means that Newham has set the lowest Council Tax in Outer London for 2008/09.

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 ongoing Star Chamber and front office review and the purchase of a single back office at Royal Docks will reduce ongoing costs and allow savings to be directed towards the communities priorities.

The Council achieved the highest possible score of four for the overall way it uses its resources, manages its finances and provides value for money. The Audit Commission also highlighted the way the Council understands the needs of its diverse communities and works well with its stakeholder partners, with notable practice in liaising with Newham's Youth on financial reporting.

Future Capital Investment

The Capital Investment Programme for 2008/09 to 2010/11 is set out in more detail under the "Capital Expenditure Commitments" note (note 21 on Page 40). Total planned expenditure is £557 million over the next three years, which is to be met from the following resources:

| <i>Resources</i> | <i>£million</i> | <i>£million</i> |
|---|-----------------|-----------------|
| Borrowing | | |
| - Anticipated Government supported loans | (267) | |
| - Other | (17) | (284) |
| External Grants and Contributions | | |
| - Department for Children, Schools and Families | (110) | |
| - Major Repairs Allowance | (63) | |
| - Transport for London | (17) | |
| - Department for Communities and Local Government | (16) | |
| - Section 106 | (10) | |
| - Department of Health | (5) | |
| - Other Grants and Contributions | (9) | (230) |
| Internal | | |
| - Receipts from Asset Sales | (40) | |
| - Investment of Reserves | (3) | (43) |
| TOTAL | | (557) |

Revenue Programme

In 2008/09 the Council's net budget requirement is £279.9 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 2007/08 and 2008/09.

| <i>Summary of Revenue Budget Changes</i> | <i>£000s</i> | <i>£000s</i> | <i>%Increase/ (Decrease) from 2007/08</i> |
|---|--------------|---------------|---|
| Total 2007/08 Revenue Budget | | 260.7 | |
| Additional Service Demands | | 2.9 | 1.1 |
| Budget Changes | | | |
| • Increased Financing Charges | | 7.4 | 2.9 |
| Committed Budget Increases | | | |
| • Levies | 1.3 | | 0.5 |
| • Net Additional Resources made available for Priority Growth | <u>6.6</u> | 7.9 | 2.5 |
| Other Budget Changes | | | |
| • Pay and Price Increases | 7.0 | | 2.7 |
| • Changes in Benefits Subsidy | 5.0 | | 1.9 |
| • Changes in Grant Funding | <u>4.6</u> | 16.6 | 1.8 |
| LESS | | | |
| Change In Use Of Balances | | (3.8) | (1.5) |
| Efficiency Savings net of Implementation Costs | | <u>(11.8)</u> | <u>(4.5)</u> |
| Total 2008/09 Revenue Budget | | 279.9 | 7.4 |

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 30 and 31 provide further details. Total external borrowing at 31st March 2008 was £845 million of principal (£666 million at 31st March 2007), which was well within the Council's approved borrowing limit.

The Council undertook significant debt rescheduling in 2007/08 with nearly £191 million of loans being repaid early. The basis of accounting for premia and discounts is outlined in accounting policies (note 1.10). 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 year, again in line with legislation.

Investments - The Council had investments of £145 million (principal) as at 31st March 2008 (£139 million at 31st March 2007). Further information on borrowings and investments is within notes 30 and 31 of the Accounts.

7. Asset Transactions

During 2007/08, the Council undertook the following major (over £250k) asset purchases and disposals;

| <i>Purchases and Disposals</i> | | <i>£000s</i> |
|---|--|--------------|
| <i>Purchases</i> | | |
| Building 1000, Royals Business Park E16 | | 78,658 |
| Carpenters Buybacks E15 | | 4,236 |
| Canning Town Buybacks E16 | | 5,497 |
| Leather Gardens E15 | | 873 |
| <i>Disposals</i> | | |
| Canning Town E16 – PFI Sites | | (4,593) |
| Butchers Road E16 – PFI Site | | (3,023) |
| A13 CPO Sites | | (1,028) |
| Shirley Street E15 | | (2,300) |
| Kennard Street E6 (Air Space) | | (600) |

All capital receipts received by the Council are shown in Note 19 (Page 39) to the Accounts.

8. Pension Fund

The Council's Pension Fund had £622 million of assets as at 31st March 2008, £3 million higher than at 31st March 2007.

9. Environmental Footprint / Sustainability Report

The Council is concerned about its impact on the environment and is taking action to reduce its carbon footprint. Carbon emissions for 2006/07 have been informally estimated at 46,175 tonnes of CO₂. The Council is working with the Energy Savings Trust to develop a more accurate methodology for measuring emissions.

The climate change plan in place addresses the following areas:

- Higher targets for recycling have been set. In the past, the Council has fallen short of government recycling targets, so the Council is working hard to get people to recycle more by increasing door-to-door orange bag collections.
- A procurement plan is being adopted to underpin sustainability. Procurement are leading on a project to increase the use of green energy, the purchasing of supplies from environmentally aware organisations and the reduction of waste.
- Newham aims to become a Fairtrade Borough in 2008.
- The purchase of Building 1000 will reduce the Council's carbon footprint in the longer term. The new building is more energy efficient compared to the older buildings the Council uses, and with a large number of staff in one building, more sustainable office practices will be put in place.
- Additional work is being undertaken by the Financial Reporting Steering Group to review sustainability and environmental issues.

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 Executive Director of Resources;
- 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 Executive Director of Resources


The Executive Director of Resources 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 Great Britain (the Code of Practice), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2008. In preparing this Statement of Accounts, the Executive Director of Resources 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 Executive Director of Resources 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.

I certify that the Accounts set out on pages 20 to 77 present fairly the financial position of the Council at 31st March 2008 and its income and expenditure for the year ended 31st March 2008



Date: 29th September 2008

Signature:

R. HEATON
Executive Director of Resources

London Borough of Newham 2007/08 Statement of Accounts Approved at Investment & Accounts Committee



Acknowledged by

Date: 30th June 2008

Signature :

Councillor Alec Kellaway

Investment and Accounts Committee

REPORT BY THE AUDITORS TO MEMBERS

Independent Auditors' Report to the members of London Borough of Newham and its group

We have audited the financial statements of London Borough of Newham and its group for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

This report, including the opinion, has been prepared for and only for London Borough of Newham and its group members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of London Borough of Newham and its group and its income and expenditure for the year.

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

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the review of the year and the explanatory forward. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the London Borough of Newham in the preparation of the financial statements, and of whether the accounting policies are appropriate to the London Borough of Newham's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of London Borough of Newham and its group as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.



PricewaterhouseCoopers LLP
80 Strand
London
WC2R 0AF
29th September 2008

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

London Borough of Newham's Responsibilities

London Borough of Newham 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, London Borough of Newham is required to prepare and publish a best value performance plan summarising London Borough of Newham's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by London Borough of Newham 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 our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that London Borough of Newham has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of London Borough of Newham's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of London Borough of Newham's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, *London Borough of Newham* made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2007/08 on 26 June 2008. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



PricewaterhouseCoopers LLP
80 Strand
London
WC2R 0AF
29th September 2008

ANNUAL GOVERNANCE STATEMENT

Every year the Council is required by law to produce a statement that details the framework for making decisions and controlling the resources of the Council. Previously this statement has been called a statement on internal control. This year the remit of the statement has been widened to address the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulation 2006.

Scope of Responsibility

Newham is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newham also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Newham is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Newham's local code of corporate governance is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website in part 6 of the constitution or can be obtained from the Council's monitoring officer. This statement explains how Newham currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement of internal control. The Council's Standards Committee members are working with officers to assess the current local governance arrangements and to suggest any areas of improvement as part of the continuous improvement processes for the Councils governance arrangements.

The Purpose of the Governance Framework

The Governance Framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the Community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

Newham's Governance Framework is established through its systems, processes, cultures and values. These are regularly reviewed. The local code will be incorporated into Part 6 of the Constitution as a one point of reference for the Council's Framework for its governance arrangements.

The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described in more detail below:

Vision and Purpose

Newham Council has an ambitious vision "Newham: a major business location and a place where people choose to live, work and stay". It is recognised that the Council cannot achieve this Vision alone. It needs to work in partnership with other agencies and the Community to make this happen. The Council participates and leads the Newham Partnership Board which has developed the Community Strategy and tracks the activities of the Council and its partners to ensure that the Vision is being realised. It does this through a series of Local

Action Partnership Boards who develop strategy, monitor performance and outcomes for each of the six agreed themes within the community strategy. A recent review of the operation of the Local Strategic Partnership has led to closer links being made with the Council's formal decision making process and the partnership meets immediately before every other cabinet to discuss issues on the Cabinet Agenda of relevance to the Partnership.

Within the Council the Corporate Plan sets the strategic direction and also outlines what the Borough will be like when the Council has achieved its vision thereby outlining the Council's specific contribution to the Community Strategy. The Corporate Plan also incorporates the performance plan 2007/08 and was published on the Council's website in September 2007. Alongside the Corporate Plan is a delivery plan which details the actions required to make the plan happen. The Delivery Plan is refreshed annually and is presented to Cabinet with the budget to ensure that resources are allocated to the priorities that are agreed. The Delivery Plan maps the implementation of the corporate plan through to 2012. The delivery plan is monitored monthly through Resources Board to ensure that co-ordinated activity is actually happening and that the resources required have been appropriately allocated. There is also a range of performance indicators that assist in the monitoring of activity.

To support the Corporate Plan the Council has a service-planning framework that sets out the requirements for plans. These include performance measures, risk assessment, equality data and use of resource information. Each service maps their contribution to the Corporate Plan. These are also monitored monthly at Resource Board.

The actions required are translated into individual, team and section targets that are set through the Council's appraisal process and are monitored through regular one to ones with staff.

Performance Management

The Performance Management Framework demonstrates how effective the actions being taken are and assists in monitoring progress in the way in which the Council's strategies are translated into action plans. It also helps to identify if any risks are materialising when indicators do not show the level of progression anticipated. The Performance Management Framework is therefore instrumental in identifying and mapping continuous improvement of services across the Council.

The Mayor and the Overview & Scrutiny Committee monitor the network of performance indicators. The Mayor receives twice yearly presentations on performance across all service areas from the Newham Executive Board. The Newham Executive Board receives monthly exception reports, which highlight areas of good practice and those for further development. It also considers specific strategic performance issues for example Local Public Service Agreement targets and sickness absence.

To support these internal performance indicators the Council commissions and uses research to test the customer and stakeholder experience of services that the Council provides. It uses this feedback to drive the services forward to deliver what the public want and to focus resources on the public's priority areas. External benchmarking is also used extensively to compare the services delivered by the Council with others both in the private and public sector. This is used as a tool to assess the cost effectiveness and value for money of services provided by the Council.

Council Constitution

This sets out the roles and responsibilities of officers and members. It provides details about how decisions are made and who can make them. It also contains the rules for managing our finances and resources effectively. Under the Council's Constitution, the elected Mayor has substantial powers to implement the wishes of the Community and to improve the services provided. The Mayor takes decisions supported by the Cabinet, Executive Advisors and officers. The Mayoral Model provides clear accountability and effective leadership and decision making. The Full Council retains some strategic decision-making powers such as the Budget Framework and setting of the Council Tax. Officers in each service have schemes of delegation to enable them to handle day to day matters. The Newham Executive Board drives forward the delivery of services.

Where a key decision is due to be made the Council publishes details in the forward plan prior to the decision-making meetings. These meetings are open to the public unless exclusion is necessary for reasons of confidentiality.

The Monitoring officer ensures that the Constitution is reviewed at least annually. During 2007 all aspects of the Constitution were the subject of a comprehensive review. Full Council approves changes to the Constitution.

Codes of Conduct

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

During the year the Government issued a revised code of conduct for members. Newham adopted this in September 2007 ahead of the October 2007 deadline. Training has been provided to members on the new code and the compulsory online training modules have also been updated. Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Member's declarations and gifts and hospitality records are made public through the Council's website.

As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships. The Standards Committee provided advice and guidance on the revisions that were recommended

Rules and Regulations

The Council's rules and regulations form part of the Constitution. There is a scheme of delegation for the Mayor and one for officers. Both of these documents are published on the Council's website. They state who is authorised to make decisions in particular areas. Alongside this the Council has financial regulations which provide details of officer's responsibilities for the Councils control environment relating to income, expenditure, internal control, risk management and partnerships. To support officers when they are making purchases the Council has developed a code of procurement practice. During the year the Scheme of Delegation and Financial Regulations were reviewed. There is an ongoing review of the Procurement Code of Practice to enable the document to be more user friendly in future.

Audit Board Functions

The Council has an Audit Board that carries out the functions of an Audit Committee in compliance with the CIPFA guidance on Audit Committees. Last year was the first time it produced an annual report covering its work and this will be a regular feature in future. The remit for the Board includes governance (except that covered by the Standard Committee), finance, internal audit, asset management and risk and its terms of reference is detailed in the constitution. The Board membership comprises of members drawn from Cabinet, Executive Advisors, Overview and Scrutiny, the Back-Bench and three independent co-optees. The independent members bring a different perspective to the Board. They meet six times per year. Their role is to review the Councils Internal Control Framework and to hold the executive to account for any apparent failures. The Board has links with Cabinet, Overview and Scrutiny and the Standards Committee.

The Council has an Audit Board comprising Board members receive regular training and briefings on matters relating to their terms of reference to keep them up to date. During the year the Audit Board has called officers to its meetings to explain how they are progressing with internal and external audit recommendations. In December the Board received a report updating them on the progress of the action plan attached to last year's statement on internal control. The Board have received a range of reports from the internal and external auditors to assist them in considering the effectiveness of the Council's Control Framework. The Board also receives regular reports on internal audit, risk management and counter fraud performance. These reports contribute to the Board's review of the effectiveness of the Council's system of internal audit

Compliance With Policies, Laws and Regulations

The Constitution sets out the Legal Framework for making decisions and publishing them. There is a robust scrutiny system in place to ensure that the work of the Council complies with all appropriate policies, laws and regulations. The Overview and Scrutiny Committee has the power to call in and challenge any key decisions. They actively scrutinise the budget proposals made by the Mayor and they can refer any matters to the Full Council. Most of their work relates to reviewing and developing policies and services.

The Council has three statutory officers; Head of Paid Service, Executive Director of Resources (as Chief Finance Officer per section 151 officer of the Local Government Act 1972) and the Monitoring Officer, each of whom has the power to refer matters to the Full Council if a breach of regulation is possible. These officers meet monthly to discuss issues arising. None of these officers have been required to use their powers during the year. The statutory officers provide professional advice on all key decision-making reports to ensure legal, financial, risk management, procedure and equality implications are addressed. For example Human Resources manage the system of recruitment, which ensures that appropriate staff are recruited in accordance with best practice and that decisions are transparent.

Under the provisions of the Children Act 2004 the Local Authority must appoint a statutory officer with responsibility for children. This role is carried out by the Executive Director for Children and Young People. Likewise the Council has to appoint a lead Member for Children Services and Councillor Quentin Peppiatt is on the Council's Cabinet with this portfolio. The Council is aware of the proposals for similar provisions in relation to the Adults Services and will implement those when the legislative framework is in place. At present the Council does have an Executive Director with responsibility for Adults (the Executive Director for Adults, Culture and Community) and there is also an elected member with this portfolio, the Operational Executive Adviser, Older People who is a member of cabinet.

Whistle-blowing and Complaints Process

The Council has a recognised complaints process. This takes the form of a three stage process enabling the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by members.

The Mayor and members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has a team of staff supporting members in addressing these queries to ensure that the public receive an appropriate answer.

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

Training and Development

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they can deliver an excellent service. These include a Shared Leadership Programme, Managers Toolkit training events, Recruitment and Selection, Risk Management, and computer training. The Council has a number of on-line governance training (6 compulsory modules covering all key areas of governance) and a seventh compulsory module on Financial Regulations is currently being devised. NEB has agreed a list of compulsory training and the Council ensures it provides sufficient resources to run regular courses in these topics. The Council is also developing its on-line training programme as the intention is to make it the Council's main source of corporate training.

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and ward bulletins. The Council also operates an influential councillor scheme whereby members are consulted on policies and decisions that are likely to impact on their constituents. Audit Board and Standards Committee have training as part of their agendas and agree specific training plans for themselves annually. For some aspects of council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence. This applies to Licensing and Employment appeals.

Communication and Engagement

The Council publishes numerous documents on its website as well as providing a fortnightly Newham magazine and community forum newsletters to keep members of the public up to date with what is going on. This year the Mayors show was based around the theme of "live life" and included a range of events to enable the public to participate more fully in the life of Newham and to make the most of council services. Emphasis was placed on sport, healthy living, dance, music, learning and development. As part of live life all households received a booklet detailing a range of summer activities for children to engage them with learning, creativity and sport to help ensure that children had plenty to do in the holidays. During the school holidays the Council also runs a range of sporting activities for children. Alongside this, and to promote health and wellbeing the Council runs a fit club for citizens to assist in

tackling health and obesity issues within the local population. There is advice and support on diet and access to free or subsidised exercise programmes.

The Council also engages with citizens through surveys. It has a household panel that are regularly consulted and carries out an annual resident's survey and a tenant's survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future. This year the Council has also carried out work to determine how the different communities get their information to ensure that the Council is effective in its communication methods.

On a more local basis the Council has a number of community forums which are used to engage with the Community. There has been a change of direction for these forums to using events rather than meetings as a form of engagement. A number of events have taken place throughout the year themed around different topics such as the environment, clean ups and health events.

Newham has a very young population and this year it has engaged with the young people of Newham by enabling them to vote for a Young Mayor. A number of students put themselves forward and a vote was held to elect a Mayor to represent the young people of Newham. The Young Mayor has a clear manifesto and is working to make a difference to young people's lives within the Borough.

The Council is also committed to improving its engagement with other parts of the Community by holding specific days for carers and reaching out to the older community and those with disabilities.

Partnerships

The most significant partnership for the Council is the Newham Partnership. This is governed by its own constitution. Members are also subject to a code of conduct and make declaration of interests at meetings. The partnership identifies the shared outcomes for the Community Partnership and is approving a new sustainable community strategy which sets out the vision and aspirations for the Community in the medium and long term. This strategy, vision and aspirations for the Community are also linked to the Local Area Agreement (LAA) and targets agreed and monitored by central government.

The Council also has important partnership arrangements with the local primary care trusts. These cover a range of services and are aimed at delivering a seamless service to the public.

There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Newham a safer and stronger community.

Review of effectiveness

Newham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Executive Directors, Heads of Service and Statutory Officers within the Authority (who have responsibility for the development and maintenance of the governance environment), the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Executive Directors and Heads of Service have responsibility for the development and maintenance of the internal control environment. The review has been made more robust by obtaining annual reports from Heads of Service, Executive Directors and Statutory Officers commenting upon compliance with the Council's control framework. These reports also identified areas for improvement during 2008/09. The review identifies and evaluates key controls in place to manage the principal risks facing the services. The assurances received are evaluated by an officer group chaired by the Executive Director of Resources. This includes identifying weaknesses in either controls or assurances and developing an action plan to address any significant internal control issues. The results of this review are reported to Newham Executive Board and Audit Board. Annually the Audit Commission and the External Auditor produce a report to those charged with Governance. This sets out their opinions in relation to accounts, governance and performance.

Council Constitution

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. As part of the review the Council Scheme of Delegation was also comprehensively reviewed.

Internal Audit

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

Annually the Chief Internal Auditor is required to give an opinion on the Council's Internal Control Framework based upon the work carried out during the year. Audit has carried out work in all of the areas identified in the action plan except the care provision item. Overall the control environment is currently satisfactory.

Overview and Scrutiny

The Overview and Scrutiny function reviews decisions made by the Mayor and members. The focus of their role is to provide a challenge and to support the development of policies. At their meetings they consider performance information. They also have a key role in reviewing and challenging the Mayor's budget framework prior to consideration at Full Council.

External Audit

The External Auditor carried out work on behalf of the Audit Commission relating to the use of resources judgement within the comprehensive performance assessment. This was reported to Audit Board in January 2008. The Council's position changed in two categories but the overall score remained at the highest level. The details for each category are shown in the table below:

| Category | Judgement 2005/06 Assessment out of 4 | Judgement 2006/07 Assessment out of 4 | Change in score |
|----------------------|--|--|--------------------|
| Financial Reporting | 4 | 3 | -1 |
| Financial Management | 3 | 3 | = |
| Financial Standing | 4 | 4 | = |
| Internal Control | 3 | 4 | +1 |
| Value for Money | 3 | 3 | = |
| Overall | 4 | 4 | = |

Note: 4 is the highest score and means well above minimum requirements – performing strongly whilst 3 is performing well and consistently above the minimum requirements. Councils have to demonstrate innovation to score a 4 in an individual category.

Audit and Inspection Letter

In terms of Value for Money the report comments;

“The Council's arrangements for managing and improving value for money have been maintained at a similar standard to last year and there is evidence that progress has been made in some areas in response to recommendations.”

External Agencies

The Audit Commission and the External Auditor produce a Joint Audit and Inspection letter. The 2006/07 letter provided the following scored judgement:

| Element | Judgement 2005/06 | Judgement 2006/07 |
|-------------------------------|-------------------|------------------------|
| Direction of Travel judgement | 3 Improving well | 3 Improving adequately |
| Overall | 3 stars | 3 stars |
| Current performance | | |
| Children and Young People | 3 | 3 |
| Social care (adults) | 3 | 2 |
| Use of Resources | 4 | 4 |
| Housing | 3 | 3 |
| Environment | 2 | 2 |
| Culture | 2 | 2 |
| Benefits | 3 | 2 |

Notes: 4 –performing strongly and well above minimum requirements
3 –performing well and consistently above the minimum requirements
2 –adequate performance only at the minimum requirements
1 –inadequate performance below minimum requirements

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Board and Finance and Investment Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant Governance Issues

2006/07: There were a number of issues raised as part of the 2006/07 statement on internal control. Each of these has the following outcomes.

| Control Area | Internal Control Issue | Action Taken During 2007/08 | Responsible Officer |
|-----------------------|--|---|---|
| Control environment | Embedding the control environment culture | During the year work has been done on improving and streamlining the data gathering process. A compliance team has been appointed as part of the Internal Audit Service to provide input into this process. A compliance rule book has been devised and issued to ensure officers are aware of their responsibilities. Corporate governance training modules have been updated. An Audit Commission survey has been conducted to test the robustness staff knowledge of the Councils counter fraud arrangements. | Chief Executive |
| Control Area | Internal Control Issue | Action Taken During 2007/08 | Responsible Officer |
| Procurement | Failure of services to adhere to the Procurement Code. | A strategic review has been carried out of the procurement function. This has resulted in a new structure for the service to build capacity. A Performance Management Framework has been developed linked to the organizational health indicators to give managers information about procurement taking place. The procurement rules are being reviewed and updated to ensure clarity and enhance compliance. New procurement software has been purchased to enable procurement exercises to be tracked and recorded more effectively. Training has been reviewed and enhanced including compulsory modules for all those undertaking procurement exercises. | Executive Director of Resources |
| Catering and Cleaning | Recruitment and Vetting of staff | Following the review a follow up exercise took place to ensure that the revised procedures had been implemented. All employee files now contain appropriate documentation to demonstrate compliance with legislation and best practice. | Executive Director Children and Young People's Services |
| Youth Offending Team | Budgetary Control and management practices | Considerable support was provided to the Youth Offending team. It now has a proper staffing structure and recruitment has been undertaken. Budgetary difficulties have been identified and where funding streams are uncertain work is being undertaken to address the issues. Financial procedures and processes have been reviewed and tested to ensure that the controls are working effectively. | Executive Director Children and Young People's Services |

| Control Area | Internal Control Issue | Action Taken During 2007/08 | Responsible Officer |
|-------------------------------|------------------------|---|---|
| Housing and Public Protection | Procurement | A project board met, reviewed and supervised the implementation of the recommendations of the external consultants report. Procurement exercises have taken place to regularize the Council's arrangements for maintenance of Private Sector Leases and for voids work. Additionally Bed and Breakfast has been retendered. An exercise has been carried out to determine the long term | Executive Director Neighbourhood Services |

| | | | |
|--|--|--|--|
| | | needs for temporary accommodation. | |
| | | The staffing structure has been reviewed to ensure there is sufficient capacity to manage this area effectively. | |

For 2007/08 the Council has identified 4 main internal control issues that require attention during 2008/09:

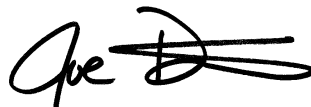
| Control Area | Internal Control Issue | Action to be taken | Responsible Officer |
|----------------------------------|-------------------------------------|---|---|
| Adults | Care provision | Implement the action plan from the serious case review, which found 'systemic failings across most of the agencies' concerned with care for people with learning disabilities; <ul style="list-style-type: none"> • ensure the reliability of contract monitoring processes; • continue to reduce disputes over continuing care; and • improve the evidence of quality and individual outcomes, especially for self-directed care. | Executive Director Adults, Culture and Community. |
| Adults | Financial Management | A fundamental review has been undertaken looking at a number of financial management issues to ensure that appropriate modeling and forecasting methods are in place. The payment process has also been reviewed to ensure payments can be made in a timely manner. A number of systems improvements have been required and made in the Finance and Adults areas of responsibility. The organisational culture in resource management has also been addressed through a variety of means. | Executive Director Adults, Culture and Community and Executive Director of Resources. |
| Housing and Council Tax Benefits | Quality assurance of claims process | A security team has been employed to carry out targeted check on cases that have generated large payments and random sampling of other payments to detect error and fraud. The results of these checks are fed back into the training and management of staff. | Executive Director of Resources |
| Youth Offending Team | Budget provision | Efforts are being made to secure sustainable funding for the service to undertake the statutory requirements of work with offenders and for initiatives with partner agencies to prevent youth crime in general to ensure a reduction in first time offenders. | Executive Director Children and Young People's Services |

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

Signed



Sir Robin Wales
Mayor



Joe Duckworth
Chief Executive

INCOME AND EXPENDITURE ACCOUNT

The Income & Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of Fixed Assets actually consumed and the real projected value of retirement benefits earned by employees during the year.

| 2006/07 Restated Net Spend | <i>INCOME AND EXPENDITURE ACCOUNT</i> | 2007/08 Gross Spend | 2007/08 Gross Income | 2007/08 Net Spend | Note |
|----------------------------------|---|---------------------------|----------------------------|----------------------|------|
| <i>£000s</i> | SERVICES | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | |
| 12,503 | Central Services to the Public | 92,966 | (79,467) | 13,499 | |
| 10,908 | Corporate and Democratic Core | 7,768 | (806) | 6,962 | |
| 178 | Court and Probation Services | 180 | 0 | 180 | |
| 54,093 | Cultural, Environmental and Planning Services | 103,820 | (47,104) | 56,716 | |
| 90,203 | Education Services | 409,275 | (339,557) | 69,718 | |
| 13,839 | Highways, Roads and Transport Services | 26,464 | (14,317) | 12,147 | |
| (8,818) | Local Authority Housing (HRA) | 97,741 | (106,984) | (9,243) | |
| 5,403 | Housing Services | 417,190 | (400,374) | 16,816 | |
| 69,427 | Social Services | 96,346 | (25,376) | 70,970 | |
| 568 | Non Distributed Costs | 6,744 | 0 | 6,744 | |
| 248,304 | NET COST OF SERVICES | 1,258,494 | (1,013,985) | 244,509 | |
| 0 | Gains or Loss on disposal of Fixed Assets | | | 0 | |
| 21 | Net (Surplus)/Deficit on Trading Accounts | | | (401) | |
| 42,869 | Interest Payable and Similar Charges | | | 45,376 | 30b |
| 12,457 | Contribution to Housing Pooled Capital Receipts | | | 8,800 | |
| 489 | Levies | | | 562 | 7 |
| 11,221 | Pension Interest Cost / Expected Asset Returns | | | 9,034 | 11 |
| (9,325) | Interest and Investment Income | | | (10,413) | 30b |
| 0 | (Gains) & Losses On Repurchase/Early Settlement of Debt | | | (130) | |
| 306,036 | NET OPERATING EXPENDITURE | | | 297,337 | |
| | AMOUNT TO BE MET FROM GRANT AND LOCAL TAXES | | | | |
| (62,348) | Demand On The Collection Fund | | | (65,616) | |
| 1,729 | Contribution To Collection Fund Deficit | | | 1,110 | |
| (30,349) | Revenue Support Grant | | | (28,032) | |
| (1,017) | Local Authority Business Growth Incentives (LABGIs) | | | (1,665) | |
| | Distribution From National Non Domestic Rates Pool | | | | |
| (157,221) | (NNDR) | | | (167,035) | |
| 56,830 | NET(SURPLUS)/DEFICIT FOR THE YEAR | | | 36,099 | |

2006/07 accounts were restated to adjust for PFI residual interests of £8.869 million. See Note 47 (Page 57). This has required re-statement of Education and Housing Services expenditure. This also impacts the Statement of Movement on the General fund Balance, Statement of Total Recognised Gains and Losses, and the Balance Sheet. Education and Social Services have been restated to include Children Social Care services within Education Services, previously Adult and Children social care was grouped as Social Services.

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

- Capital Investment is accounted for as it is financed, rather than when the Fixed Assets are consumed.
- The payment of a share of housing capital receipts (pooling) to government scores as a loss in the Income and Expenditure Account, but is met from actual capital receipts rather than Council Tax.
- Retirement Benefits are charged as amounts become payable to Pension Funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax it raised for the year, taking into account the use of reserves built up in the past and contribution to reserves earmarked for future expenditure. The reconciliation statement below summarises the differences between the Income and Expenditure Account and the General Fund Balance.

| 2006/07 Restated £000s | <i>STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE</i> | 2007/08 £000s |
|------------------------------|---|------------------|
| 56,830 | (Surplus)/Deficit for the year on the Income and Expenditure Account | 36,099 |
| (55,004) | Net additional amount required by statute and non-statutory proper practices to be debited /(credited) to the General Fund Balance for the year | (16,847) |
| 1,826 | (Increase)/ Decrease in General Fund Balance for the Year | 19,252 |
| (38,596) | General Fund Balance brought forward | (36,770) |
| (36,770) | General Fund Balance carried forward | (17,518) |
| 0 | Amount of General Fund Balance held by Governors under schemes to finance schools | 0 |
| (36,770) | Amount of General Fund Balance generally available for new expenditure | (17,518) |
| (36,770) | | (17,518) |

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

| 2006/07 Restated £000s | | 2007/08 £000s | 2007/08 £000s |
|------------------------------|--|------------------|------------------|
| | Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | | |
| (21,890) | Depreciation / Impairment of fixed assets | (22,491) | |
| (14,353) | Excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy. | (17,858) | |
| 7,381 | Write downs of deferred charges to be financed from capital resources | 8,045 | |
| (9,315) | Government Grant Deferred amortisation. | (10,854) | |
| 0 | Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt | 53 | |
| (38,177) | | | (43,105) |
| | Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year | | |
| 8,375 | Statutory provision for repayment of debt | 8,816 | |
| (12,457) | Transfer from the Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool | (8,800) | |
| (18,493) | Reversal of financing of equal pay provision | 18,492 | |
| (3,373) | Employer's contributions payable to the Newham Pension Fund and Retirement Benefits payable directly to pensioners | (432) | |
| (25,948) | | | 18,076 |
| | Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year | | |
| (2,876) | Housing Revenue Account Balances | | 358 |
| 11,997 | Net transfer to or from earmarked reserves | | 7,824 |
| 9,121 | | | 8,182 |
| (55,004) | Net additional amount required to be credited to the General Fund Balance for the year | | (16,847) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all of the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income & Expenditure Account, it includes gains and losses relating to the revaluation of Fixed Assets and re-measurement of the net liability to cover the cost of retirement benefits.

| <i>Restated 2006/07 £000s</i> | <i>STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES</i> | <i>2007/08 £000s</i> |
|---------------------------------------|---|--------------------------|
| 65,700 | (Surplus) / Deficit for the year on the Income and Expenditure Account | 36,099 |
| (8,870) | Prior year restatement | 0 |
| 56,830 | (Surplus) / Deficit for the year on the Income and Expenditure Account restated | 36,099 |
| (177,161) | (Surplus) / Deficit arising on revaluation of Fixed Assets | (201,737) |
| 0 | (Surplus)/Deficit arising on revaluation of available-for-sale financial assets and Financial Instruments | 10,100 |
| (109,836) | Actuarial (gains)/losses on Pension Fund assets and liabilities | 104,594 |
| (977) | Collection Fund | (1,256) |
| 0 | Any other gains and losses required to be included in the STRGL | (957) |
| (231,144) | Total recognised gains for the year | (53,157) |

NOTE OF RECONCILIATION OF ITEMS FOR THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| <i>Restated Balance Sheet</i> | | <i>Balance Sheet</i> | <i>Movement In Year</i> | <i>FAA & Available for sale</i> | <i>Unrealised Gains/Losses</i> | <i>Revaluation</i> | <i>Disposal</i> | <i>Transfer & Other Capital Expenditure</i> | <i>Movement between Capital and Revenue</i> |
|---------------------------------------|--|--------------------------|---------------------------------|---|------------------------------------|--------------------------|--------------------------|---|---|
| <i>2006/07 £000s</i> | | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> | <i>2007/08 £000s</i> |
| 1,045,612 | Fixed Asset Restatement Account | 0 | 1,045,612 | 0 | 0 | 0 | 0 | 1,045,612 | 0 |
| 0 | Revaluation Reserve | 188,879 | (188,879) | 0 | 0 | (191,205) | 2,300 | 0 | 26 |
| 180,972 | Capital Financing Account | 0 | 180,972 | 0 | 0 | 0 | 0 | 180,972 | 0 |
| 0 | Capital Adjustment Account | 1,181,520 | (1,181,520) | 0 | 0 | 0 | 13,060 | (1,251,536) | 56,956 |
| 0 | Usable Capital Receipts | 15,784 | (15,784) | 0 | 0 | 0 | (25,893) | 1,309 | 8,800 |
| 4,782 | Major Repairs Reserve | 9,240 | (4,458) | 0 | 0 | 0 | 0 | 27,224 | (31,682) |
| 0 | Financial Instrument Adj Account | (14,541) | 14,541 | 10,089 | 0 | 0 | 0 | 4,505 | (53) |
| 0 | Available For Sale Financial Instruments Reserve | (11) | 11 | 11 | 0 | 0 | 0 | 0 | 0 |
| 62,706 | Revenue Reserve | 70,128 | (7,422) | 0 | 0 | 0 | 0 | (9,042) | 1,620 |
| (323,280) | Pension Reserve | (428,306) | 105,026 | 0 | 104,594 | 0 | 0 | 0 | 432 |
| (1,655) | Collection Fund Account | (399) | (1,256) | 0 | (1,256) | 0 | 0 | 0 | 0 |
| 969,137 | Total | 1,022,294 | (53,157) | 10,100 | 103,338 | (191,205) | (10,533) | (956) | 36,099 |

The 2006/07 accounts were restated for PFI reversionary interest of £58.564 million. See Note 47 (Page 57). This also impacts the 2006/07 Balance Sheet.

BALANCE SHEET

| <i>Restated 2006/07</i> | <i>BALANCE SHEET AT 31st MARCH</i> | <i>2007/08</i> | <i>Notes</i> |
|-----------------------------|--|----------------|------------------|
| <i>£000s</i> | | <i>£000s</i> | |
| | FIXED ASSETS | | |
| 1,686 | Intangible Fixed Assets | 1,529 | |
| | Tangible Fixed Assets | | |
| | Operational Assets | | |
| 1,008,347 | Council Dwellings | 1,172,196 | |
| 758,688 | Other Land and Buildings | 887,117 | |
| 104,087 | Infrastructure Assets | 108,349 | |
| 20,870 | Community Assets | 21,655 | |
| 10,131 | Equipment, Vehicles etc | 10,962 | 2,201,808 |
| | Non Operational Assets | | |
| 107,461 | Industrial and Commercial | 110,664 | |
| 35,244 | Surplus Properties | 52,384 | |
| 301 | Assets under Construction | 1,860 | 164,908 |
| 2,046,815 | Net Fixed Assets | | 2,366,716 |
| 50,000 | Long Term Investments | | 90,746 |
| 68,692 | Long Term Debtors and Prepayments | | 69,950 |
| 2,165,507 | Total Long Term Assets | | 2,527,412 |
| | CURRENT ASSETS | | |
| 1,336 | Stocks and Work in Progress | 1,344 | 34 |
| 130,909 | Debtors and Prepayments | 124,356 | 32 |
| (44,810) | Less Provisions | (41,316) | 32 |
| 88,598 | Investments | 58,195 | 30a |
| 18,240 | Cash and Bank | 18,413 | 160,992 |
| 194,273 | | | |
| | CURRENT LIABILITIES | | |
| (118,555) | Borrowing Repayable on Demand or Within 12 months | (199,410) | 30a |
| (98,154) | Creditors and Receipts in Advance | (78,658) | 33 |
| (42,079) | Bank Overdraft | (30,789) | (308,857) |
| (64,515) | Net Current Assets | | (147,865) |
| 2,100,992 | Total Assets less Current Liabilities | | 2,379,547 |
| | OTHER LIABILITIES | | |
| (547,243) | Borrowing Repayable Within a Period in Excess of 12 months | (656,771) | 30a |
| (229,933) | Government Grants Deferred | (255,504) | |
| (2,587) | Deferred Premia | 0 | |
| (467) | Deferred Capital Receipts | (467) | |
| (28,345) | Provisions | (16,205) | 35 |
| (323,280) | Liability Related to Defined Benefit Pension Scheme | (428,306) | (1,357,253) |
| 969,137 | Total Assets less Total Liabilities | | 1,022,294 |
| | Financed by: | | |
| 1,045,612 | Fixed Asset Restatement Account | | 0 |
| 180,972 | Capital Financing Account | | 0 |
| 0 | Capital Adjustment Account | | 1,181,520 |
| 0 | Financial Instrument Adjustment Account | | (14,541) |
| 0 | Revaluation Reserve | | 188,879 |
| 0 | Available For Sale Financial Instrument Reserve | | (11) |
| 0 | Usable Capital Receipts | | 15,784 |
| 4,782 | Major Repairs Reserve | | 9,240 |
| (323,280) | Pension Reserve | | (428,306) |
| 62,706 | Revenue Reserves | | 70,128 |
| (1,655) | Collection Fund | | (399) |
| 969,137 | | | 1,022,294 |

CASH FLOW STATEMENT

| <i>Newham</i> 2006/07 | | <i>Newham</i> 2007/08 | <i>Notes</i> |
|--------------------------|---|--------------------------|--------------|
| £000s | Revenue Activities | £000s | |
| | Cash Outflows | | |
| 416,520 | Cash Paid to and on behalf of Employees | 469,399 | |
| 472,638 | Other Operating Cash Payments | 499,325 | |
| 108,965 | Housing Benefit Paid Out | 117,143 | |
| 63,944 | Non-Domestic Rates Paid to National Pool | 66,343 | |
| 22,833 | Precepts Paid | 20,294 | |
| | Cash Inflows | | |
| (38,133) | Rents (after rebates) | (42,761) | |
| (55,022) | Council Tax Receipts | (59,672) | |
| (62,555) | Non Domestic Rate Receipts - from ratepayers | (66,905) | |
| (155,958) | Non Domestic Rate Receipts - from pool | (168,219) | |
| (29,279) | Revenue Support Grant | (28,032) | |
| (257,697) | DSS Grants for Benefits | (245,754) | |
| (215,382) | Dedicated Schools Grant | (232,873) | |
| (152,781) | Other Government Grants | (187,084) | |
| (116,922) | Cash Received from Goods and Services | (124,109) | |
| (29,929) | Other Operating Cash Receipts | (33,051) | |
| (28,758) | Cash Inflow from Revenue Activities | (15,956) | |
| | Dividends from Joint Ventures | | |
| | Cash Inflows | | |
| 0 | Dividends Received | 0 | |
| | Returns on Investments & Servicing of Finance | | |
| | Cash Outflows | | |
| 42,166 | Interest Paid | 46,487 | |
| 42,166 | | 46,487 | |
| | Cash Inflows | | |
| (7,165) | Interest Received | (8,144) | |
| (7,165) | | (8,144) | |
| | Capital Activities | | |
| | Cash Outflows | | |
| 102,722 | Purchase of Fixed Assets | 226,342 | |
| 50,000 | Purchase of Long Term Investments | 23,200 | |
| 12,457 | Contribution to Housing Pooled Receipts | 8,800 | |
| 1,203 | Payment of Improvement Grants | 1,241 | |
| 166,382 | | 259,583 | |
| | Cash Inflows | | |
| (20,365) | Sales of Fixed Assets | (25,874) | |
| (52,274) | Capital Grants received | (70,905) | |
| (31) | Other Capital Cash Receipts | (19) | |
| (72,670) | | (96,798) | |
| 99,955 | Net Cash (Inflow) before Financing | 185,172 | |
| | Management of Liquid Resources | | |
| (56,772) | Net increase/(decrease) in Short Term Deposits | (17,095) | |
| 0 | Net Increase/(decrease) in Other Liquid Resources | 0 | |
| | Financing | | |
| | Cash Outflows | | |
| 7,160 | Repayments of Amounts Borrowed | 190,913 | |
| | Cash Inflows | | |
| (19,000) | New Loans Raised | (288,638) | |
| (7,100) | New Short Term Loans | (81,815) | |
| (18,940) | | (370,453) | |
| 24,243 | (Increase)/Decrease in Cash | (11,463) | |

NOTES TO THE ACCOUNTS

Note 1. Statement of Accounting Policies

1.1. General

The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in Great Britain: Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

This is to ensure that the Statement of Accounts presents fairly the financial position of the Council, and to ensure it is compliant with relevant statutory accounting requirements issued by the Accounting Standards Board that are applicable to the Council for the year ended 31st March 2008.

1.2. Changes In Accounting Policies

Changes have been made in accounting treatment to reflect the 2007 SORP that applies from 1st April 2007. These changes are mostly cosmetic changes that do not affect the overall financial position of the Council or impact on Council Tax levels. The Capital Financing Account (CFA) and Fixed Asset Restatement Account (FARA) have been replaced with a Capital Adjustment Account (CAA) and Revaluation Reserve Account (RR). The balance on FARA and CFA at 31st March 2007 has been transferred into the new CAA at 1st April 2007. The opening balance on the RR as at 1st April 2007 is zero.

Depreciation on fixed assets is calculated using the historic cost element and the re-valued element on an asset by asset basis. As new valuation of an asset will give an accurate figure for the value of an asset in its current state, any balances in relation to depreciation and impairment become redundant and are therefore written out. These changes are accounted for to ensure there is no impact on the Council's financial resources or Council Tax levels.

Accounting for financial instruments is based on FRS25 (presentation requirements), FRS26 (covers the measurement requirement for financial instruments) and FRS29 (replaces the disclosure requirements of FRS25). These require additional disclosure notes in the accounts on the fair value of loans, investments and debtors and creditors. New reserves called the Financial Instrument Adjustment Account and the Available for Sale Instrument Reserve have been created to account for the changes in accounting for financial instruments (see reserves note below). Full details of financial instruments held by the Council are within notes 30-31 to the Accounts.

1.3. Fixed Assets

All Fixed Assets are shown in the Balance Sheet at a value consistent with the recommendations of CIPFA contained within the Capital Accounting Provisions of SORP, and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. Fixed Assets are classified into the groupings required by SORP.

Fixed Asset Values

- Land and Operational Properties are included in the Balance Sheet at the lower of net current replacement cost and net realisable value. This has been represented by the open market value in existing use or, where no market exists for a particular type of property, the depreciated replacement cost.
- For council dwellings, the market value has been adjusted to reflect the fact that it is social housing and that full market rents are not receivable by the Authority
- Non operational properties, including those surplus to requirements and industrial/commercial property, are shown at open market value.
- Vehicles, equipment, intangible assets, etc. are shown at historic cost less depreciation.
- Infrastructure assets are included at historic cost net of depreciation. However, highways transferred to the Council by the former London Docklands Development Corporation (LDDC), were valued by multiplying the annual road maintenance allowance used in the 1998/99 Revenue Support Grant calculations by the expected life of the highways of 40 years. The resultant value has been included as Fixed Assets within the Balance Sheet. This has subsequently been depreciated by 1/40th each year.
- Community assets are shown at historic cost.
- Assets under construction are shown at cost until they come into operation, at which point their treatment will follow Operational Properties.

Property assets with a value of less than £25,000 and less than 50 square metres in area are not shown in the Balance Sheet. Expenditure below £10,000 which results in an asset which has a useful life of less than two years, need not be capitalised and so is charged to the Income and Expenditure Account.

The Council has a five year rolling programme of revaluation of assets to ensure that all assets are revalued at least once during that time. All asset re-valuations are carried on behalf of the Authority by "Valuation Office Agency, District Valuer Services, M J Single BA MRICS

Revaluations and Impairments

Where an impairment loss (a clear reduction in economic value) on a fixed asset occurs the loss is recognised in the Statement of Movement in the General Fund Balance. Other impairments (reflecting a general fall in prices) are recognised in the Revaluation Reserve Account. If a reversal of an impairment loss is required, the accounting should marry the original treatment applied.

As required by SORP, all expenditure on the acquisition, creation and enhancement of fixed assets is capitalised on an accruals basis, and added to the value of assets shown in the Balance Sheet. Income from the disposal of assets is also accounted for on an accruals basis. The gain or loss on disposal is recognised in the Income and Expenditure Account by crediting the disposal proceeds and debiting with the carrying amount of the fixed asset. The gain or loss on sale included in the revenue account is reversed out in the Statement of Movement on the General Fund Balance.

Expenditure on the enhancement of housing stock is added to the value of that stock in the year it is incurred. Subsequent re-valuations will adjust the asset values, reflecting upward/downward movement in the carrying value.

Assets acquired under Deferred Purchase arrangements are included in the Balance Sheet under Fixed Assets, and are treated in the above manner. The outstanding undischarged capital value of these financing arrangements is shown in the Balance Sheet under Deferred Liabilities.

However, 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).

1.4. Depreciation

Depreciation is provided for on all fixed assets with a finite useful life (determined at the time of acquisition or revaluation) on the following bases. Depreciation is used to spread the value of an asset over its useful life.

Basis for Depreciation

- Vehicles, equipment, intangible assets, etc. are written down over their useful lives, as estimated at the time of purchase.
- 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 property is not depreciated.
- Operational property is assessed by the Council's valuer and any diminution in operational value is reflected as depreciation. Depreciation is assessed on a case by case basis rather than on a standard rate. Housing stock is depreciated over the remaining life of the property as estimated by the Council's Valuer.
- 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

To represent the use of fixed assets, revenue accounts are charged with depreciation where required and for any related impairment loss (due to a clear consumption of economic benefits). The charge to each revenue account is the sum of the charges on each of its assets.

External interest payable on the Council's debt is debited to the Income and Expenditure Account.

The amount set aside from revenue for the repayment of external loans (Minimum Revenue Provision) is reduced by the amount provided for depreciation, and the net amount shown in the Statement of Movement on the General Fund Balance for the year.

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 Supranational Eurosterling Bonds, Money Market Funds and Cash deposits. One external cash manager is employed.

Financial Instrument Revaluation - The Council holds Euro-Sterling Bond Investments that could in theory be sold prior to the maturity date of October 2008. As these are tradable, they are shown on the Balance Sheet at fair value (market value). Movements in the value of the investments are shown on the Balance Sheet in the Available for Sale Financial Instrument Reserve.

1.7. Deferred Sums

Deferred Charges

Deferred charges represent expenditure which may properly be capitalised but which does not represent tangible fixed assets, 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 Statement of Movement on the General Fund balance 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. Long Term Debtors

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

1.9. Basis of Debt Redemption

In accordance with statutory requirements, certain sums must be set aside for the redemption of debt. These are as follows:

- Minimum Revenue Provision
- Certain other sums to be treated as Reserved Capital Receipts by virtue of statutory regulation.

Minimum Revenue Provision

Under the Local Authorities (Capital Finance and Accounting) Regulations 2004, 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 Statement of Movement on the General Fund balance (and not to individual service revenue accounts).

Capital Receipts

Capital receipts arise from the disposal of fixed assets and the repayment of mortgages. The Local Authorities (Capital Finance and Accounting) Regulations 2004 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 Department for Communities and Local Government. 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 fixed assets 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.

1.10. Debt Rescheduling

The Council undertook some debt rescheduling in 2007/08. £190.9 million of PWLB loans were repaid early. The value of premia paid (£17.8 million) and discounts (£9.2 million income) were charged to the Income and Expenditure Account in 2007/08 in line with new SORP requirements from 2007/08. 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. Replacement loans have terms of between 30, 49 with £52.5 million having a term of 70 years. 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. The net effect of debt rescheduling has been to reduce the impact of interest charges to the General Fund by £1.3 million.

1.11. Grants

Grants receivable in respect of revenue expenditure are accounted for on an accruals basis, and credited to the revenue account to which the relevant expenditure has been charged. Where claims have not been settled, an estimate of the amount due is shown in the accounts. Such grants include those payable in respect of certain debt charges - see note 1.5 above.

Grants in respect of capital expenditure are also accounted for on an accruals basis - those in respect of Deferred Expenditure (Charges) are written off to that expenditure, with the remaining expenditure then written down to revenue - see Note 1.7 above. Those payable in respect of expenditure on fixed assets are shown in the Balance Sheet as Grants Deferred, and are written down (credited) to the Statement of Movement on the General Fund balance in line with the depreciation of the individual asset(s) concerned.

1.12. 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. A provision has been made for estimated re-organisation costs that the Council will incur during 2008/09, these are shown within service expenditure costs within the Income and Expenditure Account (see note 35).

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 Income and Expenditure Account.

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 Statement of Movement on the General Fund balance, and are therefore excluded from the cost of individual services. The Council has both general and earmarked reserves. A short description of these reserves follows:

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

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.

Other - there a number of other specific reserves which include Housing Repairs, Trading Surpluses and future service revenue spending. A PFI reserve account has also been included within other balances - these are for schools, Housing and Canning Town IT PFI schemes. Refer to the Statement of Total Movement in Reserves summary. The Council reviews the level of Earmarked Reserves, and their intended purpose, annually as part of its Medium Term Financial Investment Strategy.

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 fixed assets are included in the Statement of Total Recognised Gains and Losses (STRGL).

The Capital Adjustment Account (CAA) represents the amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets 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 historic 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 historic practice.

The Available for Sale Financial Instrument Reserve (AFSFIR) contains any fluctuation in fair value (market value) of Euro-Sterling Bond investments. The change in market value affects the Council's net worth through the STRGL (see note 20), but does not impact on the Council's Income and Expenditure.

Further details of the Council's Reserves and Provisions can be found in later sections of the Statement of Accounts.

1.13. Debtors and Creditors

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.

The Council maintains a provision for bad and doubtful debts which is used to write off known uncollectable debts and is adjusted each year to reflect the level of doubtful debts that has been estimated.

1.14. Stocks and Work in Progress

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

1.15. 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 Income and Expenditure Account.

1.16. Pensions - Retirement Benefits

Employees of the Council can participate in two separate pension schemes:

The Teachers' Pension Scheme, administered by the Department for Children, Schools and Families (DCFS)

The Local Government Pension Scheme, administered by the Council.

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

Teacher's Pension Scheme

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the Balance Sheet and revenue accounts are charged with the employer's contributions payable to the DCFS 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 to be advised. 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 - mid market value
- unquoted securities - professional estimate

- unitised securities - average of the bid and offer rates
- property - market value

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

- **current service cost** - the increase in liabilities as a result of years of service earned this year, allocated to the revenue accounts of services for whom 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 the 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 pensions liability that arise because events have not coincided with assumptions. These are not charged to revenue.
- **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.

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.

1.17. Prior Period Adjustments

To comply with the new SORP, from 1st April 2007 the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA) was replaced by a Revaluation Reserve and Capital Adjustment Account. This required a prior year adjustment by transferring the 1st April 2007 FARA and CFA balances into the CAA.

PFI residual values, prepayment and reversionary interests are now accounted for within the Council's accounts. 2006/07 Housing and Education spend has been restated to account for prior year residual value adjustments. Long term debtors (£8.869 million for residual values), prepayments (£33.643 million) and Council dwelling values (£24.921 million for reversionary interests have been restated for 2006/07 to account for PFI assets. Refer to note 47 for more information.

1.18. 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.

1.19. Newham Homes

Newham Homes is a wholly owned subsidiary of the Council. It is an Arms Length Management Organisation (ALMO) with the main aim of delivering housing to an improved standard within Newham.

1.20. Joint Venture

Caboodle Solutions Ltd. is a joint venture limited company owned by London Borough of Newham and Bull Information Systems Ltd. and had been incorporated within the Council's group accounts as a joint venture. A decision was taken in 2007/08 to discontinue the operations of Caboodle and distribute the balance of assets to investors.

1.21. 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 in the case of all Local Authorities, the Council is able to recover a major part of VAT incurred from H.M. Revenue & Customs. Any balance due to the Council is included within the debtors figure shown in the Consolidated Balance Sheet.

1.22. Private Finance Initiative (PFI) Schemes

The Council has entered into PFI contracts to oversee the building of four schools and a Housing initiative in Canning Town. In addition, a Forest Gate Housing scheme will be completed during 2008/09.

An assessment of the PFI project's risks and rewards was undertaken in accordance with FRS5. Each scheme is evaluated to determine whether the scheme would generate an asset for the Council. Where a property is needed under a PFI contract to deliver the contracted services, the assets may be recognised as a Council asset if the Council has access to the majority of benefits and exposure to the risks inherent in those benefits, if not the assets appear on the contract operator's balance sheet. The FRS5 review of the contracts has determined that the risks and rewards of the contract are borne by the PFI operator, therefore the fixed assets should not appear on the Council's balance sheet.

The charge to revenue in the Income and Expenditure Account includes the annual unitary charge for the contract and the PFI grant receivable in respect of the financial year, the balance is held within the PFI reserve account.

Prepayments - A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and would be accounted for as a prepayment. The Canning Town PFI contract includes a prepayment valued at £37.381 million at the start of the contract.

Reversionary Interests - The Council passed land and buildings over the PFI contractor at the start of the contract. There are no original school properties that will return to the Council at the end of the PFI contract, therefore there are no reversionary interests in the school schemes.

The Canning Town PFI scheme has a reversionary interest of £24.921 million for assets that will transfer back to the Council at the end of the contract.

Residual Interests - Where assets created or enhanced under the PFI scheme are to pass to the Council at the end of the scheme at cost less than fair value (including nil), residual interests (an amount equal to the difference between the fair value and the payment to be made at the end of the contract) is built up as a long-term debtor over the contract life by reducing the amount of the unitary payment charged to revenue. The 2006/07 Income and Expenditure Account and Balance Sheet have been restated by £8.869m to show a long-term debtor balance at 31st March 2007. Refer to note 47 for more details.

Note 2. Movement in Revenue Resources

| <i>REVENUE / EARMARKED RESERVES</i> | <i>General Fund</i> | <i>Housing Revenue Account</i> | <i>Other Earmarked Reserves</i> | <i>Total Revenue Reserves</i> |
|--|---------------------|--------------------------------|---------------------------------|-------------------------------|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Surplus / (Deficit) in 2006/07 | (1,826) | (2,876) | (6,495) | (11,197) |
| Balance brought forward at 1 st April 2006 | 38,596 | 8,856 | 26,451 | 73,903 |
| Balance carried forward at 31st March 2007 | 36,770 | 5,980 | 19,956 | 62,706 |
| Surplus / (Deficit) in 2007/08 | (19,252) | 358 | 26,316 | 7,422 |
| Balance brought forward at 1 st April 2007 | 36,770 | 5,980 | 19,956 | 62,706 |
| Balance carried forward at 31st March 2008 | 17,518 | 6,338 | 46,272 | 70,128 |

Other Earmarked Reserves of 2006/07 accounts were restated for PFI residual interests of £8.869 million.

Note 2a. Other Earmarked Resources Analysis

| <i>Earmarked Reserves</i> | <i>Balance At 1st April 2006</i> | <i>Movement In Year</i> | <i>Balance At 31st March 2007</i> | <i>Movement In Year</i> | <i>Balance At 31st March 2008</i> |
|-------------------------------------|--|-----------------------------|---|-----------------------------|---|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Schools Balances | | | | | |
| -Credit Balances | 11,770 | 2,380 | 14,150 | 768 | 14,918 |
| -Debit Balances | (3,603) | (966) | (4,569) | 3,005 | (1,564) |
| Total Schools Balances | 8,167 | 1,414 | 9,581 | 3,773 | 13,354 |
| Capital Reserves | | | | | |
| - Investment Strategy | 5,578 | (3,147) | 2,431 | (309) | 2,122 |
| Total Capital Reserves | 5,578 | (3,147) | 2,431 | (309) | 2,122 |
| Equal Pay Reserve | | | | | |
| -Single Status | 0 | (18,493) | (18,493) | 18,493 | 0 |
| Total Equal Pay Reserve | 0 | (18,493) | (18,493) | 18,493 | 0 |
| Other Balances | | | | | |
| - Housing Repairs | 1,450 | 0 | 1,450 | 0 | 1,450 |
| - NEWCO | 0 | 0 | 0 | 72 | 72 |
| - Reserves held for future spending | 3,528 | 2,873 | 6,401 | 130 | 6,531 |
| - PFI Reserve - Residual | 0 | 8,870 | 8,870 | 3,108 | 11,978 |
| - PFI Reserve - Education | 5,839 | 661 | 6,500 | 157 | 6,657 |
| - PFI Reserve - HRA | 1,889 | 1,327 | 3,216 | 892 | 4,108 |
| Other Balances Total | 12,706 | 13,731 | 26,437 | 4,359 | 30,796 |
| Total Earmarked Reserves | 26,451 | (6,495) | 19,956 | 26,316 | 46,272 |

Schools balances are earmarked for use by the Education service schemes and are held under a delegated schools scheme. PFI reserve accounts are for three Education PFI schemes and a Canning Town Housing scheme.

The majority of payments for the single status equal pay settlement were settled during the 2007/08 financial year. In line with CIPFA guidance, an equal pay reserve for £18.5 million was created in 2006/07 to allow the charge to general fund reserves to be deferred until the financial year in which the settlement payments were made. This reserve was transferred back to the General Fund in 2007/08.

Note 3. Trading Activity

| <i>2006/07 (Surplus)/Deficit £000s</i> | <i>Trading Activity</i> | <i>Income £000s</i> | <i>Expenditure £000s</i> | <i>2007/08 (Surplus)/Deficit £000s</i> |
|--|--|-------------------------|------------------------------|--|
| 21 | Newham Catering & Cleaning Services | (16,260) | 15,931 | (329) |
| 485 | NEWCO | (5,789) | 5,717 | (72) |
| 506 | Total | (22,049) | 21,648 | (401) |
| (485) | Less credit/(debit) to HRA | | | 0 |
| 21 | Shown in Income and Expenditure Account | | | (401) |

Newham Catering & Cleaning Services provides cleaning services in respect of public buildings and education buildings (including Secondary Schools) plus school meals to Primary & 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). During 2007/08, the accounting treatment of stock was reviewed and accumulated trading balances for all partners were restated. In 2007/08, the Council contributed £840,290 in total against this service. The gross revenue budget expenditure for the pooled venture was £1,400,576 against gross income of £1,391,333. This resulted in a net deficit in the year of £9,243. The revised accumulated trading surplus for the pool is £313,141 of which the PCT holds £101,256 and LBN holds £211,885.

| <i>Restated 2006/07 Net Exp / (Income)</i> | <i>Newham Primary Care Trusts</i> | <i>2007/08 Gross Income</i> | <i>2007/08 Gross Expenditure</i> | <i>2007/08 Net Exp / (Income)</i> |
|--|--|-------------------------------------|--|---|
| <i>£000s</i> | | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| (84) | Integrated Community Equipment Service | (1,391) | 1,400 | 9 |
| (84) | TOTAL | (1,391) | 1,400 | 9 |

| <i>Newham Primary Care Trusts - Trading Surplus</i> | | <i>2007/08 Surplus</i> |
|---|--|----------------------------|
| | | <i>£000s</i> |
| Restated accumulated Trading Surplus as at 1st April 2007 | | (322) |
| Net deficit for year | | 9 |
| Accumulated Trading Surplus at 31st March 2008 | | (313) |
| Allocation of Trading Surplus | | |
| - LB Newham | | (212) |
| - PCT | | (101) |
| TOTAL | | (313) |

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

| <i>2006/07 Total</i> | <i>Schools Budget Funded By Dedicated School Grant</i> | <i>2007/08 Central Expenditure</i> | <i>2007/08 Individual Schools Budget</i> | <i>2007/08 Total</i> |
|--------------------------|--|--|--|--------------------------|
| <i>£000s</i> | | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| 215,945 | Original grant allocation to Schools Budget for the current year in the Authority's budget | 23,796 | 208,125 | 231,921 |
| (568) | Adjustment to finalised grant allocation | (157) | 0 | (157) |
| 215,377 | Dedicated Schools Grant receivable for the year | 23,639 | 208,125 | 231,764 |
| 213,121 | Actual expenditure for the year | 23,536 | 204,352 | 227,888 |
| 2,256 | (Over) / underspend for the year | 103 | 3,773 | 3,876 |
| 8,167 | (Over) / underspend brought forward | 842 | 9,581 | 10,423 |
| 10,423 | (Over) / underspend carried forward | 945 | 13,354 | 14,299 |

Note 6. Leased Assets - Rentals

Note 6a: Operating Leases - Lessor Income / Lessee Expenditure

| <i>Restated 2006/07</i> | <i>Operating Leases</i> | <i>2007/08 Income</i> | <i>2007/08 Expenditure</i> |
|-----------------------------|-------------------------|---------------------------|--------------------------------|
| <i>£000s</i> | | <i>£000s</i> | <i>£000s</i> |
| 392 | Within 1 year | (578) | 862 |
| 843 | Within 2-5 years | (1,735) | 450 |
| 659 | Over 5 years | (4,225) | 659 |
| 1,894 | Total | (6,538) | 1,971 |

All of the above operating leases relate to Land and Buildings. Income relates to the sub-let of areas of Building 1000 under an operating lease. No income for 2006/07 as lease agreements to generate income were not in place by 31st March 2007. Operating Lease figure for 2006/07 restated to comply with SORP requirements.

Note 6b: Finance Leases

The Council entered into a finance lease arrangement during 2007/08 in respect of Building 1000, Royals Business Park, Royal Albert Dock, London E16. The Council paid £75m in 2007/08 for the Long Leasehold interest (to 30th July 2202) in the building. The Ground Lease is a 'peppercorn' rent. Building 1000 is included as a fixed asset, at a value of £75m, on the Council's Balance Sheet and will be depreciated on an annual basis (from 2008/09) in accordance with accounting policies. Financing costs in respect of MRP will become payable from 2008/09

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.

| 2006/07 | | 2007/08 |
|------------|--------------------------------|------------|
| £000s | | £000s |
| 212 | Lee Valley Regional Park | 217 |
| 194 | London Pensions Fund Authority | 214 |
| 83 | Environment Agency | 131 |
| 489 | Total | 562 |

Note 8. Publicity Account

The Council is required to keep an account of expenditure on publicity, further details are given below:

| 2006/07 | Publicity Account | 2007/08 |
|--------------|--|--------------|
| £000s | | £000s |
| 1,055 | Cost of staff engaged mainly on publicity | 1,373 |
| 1,253 | Wholly or mainly recruitment advertising | 1,233 |
| 79 | Statutory notices | 95 |
| 101 | Promotion of Road Safety, Health and similar campaigns | 43 |
| 1,530 | Other publicity material | 1,190 |
| 4,018 | Total | 3,934 |

Note 9. Building Control Account

The charges made to applicants who apply for approval of proposed building works under the National Building Regulations are to cover the Council's cost in providing such a service. The main activities are: processing and validating applications; checking drawings and calculations for compliance; carrying out inspections and issuing completion certificates. The information relating to these functions for 2006/07 and 2007/08 is:

| 2006/07 | Building Control | 2007/08 |
|------------|-----------------------------------|-------------|
| £000s | | £000s |
| (637) | Income Received | (983) |
| 763 | Expenditure Incurred | 949 |
| 126 | (Surplus)/Deficit for year | (34) |

Note 10. Agency Expenditure

The Council carries out work on an agency basis for which it is reimbursed, the main area being:

| 2006/07 | Agency Expenditure | 2007/08 |
|---------|--|---------|
| £000s | | £000s |
| 111 | On behalf of the East London Waste Authority | 45 |

This expenditure is not included in the Income & Expenditure Account

Note 11. Pension Costs

Teachers - In 2007/08 the Council paid £14.7 million (£13.6 million in 2006/07) to the Department for Children, Schools and Families in respect of teachers' pension costs. This was based on a contribution rate of 14.1%. In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with the subsequent pensions increases. In 2007/08 these amounted to £2.1 million representing 1.4% of pensionable pay (£2.2million and 1.5% in 2006/07). 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. The capital cost relating to discretionary increases to pensions was £23.0 million (calculated in accordance with FRS17).

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, 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 pensions liabilities with investment assets.

In 2007/08, pension costs have been charged to the Income & Expenditure Account on the basis of current service cost of contribution as determined by FRS17 (Accounting for Retirement Benefits).

In 2007/08, the Council paid an employer's contribution of £35.7 million (£31.4 million in 2006/07) into the Pension Fund, representing 24.2% of pensionable pay (23% in 2006/07).

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 2007/08 are based on the valuation at 31st March 2004, which recommended a contribution rate of 24.2%. This level of contribution is set by the Actuary in order to reduce the shortfall in the scheme's funding. The contribution rate increased in stages to 24.2% by 2007/08.

The Council is responsible for all pension payments relating to added years it has awarded, together with subsequent pension increases. In 2007/08 these amounted to £2.4 million, representing 1.7% of pensionable pay (£2.1 million and 1.6% in 2006/07).

The capital cost of discretionary increases in pension payments agreed by the Council in 2007/08 is within the pension liability balance as at 31st March 2008. The capital cost for earlier years was £28.1 million (calculated in accordance with FRS17 by the Actuary).

Further details on the Council Pension Fund Scheme are on note 41 (FRS 17) and the Pension Fund Account of this publication.

The adjusted net return on assets is as follows:

| 2006/07 | | 2007/08 | |
|---------------|---|--------------|--|
| £000s | | £000s | |
| 46,700 | Interest on Pension Liabilities | 49,132 | |
| (35,479) | Expected Return on Assets | (40,098) | |
| 11,221 | Total Per Income & Expenditure Account | 9,034 | |

Note 12. Audit Fee Disclosure

| Restated 2006/07 | | 2007/08 | |
|---------------------|--|------------|--|
| £000s | | £000s | |
| 430 | Fees payable to Audit Commission for external audit services work | 460 | |
| 137 | Fees payable to Audit Commission for statutory inspection | 27 | |
| 111 | Fees payable to Audit Commission for certification of claims & returns | 80 | |
| 56 | Fees payable for other services provided by the appointed auditor | 13 | |
| 734 | Total Audit Fee | 580 | |

Audit fees for 2006/07 have been restated to include £137,000 Audit Commission fees.

Note 13. Local Authority (Goods and Services) Act 1970

This Act enables local authorities to provide certain types of goods and services to other public bodies (including other local authorities, Further Education Colleges, and Housing Associations). The Council provided a range of services to a number of public bodies during 2007/08 - total income amounted to £2.1 million (£2.1 million in 2006/07) and fully covered the expenditure involved. The most significant individual supplies were as follows:

| 2006/07 | Supplies | 2007/08 |
|--------------|---|--------------|
| £000s | | £000s |
| 535 | Security Services to Newham Primary Care Trust and other Public Bodies | 339 |
| 894 | Translation Services to other local authorities and other organizations | 1,228 |
| 265 | Warden Alarm Services to housing associations and other local authorities | 177 |
| 80 | Recycling services to LB Redbridge | 40 |
| 278 | Other | 338 |
| 2,052 | Total | 2,122 |

The total value of goods and services to the various types of public body was as follows:

| 2006/07 | Client | 2007/08 |
|--------------|---------------------------------|--------------|
| £000s | | £000s |
| 97 | Newham Community College | 52 |
| 47 | Other Colleges & Universities | 79 |
| 309 | Other Local Authorities | 431 |
| 391 | Housing Associations | 166 |
| 4 | Tenant Management Organisations | 0 |
| 882 | Healthcare bodies | 999 |
| 322 | Other Public Bodies | 395 |
| 2,052 | Total | 2,122 |

Note 14. Employee Emoluments

The Accounts and Audit Regulations 2003 require local authorities to disclose the numbers of employees who earned £50,000 (taxable income) or more in the financial year. This is to be shown in bands of £10,000.

| 2006/07 | 2006/07 | 2006/07 | Taxable Earnings Band | 2007/08 | 2007/08 | 2007/08 |
|------------------------|--------------------|-----------------|-------------------------------|------------------------|--------------------|-----------------|
| Non Teaching Employees | Teaching Employees | Total Employees | | Non Teaching Employees | Teaching Employees | Total Employees |
| 94 | 114 | 208 | 50,000 - 59,999 | 139 | 262 | 401 |
| 33 | 52 | 85 | 60,000 - 69,999 | 54 | 63 | 117 |
| 11 | 9 | 20 | 70,000 - 79,999 | 34 | 46 | 80 |
| 13 | 9 | 22 | 80,000 - 89,999 | 14 | 10 | 24 |
| 9 | 3 | 12 | 90,000 - 99,999 | 10 | 6 | 16 |
| 1 | 0 | 1 | 100,000 - 109,999 | 14 | 3 | 17 |
| 3 | 0 | 3 | 110,000 - 119,999 | 2 | 2 | 4 |
| 2 | 0 | 2 | 120,000 - 129,999 | 2 | 0 | 2 |
| 0 | 0 | 0 | 130,000 - 139,999 | 1 | 0 | 1 |
| 0 | 0 | 0 | 140,000 - 149,999 | 0 | 0 | 0 |
| 1 | 0 | 1 | 150,000 - 159,999 | 1 | 0 | 1 |
| 167 | 187 | 354 | Total £50,000 and over | 271 | 392 | 663 |

Note 15. Members' Allowances

The total of members' allowances paid in 2007/08 (excluding National Insurance Contributions) was £1,304,000 (£1,188,000 in 2006/07). Full details of members' allowances paid are available upon request from the Central Payroll Services Section, Newham Town Hall.

Note 16. Fixed Assets

| | <i>Total Intangible Assets</i> | <i>Council Dwellings</i> | <i>Other Land and Buildings</i> | <i>Vehicles, Plant and Equipt.</i> | <i>Infra-structure</i> | <i>Community Assets</i> | <i>Total Operational Assets</i> | <i>Assets under Construction</i> | <i>Surplus Assets</i> | <i>Commercial and Industrial</i> | <i>Total Non Operational Assets</i> | <i>TOTAL ASSETS</i> |
|--|--------------------------------|--------------------------|---------------------------------|------------------------------------|------------------------|-------------------------|---------------------------------|----------------------------------|-----------------------|----------------------------------|-------------------------------------|---------------------|
| <i>Opening Values</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Gross Value as at 31st March 2007 | 2,966 | 1,168,723 | 793,571 | 19,357 | 147,845 | 20,870 | 2,150,366 | 301 | 35,295 | 107,461 | 143,057 | 2,296,389 |
| Revaluations etc | 0 | 127,738 | 49,052 | 0 | 0 | 0 | 176,790 | 0 | 11,475 | 4,475 | 15,950 | 192,740 |
| <i>Value at 1st April 2007</i> | 2,966 | 1,296,461 | 842,623 | 19,357 | 147,845 | 20,870 | 2,327,156 | 301 | 46,770 | 111,936 | 159,007 | 2,489,129 |
| <i>Transactions</i> | | | | | | | | | | | | |
| Additions | 417 | 1,931 | 80,016 | 4,669 | 0 | 0 | 86,616 | 1,559 | 8,480 | 0 | 10,039 | 97,072 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Enhancements | 0 | 79,734 | 13,172 | 0 | 6,864 | 785 | 100,555 | 0 | 49 | 553 | 602 | 101,157 |
| Disposals | 0 | (14,595) | 0 | 0 | 0 | 0 | (14,595) | 0 | (2,300) | 0 | (2,300) | (16,895) |
| | 417 | 67,070 | 93,188 | 4,669 | 6,864 | 785 | 172,576 | 1,559 | 6,229 | 553 | 8,341 | 181,334 |
| <i>Value at 31st March 2008</i> | 3,383 | 1,363,531 | 935,811 | 24,026 | 154,709 | 21,655 | 2,499,732 | 1,860 | 52,999 | 112,489 | 167,348 | 2,670,463 |
| <i>Depreciation</i> | | | | | | | | | | | | |
| Cumulative at 1st April 2007 | (1,280) | (160,376) | (34,883) | (9,226) | (43,758) | 0 | (248,243) | 0 | (51) | 0 | (51) | (249,574) |
| Depreciation for year | (574) | (30,959) | (10,751) | (3,838) | (2,602) | 0 | (48,150) | 0 | (139) | (226) | (365) | (49,089) |
| Revaluation impairment in year | 0 | 0 | (3,060) | 0 | 0 | 0 | (3,060) | 0 | (425) | (1,599) | (2,024) | (5,084) |
| <i>Depreciation at 31st March 2008</i> | (1,854) | (191,335) | (48,694) | (13,064) | (46,360) | 0 | (299,453) | 0 | (615) | (1,825) | (2,440) | (303,747) |
| <i>Net Value 31st March 2008</i> | 1,529 | 1,172,196 | 887,117 | 10,962 | 108,349 | 21,655 | 2,200,279 | 1,860 | 52,384 | 110,664 | 164,908 | 2,366,716 |

Note 17. Analysis of Capital Expenditure 2007/08

| 2006/07 | | Total Intangible Assets | Infrastructure | Community Assets | Equipment Plant and Vehicles | Asset Acquisition | Housing | Assets under Construction | Other | Total Fixed Assets | Deferred Charges | Total Assets |
|----------------|------------------------------|-------------------------|----------------|------------------|------------------------------|-------------------|---------------|---------------------------|---------------|--------------------|------------------|----------------|
| £000s | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| 15,578 | Children & Young People | 6 | 0 | 0 | 865 | 0 | 0 | 0 | 11,628 | 12,493 | 918 | 13,417 |
| 45,723 | Housing – HRA | 0 | 0 | 0 | 0 | 4,789 | 79,734 | 0 | 0 | 84,523 | 1,566 | 86,089 |
| 8,560 | Housing - General Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,444 | 8,444 |
| 690 | Culture & Community | 0 | 0 | 785 | 783 | 0 | 0 | 1,559 | 706 | 3,833 | 0 | 3,833 |
| 13,450 | Corporate | 116 | 0 | 0 | 749 | 80,279 | 0 | 0 | 648 | 81,676 | 2,481 | 84,273 |
| 2,157 | Adults | 228 | 0 | 0 | 1,890 | 0 | 0 | 0 | 138 | 2,028 | 3,406 | 5,662 |
| 10,308 | Public Realm/Regeneration | 67 | 6,864 | 0 | 382 | 0 | 0 | 0 | 175 | 7,421 | 1,221 | 8,709 |
| 2,394 | NDC/NRF | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 479 | 479 | 347 | 826 |
| 4,599 | Custom House & Canning Town | 0 | 0 | 0 | 0 | 5,359 | 0 | 0 | 0 | 5,359 | 4,415 | 9,774 |
| 0 | Single Status Capitalisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,531 | 4,531 |
| 103,459 | Total Expenditure | 417 | 6,864 | 785 | 4,669 | 90,427 | 79,734 | 1,559 | 13,774 | 197,812 | 27,329 | 225,558 |

| <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 & Modernisation of existing housing | 79,716 | Supported Borrowing - SCE(R) | 70,954 |
| Disabled Facilities and Renovation Grants | 1,241 | Unsupported Borrowing | 97,834 |
| Private Sector Renewal Scheme (ELRP) | 5,734 | Capital Grants & Contributions | 46,559 |
| Neighbourhood Renewal Fund / Stronger Safer Communities | 1,113 | Major Repairs Allowance | 9,366 |
| Building 1000 | 79,777 | Use of Capital Receipts | 1,309 |
| Children's Centres | 3,344 | | 226,022 |
| Building Schools for the Future – Set up Costs | 1,981 | Reduction in Capital Creditors | (464) |
| Schools Modernisation Programme | 3,162 | Total Expenditure | 225,558 |
| TFL Infrastructure Projects | 6,406 | | |
| Single Status Capitalisation | 4,531 | <u>Reconciliation to Note 16</u> | |
| Custom House & Canning Town Project - Buybacks | 5,735 | Additions | 97,072 |
| Custom House & Canning Town Project – Joint Resource Centre | 2,083 | Impairment | 0 |
| Custom House & Canning Town Project – Demolition of Tower Blocks | 1,539 | Enhancements | 101,157 |
| Commercial Property Fund | 1,240 | Deferred Charges | 27,329 |
| Newham Advanced Telecare & Whole Systems Demonstrator Programme | 3,890 | | 225,558 |
| Delivering World Class Adult Services Programme | 1,157 | | |

Note 18. Fixed Assets Employed

| | <i>Net Value 31st March 2007</i> | <i>Revaluation</i> | <i>Additions, Enhancements and Transfers</i> | <i>Disposal</i> | <i>Impairment</i> | <i>Depreciation</i> | <i>Net Value 31st March 2008</i> |
|--------------------------|--|--------------------|--|-----------------|-------------------|---------------------|--|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| General Fund | | | | | | | |
| Intangible | 1,634 | 0 | 417 | 0 | 0 | (556) | 1,495 |
| Infrastructure | 104,087 | 0 | 6,864 | 0 | 0 | (2,602) | 108,349 |
| Land and Buildings | 749,419 | 48,193 | 93,188 | 0 | (3,060) | (10,574) | 877,166 |
| Community Assets | 20,870 | 0 | 785 | 0 | 0 | 0 | 21,655 |
| Equipment, Vehicles etc | 9,894 | 0 | 4,669 | 0 | 0 | (3,628) | 10,935 |
| Non Operational Property | 110,654 | 7,729 | 2,415 | (2,300) | (742) | (139) | 117,617 |
| | 996,558 | 55,922 | 108,338 | (2,300) | (3,802) | (17,499) | 1,137,217 |
| HRA | | | | | | | |
| Intangible | 52 | 0 | 0 | 0 | 0 | (18) | 34 |
| Council Dwellings | 1,008,347 | 127,738 | 81,665 | (14,595) | 0 | (30,959) | 1,172,196 |
| Land and Buildings | 9,269 | 859 | 0 | 0 | 0 | (177) | 9,951 |
| Equipment, Vehicles etc | 237 | 0 | 0 | 0 | 0 | (210) | 27 |
| Non Operational Property | 32,352 | 8,221 | 8,226 | 0 | (1,282) | (226) | 47,291 |
| | 1,050,257 | 136,818 | 89,891 | (14,595) | (1,282) | (31,590) | 1,229,499 |
| | 2,046,815 | 192,740 | 198,229 | (16,895) | (5,084) | (49,089) | 2,366,716 |

Note 19. Capital Receipts

The table below shows the sums received by the Council and the use to which they were put in 2007/08.

| | <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 2007</i> | 0 | 0 | 0 | 0 | 0 |
| Amounts received in 2007/08 | 14,596 | 11,793 | 0 | 19 | 26,408 |
| | 14,596 | 11,793 | 0 | 19 | 26,408 |
| Less | | | | | |
| Costs of Disposal | (515) | 0 | 0 | 0 | (515) |
| Pooling Payments | (8,800) | 0 | 0 | 0 | (8,800) |
| Amounts used toward expenditure | (1,309) | 0 | 0 | 0 | (1,309) |
| Balance available 31st March 2008 | 3,972 | 11,793 | 0 | 19 | 15,784 |

Note 20. Capital Grants and Contributions

The following capital expenditure incurred in 2007/08 has been met from Government Grants and other contributions.

| <i>2006/07</i> | | <i>2007/08</i> |
|----------------|---|----------------|
| <i>£000s</i> | <i>Government Grants</i> | <i>£000s</i> |
| 480 | Housing Specified Capital Grant/Disabled Facilities Grant | 715 |
| 2,142 | Single Regeneration Budget | 0 |
| 664 | New Deal for Communities | 2,405 |
| 656 | Neighbourhood Renewal Fund | 1,194 |
| 0 | Greater London Assembly | 5,188 |
| 5,310 | East London Renewal Partnership | 6,301 |
| 6,511 | Transport for London | 5,909 |
| 7,915 | Department for Children, Schools and Families | 5,731 |
| 267 | Department of Health | 2,096 |
| 4,547 | Department for Communities and Local Government | 2,163 |
| 27 | Other Government Grants | 96 |
| 28,519 | | 31,798 |
| 12,376 | Major Repairs Allowance | 9,366 |
| | Other Contributions | |
| 147 | Lottery Funds | 990 |
| 77 | LDDC and successor bodies | 594 |
| 2,665 | London Thames Gateway Development Corporation | 10,618 |
| 4 | London Development Agency | 87 |
| 117 | Heritage Economic Regeneration | 18 |
| 0 | Football Foundation | 799 |
| 1,030 | Developers Contributions (including Section 106 Agreements) | 590 |
| 511 | Leaseholder Contributions | 673 |
| 26 | Contributions from schools budgets | 322 |
| 235 | Other Contributions | 70 |
| 4,812 | | 14,761 |
| 45,707 | Total | 55,925 |

Note 21. Capital Expenditure Commitments

The Council has authorised capital expenditure of £557 million under its Capital Investment Programme over the three year period 2008/09 - 2010/11, of which £193 million has been committed at 31st March 2008 either through contracts or by virtue of statutory obligations. A further £364 million relates to schemes and programmes approved to proceed but which were not committed at that time. Further analysis is shown below:

| | <i>2008/09</i> | <i>2009/10</i> | <i>2010/11</i> | <i>Total</i> |
|--------------|----------------|----------------|----------------|----------------|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Committed | 188,450 | 4,349 | 0 | 192,799 |
| Uncommitted | 64,833 | 180,235 | 118,975 | 364,043 |
| Total | 253,283 | 184,584 | 118,975 | 556,842 |

Commitments include the following major schemes and programmes:

| <i>Commitments (over £5 million)</i> | <i>£000s</i> |
|--|--------------|
| Housing Expenditure 2008/09 (Newham Homes) | 87,053 |
| Housing Expenditure 2008/09 (Non Newham Homes) | 55,156 |
| Building 1000 | 31,708 |

Approvals to proceed include the following major items and schemes:

| <i>Approvals to Proceed</i> | <i>£000s</i> |
|---|--------------|
| Building Schools for the Future – Non PFI element | 95,081 |
| Housing Expenditure 2009/10 & 2010/11 (Newham Homes) | 155,828 |
| Housing Expenditure 2009/10 & 2010/11 (Non Newham Homes) | 20,895 |
| Schools Capital Programme (including Primary Capital Programme) | 62,504 |
| Transport for London Schemes | 11,200 |

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. Examples include New Deal for Communities and Transport for London funds. 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.

In February 2008 the Council agreed to consider further capital investment of £54.5 million over the following three years, in order to achieve step change in performance and service delivery. As at 31st March 2008, no individual approvals had been given in respect of this potential investment, and therefore the £54.5m has been excluded from the above tables.

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 22. Statement of Assets Held

Fixed Assets owned by the Council (and shown in the Balance Sheet) include the following:

| <i>ASSETS HELD</i> | <i>Number at 31st March 2007</i> | <i>Number at 31st March 2008</i> |
|---------------------------------------|----------------------------------|----------------------------------|
| Council Dwellings (HRA definition*) | 18,653 | 18,437 |
| <u>Operational Property</u> | | |
| Primary Schools | 56 | 56 |
| Secondary Schools | 12 | 11 |
| Nursery Schools | 7 | 7 |
| Special Schools | 3 | 3 |
| Youth Centres | 3 | 3 |
| Other Educational Facilities | 6 | 7 |
| Housing District Offices | 6 | 6 |
| Municipal/Administrative Offices | 17 | 18 |
| Children's Facilities | 6 | 6 |
| Elder's Facilities | 3 | 3 |
| Mental Health Facilities | 4 | 4 |
| Social Services Area/Patch Offices | 3 | 3 |
| Other Social Services Facilities | 5 | 5 |
| Libraries | 7 | 7 |
| Leisure/Sports Centres | 5 | 5 |
| Children's Recreational Facilities | 3 | 3 |
| Community Centres | 8 | 8 |
| Museum Facilities | 3 | 3 |
| Other Leisure Facilities | 6 | 6 |
| Depots (including those with offices) | 3 | 3 |
| Other Operational Assets | 14 | 14 |
| Garages | 1,836 | 1,754 |
| | <hr/> | <hr/> |
| | 2,016 | 1,935 |
| <u>Community Assets</u> | | |
| Parks and Open spaces (area in acres) | 373 | 373 |
| Museum Exhibits - Fine Arts (items) | 6 | 6 |
| - Other Items | 2 | 2 |
| | <hr/> | <hr/> |
| | 381 | 381 |
| <u>Infrastructure</u> | | |
| Length of road maintained (km) | | |
| - Principal Roads | 55 | 55 |
| - Other Roads | 347 | 347 |
| | <hr/> | <hr/> |
| | 402 | 402 |

| <i>Asset Held</i> | <i>Number at 31st March 2007</i> | <i>Number at 31st March 2008</i> |
|--|----------------------------------|----------------------------------|
| Non Operational Property | | |
| Assets Surplus to requirements | 32 | 91 |
| Under construction | 2 | 2 |
| Commercial and Industrial Sites/Properties | 140 | 140 |
| | <u>174</u> | <u>233</u> |

* The Council dwellings figures have been presented according to HRA definition. As defined in the document guidance notes on the completion of Local Authority Housing Strategy Statistical appendix (HSSA).

Note 23. Deferred Charges

| <i>2006/07</i> | <i>DEFERRED CHARGES</i> | <i>2007/08</i> |
|----------------|--|-----------------|
| <i>£000s</i> | | <i>£000s</i> |
| 21,182 | Expenditure in year | 27,329 |
| (11,867) | Less capital grant due | <u>(16,475)</u> |
| (9,315) | Less written off to Income and Expenditure Account | <u>(10,854)</u> |
| 0 | Balance at 31st March 2008 | 0 |

Note 24. Fixed Asset Restatement Account

| <i>2006/07</i> | <i>FIXED ASSET RESTATEMENT ACCOUNT</i> | <i>2007/08</i> |
|--------------------|---|----------------|
| <i>£000s</i> | | <i>£000s</i> |
| (956,598) | Balance at 1st April 2006 | |
| (122,632) | Add (surplus)/less deficit on revaluation of Council Dwellings | |
| (41,623) | (Surplus) / Deficit on revaluation of existing Fixed Assets | See Capital |
| (1,120,853) | | Adjustment |
| 32,348 | Less value of assets disposed of in 2006/07 | Account |
| 0 | Less value of assets transfer out of Authority in 2006/07 | Note 26 |
| 42,893 | Less capital expenditure in year not resulting in increased value of assets | |
| (1,045,612) | Balance at 31st March 2007 | |

Note 25. Capital Financing Account

| <i>2006/07</i> | <i>CAPITAL FINANCING ACCOUNT</i> | <i>2007/08</i> |
|------------------|--|----------------|
| <i>£000s</i> | | <i>£000s</i> |
| (144,349) | Balance at 1st April 2006 | |
| | Capital Financing in the year | |
| (7,939) | Usable Capital Receipts | |
| 0 | General Fund | See Capital |
| 0 | HRA | Adjustment |
| (12,376) | HRA use of Major Repairs Allowance | Account |
| (20,315) | | Note 26 |
| 13,398 | Minimum Revenue Provision (net of depreciation) | |
| (2,364) | Less Premium Charged to Housing Revenue Account | |
| (7,381) | Write Down of Deferred Grants | |
| (161,011) | | |
| 29,288 | Less HRA Depreciation | |
| 9,315 | Less write off of Deferred Charges | |
| (58,564) | PFI Reversionary Interest | |
| (180,972) | Balance at 31st March 2007 | |
| (6,707) | Transfer un-amortised HRA premia to Income & Expenditure Account | |
| (187,679) | Restated Balance at 1st April 2007 | |

Note 26. Capital Adjustment Account

| CAPITAL ADJUSTMENT ACCOUNT | | 2007/08 |
|--------------------------------------|------------------|--------------------|
| | £000s | £000s |
| Balance at 1st April 2007 | | |
| Fixed Asset Restatement Account | (1,045,612) | |
| Capital Financing Account (Restated) | <u>(129,115)</u> | (1,174,727) |
| Capital Financing in the year | | |
| Usable Capital Receipts | (1,309) | |
| HRA use of Major Repairs Allowance | <u>(9,366)</u> | (10,675) |
| Minimum Revenue Provision | | (8,816) |
| Depreciation - HRA | 31,682 | |
| Depreciation - Non HRA | <u>17,381</u> | 49,063 |
| Impairment (Consumption) | | 5,084 |
| Reduction in Housing Stock | | 13,060 |
| Less write off of Deferred Charges | | 10,854 |
| PFI Reversionary Interest | | (57,318) |
| Write Down of Deferred Grants | | (8,045) |
| Balance at 31st March 2008 | | (1,181,520) |

Note 27. Revaluation Reserve

| REVALUATION RESERVE | | 2007/08 |
|-----------------------------------|--------------|------------------|
| | £000s | £000s |
| Balance at 1st April 2007 | | 0 |
| Revaluation gain | (26,355) | |
| Depreciation written back | (164,850) | |
| Depreciation in year | 26 | |
| Revaluation on disposal | (1,536) | |
| Write out asset on disposal | 3,836 | |
| Balance at 31st March 2008 | | (188,879) |

The Balance Sheet figures for 31st March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policy note 1.2 and 1.11). The Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). The credit balances of £1,045,612 and £129,115 on the FARA and CFA respectively at 1st April 2007 have been written off to the Capital Adjustment Account with a resulting credit balance of £1,174,727. The Revaluation Reserve has been included in the Balance Sheet with a zero opening balance. The closing balance on the Revaluation Reserve at 31st March 2008 only shows revaluation gains accumulated since 1st April 2007.

Note 28. Contingent Liabilities

The Council has guaranteed loans from Prudential and Eagle Star, to the Southern Housing Group for the Moore Paragon/Beckton Scheme. At 31st March 2008 the amount guaranteed was £1.763 million (£3.335 million as at 31st March 2007).

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.

Following the cessation of trading by the Caboodle joint venture during 2007/08, the final assets and liabilities of the entity have not yet been determined (see note 38 below). There is potential that some pension liabilities relating to staff transferred from Caboodle to Newham may be payable by the Council.

Note 29. 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 (eg housing benefits). Details of transactions with government departments are set out in a note relating to the Cash Flow Statement.

Pension Fund – during the financial year, the Pension Fund had an average balance of £3.7 million of temporary surplus cash deposited with the Council. The Council paid the fund a total for interest of £209,000 on these deposits. The Council charged the fund £301,000 expenses incurred in administering the fund.

Companies and joint ventures – the Council has a controlling interest in Newham Homes (a wholly owned subsidiary) and a stake in Caboodle. Details are contained within the Balance Sheet and the notes to the Accounts.

Community Links are an independent organisation that deliver a number of community projects, organise events and provide activities, mainly for younger people in the Borough. The Council paid a total of £2.9 million to Community Links for services provided during 2007/08. Councillor Kevin Jenkins OBE, who is employed as an advisor by Community Links, was not involved with the decision making process to award service contracts to Community Links.

Note 30. Financial Instruments Balance

Note 30a Disclosure of Financial Assets and Liabilities from 1st April 2007

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

| | <i>Long Term</i> | | <i>Current</i> | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | <i>31st March 2007</i> | <i>31st March 2008</i> | <i>31st March 2007</i> | <i>31st March 2008</i> |
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Financial liabilities (principal amount) | (547,243) | (644,968) | (118,555) | (194,526) |
| Financial liabilities at amortised cost | (559,272) | (656,771) | (120,227) | (199,410) |
| | | | | |
| | <i>Long Term</i> | | <i>Current</i> | |
| | <i>31st March 2007</i> | <i>31st March 2008</i> | <i>31st March 2007</i> | <i>31st March 2008</i> |
| Loans and Receivables (principal amount) | 50,000 | 88,200 | 73,700 | 41,300 |
| Loans and receivables at amortised cost | 50,000 | 90,746 | 73,700 | 42,951 |
| Available for Sale financial assets | 0 | 0 | 14,898 | 15,244 |
| Total Investments | 50,000 | 90,746 | 88,598 | 58,195 |

The Balance Sheet shows financial instruments at amortised cost, which includes accrued interest or adjustments in relation to valuations through the Effective Interest Rate being applied to stepped interest rate loans. A further line showing principal has also been included to identify actual indebtedness or asset base.

The Council's financial liabilities have increased as a result of borrowing to finance the Capital Programme.

During the year no financial instruments were re-classified. However £50.0 million of investments previously classed as short-term have been re-classed as long term as the potential call period was more than twelve months. 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. There has been no impairment of loans and receivables, other than the normal provisions made for trade and similar debtors, and there have been no defaults or breaches.

Note 30b Financial instruments Gains/Losses

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

| | <i>Financial Liabilities</i> | <i>Financial Assets</i> | | | <i>Total</i> |
|--|---|------------------------------|----------------------------------|---------------------------------------|-----------------|
| | <i>Liabilities measured at amortised cost</i> | <i>Loans and receivables</i> | <i>Available-for-sale assets</i> | <i>Fair value through the I&E</i> | |
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Interest expense | (45,376) | 0 | 0 | 0 | (45,376) |
| Losses on de-recognition | 0 | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 |
| Interest payable & similar charges | (45,376) | 0 | 0 | 0 | (45,376) |
| Interest income | 0 | 9,380 | 1,033 | 0 | 10,413 |
| Gains on de-recognition | 0 | 0 | 0 | 0 | 0 |
| Interest and Investment Income | 0 | 9,380 | 1,033 | 0 | 10,413 |
| Surplus arising on revaluation of financial assets | 0 | 0 | 58 | 0 | 58 |
| Net Gain / Loss for Year | (45,376) | 9,380 | 1,091 | 0 | (34,905) |

Available for Sale Assets – The Council holds supranational bonds valued at £15.203m based on fair value.

Note 30c – 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. 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:

- The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result the fair value figures for 31st March 2008 are relatively higher than the 31st March 2007 comparators.
- For loans receivable prevailing benchmark market rates have been used to provide the fair value using the same method as above;
- 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 principal outstanding or the billed amount;
- The fair value of sundry trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| | <i>31st March 2007</i> | | <i>31st March 2008</i> | |
|------------------------------------|------------------------|-------------------|------------------------|-------------------|
| | <i>Carrying Amount</i> | <i>Fair value</i> | <i>Carrying Amount</i> | <i>Fair value</i> |
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| PWLB Debt | 537,292 | 702,891 | 566,671 | 763,494 |
| Non-PWLB Debt | 128,506 | 131,150 | 289,510 | 314,094 |
| Total Debt | 665,798 | 834,041 | 856,181 | 1,077,588 |
| Trade creditors - sundry | 50,770 | 50,770 | 34,400 | 34,400 |
| Total Financial Liabilities | 716,568 | 884,811 | 890,581 | 1,111,988 |

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.

| | 31st March 2007 | | 31st March 2008 | |
|---|-----------------|----------------|-----------------|----------------|
| | Carrying Amount | Fair value | Carrying Amount | Fair value |
| | £000s | £000s | £000s | £000s |
| Money market investments less than 1 year to maturity | 73,700 | 73,700 | 42,951 | 42,951 |
| Money market investments more than 1 year to maturity | 50,000 | 50,000 | 90,746 | 90,746 |
| Trade debtors - sundry | 29,646 | 29,646 | 24,438 | 24,438 |
| Total Investments | 153,346 | 153,346 | 158,135 | 158,135 |

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

Note 31: 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 31a. 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 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 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. 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.

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 31b. 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.

The following analysis summarises the Authority's potential maximum exposure to credit risk. The table (from Moody's) gives details of default rates corporate issuers (including financial organisations) for the period 1982 – 2005 on investments out to 5 years.

| | <i>Amount at 31st March 2008</i> | <i>Historic Experience of Default</i> | <i>Adjustment For Market Conditions at 31st March 2008</i> | <i>Fair value</i> |
|--|--------------------------------------|---|--|-------------------|
| | <i>£000s</i> | <i>%</i> | <i>%</i> | <i>£000s</i> |
| Deposits with banks and financial institutions | | | | |
| AAA rated counterparties | 10,000 | 0.001 | 0.001 | 0 |
| AA rated counterparties | 61,200 | 0.027 | 0.027 | 17 |
| A rated counterparties | 51,300 | 0.627 | 0.627 | 321 |
| Other counterparties | 7,000 | 0.627 | 0.627 | 44 |
| Bonds - AAA rates | 14,959 | 0.001 | 0.001 | 0 |
| Total Deposits | 144,459 | | | 382 |
| Trade debtors - sundry | 24,438 | 11.081 | 11.081 | 2,708 |
| Total Deposits | 168,897 | | | 3,090 |

No breaches of the Council's counter-party 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.

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of these high credit criteria, we have maintained historical default rates as a good indicator under these current conditions.

The Council also uses non credit rated institutions (for instance smaller building societies or bank subsidiaries where the parent has a satisfactory rating). In these circumstances these investments have been classified as other counterparties.

The Council does not generally allow credit for its debtors, such that £21.5 million of the £24.4 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

| <i>Age of Debtors</i> | <i>Amount at 31st March 2008</i> |
|-----------------------|--------------------------------------|
| | <i>£000s</i> |
| Less than 3 months | 13,186 |
| 3 to 6 months | 930 |
| 6 months to 1 year | 2,189 |
| More than 1 year | 5,173 |
| Total | 21,478 |

Collateral – During the reporting period the Council held no collateral as security.

Note 31c. Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). 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.

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 Code of Practice.

Note 31d. 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>Maturity Analysis of Financial Liabilities</i> | <i>Amount at 31st March 2008</i> |
|---|----------------------------------|
| | <i>£000s</i> |
| Less than 1 year | 199,410 |
| Between 1 and 2 years | 22,283 |
| Between 2 and 5 years | 20,533 |
| Between 5 and 10 years | 62,193 |
| More than 10 years | 551,762 |
| Total | 856,181 |

The maturity analysis of financial assets is as follows:

| <i>Maturity Analysis of Financial Assets</i> | <i>Amount at 31st March 2008</i> |
|--|----------------------------------|
| | <i>£000s</i> |
| Less than 1 year | 58,195 |
| Between 1 and 2 years | 20,588 |
| Between 2 and 3 years | 5,288 |
| More than 3 years | 64,870 |
| Total | 148,941 |
| Trade debtors | 24,438 |
| Total | 173,379 |

Note 31d. 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 Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account 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 STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

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 will monitor 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.

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

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

| <i>Interest Rate Variance Calculation</i> | <i>Amount at 31st March 2008</i> |
|--|--------------------------------------|
| | <i>£000s</i> |
| Increase in interest payable on variable rate borrowings | 429 |
| Increase in interest receivable on variable rate investments | 0 |
| Impact on Income and Expenditure Account | 429 |

The approximate impact of a 1% fall in interest 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 32. Analysis of Debtors and Doubtful Debts

| <i>31st March 2007</i> | | <i>31st March 2008</i> |
|------------------------|--|------------------------|
| <i>£000s</i> | | <i>£000s</i> |
| | Debtors | |
| 30,499 | Government Departments | 32,545 |
| 994 | Other Statutory Authorities | 3,840 |
| 1,444 | Other Local Authorities | 849 |
| 25,712 | Ratepayers/Chargepayers | 22,680 |
| 24,411 | Housing Rents | 24,091 |
| 2,524 | Other Rents | 2,455 |
| 908 | Staff Loans | 829 |
| 6,963 | Housing Benefit Claimants (overpayments) | 4,370 |
| 32,112 | Sundry Debtors | 24,787 |
| 5,342 | Prepayments | 7,910 |
| 130,909 | | 124,356 |
| | Doubtful Debts | |
| (3,245) | NNDR | (2,700) |
| (11,550) | Council Tax | (8,372) |
| (15,452) | Housing Rents | (19,521) |
| (5,349) | Housing Benefit (overpayments) | (3,992) |
| (690) | NNDR Costs | (787) |
| (328) | Residential Accommodation Charges | (297) |
| (8,196) | Sundry Debts | (5,647) |
| (44,810) | | (41,316) |

Note 33. Analysis of Creditors

| 31st March 2007 | | 31st March 2008 | |
|-----------------|-----------------------------|-----------------|--|
| £000s | | £000s | |
| (31,080) | Government Departments | (25,818) | |
| (267) | Other Statutory Authorities | (511) | |
| (2,450) | Other Local Authorities | (2,164) | |
| (4,914) | Ratepayers/Chargepayers | (5,350) | |
| (2,886) | Housing Rents | (3,616) | |
| (50,770) | Sundry Creditors | (34,400) | |
| (5,787) | Receipts in Advance | (6,799) | |
| (98,154) | | (78,658) | |

Note 34. Stocks and Work in Progress

| 31st March 2007 | Stocks and Works in Progress | 31st March 2008 |
|-----------------|------------------------------|-----------------|
| £000s | | £000s |
| 1,025 | Stocks | 1,296 |
| 311 | Work in Progress | 48 |
| 1,336 | Total | 1,344 |

Note 35. Provisions

The Council has made the following provisions;

| 2006/07 Total | PROVISION | Insurance | Other | 2007/08 Total |
|-----------------|--|----------------|-----------------|-----------------|
| £000s | | £000s | £000s | £000s |
| (10,592) | Balance at 1st April 2007 | (6,116) | (22,229) | (28,345) |
| (1,147) | Contribution to Provision | (654) | (10,344) | (10,998) |
| 5,550 | Charge to Provision | 319 | 24,918 | 25,237 |
| (22,156) | Transfer to/(from) Reserve | 899 | (2,998) | (2,099) |
| (28,345) | Balance at 31st March 2008 | (5,552) | (10,653) | (16,205) |

Insurance - A provision of £6.5 million has been recognised for expected claims notified to the Council at 31st March 2008 under the Council's internal insurance arrangements. Further details are included in Note 36 below. Timing of future cashflows is uncertain due to the nature of the settlement of insurance claims.

Other - There are other provisions of £10.7 million in place for matters yet to be resolved. The most significant of these is £6 million for to cover the cost of re-organising Council services during 2008/09. These costs had already been built in to the Council 's budget strategy for 2008/09, but accounting regulations require that provision be made when the Council gave a notification to restructure in March 2008. The balance of provisions will be reviewed as expenditure is incurred in 2008/09.

Due to accounting regulation changes, a provision of £0.18 million made to smooth for interest payable on Lender's Option Borrower's Option (LOBO) market loans has been returned to balances - loan smoothing adjustments are now within the Financial Instrument Adjustment Account.

In 2006/07, a provision of £18.5 million had been made in the Income and Expenditure Account in relation to the possible settlement of claims for back-pay resulting from the Single Status (an exercise to ensure that employees are paid the same for carrying out jobs of equal value). The majority of settlements were made during 2007/08. Other local authorities have received legal challenges to their settlements, however the Council does not believe the grounds for these claims apply in the case of Newham's agreements - as yet no claims have been received

Note 36. 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 31st 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:

| Risk | Maximum Cover per Claim |
|---------------------|---|
| 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 £200 is charged to the school |
| 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 31st March 2008 was £6.4 million, with the balance on the Reserve within the General Fund Account being £ 11.7 million. External cover is provided by way of premiums paid to the Council's Insurers. Following the insurance tender in December 2005, the level of its excess for liability was increased from £50,000 to £100,000.

Note 37. 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.

Local Authorities are able to enter into such arrangements. However, they must regularly review them to ensure compliance with relevant statutory requirements and with accounting practices i.e.

| Local Authorities (Companies) Order 1995 | Code of Practice on Local Authority Accounting |
|--|---|
| Classification of Council's interest as "Minority Interest", "Influence" or "Control". | Preparation of Group Accounts where the Local Authority has a material interest in associated or subsidiary companies. |
| Application of Local Authorities (Capital Finance) Regulations 1997. | Disclosure of details of "related third party" transactions (transactions between the Local Authority and others within the "group"). |

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 |
|---|--|
| Newham Connexions Local Management Group | 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 Futures (Careers Company). |
| 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. The Council appoints two members to a board of five directors. |
| Newham Music Trust | To provide tuition in musical instruments. The Council appoints three members to a board of 12 Trustees. |
| Passmore Urban Renewal | A housing regeneration and business support company in Forest Gate and Plaistow SRB areas. The Council has one member and one employee on the current board. |
| 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 (incl. 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 the 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 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 accounts are available from 190 Strand, London, SE1 9SY.

Local Space is a provider of short term leased accommodation; Newham Council makes use of some of these properties as housing accommodation. Local Space was formed on the 10th February 2006. Newham Council transferred 450 properties to Local Space to provide working capital to allow more accommodation to be acquired by Local Space. Newham Council appoint three members to the board of nine. As Newham Council do not have access to profits of Local Space, it is not appropriate to consolidate Local Space accounts within the Council group; therefore it is appropriate to show as a note to the Council's accounts. Local Space had an operating surplus in the year to 31st March 2008 of £11.8 million (£3.0 million to 31st March 2007). After financing costs the overall surplus for the period was £3.1 million (£0.7 million to March 2007, restated).

Note 38. Joint Venture - Caboodle Solutions Limited

Caboodle Solutions Ltd. was a joint venture limited company owned by London Borough of Newham and Bull Information Systems. This joint venture is in the process of being discontinued. At 31st March 2008, it had ceased operations and assets and liabilities were to be distributed to the owners. It had been formed primarily to provide IT products and services to the Council and eventually to other local companies in the Borough. Caboodle also provides a training environment for local unemployed people. This company was previously known as New Deal IT Services. The company was set up in January 1999 with authorised share capital of £100,000. Steria Holdings Ltd. is the majority shareholder with 51% of the shares. Steria Holding Limited's ultimate parent and controlling company is Group Steria SCA.

As the audit of Caboodle's final accounts had not commenced by the time these accounting statements were prepared, the final assets and liabilities of Caboodle were yet to be established. Steria and the Council are to reach agreement on the value of pension liabilities of former Caboodle employees.

For the year ended 31st December 2007 it recorded a turnover of £1.079 million (£1.67 million in 2006) and a loss of £103,000 after taxation (£145,000 profit in 2006). As at 31st December 2007 total reserves of the company stood at £530,000 (£633,000 at December 2006). No dividend was paid to the Council in 2007/08. This joint venture has been incorporated within the Council's group accounts. Copies of the accounts for Caboodle Solutions Ltd can be obtained from; Caboodle Solutions Limited Ltd, Bridge Road Depot, Abbey Road, Stratford, London E15 3LX.

Note 39. Post Balance Sheet Events

The Statement of Accounts for 2007/08 were approved by Investment and Accounts Committee on 30th June 2008.

No significant post balance sheet events have arisen since the Accounts were approved by the Investment and Accounts committee in June 2008.

Note 40. Trust and Gift Funds

The Council administered trust and gift funds with a value of £1,357,000 at the end of the year (£1,344,000 at 31st March 2007). These are not included in the Balance Sheet.

| 2006/07 | <i>Trust & Gift Funds</i> | | 2007/08 |
|--------------|---|--|--------------|
| <i>£000s</i> | | | <i>£000s</i> |
| 1,339 | Fund Balances at 1 st April | | 1,344 |
| 179 | Income | | 480 |
| (174) | Payments | | (467) |
| 1,344 | Fund balances at 31 st March | | 1,357 |
| | The following individual fund balances are held: | | |
| 83 | School Prize Funds | | 83 |
| 409 | Social Care Trust Funds | | 393 |
| 10 | Mayor's Benevolent Fund | | 10 |
| 842 | Gurney School | | 871 |
| 1,344 | TOTAL | | 1,357 |

These funds represent cash and investments held by but not belonging to the Authority.

The school and social care funds have been received from charitable sources for the benefit of service users. They are used within the terms and purpose agreed by the donors.

Note 41. 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, 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 2007/08 was based on the actuarial valuation as at 31st March 2004. An actuarial valuation was undertaken as at 31st March 2004 to set contribution rates for the three years commencing 2005/06.

The market value of the Fund's assets at March 2004 was £377 million, compared to liabilities of £620 million, representing 61% of the Fund's accrued liabilities, allowing for future pay increases. The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions used in the 2004 valuation are shown in the following table.

| Assumptions | 2004 Valuation | 2007 Valuation |
|---|--|--|
| Rate of Return on Investments | 6.7% Equities / 4.9% Bonds | 6% Equities |
| Rate of General Pay Increases | 4.4% per annum | 4.9% per annum |
| Rate of Increase to Pensions in Payment (in excess of GMPs) | 2.9% per annum | 3.1% per annum |
| Valuation of Assets | Market value based on average values of assets in the 12 months prior to 31st March 2004 | Market value based on average values of assets in the 12 months prior to 31st March 2007 |

The 2004 valuation set the required rate of contribution by the Council for 2007-08 at 24.2% 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 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.

The 2008 FRS17 exercise as at the 31st March 2008 calculated that the Council had the following overall assets and liabilities for pensions:

| FRS17 Disclosure | | As at 31 st March 2007 | As at 31 st March 2008 |
|----------------------------------|-------------------------|-----------------------------------|-----------------------------------|
| Assumptions | % per annum | % per annum | % per annum |
| Price Increases | | 3.1% | 3.6% |
| Salary Increases | | 4.6% | 5.6% |
| Pension Increases | | 3.1% | 3.6% |
| Discount Rate | | 5.4% | 6.1% |
| Assets (Whole Fund) | Long Term Return | Fund Value at | Fund Value as at |
| | | £000s | £000s |
| Equities | 7.5 | 434,080 | 374,675 |
| Bonds | 4.6 | 41,312 | 11,321 |
| Alpha Plus Bonds | 6.1 | 0 | 55,528 |
| Property | 6.5 | 80,230 | 67,927 |
| Cash | 5.3 | 43,108 | 26,416 |
| Alternative Investments | 1.7 | 0 | 3,235 |
| Total | 7.0 | 598,730 | 539,102 |
| Net Pension Assets | | £000s | £000s |
| Estimated Employer Assets | | 598,730 | 539,102 |
| Total Value of Liabilities | | (908,056) | (950,194) |
| Newham Homes Pension Liabilities | | (13,954) | (17,214) |
| Net Pension Liability | | (323,280) | (428,306) |

| <i>Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses in Reserves</i> | <i>Year to 31st March 2004</i> | <i>Year to 31st March 2005</i> | <i>Year to 31st March 2006</i> | <i>Year to 31st March 2007</i> | <i>Year to 31st March 2008</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 | 52,000 | 16,500 | 79,521 | 7,990 | (76,793) |
| Experience gains and losses arising on the scheme liabilities | 903 | 26,296 | (165) | 0 | (23,945) |
| Changes in Financial Assumptions underlying the present value of the scheme | 0 | (145,100) | (109,245) | 96,757 | (596) |
| Actuarial gain/(loss) recognised in reserves | 52,903 | (102,304) | (29,889) | 104,747 | (101,334) |
| <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 | (325,666) | (276,096) | (377,100) | (429,743) | (323,280) |
| Current Service Cost | (15,401) | (20,900) | (22,309) | (26,065) | (23,188) |
| Employer contributions | 25,900 | 27,300 | 28,950 | 31,374 | 35,754 |
| Contributions in respect of Unfunded Benefits | 1,600 | 3,400 | 3,453 | 3,139 | 3,392 |
| Past service costs | (132) | 0 | (6) | 0 | (6,398) |
| Impact of settlements and curtailments | (100) | (300) | (568) | (600) | (958) |
| Net return on assets | (15,200) | (8,200) | (13,231) | (11,221) | (9,034) |
| Actuarial gains/(losses) | 52,903 | (102,304) | (29,889) | 104,747 | (101,334) |
| Newham Homes pension liability | 0 | 0 | (19,043) | 5,089 | (3,260) |
| Surplus/(deficit) at end of year | (276,096) | (377,100) | (429,743) | (323,280) | (428,306) |
| <i>History of Experience Gains and Losses</i> | <i>Year to 31st March 2004</i> | <i>Year to 31st March 2005</i> | <i>Year to 31st March 2006</i> | <i>Year to 31st March 2007</i> | <i>Year to 31st March 2008</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 | 52,000 | 16,500 | 79,521 | 7,990 | (76,793) |
| Value of assets | 366,500 | 416,500 | 537,900 | 598,730 | 539,102 |
| Percentage of assets | 14.2% | 4.0% | 14.8% | 1.3% | 14.2% |
| Experience gains/(losses) on liabilities | 903 | 26,296 | (165) | 0 | (23,945) |
| Present value of liabilities | 642,596 | 793,600 | 948,600 | 908,056 | 950,194 |
| Percentage of the present value of liabilities | 0.1% | 3.3% | 0.0% | 0.0% | 2.5% |
| Actuarial gains/(losses) recognised in reserves | 52,903 | (102,304) | (29,889) | 96,757 | (596) |
| Present value of liabilities | 642,596 | 793,600 | 948,600 | 908,056 | 950,194 |
| Percentage of the present value of liabilities | 8.2% | (12.9%) | (3.2%) | (10.7%) | (0.1%) |

The pension net liability has been calculated by reference to the latest formal actuarial valuation as at 31st March 2004, which has been rolled forward and updated for changes in financial assumptions to arrive at an estimated position as at 31st March 2008. The actuary is satisfied that this approach does not introduce any material distortion to the figures provided, assuming the financial assumptions are broadly in line with the actual performance of the fund. Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. These liabilities have been assessed by Mercers, an independent firm of Actuaries.

The Local Pension Scheme (Amendment) Regulations 2006 gave members of the scheme the option of taking a higher lump sum than the standard 3/80ths basis by commuting part of their pension. The Actuary has assumed that 50% of members will take the option to increase their lump sum. This assumption is consistent with the assumption adopted for the 2007 actuarial valuation.

An FRS17 pension liability of £17.21 million exists to provide for the pension deficit of Newham Homes employees as at 31st March 2008. 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.

Note 42. Reconciliation of Net Revenue Surplus to Cash Inflow from Revenue Activities

| <i>Newham - 2006/07</i> | | <i>2007/08</i> | <i>2007/08</i> |
|-----------------------------|--|----------------|-----------------|
| <i>£000s</i> | Revenue (Surplus)/Deficit for year: | <i>£000s</i> | <i>£000s</i> |
| 65,700 | Net Surplus / (Deficit) on Income & Expenditure Account | | 36,099 |
| (63,874) | Net Additional Amounts required by statute and non-statutory proper practices to be debited or credited to General Fund for the year | | (16,847) |
| 2,876 | Housing Revenue Account | | (358) |
| (977) | Collection Fund deficit (LBN element) | | (1,594) |
| 3,725 | | | 17,300 |
| | Remove Expenditure not resulting in a cash movement | | |
| (8,375) | Provision for loan repayments etc. | (8,817) | |
| 2,364 | Gains & Losses From Early Settlement of Debt | 8,766 | |
| (17,501) | Provisions set aside in the year from revenue | 15,635 | |
| 39,580 | Contributions (to)/from Reserves | (12,114) | |
| 16,068 | | | 3,470 |
| (457) | Change in Stocks/Work in Progress | 8 | |
| 0 | Movement on Creditors interest due on loans | (13,046) | |
| 10,752 | Other Adjustments | 910 | |
| 10,295 | | | (12,128) |
| 6,301 | (Reduction)/Increase in Debtors | | 2,061 |
| 13,566 | Reduction/(Increase) in Creditors | | 11,684 |
| (78,713) | Add Financing Items shown later in the Cash Flow Statement | | (38,343) |
| (28,758) | Cash Inflow from Revenue Activities | | (15,956) |

Note 43. Analysis of Revenue Grants

| <i>2006/07</i> | <i>Grant</i> | <i>2007/08</i> |
|----------------|--|----------------|
| <i>£000s</i> | | <i>£000s</i> |
| 2,956 | Asylum Seekers | 3,623 |
| 2,286 | CAMHS - Mental Health | 1,146 |
| 1,362 | Childcare grant | 1,574 |
| 1,529 | Children's Fund Grant | 1,473 |
| 1,869 | Children's Services Quality Protects | 1,901 |
| 2,104 | Connexion Funding - Young People's Career Advice | 2,136 |
| 260,215 | Council Tax & Housing Benefit Subsidy | 265,154 |
| 215,382 | Dedicated Schools Grant | 232,031 |
| 1,884 | Drug Action Team | 2,748 |
| 14,477 | Education PFI grant | 12,417 |
| 29,506 | Housing Revenue Account subsidy | 28,315 |
| 3,542 | Learning and Skills Council Grants | 8,788 |
| 0 | Local Area Agreement | 28,855 |
| 18,170 | Neighbourhood Renewal Fund | 532 |
| 3,364 | New Deal For Communities | 2,458 |
| 1,095 | Preserved Rights | 1,020 |
| 8,010 | Schools Standards Grant | 10,869 |
| 809 | Single Regeneration Budget | 2,395 |
| 33,062 | Standards Fund | 38,500 |
| 14,314 | Surestart Grants (including general grant) | 15,738 |
| 1,226 | Training Support Programme | 1,259 |
| 1,540 | Youth Justice Board (Youth Offenders) | 1,541 |
| 7,158 | Other | 1,238 |
| 625,860 | | 665,711 |

Note 44. Reconciliation of Net Cash Flow to Movement in Net Debt

| <i>Restated Balance</i> <i>31st March 2007</i> | | <i>Balance</i> <i>31st March 2008</i> |
|---|--|--|
| <i>£000s</i> | | <i>£000s</i> |
| (24,243) | (Decrease)/Increase in cash for the period | 11,463 |
| (18,940) | Cash (inflow)/outflow from (increase)/decrease in debt financing | (179,540) |
| (56,776) | Cash inflow from increase in liquid resources | (17,095) |
| (99,955) | Movement in net debt in the period | (185,172) |
| (501,080) | Net Debt at 1 st April | (601,039) |
| (601,039) | Net Debt at 31st March | (786,211) |

Liquid resources are represented by:

Internally managed liquid resources consisting of sterling deposits not exceeding 364 days with banks, other financial institutions and other Local Authorities. Externally managed investments consist of cash investments with one manager.

Restated 2006/07 - Short-term investment of £50 million has been reclassified as long-term investment.

Note 45. Analysis of Net Debt

| | <i>Balance</i> <i>31st March 2007</i> | <i>Movement</i> <i>In the year</i> | <i>Balance</i> <i>31st March 2008</i> |
|--|--|---------------------------------------|--|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Cash in hand | (23,839) | 11,463 | (12,376) |
| Debt due after one year | (547,243) | (97,725) | (644,968) |
| Debt due within one year | (118,555) | (81,815) | (200,370) |
| Short Term Investments | 88,598 | (17,095) | 71,503 |
| (Increase) / Decrease in Net Debt | (601,039) | (185,172) | (786,211) |

Note 46. Local Area Agreement

The Council is a participant in a Local Area Agreement (LAA) – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA completed the first year of a three-year agreement.

The purpose of the LAA is:

- to form an agreement between the Newham Local Strategic Partnership, Government (represented by Government Office for London) and other external agencies to ensure that together we achieve the vision in the Partnership's Community Strategy
- to agree specific outcomes and targets that will be achieved each year for the three years of the agreement
- to improve the effectiveness and efficiency of public services in Newham by pooling and aligning funding streams

The principal LAA partners are:

- local government bodies – London Borough of Newham
- community protection authorities – Metropolitan Police Authority
- health bodies – Newham Primary Care Trust, Newham University Hospital Trust, East London NHS Foundation Trust
- learning bodies – Learning and Skills Council, University of East London
- voluntary organisations – Newham Voluntary Sector Consortium
- other bodies – Job Centre Plus, East London Business Alliance

London Borough of Newham acts as the accountable body for the LAA. This means that we are responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the Council does not determine which bodies are due payments – this is determined either by the Government Office or the partnership. In this context, the Council acts as an agent to the Partnership and has therefore not recognised the full amount of LAA Grant in its financial statements, but only that part to be spent by the Council in providing services.

The total amount of LAA Grant received by the LSP in 2007/08 is £28.8 million. The Council received £27.9 million of this total to fund its own services. As the accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. The systems in place for distributing grant are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

Note 47. PFI Note To Accounts

Below is a schedule of the PFI schemes the Council has entered into. Schools that are constructed as part of the PFI scheme will transfer back to the Council for nil consideration at the end of the contract. The housing properties within the Canning Town PFI scheme will transfer back to the Council at nil consideration at the end of the contract.

| <i>PFI Schemes</i> | <i>Total Capital Expenditure of Project</i> | <i>Estimated Residual Value of Assets</i> | <i>Current Value of Residual Assets at 31st March 2007</i> | <i>Current Value of Residual Assets at 31st March 2008</i> | <i>Estimated Asset Life</i> |
|---|---|---|--|--|-----------------------------|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>Years</i> |
| Canning Town Housing PFI Scheme Contract Start January 2005 Contract End December 2034 (30 years) Future contributions to 2035/36 - £107 m Reversionary interest value at contract start - £24.9 million Prepayment element of contract valued at £37.4 million | 20,036 | 155,186 | 5,735 | 7,885 | 60 |
| Cumberland School PFI Contract Start July 2003 Contract End June 2028 (25 years) | 23,329 | 32,123 | 1,654 | 2,160 | 60 |
| Joint Schools PFI (Kaizen, Kingsford, Plaistow schools) Contract Start Sept 2002 Contract End Aug 2027 (25 years) | 29,883 | 28,746 | 1,480 | 1,933 | 50 |
| Total | 73,248 | 216,055 | 8,869 | 11,978 | |

The residual value of assets will be reviewed over the life of the contract.

The charge to revenue in the Income and Expenditure Account includes the annual unitary charge for the contract and the PFI grant receivable in respect of the financial year, the balance is held within the PFI reserve account.

PFI Credits - Government grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure. PFI reserve balances are earmarked for use by the PFI schemes and are separate from the General Fund. PFI reserve accounts are for three Education PFI schemes and a Housing scheme.

Future PFI obligations - at 31st March 2008, future contract payments to the Canning Town PFI contractor were estimated to be £107 million. Actual payments will depend on services provided.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for Local Authority housing provision as defined in particular in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure – maintenance, management, capital charges, and how these are met by rents, subsidy and other income.

| 2006/07 | <i>HOUSING REVENUE ACCOUNT</i> | 2007/08 | 2007/08 | |
|-----------------|--|----------|-----------------|------|
| £000s | | £000s | £000s | Note |
| | Income | | | |
| (61,266) | Dwelling Rents | (64,258) | | 1 |
| (2,805) | Non Dwelling Rents | (2,961) | | |
| (4,285) | Leaseholder Service Charges | (5,084) | | |
| (7,328) | Charges for Services and Facilities | (8,251) | | |
| (28,065) | Housing Revenue Account Subsidy receivable | (26,787) | | 2 |
| (108) | Reduction in provision for bad debts | (0) | | |
| (103,857) | Total Income | | (107,341) | |
| | Expenditure | | | |
| 15,389 | Repairs and Maintenance | 14,325 | | |
| 485 | Trading Account Deficit | 0 | | 3 |
| 42,415 | Supervision and Management | 43,264 | | |
| 2,154 | Property Leasing Costs | 2,155 | | |
| 759 | Rent, Rates and Insurance | 718 | | |
| 0 | Subsidy Transfer Limitation to General Fund | 776 | | |
| 257 | Debt Management Expenditure | 369 | | |
| 0 | Increased Provision for Bad or Doubtful Debts | 82 | | |
| | Depreciation and Impairment of Fixed Assets | | | |
| 28,917 | - Dwellings | 30,959 | | 6 |
| 371 | - Other HRA Assets | 2,005 | | 6 |
| 90,747 | Total Expenditure | | 94,653 | |
| (13,110) | Net Cost of HRA Services per Authority Income and Expenditure Account | | (12,688) | |
| 500 | HRA Services Share of Corporate and Democratic Core | 600 | | |
| | HRA Share of other Amounts included in the whole authority | | | |
| 0 | Net Cost of Services but not Allocated to Specific Services | 0 | 600 | |
| (12,610) | Net Cost of HRA Services | | (12,088) | |
| 26,981 | Interest Payable and Similar Charges | 28,067 | | |
| 1,874 | Amortisation of Premiums and Discounts | 2,133 | | |
| (422) | Interest and Investment Income | (410) | 29,790 | |
| 15,823 | (Surplus) or Deficit for the year on HRA Services | | 17,702 | |

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

| 2006/07 | 2007/08 |
|--|----------------|
| £000s | £000s |
| 15,823 | 17,702 |
| (Surplus) / Deficit for the year on the HRA Income and Expenditure Account | |
| Net additional amount required by statute to be debited/ (credited) to the HRA | |
| (12,947) | (18,060) |
| 2,876 | (358) |
| (Increase)/ decrease in the Housing Revenue Account Balance | |
| (8,856) | (5,980) |
| Housing Revenue Account (Surplus) brought forward | |
| (5,980) | (6,338) |
| Housing Revenue Account (Surplus) carried forward | |

Note to the Statement of Movement on the Housing Revenue Account Balance

| 2006/07 | | 2007/08 | |
|--|---|----------|-----------------|
| £000s | | £000s | £000s |
| Items included in the HRA Income and Expenditure Account but excluded from the Movement on HRA balance for the year | | | |
| 0 | Depreciation and Impairment of Fixed Assets | | (1,282) |
| 0 | Net Charges made for Retirement Benefits in accordance with FRS17 | | 0 |
| Items not included in the HRA Income and Expenditure Account but included in the Movement on HRA balance for the year | | | |
| (14,353) | Transfer to/ (from) Major Repairs Reserve | (17,858) | |
| 1,327 | Transfers to/ (from) PFI Reserve | 892 | |
| 79 | HRA Share of Contributions to/ (from) Pension Reserve | 188 | |
| 0 | Voluntary set aside for Debt Repayment | 0 | |
| 0 | Capital Expenditure funded by the HRA | 0 | (16,778) |
| | Net Additional Amount required by statute to be debited or (credited) to the | | (18,060) |
| (12,947) | HRA Balance for the year | | |

Note 1. Dwelling Rents

The total rent income from dwellings was £64.3 million compared to £61.3 million in 2006/07. This reflects the reduction in stock numbers between the years and an additional rent week income during 2007/08. An average of £4.84 a week is charged for services such as care-taking and grounds maintenance. The total amount payable by tenants does not change only the element classed as rent.

Note 2. Housing Subsidy

The Government pays a subsidy to the Housing Revenue Account. Subsidy is based on Government formulae that are used to calculate a number of elements in a notional account.

| 2006/07 | HRA Subsidy Entitlement | 2007/08 |
|-----------------|--------------------------------------|-----------------|
| £000s | | £000s |
| (39,778) | Management and Maintenance Allowance | (38,377) |
| (14,935) | Major Repairs Allowance | (13,824) |
| (32,919) | Capital charges | (33,839) |
| (2,158) | Other reckonable expenditure | (2,158) |
| 63,956 | Notional income from rent | 65,461 |
| 776 | Rent Rebate / Limitation | 0 |
| (2,391) | PFI Subsidy Allowance | (2,391) |
| (335) | Rent Constraint Allowance | (1,244) |
| (19) | Admissible Allowance | 0 |
| (27,803) | Total Subsidy Due For Year | (26,372) |
| (262) | Previous Year Subsidy | (415) |
| (28,065) | Total Subsidy Income | (26,787) |

Note 3. 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. Repairs and Maintenance Division is now part of Newham Homes ALMO.

| 2006/07 | 2007/08 |
|--------------|----------|
| £000s | £000s |
| 0 | 0 |
| (485) | 0 |
| (485) | 0 |

Note 4. Rent Arrears and Provisions

At the end of the year the level of HRA rent arrears was £7.6 million (£8.4 million in 2006/07). During the year bad debts of £0.7m were written out of the accounts. The provision for bad or doubtful debts was £6.6 million at the year-end.

| HRA | 2006/07 | | Rent Arrears at 31 st March | HRA | 2007/08 | |
|--------------|--------------|--------------|--|--------------|--------------|--------------|
| | General Fund | Total | | | General Fund | Total |
| <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| 2,306 | 7,934 | 10,240 | Former Tenants | 3,012 | 8,149 | 11,161 |
| 6,117 | 6,595 | 12,712 | Current Tenants | 4,622 | 6,354 | 10,976 |
| 8,423 | 14,529 | 22,952 | | 7,634 | 14,503 | 22,137 |
| (7,306) | (8,145) | (15,451) | less Provisions | (6,604) | (12,918) | (19,522) |
| 1,117 | 6,384 | 7,501 | Net Arrears | 1,030 | 1,585 | 2,615 |

Note 5. Depreciation

Depreciation for 2007/08 is charged on the Balance Sheet value of assets, based on their estimated useful life. Depreciation for 2007/08 was £30.96 million for dwellings (£28.92 million in 2006/07), £0.72 million for other assets (£0.37 million in 2006/07).

Note 6. Housing Stock

The Council was responsible for the management of an average of 18,545 dwellings during 2007/08 (18,866 in 2006/07). An analysis of Newham's housing stock at 31st March 2008 by age and type (based on Central Government subsidy classifications) is given below.

| No. of Bedrooms | Pre 1919 | 1919-1944 | 1945-1964 | 1965-1974 | 1975-2000 | Total |
|----------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| 1 | 268 | 90 | 1,953 | 2,321 | 1,333 | 5,965 |
| 2 | 312 | 388 | 2,888 | 1,935 | 840 | 6,363 |
| 3 or more | 514 | 710 | 2,413 | 1,187 | 1,285 | 6,109 |
| Total | 1,094 | 1,188 | 7,254 | 5,443 | 3,458 | 18,437 |
| Of which: | | | | | | |
| Low rise flats | 334 | 347 | 1,734 | 1,015 | 751 | 4,181 |
| Medium rise flats | 18 | 147 | 2,841 | 1,482 | 1,040 | 5,528 |
| High rise flats | 0 | 0 | 1,602 | 2,366 | 6 | 3,974 |
| Houses and Bungalows | 742 | 694 | 1,053 | 580 | 1,661 | 4,730 |
| Shared Dwellings | 0 | 0 | 24 | 0 | 0 | 24 |
| Total | 1,094 | 1,188 | 7,254 | 5,443 | 3,458 | 18,437 |

The change in the stock is detailed below:

| 2006/07 | Housing Stock | 2007/08 |
|---------------|---------------------------------------|---------------|
| 19,078 | Dwellings at 1 st April | 18,653 |
| (141) | Right to buy sales | (102) |
| (233) | Demolitions | (95) |
| (79) | Other disposals | (26) |
| 28 | Additions (buy backs) | 7 |
| 18,653 | Total at 31st March | 18,437 |

Note 7. Fixed Assets

| | <i>Intangible</i> | <i>Dwellings</i> | <i>Other Land and Buildings</i> | <i>Equipment, Vehicles etc.</i> | <i>Non-operational Assets</i> | <i>Total</i> |
|---|-------------------|------------------|---------------------------------|---------------------------------|-------------------------------|------------------|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Balance Sheet value 1 st April 2007 | 52 | 1,008,347 | 9,269 | 237 | 32,352 | 1,050,257 |
| Depreciation | (18) | (30,959) | (177) | (210) | (226) | (31,590) |
| Additions/ | 0 | 81,665 | 0 | 0 | 8,226 | 89,891 |
| Impairment | 0 | 0 | 0 | 0 | (1,282) | (1,282) |
| Disposals | 0 | (13,060) | 0 | 0 | 0 | (13,060) |
| Revaluation | 0 | 126,203 | 859 | 0 | 8,221 | 135,283 |
| Balance Sheet value 31st March 2008 | 34 | 1,172,196 | 9,951 | 27 | 47,291 | 1,229,499 |

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' and then reduced to reflect 'existing use for social housing'. The vacant possession value at 31st March 2008 is estimated to be £3.01 million which has been reduced to £1.17 million to reflect social housing use. This social housing use value is included in the Balance Sheet. The reduction of £1.84 million is a measure of the economic cost to Government of providing Council Housing at less than open market rents.

Note 8. Capital Expenditure

Expenditure for capital purposes during 2007/08 and methods of financing are set out below.

| <i>2006/07</i> | | <i>2007/08</i> |
|-----------------|---|-----------------|
| <i>£000s</i> | Expenditure in year | <i>£000s</i> |
| 43,877 | Fixed Assets | 82,677 |
| 1,617 | Deferred charges | 1,566 |
| 45,494 | | 84,243 |
| | Methods of Financing | |
| (12,376) | Major Repairs Reserve | (9,366) |
| (31,769) | SCE (R) | (66,910) |
| (144) | Other Grant contributions | (6,751) |
| (195) | Capital receipts | (765) |
| (511) | Leaseholders Contributions | (673) |
| (499) | Increase / (Reduction) in Capital Creditors | 222 |
| (45,494) | | (84,243) |

Note 9. Capital Receipts

The gross capital receipts from the sale of dwellings, land and other property are as follows. Capital receipts are pooled, with 75% of sale of dwellings (net) proceeds being transferred to Central Government for distribution on Housing schemes. The balance is available to fund additional capital expenditure.

| <i>2006/07</i> | | <i>2007/08</i> |
|----------------|-----------------------|----------------|
| <i>£000s</i> | | <i>£000s</i> |
| 18,211 | Dwellings | 14,596 |
| 629 | Land and other assets | 7,857 |
| 18,840 | Total | 22,453 |

Note 10. Major Repairs Reserve

This reserve is credited with the depreciation charged to the HRA each year, with an adjustment to ensure the net credit in the year equals the Major Repairs Allowance, which forms part of the Housing Subsidy arrangements. The reserve is only available for financing major repairs carried out to the housing stock. Any sums unspent are carried forward to future years.

| 2006/07 | | 2007/08 |
|----------------|---|----------------|
| £000s | | £000s |
| (2,223) | Balance 1 st April | (4,782) |
| (29,288) | Depreciation charge to HRA (from the Capital Finance Account) | (31,682) |
| 14,353 | Adjusting transfer to HRA | 17,858 |
| 12,376 | Financing of Capital expenditure | 9,366 |
| (4,782) | Total | (9,240) |

Note 11. Housing Repairs Reserve

No contribution has been made in 2007/08 from the HRA to the Housing Repairs Reserve. This reserve, current balance £1.45 million, will be used to help maintain the level of repairs to Council houses.

Note 12. Contribution to Pension Reserve

Under the requirements of FRS17, the cost of services within the HRA include only the employers share of pension benefits earned in the year by employees chargeable to the HRA. The additional contribution for past service costs are shown as a contribution to the Pensions Reserve. Details of the Pension Funds and the effect of FRS17 can be found in the Statement of Accounting Policies.

Note 13. Newham Homes

In 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. 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.

Note 14. Canning Town PFI Interest

Transfers to / from PFI reserve includes £151,097 of notional interest relating to Canning Town PFI scheme though included in the 2007/08 accounts, this interest relates to financial year 2006/07.

COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

| 2006/07 | COLLECTION FUND | 2007/08 | Note |
|--------------|--|----------|------------|
| £000s | | £000s | £000s |
| | Income | | |
| (83,939) | Council Tax | (89,575) | |
| (63,946) | Non Domestic Rates | (66,395) | |
| (2,242) | Recovery of previous years' Council Tax surplus | (1,477) | (157,447) |
| (150,127) | | | |
| | Expenditure | | |
| | Precepts and Demands | | |
| 62,348 | Newham | 65,616 | |
| 20,591 | Greater London Authority (GLA) | 21,771 | 87,387 |
| 82,939 | | | |
| | Business Rate | | |
| 63,595 | Payment to National Pool | 65,996 | |
| 349 | Costs of Collection | 347 | |
| 2 | Appropriated credits to Balance Sheet creditors | 52 | 66,395 |
| 63,946 | | | |
| | Provisions for non collection | | |
| 2,000 | Council Tax | | 2,071 |
| (1,242) | (Surplus)/Deficit for the year | | (1,594) |
| 3,411 | (Surplus)/Deficit at 1st April | | 2,169 |
| 2,169 | (Surplus)/Deficit at 31st March | | 575 |
| | (Surplus)/Deficit consists of: | | |
| 752 | Newham's Current year Council Tax (surplus)/deficit | | 88 |
| | Greater London Authority's Current year Council Tax | | 29 |
| 248 | (surplus) / deficit | | |
| 903 | Newham's Previous year Council Tax (surplus)/deficit | | 311 |
| | Greater London Authority's Previous year Council Tax | | |
| 266 | (surplus) / deficit | | 147 |
| 2,169 | (Surplus) / Deficit at 31st March | | 575 |

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 2007/08 were 10,703 (10,560 in 2006/07). This basic amount of Council Tax for a Band D property of £1,219.74 (£1,162.52 in 2006/07) 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;

| <i>Council Tax Band</i> | <i>Proportion of Band D Charge</i> |
|-------------------------|------------------------------------|
| 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 2007/08, of £89.58 million was receivable from the following sources:

| <i>2006/07</i> | | <i>2007/08</i> |
|-----------------|----------------------------|-----------------|
| <i>£000s</i> | | <i>£000s</i> |
| (57,894) | Bills to Council Taxpayers | (62,206) |
| (26,045) | Council Tax Benefits | (27,369) |
| (83,939) | | (89,575) |

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 2007/08 was £194,167,078 as per the District Valuer (£194,814,230 in 2006/07) and the national non-domestic multiplier for the year was 44.4p (43.3p in 2006/07) resulting in notional NNDR income of £86.2 million. The NNDR income for 2007/08 of £66.4 million (£63.9 million in 2006/07) 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 £21.77 million in 2007/08 (£20.59 million in 2006/07).

Note 4. Contributions to/from Collection Fund Deficits/(Surpluses)

| <i>Collection Fund</i> | <i>GLA</i> | <i>Newham</i> |
|---|--------------|---------------|
| | <i>£000s</i> | <i>£000s</i> |
| Deficit 1 st April 2007 | 514 | 1,655 |
| Recovery of Previous Year's Deficit/(Surplus) | (367) | (1,110) |
| Balance Pre 2007/08 | 147 | 545 |
| Deficit/(Surplus) For Current Year | (29) | (88) |
| Deficit 31st March 2008 | 118 | 457 |

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 and Caboodle Solutions Limited, a joint venture.

GROUP INCOME AND EXPENDITURE ACCOUNT

| 2006/07 | <i>GROUP INCOME AND EXPENDITURE ACCOUNT</i> | 2007/08 | 2007/08 | 2007/08 | Note |
|------------------|--|--------------------|---------------------|------------------|--------|
| <i>Net Spend</i> | | <i>Gross Spend</i> | <i>Gross Income</i> | <i>Net Spend</i> | |
| <i>£000s</i> | SERVICES | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | |
| 12,503 | Central Services to the Public | 92,966 | (79,467) | 13,499 | |
| 10,908 | Corporate and Democratic Core | 7,768 | (806) | 6,962 | |
| 178 | Court and Probation Services | 180 | 0 | 180 | |
| 54,093 | Cultural, Environmental and Planning Services | 103,820 | (47,104) | 56,716 | |
| 90,203 | Education Services | 409,275 | (339,557) | 69,718 | |
| 13,839 | Highways, Roads and Transport Services | 26,464 | (14,317) | 12,147 | |
| (8,818) | Local Authority Housing (HRA) | 97,741 | (106,984) | (9,243) | |
| 5,403 | Housing Services | 435,165 | (418,349) | 16,816 | |
| 69,427 | Social Services | 96,346 | (25,376) | 70,970 | |
| 568 | Non Distributed Costs | 6,744 | 0 | 6,744 | |
| 248,304 | NET COST OF SERVICES | 1,276,469 | (1,031,960) | 244,509 | |
| | Gains or Loss on disposal of Fixed Assets | | | 0 | |
| 21 | Net (Surplus)/Deficit on Trading Accounts | | | (401) | |
| (71) | Reporting Authority Share of Surplus on Joint Ventures | | | 50 | |
| 42,869 | Interest Payable and Similar Charges | | | 45,376 | |
| 12,457 | Contribution to Housing Pooled Capital Receipts | | | 8,800 | |
| 489 | Levies | | | 562 | 9 LBN |
| 11,221 | Pension Interest Cost / Expected Asset Returns | | | 9,034 | 13 LBN |
| (9,325) | Interest Receipts | | | (10,413) | |
| 0 | (Gains) & Losses On Repurchase/Early Settlement of Borrowing | | | (130) | |
| 305,965 | NET OPERATING EXPENDITURE | | | 297,387 | |
| | AMOUNT TO BE MET FROM GRANT AND LOCAL TAXES | | | | |
| (62,348) | Demand On The Collection Fund | | | (65,616) | |
| 1,729 | Contribution to Collection Fund Deficit | | | 1,110 | |
| (30,349) | Revenue Support Grant | | | (28,032) | |
| (1,017) | LABGI Income | | | (1,665) | |
| (157,221) | Distribution From The NNDR Pool | | | (167,035) | |
| 56,759 | NET(SURPLUS)/DEFICIT FOR THE YEAR | | | 36,149 | |

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

| 2006/07 | <i>Reconciliation of Newham's Deficit to Group Deficit</i> | 2007/08 |
|---------------|--|---------------|
| <i>£000s</i> | | <i>£000s</i> |
| 56,830 | (Surplus) / deficit for the year on the Income and Expenditure Account | 36,099 |
| 0 | Add Joint Venture Dividend Income (Caboodle) | 0 |
| 56,830 | Surplus in the Group Income and Expenditure Account attributable to the authority | 36,099 |
| | (Surplus) / deficit in the Group Income and Expenditure Account attributable to group entities (adjusted for intra-group transactions): | |
| 0 | Subsidiaries | 0 |
| (71) | Joint ventures | 50 |
| 56,759 | (Surplus) / deficit for the year on the Group Income and Expenditure Account | 36,149 |

**GROUP STATEMENT
OF TOTAL RECOGNISED GAINS AND LOSSES**

| <i>2006/07</i> <i>£000s</i> | <i>STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES</i> | <i>2007/08</i> <i>£000s</i> |
|--------------------------------|---|--------------------------------|
| 56,759 | (Surplus) / Deficit for the year on the Income and Expenditure Account | 36,149 |
| (177,161) | (Surplus) / Deficit arising on revaluation of Fixed Assets | (201,737) |
| 0 | (Surplus)/Deficit arising on revaluation of available-for-sale financial assets and Financial Instruments | 10,100 |
| (110,798) | Actuarial (gains)/losses on Pension Fund assets and liabilities | 105,463 |
| (977) | Collection Fund | (1,256) |
| (645) | Newham Homes Reserve movement | 1,155 |
| 0 | Any other gains and losses required to be included in the STRGL | (957) |
| (232,822) | Total recognised gains for the year | (51,083) |

Note: Reconciliation of items for the Group Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in the value of assets and liability.

| <i>Balance Sheet</i> | <i>Balance Sheet</i> | <i>Movement In Year</i> | <i>FAA & Available for sale</i> | <i>Unrealised Gains/Losses</i> | <i>Revaluation</i> | <i>Disposal</i> | <i>Transfer & Other Capital Expenditure</i> | <i>Movement between Capital and Revenue</i> |
|--------------------------------|--|--------------------------------|-------------------------------------|--------------------------------|--------------------|------------------|---|---|
| <i>2006/07</i> <i>£000s</i> | <i>2007/08</i> <i>£000s</i> | <i>2007/08</i> <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| 1,045,612 | Fixed Asset Restatement Account | 0 | 1,045,612 | 0 | 0 | 0 | 1,045,612 | 0 |
| 0 | Revaluation Reserve | 188,879 | (188,879) | 0 | 0 | (191,205) | 2,300 | 26 |
| 180,972 | Capital Financing Account | 0 | 180,972 | 0 | 0 | 0 | 180,972 | 0 |
| 0 | Capital Adjustment Account | 1,181,520 | (1,181,520) | 0 | 0 | 0 | 13,060 | 56,956 |
| 0 | Usable Capital Receipts | 15,784 | (15,784) | 0 | 0 | 0 | (25,893) | 8800 |
| 4,782 | Major Repairs Reserve | 9,240 | (4,458) | 0 | 0 | 0 | 0 | (31,682) |
| 0 | Financial Instrument Adj Account | (14,541) | 14,541 | 10,089 | 0 | 0 | 0 | (53) |
| 0 | Available For Sale Financial Instruments Reserve | (11) | 11 | 11 | 0 | 0 | 0 | 0 |
| 62,706 | Revenue Reserve | 70,128 | (7,422) | 0 | 0 | 0 | 0 | 1,620 |
| (323,280) | Pension Reserve | (429,175) | 105,895 | 0 | 105,463 | 0 | 0 | 432 |
| (1,655) | Collection Fund Account | (399) | (1,256) | 0 | (1,256) | 0 | 0 | 0 |
| 955 | Group Companies General Reserves | (250) | 1,205 | 0 | 1,155 | 0 | 0 | 50 |
| 970,092 | Total | 1,021,175 | (51,083) | 10,100 | 105,362 | (191,205) | (10,533) | 36,149 |

GROUP BALANCE SHEET

| 2006/07 | Group Balance Sheet at 31 st March | 2007/08 | Notes |
|------------------|--|-----------|------------------|
| £000s | | £000s | |
| | FIXED ASSETS | | |
| | Intangible Fixed Assets | | |
| 1,686 | Intangible Fixed Assets | 1,529 | |
| | Tangible Fixed Assets | | |
| | Operational Assets | | |
| 1,008,347 | Council Dwellings | 1,172,196 | |
| 758,688 | Other Land and Buildings | 887,117 | |
| 104,087 | Infrastructure Assets | 108,349 | |
| 20,870 | Community Assets | 21,655 | |
| 10,131 | Equipment, Vehicles etc | 11,320 | 2,202,166 |
| | Non Operational Assets | | |
| 107,461 | Industrial and Commercial | 110,664 | |
| 35,244 | Surplus Properties | 52,384 | |
| 301 | Assets under Construction | 1,860 | 164,908 |
| 2,046,815 | Net Fixed Assets | | 2,367,074 |
| | Investment In Joint Venture | | |
| 389 | - Share of Gross Assets | 347 | |
| (98) | - Share of Gross Liabilities | (105) | 242 |
| 50,000 | Long Term Investments | | 88,200 |
| 68,692 | Long Term Debtors and Prepayments | | 69,950 |
| 2,165,798 | Total Long Term Assets | | 2,525,466 |
| | CURRENT ASSETS | | |
| 2,046 | Stocks and Work in Progress | 1,836 | 8 |
| 132,585 | Debtors and Prepayments | 124,719 | 6 |
| (44,810) | Less Provisions | (41,316) | 32 LBN |
| 88,598 | Investments | 60,741 | 30a LBN |
| 18,241 | Cash and Bank | 18,414 | 164,394 |
| | CURRENT LIABILITIES | | |
| (118,555) | Borrowing Repayable on Demand or Within 12 months | (199,411) | |
| (100,545) | Creditors and Receipts in Advance | (79,933) | 7 |
| (41,411) | Bank Overdraft | (31,219) | (310,563) |
| (63,851) | Net Current Assets | | (146,169) |
| 2,101,947 | Total Assets less Current Liabilities | | 2,379,297 |
| | OTHER LIABILITIES | | |
| (547,243) | Borrowing Repayable Within a Period in Excess of 12 months | (656,771) | 30a LBN |
| (229,933) | Government Grants Deferred | (255,504) | |
| (2,587) | Deferred Premia | 0 | |
| (467) | Deferred Capital Receipts | (467) | |
| (28,345) | Provisions | (16,205) | 35 LBN |
| (323,280) | Liability Related to Defined Benefit Pension Scheme | (429,175) | (1,358,122) |
| 970,092 | Total Assets less Total Liabilities | | 1,021,175 |

| <i>2006/07</i> | <i>Group Balance Sheet at 31st March Reserves</i> | <i>2007/08</i> | <i>Notes</i> |
|----------------|--|------------------|--------------|
| | Financed by: | | |
| 1,045,612 | Fixed Asset Restatement Account | 0 | LBN 24 |
| 180,972 | Capital Financing Account | 0 | LBN 25 |
| 0 | Capital Adjustment Account | 1,181,520 | LBN 26 |
| 0 | Financial Instrument Adjustment Account | (14,541) | |
| 0 | Revaluation Reserve | 188,879 | LBN 27 |
| 0 | Available For Sale Financial Instrument Reserve | (11) | LBN 30a |
| (323,280) | Pension Reserve | (429,175) | |
| 0 | Usable Capital Receipts | 15,784 | |
| 4,782 | Major Repairs Reserve | 9,240 | |
| 62,706 | Revenue Reserves | 70,128 | |
| 955 | Group Companies General Reserves | (250) | |
| (1,655) | Collection Fund | (399) | |
| 970,092 | | 1,021,175 | |

GROUP CASH FLOW STATEMENT

| <i>Group</i> 2006/07 | | <i>Group</i> 2007/08 | <i>Notes</i> |
|-------------------------|---|-------------------------|--------------|
| £000s | Revenue Activities | £000s | |
| | Cash Outflows | | |
| 437,587 | Cash Paid to and on behalf of Employees | 490,276 | |
| 495,716 | Other Operating Cash Payments | 523,660 | |
| 108,965 | Housing Benefit Paid Out | 117,143 | |
| 63,944 | Non-Domestic Rates Paid to National Pool | 66,343 | |
| 22,833 | Precepts Paid | 20,294 | |
| | Cash Inflows | | |
| (38,133) | Rents (after rebates) | (42,761) | |
| (55,022) | Council Tax receipts | (59,672) | |
| (62,555) | Non Domestic Rate receipts - from ratepayers | (66,905) | |
| (155,958) | Non Domestic Rate receipts - from pool | (168,219) | |
| (29,279) | Revenue Support Grant | (28,032) | |
| (257,697) | DSS grants for Benefits | (245,754) | |
| (215,382) | Dedicated Schools Grant | (232,873) | |
| (152,781) | Other Government Grants | (187,084) | 2 |
| (170,051) | Cash Received from Goods and Services | (168,560) | |
| (30,148) | Other Operating Cash Receipts | (33,051) | |
| (37,961) | Cash Inflow from Revenue Activities | (15,195) | 1 |
| | Dividends from Joint Ventures | | |
| | Cash Inflows | | |
| 0 | Dividends Received | 0 | |
| | Cash Outflows | | |
| 42,686 | Interest Paid | 46,487 | |
| 42,686 | | 46,487 | |
| | Cash Inflows | | |
| (7,165) | Interest Received | (8,144) | |
| (7,165) | | (8,144) | |
| | Capital Activities | | |
| | Cash Outflows | | |
| 102,722 | Purchase of Fixed Assets | 226,681 | |
| 50,000 | Purchase of Long Term Investments | 23,200 | |
| 12,457 | Contribution to Housing Pooled Receipts | 8,800 | |
| 1,203 | Payment of Improvement Grants | 1,241 | |
| 166,382 | | 259,922 | |
| | Cash Inflows | | |
| (20,365) | Sales of Fixed Assets | (25,874) | |
| (52,274) | Capital Grants Received | (70,905) | |
| (31) | Other Capital Cash Receipts | (19) | |
| (72,670) | | (96,798) | |
| 91,272 | Net Cash (Inflow) before Financing | 186,272 | 3 |
| | Management of Liquid Resources | | |
| (56,772) | Net increase/(decrease) in Short Term Deposits | (17,095) | |
| | Net Increase/(Decrease) in Other Liquid Resources | | |
| | Financing | | |
| | Cash Outflows | | |
| 7,160 | Repayments of Amounts Borrowed | 190,913 | |
| | Cash Inflows | | |
| (19,000) | New Loans Raised | (288,638) | |
| (7,100) | New Short Term Loans | (81,815) | |
| (18,940) | | (179,540) | |
| 15,560 | (Increase)/Decrease in Cash | (10,363) | 3 |

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 Income & Expenditure Account. Its assets and liabilities are shown on the face of the Group Balance Sheet.

Caboodle Solutions Limited is accounted for as a joint venture (the Council owns 49%). The Council's share of the income and expenditure and of assets and liabilities is included within the Group Statements. Caboodle has discontinued operations; its assets will be distributed to the owners.

Note 2. Reconciliation of Net Revenue Surplus to Cash Inflow from Revenue Activities

| <i>Group</i> 2006/07 | | <i>2007/08</i> | <i>Group</i> 2007/08 |
|--|--|----------------|-------------------------|
| <i>£000s</i> | | <i>£000s</i> | <i>£000s</i> |
| Revenue (Surplus)/Deficit for year: | | | |
| 65,700 | Net Surplus / (Deficit) on Income & Expenditure Account | | 36,149 |
| (63,874) | Net Additional Amounts required by statute and non-statutory proper practices to be debited or credited to General Fund for the year | | (16,847) |
| 2,876 | Housing Revenue Account | | (358) |
| (977) | Collection Fund deficit | | (1,594) |
| 3,725 | | | 17,350 |
| Remove Expenditure not resulting in a cash movement | | | |
| (8,375) | Provision for loan repayments etc. | (8,817) | |
| 2,364 | Gains & Losses From Early Settlement of Debt | 8,766 | |
| (17,501) | Provisions set aside in the year from revenue | 15,635 | |
| 38,935 | Contributions (to)/from Reserves | (10,823) | |
| 15,423 | | | 4,761 |
| (761) | Change in Stocks/Work in Progress | | (210) |
| 0 | Change in Other Balances | | 0 |
| 0 | Movement on Creditors interest due on loans | | (13,046) |
| 10,756 | Other Adjustments | | 910 |
| 9,995 | | | (12,346) |
| (8) | (Reduction)/Increase in Debtors | 581 | |
| 12,137 | Reduction/(Increase) in Creditors | 12,802 | |
| 12,129 | | | 13,383 |
| Add | | | |
| (79,233) | Financing Items shown later in the Cash Flow Statement | | (38,343) |
| (37,961) | Cash Inflow from Revenue Activities | | (15,195) |

Note 3. Reconciliation of Net Cash Flow to Movement in Net Debt

| <i>Balance</i> 31st March 2007 | | <i>Balance</i> 31st March 2007 |
|-----------------------------------|--|--------------------------------------|
| <i>£000s</i> | | <i>£000s</i> |
| (15,559) | (Decrease)/Increase in cash for the period | 10,365 |
| (18,940) | Cash (inflow)/outflow from (increase)/decrease in debt financing | (179,540) |

| | | |
|------------------|---|------------------|
| (56,776) | Cash inflow from increase in liquid resources | (17,095) |
| (91,275) | Movement in net debt in the period | (186,270) |
| (509,095) | Net Debt at 1 st April | (600,370) |
| (600,370) | Net Debt at 31st March | (786,640) |

Liquid resources are represented by:

Internally managed liquid resources consisting of sterling deposits not exceeding 364 days with banks, other financial institutions and other Local Authorities.

Externally managed investments consist of cash investments with one manager.

Note 4. Analysis of Net Debt

| <i>Group Net Debt</i> | <i>Balance 31st March 2007</i> | <i>Movement In the year</i> | <i>Balance 31st March 2008</i> |
|--|------------------------------------|---------------------------------|------------------------------------|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Cash in hand | (23,170) | 10,365 | (12,805) |
| Debt due after one year | (547,243) | (97,725) | (644,968) |
| Debt due within one year | (118,555) | (81,815) | (200,370) |
| Short Term Investments | 88,598 | (17,095) | 71,503 |
| (Increase) / Decrease in Net Debt | (600,370) | (186,270) | (786,640) |

Other notes for the Group Cash Flow Statement are within notes 42 to 43 (Page 55) of the Council's Accounts.

Note 5. Movement in Group Reserves

| <i>Group Reserves</i> | <i>Balance At 1st April 2007</i> | <i>Movement In Year</i> | <i>Balance At 31st March 2008</i> |
|-----------------------------|--|-----------------------------|---|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Caboodle - Joint Venture | 310 | (50) | 260 |
| Newham Homes - Subsidiary | 645 | (1,155) | (510) |
| Total Group Reserves | 955 | (1,205) | (250) |

Note 6. Analysis of Debtors and Doubtful Debts

In addition to the figures in Note 32 (Page 49), the Group accounts includes a total of £363,000 debtors and prepayments at year ending 31st March 2008, all of which were external to the group (£1.68 million at 31st March 2007).

Note 7. Analysis of Creditors

In addition to the figures in Note 33 (Page 50), the Group accounts includes a total of £1.28 million creditors at year ending 31st March 2008 (£2.39 million at 31st March 2007).

Note 8. Stocks and Work in Progress

| <i>Council 31st March 2007</i> | <i>Newham Homes 31st March 2007</i> | <i>Restated Group 31st March 2007</i> | | <i>Council 31st March 2008</i> | <i>Newham Homes 31st March 2008</i> | <i>Group 31st March 2008</i> |
|--|---|---|------------------|--|---|--------------------------------------|
| <i>£000s</i> | | | | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| 1,025 | 253 | 1,278 | Stocks | 1,296 | 280 | 1,576 |
| 311 | 457 | 768 | Work in Progress | 48 | 212 | 260 |
| 1,336 | 710 | 2,046 | Total | 1,344 | 492 | 1,836 |

PENSION FUND

| 2006/07 | FUND ACCOUNT | 2007/08 |
|----------------|---|------------------|
| £000s | | £000s £000s |
| | Contributions Receivable: | |
| 9,120 | Contributions from Employees (note 1) | 9,908 |
| 35,318 | Contributions from Employers (note 1) | 39,975 |
| 6,781 | Transfer Values in | <u>6,215</u> |
| | Benefits Payable: | |
| (21,568) | Pensions Payable | (22,873) |
| (4,140) | Lump Sum Benefits Payable | <u>(6,621)</u> |
| | Payments to and on account of leavers: | |
| (15) | Refunds of Contributions | (11) |
| (5,731) | Transfer Values Out | <u>(4,085)</u> |
| | | (4,096) |
| | Administration and Other Expenses Borne By The Scheme: | |
| (591) | Administration & other expenses borne by the scheme | (941) |
| 19,174 | Net Additions From Dealing With Members | 21,567 |
| | Return on Investments: | |
| 10,359 | Investment Income | 9,140 |
| | Changes in Market Value of Investments: | |
| 14,991 | Realised Gains and Losses on Investments Sold | 57,399 |
| 23,641 | Unrealised/Other Changes in Market Value | <u>(80,692)</u> |
| (1,626) | Investment Management Expenses | (3,385) |
| 8 | Other Expenses (tax borne by Fund) | <u>(476)</u> |
| 47,373 | Net Returns On Investments | (18,014) |
| 66,547 | Net increase /(decrease) in the fund during the year | 3,553 |
| 552,033 | Opening Net Assets of the scheme | 618,580 |
| 618,580 | Closing Net Assets of the scheme | 622,133 |
| 2006/07 | NET ASSETS STATEMENT | 2007/08 |
| | Investment Assets | |
| | Represented by: | |
| | Investments at Market Value: | |
| 41,895 | Fixed Interest Securities | 69,481 |
| 436,973 | Equities - Quoted | 407,415 |
| 10,431 | Alternative Investments | 19,092 |
| 22,932 | Index Linked Securities | 12,960 |
| 82,563 | Freehold and Leasehold Property | 78,181 |
| 6,115 | Cash and Other Investments | 29,953 |
| 826 | Debtors and Prepayments | <u>372</u> |
| 601,735 | | 617,454 |
| | Current Assets: | |
| 382 | Debtors and Prepayments | 180 |
| 16,853 | Cash and Bank Balances | <u>5,069</u> |
| 17,235 | | 5,249 |
| | Current Liabilities: | |
| (390) | Creditors | <u>(570)</u> |
| 618,580 | Fund Balance at 31st March | 622,133 |

NOTES TO THE PENSION FUND

Note 1. Fund Operation and Membership

The Pension Fund provides pensions and other benefits for former, non-teaching employees of the Council (teachers are covered by a separate Pension Fund). It is a statutory Defined Benefit scheme operated under the Local Government Pension Scheme Regulations 1997 (as amended). 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:

| | At 31 st March 2007 | At 31 st March 2008 |
|----------------------|--------------------------------|--------------------------------|
| Contributing Members | 7,184 | 6,781 |
| Current Pensioners | 5,695 | 5,713 |
| Deferred Pensioners | 4,016 | 4,820 |
| Undecided Members | 69 | 11 |

Deferred pensioners includes 1,557 of frozen members at 31st March 2008 (1,517 at 31st March 2007).

Benefits are financed by contributions from employees, Scheme employers, and by income from investments. The employee's basic contribution is 6% of pensionable pay for Officers and Manual Workers. The Employers contribution for 2007/08, paid by the Council, was 24.2% of pensionable pay.

In addition to the Council, there are four scheduled bodies participating in the scheme: Newham Sixth Form College (NewVIc), Newham College, Stratford School and Newham Homes, and four admitted bodies Greenwich Leisure, Carpenters TMO, FM Conway and Community Links.

| Participating Body | Contribution Rate | Employee's Contributions | | Employer's Contributions | |
|-------------------------------------|-------------------|--------------------------|--------------|--------------------------|---------------|
| | | 2006/07 | 2007/08 | 2006/07 | 2007/08 |
| | | £000s | £000s | £000s | £000s |
| LB Newham | 24.2% | 8,071 | 8,778 | 31,120 | 35,691 |
| Stratford School | 24.2% | 21 | 26 | 82 | 106 |
| NewVIc | 12.5% | 83 | 86 | 172 | 179 |
| Newham College of Further Education | 24.2% | 276 | 306 | 1,048 | 1,191 |
| Newham Homes | 24.2% | 613 | 660 | 2,763 | 2,688 |
| Carpenters TMO | 13.0% | 13 | 12 | 35 | 32 |
| Greenwich Leisure | 13.0% | 30 | 27 | 64 | 57 |
| FM Conway | 17.6% | 5 | 5 | 15 | 15 |
| Community Links | 13.8% | 8 | 8 | 19 | 16 |
| TOTAL | | 9,120 | 9,908 | 35,318 | 39,975 |

The Council administers the Fund's investments. Specialist Fund Managers – Alliance Bernstein, Axa Rosenberg, Legal & General (L&G), Aberdeen Asset Management (AAM), Rreef Ltd, Record Currency Management, JP Morgan – have been appointed to invest the majority of the Fund. In addition, a small proportion of the Fund is held in venture capital. The Fund does not form part of the Council's consolidated accounts.

Note 2. Fund Managers' Holdings

The majority of the Fund is represented by investments. The statement below shows the market value of each type of investment held by the individual Fund Managers in £000s as at 31st March 2008.

| Investment | Alliance Bernstein | Axa Rosenberg | Legal & General | AAM | Rreef | Others | Total |
|---------------------------------|--------------------|---------------|-----------------|---------------|---------------|---------------|----------------|
| Fixed Interest (UK) | 0 | 0 | 11,897 | 0 | 0 | 0 | 11,897 |
| Fixed Interest (Overseas) | 0 | 0 | 2,869 | 54,715 | 0 | 0 | 57,584 |
| Index Linked - UK | 0 | 0 | 12,960 | 0 | 0 | 0 | 12,960 |
| UK Equities - Quoted | 6,405 | 23,435 | 93,523 | 0 | 0 | 0 | 123,363 |
| Overseas Equities - Quoted | 66,373 | 63,532 | 154,147 | 0 | 0 | 0 | 284,052 |
| Alternative Investments | 0 | 0 | 0 | 0 | 0 | 18,985 | 18,985 |
| Unit Trusts - Property | 0 | 0 | 0 | 0 | 78,181 | 0 | 78,181 |
| Currency | 0 | 0 | 0 | 0 | 0 | 25,473 | 25,473 |
| Cash & Liquid Assets (UK) | 2,285 | 708 | 0 | (4) | 1,478 | 13 | 4,480 |
| Debtors | 215 | 157 | 0 | 0 | 0 | 0 | 372 |
| TOTAL HOLDING | 75,278 | 87,832 | 275,396 | 54,711 | 79,659 | 44,471 | 617,347 |
| <i>As a percentage of total</i> | <i>12.19</i> | <i>14.23</i> | <i>44.61</i> | <i>8.86</i> | <i>12.90</i> | <i>7.21</i> | <i>100.00</i> |

The 31st March 2007 investment market values were as follows (in £000s):

| <i>Investment</i> | <i>Capital</i> | <i>Legal & General</i> | <i>AAM</i> | <i>Rreef</i> | <i>Internally Managed</i> | <i>Total</i> |
|---------------------------------|----------------|----------------------------|---------------|---------------|---------------------------|----------------|
| Fixed Interest (UK) | 4,617 | 9,192 | 25,564 | 0 | 0 | 39,373 |
| Fixed Interest (Overseas) | 456 | 2,066 | 0 | 0 | 0 | 2,522 |
| Index Linked - UK | 5,553 | 12,561 | 4,818 | 0 | 0 | 22,932 |
| UK Equities - Quoted | 74,716 | 148,522 | 0 | 0 | 0 | 223,238 |
| Overseas Equities - Quoted | 91,243 | 122,492 | 0 | 0 | 0 | 213,735 |
| Alternative Investments | 0 | 0 | 0 | 0 | 10,431 | 10,431 |
| Freehold Property | 0 | 0 | 0 | 0 | 0 | 0 |
| Unit Trusts - Property | 0 | 0 | 0 | 82,563 | 0 | 82,563 |
| Cash & Liquid Assets (UK) | 4,569 | 2 | 32 | 1,512 | 0 | 6,115 |
| Debtors | 818 | 0 | 0 | 8 | 0 | 826 |
| TOTAL HOLDING | 181,972 | 294,835 | 30,414 | 84,083 | 10,431 | 601,735 |
| <i>As a percentage of total</i> | 30.24 | 49.00 | 5.06 | 13.97 | 1.73 | 100.00 |

Note 3. Actuarial Position

The level of contribution payable by the Council to the Fund during 2006/07 was based on the actuarial valuation as at 31st March 2004. This valuation sets the contribution rates for the three years commencing 1st April 2005.

The market value of the Fund's assets at March 2004 was £377 million, compared to liabilities of £620 million, representing 61% of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions used in 2004 are shown in the following table:

| Assumptions | 2004 Valuation | 2007 Valuation |
|---|--|--|
| Rate of Return on Investments | 6.7% Equities / 4.9% Bonds | 6% Equities |
| Rate of general pay increases | 4.4% per annum | 4.9% per annum |
| Rate of increase to pensions in payment (in excess of GMPs) | 2.9% per annum | 3.1% per annum |
| Valuation of Assets | Market value based on average values of assets in the 12 months prior to 31st March 2004 | Market value based on average values of assets in the 12 months prior to 31st March 2007 |

The 2004 valuation set the required rate of contributions by the Council for 2006-07 at 23% 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.

The employers' contribution rate will reduce to 22.7% by 2008/09 following the 2007 valuation.

Note 4. Accounting Policies

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

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 latest mid market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market.
- Foreign currency is translated to sterling at the closing mid-market rate on the 31st March 2008.
- Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.
- Unquoted securities are valued by the fund managers at the end of the year in accordance with generally accepted guidelines - in accordance with the managers' own valuation of the underlying securities or, where appropriate, at cost.
- 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.

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 net of any withholding tax where this cannot be recovered.
- 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.

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).

There were no related party transactions in 2007/08.

Note 6. Additional Information

Further analysis, supporting the information in the accounts is detailed below.

| <i>Administration and Investment Management Costs</i> | <i>2006/07</i> | <i>2007/08</i> |
|---|----------------|----------------|
| | <i>£000s</i> | <i>£000s</i> |
| <i>Scheme Administration.</i> | | |
| Officers' salaries and related costs. | 573 | 663 |
| Direct running costs | 18 | 45 |
| Tax paid to HMRC | 0 | 233 |
| Administration & other expenses borne by fund | 591 | 941 |
| Fund Management Expenses | 1,626 | 3,385 |
| | 2,217 | 4,326 |
| <i>Investment Income</i> | | |
| Interest | 2,256 | 241 |
| Dividends | 5,504 | 5,773 |
| Rents | 1,836 | 2,632 |
| <i>Sub total</i> | 9,596 | 8,646 |
| Bank Interest | 763 | 494 |
| <i>Total</i> | 10,359 | 9,140 |

Tax paid to HMRC reflects tax deducted on interest paid on pension payments.

Analysis of Purchases and Sales of Investments during 2007/08

| <i>Investment</i> | <i>At 1st April 2007</i> | <i>Purchases</i> | <i>Sales</i> | <i>At 31st March 2008</i> |
|----------------------------|---|------------------|----------------|--|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Fixed Interest - UK | 40,588 | 8,199 | 39,209 | 9,578 |
| Fixed Interest - Overseas | 2,325 | 54,373 | 1,350 | 55,348 |
| Index Linked - UK | 20,126 | 5,817 | 16,793 | 9,150 |
| UK Equities - Quoted | 176,952 | 97,272 | 189,466 | 84,758 |
| Overseas Equities - Quoted | 173,483 | 405,042 | 273,909 | 304,616 |
| Equities - Unquoted | 10,430 | 9,791 | 1,130 | 19,091 |
| Property Trust | 61,763 | 59,597 | 49,735 | 71,625 |
| Currency | 0 | 30,000 | 0 | 30,000 |
| UK Cash | 6,117 | 2,999 | 4,635 | 4,481 |
| Total | 491,784 | 673,090 | 576,227 | 588,647 |

Analysis of Gains and Losses on Investments during 2007/08

| <i>Investment</i> | <i>Profits</i> | <i>Losses</i> | <i>Net Profit</i> |
|----------------------------|----------------|-----------------|-------------------|
| | <i>£000s</i> | <i>£000s</i> | <i>£000s</i> |
| Fixed Interest - UK | 43 | (3,049) | (3,006) |
| Fixed Interest - Overseas | 2 | (49) | (47) |
| Index Linked - UK | 1,287 | (25) | 1,262 |
| UK Equities - Quoted | 34,986 | (5,283) | 29,703 |
| Overseas Equities - Quoted | 40,735 | (15,418) | 25,317 |
| Equities - Unquoted | 1,232 | (0) | 1,232 |
| Property Trust | 3,909 | (0) | 3,909 |
| Currency | 1,000 | (1,971) | (971) |
| Total | 83,194 | (25,795) | 57,399 |

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 31st 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, then the CIPFA Statements of Recommended Practice (SORP). If guidance is not set out within these, then professional Financial Reporting Standards (FRS).

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 final amount spent against a particular budget or by a service for the year. Also referred to as the out-turn.

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

Central government revenue support. It comprises revenue support grant (RSG), National Non-Domestic Rates (NNDR) (in the case of net AEF). It also includes certain specific grants (in the case of gross AEF).

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 new 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

Arms Length Management Organisations (ALMOs)

An ALMO is a not-for-profit housing management company that is wholly owned and controlled by a Local Authority. The aims of an arms length management organisation is to ensure that Councils invest their housing resources efficiently, economically and strategically to provide decent homes for tenants.

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.

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 on 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

Capital Adjustment Account (CAA)

This account records the consumption of historic 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

These are charges made to service revenue accounts, and represent the actual annual depreciation charged on capital assets used by each service.

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 CFR is the total amount of the capital programme that requires funding from borrowing or capital receipts.

Capital Grants

Monies received by service areas from Government and other statutory bodies towards the Council's capital expenditure. The main sources include the Department for Children, Schools and Families, East London Renewal Partnership, Greater London Assembly and Transport for London (TfL) monies.

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 Fixed Assets.

Capital Programme

This comprises schemes approved by the Council to provide ongoing benefits to the community.

Capital Receipts

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

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

Child and Adolescent Mental Health Services (CAMHS)

A comprehensive range of services available within local communities, towns or cities, which provide help and treatment to children and young people who are experiencing

emotional or behavioural difficulties, or mental health problems, disorders and illnesses.

Children's Fund

Part of the Government's strategy to tackle child poverty and social exclusion. This primarily targets 5-13 year olds at risk of social exclusion. The objective of the fund is to provide additional resources over and above mainstream statutory, specific programmes and specific earmarked funding streams.

CIPFA

Is 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.

Comprehensive Performance Assessment (CPA)

CPA is a key element of the Government's performance framework for Local Government. It looks at how well the Council delivers services.

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.

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.

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 31st March for goods received or services rendered but not yet paid for.

Dedicated Schools Grant (DSG)\Dedicated Schools Budget (DSB)

The Dedicated Schools Grant (DSG) is a specific grant which must be used in support of defined activities in the Dedicated Schools Budget (DSB) DSG is notified over a multi-year funding period, initially 2006-08 with the expectation of funding periods in line with the Comprehensive Spending Review period thereafter. The grant is geared to pupil numbers. The DSBs 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 31st March.

Deferred Charges

Expenditure of a capital nature for which there is no tangible asset (e.g. improvement grants).

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.

Department for Communities and Local Government (DCLG)

Created on 5th May 2006, with a powerful remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and Local Government.

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 p.a. Depreciation is the 'capital charge' made to service Revenue Accounts.

Disposals

Sale of Council assets - see Capital Receipts.

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 & Dagenham, Havering, Newham and Redbridge.

Education Action Zone (EAZ)

Education Action Zones allow local partnerships to develop new and imaginative approaches to raising standards in disadvantaged urban and rural areas. Each EAZ includes a cluster of two or three secondary schools with their supporting primaries working in partnership with LEAs, parents, business and other representatives from the local community.

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 review Council reporting and activities in relation to:

- Commenting on if the accounts are 'presented fairly'
- Good corporate governance
- Best Value Performance Plans
- 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.

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.

Gershon Efficiencies

Central government commissioned Sir Peter Gershon to review and assess how the public sector could exploit opportunities for efficiency gains, so that resources could be released for front-line public service delivery. As a result, all Councils have been set a year on year efficiency target by the government of 2.5% a year, until 2007/08. The scoring system used to establish Council's CPA ratings takes account of Gershon efficiency gains actually achieved.

Greater London Authority (GLA)

A Strategic Authority for London, created on 1 July 2000. (see preceptor).

Historic 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 historic cost. However, other items tend to lose their value over time. This is known as depreciation. Generally speaking, Council assets are now shown at net realisable value (open market value).

Housing Benefit

Rent rebates to Council tenants and rent allowances to private sector tenants.

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.

Interest on Cash Balances

The interest earned on cash flow investment balances.

Investments

The investment of surplus cash by the authority is governed by DCLG Investment Guidance. Before the start of each financial year, the 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 credit rated institutions. Non-specified investments cover all other categories of investment and their use must be supported in detail in the Investment Strategy. Interest income is earned on these investments.

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 Fixed Assets, 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.

Leasing Charges

The annual rental payments on items such as vehicles and computers which have been leased by the Council and 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 2007 to 2010. 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-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.

London Docklands Development Corporation (LDDC)

An organisation set up in 1981 to regenerate the Docklands area of East London. It was responsible for an area of 8.5 square miles (22 km²) in Newham, Tower Hamlets and Southwark.

Major Repairs Allowance (MRA)

This is the main housing subsidy for Local Authorities, it provides each authority with the estimated long term average amount of capital spending required to maintain a Local Authorities stock to its current standard.

Management & Support Services (MSS)

Proper accounting regulations require that support service costs are charged to all direct service, which benefit from that support. The same is true for service management. Charges are called Management & Support Service Charges.

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 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 will have 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.

National Non Domestic Rates (NNDR) Pool

Business rates are collected by Local Authorities and paid over to the Government. They are then redistributed on the basis of relevant population. The NNDR 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. Also referred to as Non-Domestic Rates or NDR.

Neighbourhood Renewal Fund (NRF)

Government funding which aims to enable the most deprived authorities, in collaboration with their Local Strategic Partnership (LSP), to improve services. NRF monies can be spent in any way that provides help to tackle deprivation. NRF funding ceased from 31st March 2008.

New Deal for Communities (NDC)

A key programme in the Government's strategy to tackle multiple deprivation in the most deprived neighbourhoods in the country, giving less wealthy communities the resources to tackle their problems in an intensive and co-ordinated way. The aim is to bridge the gap between these neighbourhoods and the rest of England. All the NDC partnerships are tackling five key themes: poor job prospects, high levels of crime, educational under achievement, poor health and problems with housing and the physical environment. NDC is a ten year programme ending March 2010.

Out-turn

This is how much a Council (or individual service) spends in a financial year. Also known as 'actuals'.

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.

Pooling Arrangements (Capital Receipts)

Since the 1st April 2004, 75% of "Right To Buy" capital receipts have to be paid to central government (DCLG). The remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over

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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.

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.

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.

Prudential Code

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.

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.

Revaluation Reserve (RR)

The revaluation reserve accounts for amounts where the current net book value of an asset is above its historic 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. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

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 NNDR pool and Council Tax, so that if all Local Authorities spend in line with their FSSs, Council Tax would be the same throughout the country. Revenue Support Grant 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 central government (DCLG) under pooling arrangements (see above).

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 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 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.

Specific Grants

A grant receivable from a Government Department that relates to expenditure incurred on providing a particular service e.g. Education Standards Fund.

Single Regeneration Budget (SRB)

A Government programme that combined all the 'regeneration' initiatives, which previously operated as separate programmes. The number of SRB programmes have reduced as they have reached the end of their agreed lifetimes. There is still one programme running which will bring in significant regeneration funding until 2007/2008.

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. It includes major initiatives such as the literacy and numeracy strategies, e.g. Excellence in Cities, National Grid for Learning and New Deal capital for schools.

Statement of Recommended Practice (SORP)

Statements of Recommended Practice 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 Statements of Recommended Practice.

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)

This is Capital Expenditure funded by Government, either as a one-off Capital Grant (called SCE (Capital)) or as part of the annual RSG settlement to cover annual financing costs of monies borrowed, this is known as SCE (Revenue).

Sure Start

Sure Start is the Government's programme to deliver the best start in life for every child by bringing together early education, childcare, health and family support. There are eight Sure Start local programmes in Newham. These are area-based initiatives delivered by local partnerships with strong parental and community involvement.

Tenant Management Organisation (TMO)

An organisation set up by tenants to take over certain housing management responsibilities from the housing authority. TMOs 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 and be the landlord 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.

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.

Trading Account

The profit and loss accounts of a trading activity.

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 leave and new appointments are made.

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 by the Council tax payer or housing tenants.

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.

2012

The Newham 2012 Unit works to ensure that the Council has a co-ordinated and effective strategy to use the 2012 Olympic and Paralympic events as the platform for creating a long-term legacy within the Borough. From April 2008, this Unit became part of Corporate and Strategic management.

Reader Feedback

If there is any additional information that you would like to see in future editions of the Statement of Accounts, please contact Kevin Miles, the Council's Chief Accountant, e-mail Kevin.Miles@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.