

**LONDON BOROUGH OF NEWHAM****STATEMENT OF ACCOUNTS  
FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2004**

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## EXPLANATORY FOREWORD

### 1. Explanation of the Statement of Accounts

The Council's accounts are set out on pages 11 to 49, and consist of the following:

- the **Statement of Accounting Policies** which explain the basis of the figures in the accounts. This includes changes in policy, the basis of charges to revenue and the calculation of balance sheet items;
- the **Consolidated Revenue Account**, which summarises the Council's revenue income and expenditure for all services during the year, and shows the resultant change in the level of reserves;
- the **Housing Revenue Account**, which provides details of the income and expenditure of the Council's dwellings and associated properties for which it is responsible as a landlord;
- 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 **Consolidated Balance Sheet**, which gives the Council's financial position as at the 31st March 2004 for the above mentioned areas and services, but excludes the Pension and Trust/Gift Funds;
- the **Total Movements in Reserves Statement**, which shows the gains and losses on all transactions in the year;
- the **Cash Flow Statement**, showing the movements in the Council's cash balances resulting from transactions with external organisations;
- **Trust and Gift Funds**, which show transactions relating to monies held in trust by the Council on behalf of other persons and
- 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 reserve.

### 2. 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, 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).

### 3. Actual and Budgeted Expenditure and Income for 2003/04

| <i>Actual v Budget 2003/04</i>                     | <i>Actual</i> | <i>Budget</i> |
|--|---------------|---------------|
|  | <i>£000s</i>  | <i>£000s</i>  |
| Service Expenditure                                | 861,922       | 858,287       |
| less Service Income                                | (520,149)     | (515,675)     |
|  | 341,773       | 342,612       |
| Capital Financing Costs (net of interest receipts) | 55,679        | 57,261        |
| <b>Total Net Expenditure (excluding precepts)</b>  | 397,452       | 399,873       |
| Contribution To / (Use of) Reserves                | (1,529)       | (3,950)       |
| <b>Budget Requirement</b>                          | 395,923       | 395,923       |
| Breakdown of movements in Reserves;                |               |               |
| General Fund surplus **                            | (123)         | 3,000         |
| HRA surplus  | (570)         | 950           |
| Earmarked Reserves (including Schools' balances)   | 2,222         | 0             |
|  | 1,529         | 3,950         |

\*\* see Consolidated Revenue Account page 16

In overall terms, the use of reserves and balances was £2.4 million less compared with the budget, the main reasons being as follows:

| <i>Service Area</i>                 | <i>£millions</i> | <i>£millions</i> |
|-------------------------------------|------------------|------------------|
| <b><u>HRA</u></b>                   |                  |                  |
| Repairs and maintenance             | 0.4              |                  |
| Resource Accounting                 | (2.9)            |                  |
| Income – Rents                      | 1.0              | (1.5)            |
| <b><u>General Fund</u></b>          |                  |                  |
| Social Services                     | 2.7              |                  |
| Housing – Homelessness and Benefits | 0.1              |                  |
| Environment                         | (0.1)            |                  |
| Chief Executive’s Dept              | (0.5)            |                  |
| Capital Financing Charges           | 0.2              |                  |
| Use of reserves/contingency         | (4.2)            |                  |
| Other                               | 0.9              | (0.9)            |
| <b>Total</b>                        |                  | <b>(2.4)</b>     |

#### 4. Major Contracts in 2003/04

During the year, the Council entered into the following contracts where expenditure will be incurred beyond 2003/04. The minimum contract sum reported has been set at £750k.

| <i>Major Contracts</i>    | <i>£000</i> |
|---------------------------|-------------|
| Grange Infants School     | 2,182       |
| Avenue Primary School     | 1,359       |
| J F Kennedy School        | 750         |
| Eastlea School            | 2,524       |
| Brampton Manor School     | 1,715       |
| Sheringham Junior School  | 882         |
| Portway Primary School    | 1,442       |
| Kensington Primary School | 766         |
| ICT Fibre Optic ducting   | 900         |
| Housing Schemes:-         |             |
| Boleyn Road tall blocks   | 1,166       |
| Hathaway Crescent         | 1,556       |
| College Point             | 775         |

Expenditure on these contracts in 2003/04 is included within the overall figure for capital expenditure on page 31.

School contracts are for general capital works.

#### 5. Future Service Developments and Expenditure Plans - “The Vision”

“By 2010 Newham will be a major business location where people choose to live and work”. This is Newham Council’s vision and the main driving force behind its future service developments and expenditure plans.

In an area with some of the UK’s worst deprivation, expenditure is strictly prioritised, targeting areas of most need and those that are most important to local people.

To help the Council achieve its vision, it is working to a number of inter-related sets of priorities from the Mayor, the Council, key partners and the community. These have been determined through numerous fact finding, consultation and liaison initiatives.

Cross cutting themes run through all of the priorities and include improving educational achievement, social services and the health and well-being of our residents, combating crime and anti-social behaviour, a better environment for all, employment and raising the incomes of local people.

Physical and social regeneration is also a priority, as is making sure that local people benefit from local investment. The Council is also determined to keep any council tax increase within the Government’s guidelines.

These priorities are set out within the Council's corporate improvement plan and all have key targets and milestones attached to them to ensure that the Council's performance can be monitored and evaluated on a regular basis.

Its performance is also assessed by a variety of external inspections such as those by the Commission for Social Care Inspectorate (CSCI), Ofsted and the Audit Commission's Comprehensive Performance Assessment (CPA).

Newham is rated by the CPA as a good Council, the second highest category. Newham is determined to be excellent and to provide excellent services for people who live and work in the borough.

In order to deliver these excellent services the Council is changing the way it is organised, to move away from a departmental approach to one focusing on cross-cutting outcomes.

To achieve this it has embarked upon a programme of comprehensive change that seeks to develop agreed outcomes that will drive its activity. To enable it to implement these activities, once they are defined, it will be developing a leadership and management model and restructuring itself accordingly.

The first areas in the Council affected by this are the high priority areas of crime and anti-social behaviour, public realm and children's services.

To help facilitate this, the Council will be making £10m of capital resources available from its reserves (see page 42). This is based on a realistic expectation of the level of receipts generated from the sale of assets over the period of change and a prudent forecast of future borrowing needs through the prudential code framework.

In addition, the Your Newham Local Strategic Partnership (LSP) will receive £17 million from the Government's Neighbourhood Renewal Fund for 2004/05 to fund projects aimed at improving the quality of life in the Borough. Consideration is also being given to the future provision of Council housing and a stock options report will be considered by Council during 2004/05.

As part of the Council's medium term budget strategy, additional funds are also being invested in the key Council priorities of education and social services. Education is benefiting from £2m, in addition to the £10m increase provided by the Government in the annual grant settlement, with social services gaining an extra £8m to fund its continued improvement.

It is planned that the majority of these additional funds will be generated through business efficiency and best value savings. For example a new procurement unit has been set up, enabling Council departments to join up and buy all their goods on line taking advantage of efficiency and economy of scale savings. Savings are also expected from capital investment in areas such as information technology and accommodation.

Furthermore, should the 2012 London Olympics bid be successful, Newham will be hosting the games and will expect to benefit from more housing, better transport links and enhanced employment opportunities.

### Future Capital Investment

The Capital Programme and Investment Strategy for 2004/05 to 2006/07 is set out in more detail under the "Capital Commitments" note to the Balance Sheet on page 33. Total planned expenditure is £230 million over the next three years, which is to be met from the following resources:

| <i>Resources</i>                         | <i>£million</i> | <i>£million</i> |
|--|-----------------|-----------------|
| <b>Internal</b>                          |                 |                 |
| - Investment of Reserves                 | (2)             |                 |
| - Receipts from Asset Sales              | (34)            | <b>(36)</b>     |
| <b>External Grants and Contributions</b> |                 |                 |
| - Major Repairs Allowance                | (45)            |                 |
| - SRB/ERDF/NDC/Surestart Regeneration    | (28)            |                 |
| - Neighbourhood Renewal Fund             | (10)            |                 |
| - Standards Fund (Education)             | (4)             |                 |
| - Children's Centres Grant (Surestart)   | (6)             |                 |
| - Transport for London                   | (6)             |                 |
| - Performance Related Grant              | (7)             |                 |
| - Other Grants and Contributions         | (11)            | <b>(117)</b>    |
| <b>Borrowing</b>                         |                 |                 |
| - Anticipated government supported loans | (67)            |                 |
| - Other                                  | (10)            | <b>(77)</b>     |
| <b>TOTAL</b>                             |                 | <b>(230)</b>    |

**Revenue Programme**

In 2004/05 the Council's net budget requirement is £418.1 million (to be met from RSG, NNDR and Council Tax). The table below shows how the budget has changed between 2003/04 and 2004/05:

| <i>Summary of Revenue Budget Changes</i> | <i>£000s</i> | <i>£000s</i> | <i>% increase over 2003/04</i> |
|--|--------------|--------------|--------------------------------|
| <b>Total 2003/04 Revenue Budget</b>      |              | 395,923      |                                |
| <b>Changes in demand for services</b>    |              |              |                                |
| • Increase in pupil numbers              | 2,351        |              |                                |
| • Increase in Social Service Users       | 4,600        | 6,951        | 1.8                            |
| <b>Changes in Funding Arrangements</b>   |              |              |                                |
| • Social Services                        | 6,995        |              |                                |
| • Housing Benefit Administration         | (7,330)      |              |                                |
| • Flood Defence Levy                     | (952)        | (1,287)      | (0.3)                          |
| <b>Committed Growth</b>                  |              |              |                                |
| • Education                              | 6,323        |              |                                |
| • Social Services                        | 811          |              |                                |
| • Other including Single Status          | 939          | 8,073        | 2.0                            |
| <b>Unavoidable Budget Changes</b>        |              |              |                                |
| • Capital Financing                      | 1,356        |              |                                |
| • Provision for use of UASC Grant        | 1,500        |              |                                |
| • ELWA Levy                              | 638          | 3,494        | 0.9                            |
| <b>Other Budget Changes</b>              |              |              |                                |
| <b>Pay and Price Increases</b>           |              | 9,258        | 2.3                            |
|  |              | 26,489       | 6.7                            |
| <b>LESS</b>                              |              |              |                                |
| • HR/Business Efficiency Savings         | (1,350)      |              |                                |
| • Invest To Save                         | (961)        | (2,311)      | (0.6)                          |
| <b>Budget Strategy Measures</b>          |              |              |                                |
| • Additional Income Generation           | (1,500)      |              |                                |
| • 2% Management Efficiencies             | (1,500)      |              |                                |
| • Targeted Budget Reviews                | (2,000)      | (5,000)      | (1.3)                          |
| <b>Change In Use Of Balances</b>         |              | 3,000        | 0.8                            |
| <b>Total 2004/05 Revenue Budget</b>      |              | 418,101      | 5.6                            |

**6. Borrowing Facilities and Investments**

**Borrowing** - The Council is able to borrow to finance capital expenditure, and to meet temporary shortfalls in revenue, as long as the total debt outstanding does not exceed statutory limits. 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 - page 37 provides further details. Total external borrowing at 31st March 2004 was £605 million (£622 million at 31st March 2003), which was well within the Council's Aggregate Credit Limit (permitted borrowing limit).

**Investments** - The Council had investments of £87 million as at 31st March 2004 (£87m at 31st March 2003).

**7. Asset Transactions**

During 2003/04, the Council undertook the following major (over £250k) asset purchases and disposals;

| <i>Purchases and Disposals</i>         | <i>£000</i> |
|--|-------------|
| <b>Over £250K</b>                      |             |
| <b>Purchases</b>                       |             |
| Brooks Estate Buy Backs                | 966         |
| Canning Town Buy Backs                 | 4,881       |
| <b>Disposals</b>                       |             |
| Harcourt House, E15                    | (1,687)     |
| Land at Mark St. E15                   | (585)       |
| 72/102 Broadway. E15                   | (315)       |
| Land Brindles Close, Brentwood         | (950)       |
| Garage Site, Knights Way, Brentwood    | (351)       |
| Land adjacent 35 Princess Terrace. E13 | (300)       |
| Garage site, Goosley Lane. E6          | (379)       |

All capital receipts received by the Council are shown in Note 4 to the Balance Sheet on page 32.

**RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS****The Authority's Responsibilities**

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance; and
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

**The Responsibilities of the Director of Finance**

The Director of Finance is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in 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 2004.

In preparing this statement of accounts, he has:

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

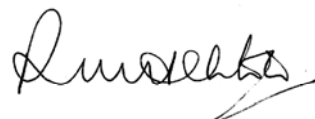
The Director of Finance has also:

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

Date: 9<sup>th</sup> July 2004

Signature:

**R. HEATON**  
Executive Director of Resources

**RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS OF THE PENSION FUND****The Authority's Responsibilities**

The authority is required:

- to make arrangements for the proper administration of the Fund's financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance; and
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

**The Responsibilities of the Director of Finance**

The Director of Finance is responsible for the preparation of the authority's Pension Fund 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 Pension Fund at the accounting date and its income and expenditure for the year ended 31st March 2004.

In preparing this statement of accounts, he has:

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

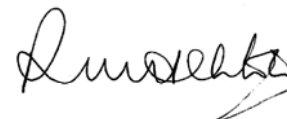
The Director of Finance has also:

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

Date : 9<sup>th</sup> July 2004

Signature :

**R. HEATON**  
Executive Director of Resources



London Borough of Newham 2003/04 Statement of Accounts Approved at Investment Committee – 19<sup>th</sup> July 2004.

Acknowledged by

Date: 19<sup>th</sup> July 2004

Signature :

**Councillor Winston Vaughan**  
Chair of Investment Committee



## STATEMENT ON INTERNAL CONTROL

### 1. SCOPE OF RESPONSIBILITY

The London Borough of 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. The London Borough of 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, the London Borough of Newham is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

As part of the internal control framework, Newham's Councillors have responsibility for setting and controlling the Council's overall policy and strategy, including the annual budget. The day to day implementation of the budgetary framework is the responsibility of the Executive and officers. Detailed rules governing the setting of the framework and the control of it are set out in the Council's constitution (Article 4.3 pages 127 - 131); members of the Overview and Scrutiny Committee, the monitoring officer and/or the chief finance officer are involved should it appear that decisions are being made or likely to be made which are outside the budgetary framework, and the process could involve referral of the matter to Council.

### 2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It 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 the achievement of the Council'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.

The system of internal control has been in place at the London Borough of Newham for the year ended 31<sup>st</sup> March 2004 and up to the date of approval of the annual report and accounts and accords with proper practice.

### 3. THE INTERNAL CONTROL ENVIRONMENT

**Council Objectives** – The Council publishes its corporate and performance plan, the latest of which was approved in June 2004. This plan shows how the Council is moving forward to achieve its vision that “**by 2010 Newham will be a major business location and a place will people will choose to live and work**”. The annual review of this plan provides a control to ensure that objectives are being achieved and that services to the community improve. The plan includes the Mayor's key tasks. These tasks are the steps to achieving the Vision.

**Decision Making** – Under the Council's constitution, the elected Mayor has substantial powers to implement the wishes of the local community and to improve the quality of services provided. These decisions are made at Mayoral Proceeding and Cabinet meetings. Meetings where decisions are taken are open to the public except where exclusion is necessary.

The Full Council has the power to make key strategic decisions, such as the setting of the policy framework, set the Council Tax and make changes to the Council constitution. It also has the power to discuss major policy issues brought forward by the Mayor. Full Council can also create committees to delegate certain decision making powers to (such as Licensing and Investment matters). Committees also make decisions that the Mayor is not legally able to make (such as the approval of the annual accounts). Officers in each directorate have schemes of delegation to handle day-to-day matters.

A number of probity Codes and Protocols have been introduced by the Council's Standards Committee and part of the constitution governs both officers and Members in their decision making processes. Relevant Members and officers are also checked against Criminal Records Bureau (CRB) files.

**Compliance with established policies, procedures, laws and regulations** – There is a robust scrutiny system in place to ensure that the work of the Council complies with all appropriate rules and regulations. The

Overview and Scrutiny Committee analyse decisions made by the Council's executive. The Chief Executive, Executive Director of Resources and Head of Legal Services advise the Mayor and Cabinet meetings on matters of law, financial impact and procedure.

Other systems of control procedures operate within departments across the Council. For example a system of taking up references on new staff and carrying out CRB checks on appropriate posts is managed by the Human Resources Department.

**Identifying, assessing and managing the risks to the authority's objectives** – The Council has a risk management framework where officers are required to identify the risks associated with the business and to identify controls that will mitigate them where appropriate. Training has been given to managers across the Council to enable them to undertake this task. Departmental liaison officers who report to a corporate risk management group oversee risk management for the authority. The group balances the needs of dealing with departmental and strategic risks. Newham's Directors Board have been involved in identifying strategic risks to the authority.

Work is ongoing to embed risk management throughout the Council. Some areas are more advanced than others at present. A culture is being developed that requires directors to certify the robustness of the control framework within their area. A key part of the final phase of this process will be ensuring all staff have access to on-line risk registers by June 2005.

In making decisions, the Council and Mayor are made aware of risks in reports and during the decision making process. All reports contain risk management implications. This process will be developed further by the newly created Audit Board. This board met for the first time in June 2004.

**Effective and Efficient Use of Authority Resources** – The current "moving to excellence" initiative is a comprehensive review of the services the Council provides. This review will look for ways to develop a "Whole Council", cross-departmental approach to find ways to provide services more efficiently in a cost-effective manner. The ultimate aim of this review is to achieve the 2010 Vision.

**Performance Management of the Authority** – The Council's annual Performance Plan highlights the quality of services provided in past years plus also sets targets for continuous improvement. This publication allows comparison with the performance of other local authorities. The Council's Best Value tool-kit is used as a basis for reviewing how improvements can be made to the services provided to community stakeholders. As part of the development of a risk management culture within Newham, risk registers have been created to highlight risks that could affect the Council delivering services.

**Financial Management of the Authority** - The Executive Director of Resources (as s151 officer) has responsibility for ensuring the Council operates with a robust system of financial control. Financial Management information is reported to the Mayor, Council and Scrutiny Committee throughout the year. The Executive Director of Resources provided training for elected members on a wide range of financial matters (including risk management).

The Council's Internal Audit Service operates to standards and guidelines set by the Institute of Internal Auditors. Internal Audit have developed a risk based internal audit plan to fulfil its role of analysing risks to which the Council is exposed. The section reports to the Executive Director of Resources on an operational basis and provides regular reports to the Overview and Scrutiny committee and the Mayor with summaries of audit reports and performance data. Each audit summary contains a statement of audit significance and a recommendation indicating if the audit should be followed up by Scrutiny Committee.

#### 4. REVIEW OF EFFECTIVENESS

The London Borough of Newham has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority. These managers have responsibility for the development and maintenance of the internal control environment. They have to address comments from the external auditor in their annual letter and other review agencies and inspectorates. The review of effectiveness has been limited in 2003/04 but by 2004/05 the process will have been embedded more fully across all areas of the Council.

The constitution details the arrangements for decision making within the authority. It provides the framework for overview and scrutiny and the operation of scrutiny commissions. During the year a number of scrutiny commissions were undertaken to look at the effectiveness of policy implementation. These were reported to the Mayor and Full Council.

Newham's Directors Board has reviewed strategic risks to the Council.

Until April 2004, the Internal audit section provided summaries of reports and performance data to both the Overview and Scrutiny Committee and the Mayor. The annual plan was reviewed and agreed, audit performance data examined and commented upon as necessary by the Mayor and the summaries discussed if appropriate.

The external auditors provide an annual management letter to members. The audit letter reports on the financial statements, financial aspects of corporate governance and performance monitoring arrangements.

Newham was subject to external inspection during 2003/04. This included a Comprehensive Performance Assessment (CPA). The authority was graded "good" overall, an improvement on the previous rating of "fair". The score for use of resources that covered delivery of the internal control framework was a maximum 4 out of 4, again an improvement on last year. The Audit Commission carried out a best value inspection on Housing and Council Tax Benefits during the year. The service was rated as "good" with promising prospects for improvement.

Changes to the system of internal control from 1<sup>st</sup> April 2004 are as follows:

- To ensure the Council is able to comply with the new legislative requirements of publishing the annual Statement of Accounts by the end of June from 2006, the Accounts will now be approved by Investment Committee rather than Full Council. This allows more flexibility in arranging the date of the meeting.
- In order to ensure that there is a framework of internal control across the Council, an Audit Board has been created. This Board has a cross constitutional role to ensure all parts of the executive and scrutiny committees make contributions to the whole process of internal control. The terms of reference of the Board have been drawn widely to cover internal control, risk management and counter fraud activities. This Board met for the first time in June 2004.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, the executive/audit board/overview and Scrutiny Committee, and a plan to ensure continuous improvement of the framework of control is in place.

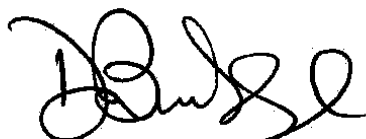
## 5. SIGNIFICANT INTERNAL CONTROL ISSUES

There were significant budgetary control issues within the Social Services Department. These matters were tackled during 2003/04 and are continuing to be addressed. Steps are being taken to strengthen the financial and management arrangements within the department.

Except for this matter, there are no significant internal control issues to report.



**Sir Robin Wales**  
Mayor



**Dave Burbage**  
Chief Executive

**REPORT OF THE AUDITORS TO THE MEMBERS OF THE COUNCIL OF  
THE LONDON BOROUGH OF NEWHAM**

We have audited the statement of accounts on pages 11 to 49, which has been prepared in accordance with the accounting policies applicable to local authorities. The statement of accounts comprises the Authority's accounts, on pages 16 to 45, which have been prepared in accordance with the accounting policies set out on pages 11 to 15 and the accounts of the Pension Fund, on pages 46 to 49, which have been prepared in accordance with the accounting policies set out on page 48.

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

**Respective responsibilities of Director of Finance and Auditors**

As described above on page 6, the Director of Finance is responsible for the preparation of the statement of accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2003. Our responsibilities as independent auditors are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts presents fairly the financial position and results of operations of the Council.

We review whether the statement on internal control on pages 7 to 9 reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose. We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts. The other information comprises the explanatory forward.

**Basis of 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 relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the statement of accounts, and of whether the accounting policies are appropriate to the council'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 statement of accounts is 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 statement of accounts.

**Opinion**

In our opinion the statement of accounts presents fairly the financial position of London Borough of Newham at 31 March 2004 and its income and expenditure for the year then ended.

**Opinion on the Pension Fund accounts**

In our opinion the statement of accounts presents fairly the financial transactions of London Borough of Newham Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

**Certificate**

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

Signature 

**PricewaterhouseCoopers LLP**

*Southwark Towers  
32 London Bridge Street  
London SE1 9SY*

**Date: 30<sup>th</sup> November 2004**

## STATEMENT OF ACCOUNTING POLICIES

### 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 31<sup>st</sup> March 2004.

### 2. CHANGES IN ACCOUNTING POLICIES

- **In 2003/04, for the first time the requirements of FRS 17 - Retirement Benefits** have been fully incorporated into the 2003/04 statement of accounts. The Consolidated Revenue Account (CRA) now reflects the current cost of service within departmental expenditure (except for the Housing Revenue Account that shows actual employer pension contributions). Also the 2002/03 Consolidated Revenue Account and Balance Sheet have been restated to reflect the brought forward position. Refer to CRA note 17.
- **Expenditure on Regeneration schemes.** The Council acts as the accountable body on a number of schemes. Expenditure incurred is reimbursed to the Council leaving a net nil cost to the authority. This expenditure and income has previously been excluded from the Consolidated Revenue Account but is now included within gross expenditure and income for 2003/04 due to the large scale of schemes involved. The 2002/03 accounts have been restated to include net nil expenditure for 2002/03. Refer to CRA note 17. The balance sheet includes year-end debtors to accrue for grants not received by the balance sheet date.

### 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.
  - Non operational properties, including those surplus to requirements and industrial/commercial property, are shown at open market value.
  - Vehicles, equipment 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 of £7.021 million has been included as Fixed Assets within the Balance Sheet. This has subsequently been depreciated by 1/40<sup>th</sup> 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 land less than 0.25 hectare in area are not shown in the balance sheet. Expenditure which is below its de minimis level of £10,000, or which results in an asset which has a useful life of less than two years, need not be capitalised and is charged to the Consolidated Revenue Account.
  - For Council dwellings, the market value has been adjusted to take account of discounts available to tenants who may exercise their statutory "right to buy".
  - 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.
  - Revaluations and impairments  
Where an impairment loss on a fixed asset occurs the loss is recognised, if it is caused by a clear reduction in economic value in the Asset Management Revenue Account (AMRA) and the service revenue account. Other

impairments (reflecting a general fall in prices) are recognised in the Fixed Asset Restatement Reserve (FARR). 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.
- However, expenditure on the enhancement of housing stock, where it is uncertain that the enhancement materially adds to the assets' value, is then written off to the Fixed Asset Restatement Reserve (FARR) pending a revaluation of the assets whereupon any change in value will also be shown in the FARR.
- Assets acquired under Finance Leases and 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 5).

#### 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.

| <i>Basis for depreciation</i>   | <i>Useful Economic Lives (UELs)</i> |
|---|-------------------------------------|
| • Vehicles, equipment etc are written down over their useful lives, as estimated at the time of purchase – for assets acquired by finance lease this is taken as the period of the lease agreement.   | 5 years                             |
| • Infrastructure assets are written down over 40 years, unless it is clear that any particular such asset has a shorter operational life.   | 40 years                            |
| • Community assets are not depreciated, as they are held in perpetuity.   | -                                   |
| • Land and Non Operational property is not depreciated.   | -                                   |
| • Operational property with a value of £250k or more is assessed by the Council's valuer and any diminution in operational value is reflected as depreciation. Depreciation is assessed case by case basis rather than on standard rate.        | 50 to 100 years                     |
| • 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. | -                                   |

#### 5. CHARGES TO REVENUE

- All revenue accounts are charged with a Capital Charge for all fixed assets used in the provision of services and where required, any related impairment loss (due to a clear consumption of economic benefits). The charge for each asset covers its annual provision for depreciation, plus a capital financing charge calculated by applying a specified percentage rate of interest to its net asset value (i.e. the value at the beginning of the year net of depreciation). The charge to each revenue account is the sum of the charges on each of its assets.
- Capital charges for the use of fixed assets and relevant impairment losses included in revenue accounts are credited to the Asset Management Revenue Account (AMRA). External interest payable on the Council's debt, including Finance Lease rentals, and the provision for depreciation are debited to the Asset Management Revenue Account. This ensures that capital charges have no overall impact upon tax and grant levels.
- 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 Appropriations section of the Consolidated Revenue Account.
- 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

#### 6. INVESTMENTS

Long term investments are investments that are intended to be held for use on a continuing basis in the activities of the authority. Investments that do not meet this criterion are classified as current assets. All the authority's investments fall into this latter category and are therefore shown within current assets. Investments are split between two external cash managers, Supranational Eurosterling Bonds, money market funds and cash deposits.

## 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 Appropriations section of the Consolidated Revenue Account in order to ensure no overall impact upon 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.

## 8. LONG TERM DEBTORS

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

## 9. BASIS OF DEBT REDEMPTION

In accordance with statutory requirements, certain sums must be set aside for the redemption of debt, within a Provision for Credit Liabilities viz.

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

- Minimum Revenue Provision

Under the Local Government and Housing Act 1989, the Council must provide each year from its revenue account, a sum equivalent to two per cent of its Housing Credit Ceiling (Debt) and four per cent of its non Housing Credit Ceiling. This sum is charged to the Consolidated Revenue Account (and not to individual service revenue accounts) by way of depreciation and an additional contribution - see Note 5 above.

- Reserved Capital Receipts

Capital receipts arise from the disposal of fixed assets and the repayment of mortgages, and from each receipt the Council must set aside a sum, known as the reserved part, for the redemption of debt. The remainder of the receipt, the usable part, is available for use in financing expenditure on fixed assets or to voluntarily repay debt. The reserved part is currently 75% of receipts from the disposal of Council houses, and 50% for disposals of other HRA assets. The reserved part of most other capital receipts is zero following changes in legislation introduced with effect from September 1998. While income from the disposal of assets is accounted for on an accruals basis, the reserved receipts calculation only applies to the cash actually received - in practice, however, there is no significant difference between the two bases. £21 million of usable capital receipts has been used to repay debt voluntarily in 2003/04.

- Provision for Credit Liabilities (PCL)

As a result of the introduction of the capital accounting provisions of the SORP, the PCL is no longer shown in the accounts but as a memorandum note to the Balance Sheet. All the sums set-aside for debt redemption are credited to the Capital Financing Reserve – see Note 11 below - with the exception of depreciation. This is shown as a reduction in asset values. Premia paid on debt repaid during 2003/04 has been charged to the PCL in accordance with Statutory Instrument No. 1773 (2000).

## 10. 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 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 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 Asset Management Revenue Account in line with the depreciation of the individual asset(s) concerned.

## 11. 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.

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 Consolidated Revenue 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 Appropriations section of the Consolidated Revenue Account, 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 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 capital 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 of £1.585 million has also been included within other balances – this is for a school PFI scheme. Refer to the Movement in Reserves summary on page 42. The Council reviews the level of Earmarked Reserves, and their intended purpose, annually as part of its Medium Term Financial Investment Strategy.

### Capital Reserves

- The Fixed Asset Restatement Reserve represents principally the balance of surpluses or deficits arising on the periodic revaluation of assets.
  - The Capital Financing Reserve (CFR) represents the amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans.
- Further details of the Council’s Reserves and Provisions can be found in later sections of the Statement of Accounts.

## 12. DEBTORS and CREDITORS

- The Council’s accounts are maintained on an accruals basis, that is 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.
- 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.

## 13. 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 included at the sum to be charged for the work completed at the end of the year.

## 14. 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 HRA.

## 15. PENSIONS

The Council participates in two pension schemes that meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service.

- Teachers

This is an unfunded national scheme administered by the Teachers Pension Agency. The pension cost charged to the accounts is the contribution rate set by the Department for Education and Skills on the basis of a notional fund and any added years payments awarded by the Council. The Teacher's pension scheme is a defined benefit scheme in which the assets and liabilities underlying the scheme are not identifiable at an individual employer level on a consistent and reasonable basis. The added years payments awarded by the Council are unfunded discretionary benefits. Both have therefore been accounted for on a defined contribution basis.

- Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme which is a defined benefit scheme. Details of the Council Pension Fund are on pages 46-49 of these accounts.

- The pension costs that are charged to the Council's accounts in respect of these employees are equal to the current cost of contributions paid to the funded pension scheme for them, as per FRS17. Current Service Cost is defined as the increase in the present value of the scheme liabilities expected to arise from employee service in the current period.
- Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis
- The Consolidated Balance Sheet now includes the pension fund liability. This is a liability that will have to be met over the long term to cover the authority's net liability in relation to retirement benefits. The service spend in the 2002/03 Consolidated Revenue Account has been restated to reflect the requirements of FRS17 – the non current service cost of employer pension contributions is now excluded from departmental expenditure.

## 16. PRIOR PERIOD ADJUSTMENTS

The 2002/03 consolidated revenue account has been restated to include the effects of FRS17 – Retirement Benefits and the inclusion of Regeneration Schemes with a net nil expenditure balance in 2002/03.

## 17. 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.

## 18. JOINT VENTURE

New Deal IT Services is a joint venture limited company owned by London Borough of Newham and Bull Information Systems. The Council has not elected to prepare group accounts as the interest in New Deal IT Services is not material.

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

## 20. PRIVATE FINANCE INITIATIVE (PFI) SCHEMES

The Council has entered into several PFI schemes and may enter into further schemes in the future. In accordance with FRS5, each scheme is evaluated to determine whether the scheme would generate an asset for the Council and would therefore need to be capitalised. 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. Payments made against the contracts for services provided under these schemes have been charged to revenue on an accruals basis.

## CONSOLIDATED REVENUE ACCOUNT

| 2002/03<br>Restated | CONSOLIDATED REVENUE ACCOUNT                                | 2003/04        |              |              | Note |
|---------------------|---|----------------|--------------|--------------|------|
|                     |   | Gross<br>Spend | Income       | Net Spend    |      |
|                     | <b>£000s SERVICES</b>                                       | <b>£000s</b>   | <b>£000s</b> | <b>£000s</b> |      |
| 11,641              | Central Services to the Public                              | 51,580         | (37,351)     | 14,229       |      |
| 6,147               | Corporate and Democratic Core                               | 7,480          | (1,509)      | 5,971        |      |
| 142                 | Court and Probation Services                                | 147            | -            | 147          |      |
| 60,170              | Cultural, Environmental and Planning Services               | 84,150         | (31,110)     | 53,040       |      |
| 213,378             | Education Services  | 282,178        | (53,335)     | 228,843      |      |
| 19,450              | Highways, Roads and Transport Services                      | 27,696         | (8,551)      | 19,145       |      |
| 48,466              | Housing Services  | 366,636        | (333,948)    | 32,688       |      |
| 82,286              | Social Services   | 145,446        | (54,345)     | 91,101       |      |
| 2,419               | Non Distributed Costs                                       | 953            | -            | 953          |      |
| 444,099             | NET COST OF SERVICES  | 966,266        | (520,149)    | 446,117      |      |
| 33                  | • Net (Surplus)/Deficit on Trading Accounts                 |                |              | (34)         | 1    |
| (62,898)            | • Transfer from Asset Management Revenue A/C                |                |              | (36,965)     | 3    |
| 1,832               | • Levies  |                |              | 1,878        | 5    |
| 13,108              | • Pension Interest Cost / Expected Asset Returns            |                |              | 13,820       | 9    |
| (5,051)             | • Interest and Investment Income                            |                |              | (4,066)      |      |
| (1,327)             | • (Gains) & Losses On Repurchase / Early Settlement of Debt |                |              | 23,130       |      |
| 389,796             | NET OPERATING EXPENDITURE                                   |                |              | 443,880      |      |
|                     | APPROPRIATIONS  |                |              |              |      |
| 2,130               | To HRA Balances and Reserves                                |                |              | 570          |      |
| (360)               | Transfer from Major Repairs Reserve                         |                |              | (540)        |      |
|                     | Movement in Capital Financing Reserve:                      |                |              |              |      |
| 23                  | • Financing of Capital Expenditure                          |                |              | -            |      |
| 15,669              | • Minimum Revenue Provision                                 |                |              | 15,663       | 10   |
| (26,950)            | • Depreciation / Impairment                                 |                |              | (32,259)     | 11   |
| (15,260)            | • Deferred Charges  |                |              | (7,251)      |      |
| 4,412               | • Deferred Grants   |                |              | 4,442        |      |
| -                   | • Debt Repurchase Funded from PCL                           |                |              | (23,149)     |      |
|                     | Contributions To/(From) Earmarked Reserves                  |                |              |              |      |
| (857)               | • Schools Balances  |                |              | 1,688        |      |
| (8,152)             | • Insurance   |                |              | -            |      |
| (4,829)             | • Future Capital Expenditure                                |                |              | (3,980)      |      |
| (4,354)             | • Pension Reserve   |                |              | (3,333)      |      |
| (109)               | • Other Reserves  |                |              | 70           |      |
|                     | AMOUNT TO BE MET FROM GRANT AND LOCAL TAXES                 |                |              | 395,801      |      |
| 351,159             | Demand On The Collection Fund                               |                |              | (53,669)     |      |
| (47,957)            | Collection Fund Surplus                                     |                |              | (1,126)      |      |
| (1,848)             | Revenue Support Grant                                       |                |              | (269,608)    |      |
| (243,200)           | Distribution From The NNDR Pool                             |                |              | (71,521)     |      |
| (70,954)            | NET(SURPLUS)/DEFICIT FOR THE YEAR                           |                |              | (123)        |      |
| (12,800)            | Balance on General Fund at 1 <sup>st</sup> April            |                |              | (25,445)     |      |
| (12,645)            | GENERAL FUND BALANCE AT 31 <sup>st</sup> MARCH              |                |              | (25,568)     |      |

Refer to note 17 of the Consolidated Revenue Account for details of 2002/03 restatement.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## General

The Consolidated Revenue 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.

The CIPFA Best Value Accounting Code of Practice (BVACOP) was introduced from 1<sup>st</sup> April 2000 for use in local authority financial reporting. The code required the adoption of a new Service Expenditure Analysis. The Consolidated Revenue Account has been prepared in order to comply with this requirement. The following table shows the Council's 2003/04 revenue expenditure analysed by department.

| <i>Restated<br/>2002/03</i> |              | <i>Departments</i>         | <i>2003/04</i> |              |
|-----------------------------|--------------|----------------------------|----------------|--------------|
| <i>£000s</i>                | <i>£000s</i> |                            | <i>£000s</i>   | <i>£000s</i> |
|                             | 22,493       | Chief Executive's          |                | 14,911       |
|                             | 212,419      | Education                  |                | 228,025      |
|                             | 41,745       | Environment & Regeneration |                | 42,898       |
| 24,861                      |              | Housing - General Fund     | 27,796         |              |
| 23,313                      |              | Housing Revenue Account    | 10,724         |              |
|                             | 48,174       | Total Housing Services     |                | 38,520       |
|                             | 30,632       | Culture & Community        |                | 23,899       |
|                             | 88,636       | Social Services            |                | 97,864       |
|                             | 444,099      | Net Cost of Services       |                | 446,117      |

## Note 1. Trading Activity

| <i>Restated<br/>2002/03</i> |                            | <i>Trading Activity</i> |                    | <i>2003/04</i>           |
|-----------------------------|----------------------------|-------------------------|--------------------|--------------------------|
| <i>(surplus)/deficit</i>    |                            | <i>Income</i>           | <i>Expenditure</i> | <i>(surplus)/deficit</i> |
| <i>£000s</i>                |                            | <i>£000s</i>            | <i>£000s</i>       | <i>£000s</i>             |
| (408)                       | Repairs and Maintenance    | (20,219)                | 20,000             | (219)                    |
| 93                          | Building Cleaning          | (4,997)                 | 4,972              | (25)                     |
| 231                         | Newco                      | (3,032)                 | 3,503              | 471                      |
| (16)                        | School Catering            | (5,311)                 | 5,307              | (4)                      |
| (100)                       | Total                      | (33,559)                | 33,782             | 223                      |
| 133                         | Less credit/(debit) to HRA |                         |                    | (257)                    |
| 33                          | Shown in CRA               |                         |                    | (34)                     |

**Repairs and Maintenance Division (RMD)** is part of the Housing Department, providing construction and property related repairs and maintenance services to Council housing stock, public buildings, schools and other Council services. RMD also provide a limited service to neighbouring boroughs on a commercial basis.

**Building Cleaning** provides cleaning services in respect of public buildings and education buildings (including secondary schools).

**Newco** – This is part of the Housing Department. This organisation provides employment opportunities to disabled people. Activities include construction of kitchen units and window units.

**School catering** – This service provides school meals to primary and secondary schools.

**Note** – 2002/03 Balances restated to reflect FRS17 – employer contributions are current service costs.

## Note 2. Pooled Budgets

The Council operates a pooled budget arrangement for the following services with Newham Primary Care Trust; Free Nursing Care, Learning Disability Services and Community Equipment Services. There were no contributions from Newham in 2002/03. In 2003/04, Newham contributed £666,884 to Free Nursing Care and £16,203 to the Learning Disability Service.

| <i>2002/03<br/>Net Exp /<br/>(Income)</i> | <i>Newham Primary Care Trusts</i>      | <i>2003/04<br/>Gross<br/>Exp.</i> | <i>2003/04<br/>Gross<br/>Income</i> | <i>2003/04<br/>Net Exp /<br/>(Income)</i> |
|---|--|-----------------------------------|-------------------------------------|---|
| <i>£000s</i>                              |  | <i>£000s</i>                      | <i>£000s</i>                        | <i>£000s</i>                              |
| -   | Free Nursing Care Scheme               | 904                               | (904)                               | -   |
| 2   | Learning Disability Service            | 131                               | (131)                               | -   |
| -   | Integrated Community Equipment Service | 85                                | (120)                               | (35)                                      |
| 2   | TOTAL                                  | 1,120                             | (1,155)                             | (35)                                      |

**Note 3. Transactions on the Asset Management Revenue Account**

| 2002/03  |  | 2003/04  |           |
|----------|--|----------|-----------|
| £000s    |  | £000s    |           |
| (51,829) | Capital Charges to - General Fund        | (40,226) |           |
| (81,311) | - Housing Revenue Account                | (63,949) |           |
| (17,450) | Impairment Charges to General Fund       | (21,473) |           |
| (4,412)  | Transfer from Grants Deferred Account    | (4,442)  |           |
|          |  |          | (130,090) |
| 9,740    | Depreciation Charge                      | 11,207   |           |
| 17,213   | Depreciation Charge – Council Dwellings  | 17,573   |           |
| 17,450   | Impairment Charge                        | 21,473   |           |
| 47,701   | External Interest Charges                | 42,872   |           |
|          |  |          | 93,125    |
| (62,898) | Transfer to Consolidated Revenue Account |          | (36,965)  |

**Note 4. Leased Assets – Rentals**Finance Leases

There were no assets held under the Finance lease during 2003/04.

Operating Leases

| Operating Leases   | 2002/03 | 2003/04 |
|--|---------|---------|
|  | £000s   | £000s   |
| Total rentals paid   | 195     | 160     |
| Outstanding undischarged leasing obligations<br>- 2004/05 to 2035/36 | 3,435   | 3,275   |

The rentals in 2003/04 include termination costs negotiated over a three year period ending in 2003/04. Future lease rentals relate to a lease for the use of “The Gate”, a library/Local Service Centre. The future obligations are shown in the note above. Rental levels will be reviewed every five years on an open market basis – estimated rentals for 2004/05 are £85,000.

**Note 5. 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.

| 2002/03 |                                  | 2003/04 |  |
|---------|----------------------------------|---------|--|
| £000s   |                                  | £000s   |  |
| 177     | Lee Valley Regional Park         | 185     |  |
| 219     | London Pensions Fund Authority   | 221     |  |
| 1,009   | Environment Agency               | 1,052   |  |
| 427     | Greater London Magistrates Court | 420     |  |
| 1,832   |                                  | 1,878   |  |

**Note 6. Publicity Account**

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

| Restated<br>2002/03 | Publicity Account   | 2003/04 |
|---------------------|---|---------|
| £000s               |   | £000s   |
| 1,118               | Cost of staff engaged mainly on publicity                               | 1,713   |
| 1,238               | Wholly or mainly recruitment advertising                                | 1,114   |
| 49                  | Statutory Notices   | 89      |
| 907                 | Promotion of Road Safety, Health, Channel Tunnel and similar campaigns. | 1,587   |
| 1,296               | Other publicity material  | 906     |
| 4,608               | TOTAL   | 5,409   |

Publicity figures now include Regeneration scheme publicity - £2.438 million in 2003/04, £781,000 in 2002/03. The Council is reimbursed for these Regeneration costs.

## Note 7. 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 2002/03 and 2003/04 is:

| 2002/03 | Building Control           | 2003/04 |
|---------|----------------------------|---------|
| £000s   |                            | £000s   |
| (586)   | Income Received            | (537)   |
| 712     | Expenditure Incurred       | 643     |
| 126     | (Surplus)/Deficit for year | 106     |

## Note 8. Agency Expenditure

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

| 2002/03 | Agency Expenditure                           | 2003/04 |
|---------|--|---------|
| £000s   |  | £000s   |
| 4,446   | On behalf of the East London Waste Authority | 79      |

This expenditure is not included in the Consolidated Revenue Account

## Note 9. Pension Costs

**Teachers** - In 2003/04 the Council paid £11.4 million (£6.3m in 2002/03) to the Department for Education and Skills in respect of teachers' pension costs. This was based on a contribution rate of 13.5% from 1<sup>st</sup> April 2003 (rate 8.35% in 2002/03). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the subsequent pensions increases. In 2003/04 these amounted to £1.0 million representing 1.2% of pensionable pay (£1.0m and 1.4% in 2002/03). 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 of discretionary increases in pension payments agreed by the Council in 2003/04 was £132,000 (£268,000 in 2002/03). The capital cost relating to earlier years was £18.2 million (£18.3 million in 2002/03) – calculated in accordance with LAAP bulletin 51.

**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 2003/04, pension costs have been charged to the Consolidated Revenue Account on the basis of current service cost of contribution as determined by FRS17.

In 2003/04, the Council paid an employer's contribution of £25.9 million (£24.5million in 2002/03) into the Pension Fund, representing 21% of pensionable pay (21% in 2002/03).

- 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 2003/04 are based on the valuation at 31st March 2001, which recommended a contribution rate of 21%. This level of contribution is set by the actuary in order to reduce the shortfall in the scheme's funding.
- The Council is responsible for all pension payments relating to added years it has awarded, together with subsequent pension increases. In 2003/04 these amounted to £2.5 million, representing 2.1% of pensionable pay (£2.2 million and 1.9% in 2002/03)
- The capital cost of discretionary increases in pension payments agreed by the Council in 2003/04 is within the pension liability balance as at 31<sup>st</sup> March 2004. The capital cost relating to earlier years was £22.9 million, (calculated in accordance with FRS17 by the actuary).

**Actuarial Position** - The level of contribution payable by the Council to the Fund during 2003/04 was based on the actuarial valuation as at 31<sup>st</sup> March 2001.

The market value of the Fund's assets at March 2001 was £385.6 million, compared to liabilities of £549.2 million, representing 70.2% 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 2001 are shown in the following table.

| Assumptions   | 2001 Valuation  |
|---|---|
| Rate of Return on Investments                               | 6.75% Equities / 5.75% Bonds  |
| Rate of general pay increases                               | 4.3% per annum  |
| Rate of increase to pensions in payment (in excess of GMPs) | 2.8% per annum  |
| Valuation of Assets   | Market value based on average values of assets in the 12 months prior to 31 <sup>st</sup> March 2001. |

The 2001 valuation showed that the required rate of contribution by the Council was 21% of pensionable pay. This rate of contribution is that which, when added to the contributions paid by the members, is sufficient to meet the following;

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

The next valuation will be based on information as at 31<sup>st</sup> March 2004. It is currently being prepared.

- Further details on the Council Pension Fund Scheme are on page 40 (FRS 17) and pages 46-49 (Pension Fund Account) of this publication.

Unallocable pension contributions in 2002/03 of £1.38 million have been included within the 2003/04 FRS17 report. The adjusted net return on assets is as follows:

| 2002/03       |  | 2003/04       |  |
|---------------|--|---------------|--|
| £000s         |  | £000s         |  |
| 35,886        | Net return on assets                                   | 36,000        |  |
| (24,158)      | Expected return on assets of the scheme                | (20,800)      |  |
| 1,380         | 2002/03 contributions included in 2003/04 FRS17 report | (1,380)       |  |
| <b>13,108</b> | <b>Total Per Consolidated Revenue Account</b>          | <b>13,820</b> |  |

#### Note 10. Minimum Revenue Provision

| 2002/03       |   | 2003/04       |  |
|---------------|---|---------------|--|
| £000s         |   | £000s         |  |
| 7,350         | Non Housing amount - 4% of credit ceiling     | 7,716         |  |
| 8,319         | Housing - 2% of credit ceiling                | 7,947         |  |
| <b>15,669</b> | <b>Total Per Consolidated Revenue Account</b> | <b>15,663</b> |  |

#### Note 11. Depreciation and Impairment Appropriations

| 2002/03         |   | 2003/04         |  |
|-----------------|---|-----------------|--|
| £000s           |   | £000s           |  |
| (17,450)        | Impairment  | (21,473)        |  |
| (120)           | MRP Amount charged to service accounts (and reimbursed) | (119)           |  |
| (9,380)         | Depreciation  | (10,667)        |  |
| <b>(26,950)</b> | <b>Total Per Consolidated Revenue Account</b>           | <b>(32,259)</b> |  |

#### Note 12. Audit Fee Disclosure

| 2002/03    |   | 2003/04    |  |
|------------|---|------------|--|
| £000s      |   | £000s      |  |
| 480        | Fees payable to Commission for external audit services work*      | 290        |  |
| 144        | Fees payable to Commission for statutory inspection               | 145        |  |
| 114        | Fees payable to Commission for certification of claims & returns  | 117        |  |
| -          | Fees payable for other services provided by the appointed auditor | 18         |  |
| <b>738</b> | <b>Total Audit Fee</b>  | <b>570</b> |  |

\* External Audit Fee based on work conducted during that year's financial accounts.

**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 2003/04 - total income amounted to £1.5 million (£1.9 million in 2002/03) and fully covered the expenditure involved. The most significant individual supplies were as follows:

| 2002/03      | Supplies   | 2003/04      |
|--------------|--|--------------|
| £000's       |  | £000's       |
| 245          | Security Services to Newham College of Further Education, Housing Associations, other Local Authorities and Transport for London | 92           |
| 118          | Building Design Services to other public bodies  | 74           |
| 467          | Building Repairs to Housing Associations and Tenant Management Organisation (TMO) Premises                                       | 408          |
| 383          | Translation Services to other public bodies  | 378          |
| 265          | Warden Alarm Services to Housing Associations and other Local Authorities  | 321          |
| 281          | Recycling services to LB Redbridge/LB Barking & Dagenham   | 122          |
| 170          | Other  | 148          |
| <b>1,929</b> |  | <b>1,543</b> |

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

| 2002/03      | Client                              | 2003/04      |
|--------------|-------------------------------------|--------------|
| £000's       |                                     | £000's       |
| 35           | Newham College of Further Education | 31           |
| 543          | Other Local Authorities             | 376          |
| 559          | Housing Associations                | 496          |
| 198          | Tenant Management organisations     | 204          |
| 254          | Healthcare organisations            | 299          |
| 340          | Other Public Bodies                 | 137          |
| <b>1,929</b> |                                     | <b>1,543</b> |

**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.

| 2002/03          |                               | 2003/04          |
|------------------|-------------------------------|------------------|
| No. of Employees | Taxable Earnings Band         | No. of Employees |
| 65               | 50,000 - 59,999               | 132              |
| 22               | 60,000 - 69,999               | 29               |
| 11               | 70,000 - 79,999               | 12               |
| 5                | 80,000 - 89,999               | 12               |
| 2                | 90,000 - 99,999               | 5                |
| -                | 100,000 - 109,999             | -                |
| 1                | 110,000 - 119,999             | -                |
| -                | 120,000 - 129,999             | -                |
| -                | 130,000 - 139,999             | 1                |
| <b>106</b>       | <b>Total £50,000 and over</b> | <b>191</b>       |

The number of employees earning between £50,000 and £59,999 increased significantly in 2003/04 due to Head Teachers receiving a pay award that took them through the £50,000 earnings barrier.

**Note 15. Members' Allowances**

The total of members' allowances paid in 2003/04 (excluding national insurance contributions) was £972,000 (£854,000 in 2002/03). Full details of Members' Allowances paid are available upon request from the Central Payroll Services Section, Chief Executive's Department, Newham Town Hall.

**Note 16. Related Party Transactions**

There are no transactions requiring disclosure within the accounts other than those already disclosed elsewhere.

**Note 17. Prior Period Adjustments****FRS17 Retirement Benefits**

Following the adoption of FRS 17 Retirement Benefits principles in the SORP, the Council's accounting policies for retirement costs have been revised significantly in 2003/04. In previous years, the Council treated the employer's contributions amounts payable to the Newham Pension Fund as its expenditure for the year and only accrued for amounts payable to the Fund that had not been paid by 31 March.

The new policy is to recognise the full liability that the Council has for meeting the future cost of retirement benefits that will arise from years of service earned by employees up to the balance sheet date, net of the contributions paid into the Fund and the investment income they have generated. As a result, the opening balance sheet for 2003/04 includes a pensions liability of £325.666 million, balanced by a pensions reserve of the same value (which reflects the fact that the Council is not required to raise council tax to cover the liability).

Charges to service revenue accounts are now based on a share of current service cost (the increase in future benefits arising from service earned in the current year) rather than employer's contributions. This has resulted in adjustments of between 0.01% and 8.9% to comparative figures for 2002/03 service total costs in the Consolidated Revenue Account compared with the figures in the 2002/03 audited accounts. In addition, the policy for accounting for discretionary benefits awarded on early retirement has changed from recognising pension payments as part of Unapportionable Central Overheads when they eventually become payable to debiting (as past service costs) the projected cost of discretionary awards to Non Distributed Costs in the year that the award decision is made. Together these changes have decreased the overall Net Cost of Services by £8.919 million. However, FRS17 adjustments to trading accounts, pension interest costs, expected asset returns (£13.1 million) and an appropriation of £4.1 million from the pensions reserve after Net Operating Expenditure offset the adjusting entries meaning that the new policy has no effect on the General Fund balance brought forward into 2003/04.

| <b>CONSOLIDATED REVENUE ACCOUNT</b>           | <b>2002/03<br/>Statement of<br/>Accounts</b> | <b>Adjustments<br/>Following<br/>FRS17<br/>Adoption</b> | <b>Restated<br/>Comparative<br/>Figures For<br/>2002/03</b> |
|---|--|---|---|
|   | <b>Net Spend</b>                             |   | <b>Net Spend</b>  |
| <b>SERVICES</b>                               | <b>£000s</b>                                 | <b>£000s</b>  | <b>£000s</b>  |
| Central Services to the Public                | 12,776                                       | (1,135)   | 11,641  |
| Corporate and Democratic Core                 | 6,309  | (162)   | 6,147   |
| Court and Probation Services                  | 142  | -   | 142   |
| Cultural, Environmental and Planning Services | 60,280                                       | (110)   | 60,170  |
| Education Services                            | 215,778                                      | (2,400)   | 213,378   |
| Highways, Roads and Transport Services        | 19,466                                       | (16)  | 19,450  |
| Housing Services                              | 48,729                                       | (263)   | 48,466  |
| Social Services                               | 82,377                                       | (91)  | 82,286  |
| Non Distributed Costs                         | 7,161  | (4,742)   | 2,419   |
| <b>RESTATED NET COST OF SERVICES</b>          | <b>453,018</b>                               | <b>(8,919)</b>  | <b>444,099</b>  |

**Regeneration Schemes**

As gross expenditure on Regeneration schemes during 2003/04 was £28.930 million (£15.255 million in 2002/03), there has been a change in accounting policy to include spend on Regeneration schemes (such as Surestart and Neighbourhood Renewal) within the consolidated revenue account. These schemes are funded by grant income, therefore the net expenditure for 2002/03 and 2003/04 was nil. As a result of this, the 2002/03 net expenditure figures have not changed.

## HOUSING REVENUE ACCOUNT

| 2002/03   | Housing Revenue Account                | 2003/04   | Notes |
|-----------|--|-----------|-------|
|           | <b>Income</b>                          |           |       |
| (67,572)  | Dwelling Rents (gross)                 | (64,974)  |       |
| (2,505)   | Non Dwelling rents (gross)             | (2,459)   |       |
| (1,988)   | Right to Buy service charges           | (2,229)   |       |
| (3,563)   | Charges for services and facilities    | (2,890)   |       |
| (77,791)  | HRA Subsidy receivable (including MRA) | (76,464)  | 1     |
| (431)     | Choice Based Letting Subsidy           | -         |       |
| (340)     | Trading Account Surplus                | (157)     | 2     |
| (154,190) | Total Income                           | (149,173) |       |
|           | <b>Expenditure</b>                     |           |       |
| 15,713    | Repairs and Maintenance                | 14,794    |       |
| 34,446    | Supervision and Management             | 35,725    |       |
| 2,164     | Property Leasing                       | 2,180     |       |
| 630       | Rent, Rates, Taxes & Other Charges     | 709       |       |
| 291       | Debt Management Costs                  | 378       |       |
| 41,641    | Rent Rebates                           | 40,348    | 3     |
| 1,100     | Provision for Bad Debts                | 1,400     | 4     |
| 63,738    | Cost of Capital Charge                 | 45,836    | 5     |
| 17,213    | Depreciation – dwellings               | 17,573    |       |
| 360       | Depreciation – other                   | 540       |       |
| 207       | Trading Account Deficit                | 414       | 2     |
| 177,503   | Total Expenditure                      | 159,897   |       |
| 23,313    | Net Cost of Services                   | 10,724    |       |
| (32,666)  | Adjusting transfer from AMRA           | (19,224)  | 12    |
| (332)     | Amortised Premiums and Discounts       | 823       |       |
| (427)     | Investment Income                      | (300)     |       |
| (10,112)  | Net operating expenditure (income)     | (7,977)   |       |
| 23        | RCCO                                   | -         |       |
|           | HRA Contribution to Minimum Repayment  |           |       |
| 8,319     | Provision                              | 7,947     |       |
| (360)     | Transfer from Major Repairs Reserve    | (540)     |       |
| (2,130)   | Total deficit (surplus) for the year   | (570)     |       |
| (8,317)   | Balance 1 <sup>st</sup> April          | (10,447)  |       |
| (10,447)  | Balance 31 <sup>st</sup> March         | (11,017)  |       |

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, rent rebates, capital charges, and how these are met by rents, subsidy and other income.

FRS17 – The Housing Revenue Account has not been restated for FRS17.

**Note 1. 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.

| 2002/03         | <i>HRA Subsidy Entitlement</i>       | 2003/04         |
|-----------------|--------------------------------------|-----------------|
| <i>£000s</i>    |                                      | <i>£000s</i>    |
| (38,127)        | Management and Maintenance Allowance | (40,026)        |
| (17,213)        | Major Repairs Allowance              | (17,573)        |
| (40,827)        | Capital charges                      | (39,024)        |
| (2,138)         | Other reckonable expenditure         | (2,150)         |
| 58,950          | Notional income from rent            | 59,865          |
| (37,991)        | Rent Rebate                          | (37,556)        |
| (445)           | Year end adjustment                  | -               |
| -               | Tenants Compact Allowance            | -               |
| -               | Resource Accounting allowance        | -               |
| <b>(77,791)</b> | <b>Estimated Subsidy</b>             | <b>(76,464)</b> |
| -               | Subsidy provision released           | -               |
| <b>(77,791)</b> | <b>TOTAL SUBSIDY</b>                 | <b>(76,464)</b> |

The Major Repairs Allowance (MRA) was introduced in 2001/02. It is received annually and in the Government's words 'it represents the estimated long term average amount to maintain stock in its current condition'. The MRA can only be used to finance capital expenditure.

**Note 2. Internal Trading Balances**

The following balances have been allocated to the HRA in 2003/04:

| 2002/03      |                                  | 2003/04      |
|--------------|----------------------------------|--------------|
| <i>£000s</i> |                                  | <i>£000s</i> |
| (133)        | Repairs and Maintenance Division | (157)        |
| -            | Newco                            | 414          |
| <b>(133)</b> | <b>Total</b>                     | <b>257</b>   |

**Note 3. Rent Rebates**

Assistance with rents is available under the Housing Benefits Scheme for those on low incomes. The net cost to the Housing Revenue Account is as follows:

| 2002/03         |                          | 2003/04         |
|-----------------|--------------------------|-----------------|
| <i>£000s</i>    |                          | <i>£000s</i>    |
| 41,641          | Rent Rebates Granted     | 40,348          |
| <u>(37,991)</u> | Government reimbursement | <u>(37,556)</u> |
| 3,650           |                          | 2,792           |

**Note 4. Rent Arrears and Provisions**

The average HRA rent (after voids) during the year was £60.19 per week compared to £58.63 in 2002/03. At the end of the year the level of gross rent arrears was £11.8 million and the provision for write-offs was £9.1 million. Further details are given below, including figures for non-HRA housing rents.

| 2003           |                     |                 | <i>Rent Arrears at 31<sup>st</sup> March</i> | 2004           |                     |                 |
|----------------|---------------------|-----------------|--|----------------|---------------------|-----------------|
| <i>HRA</i>     | <i>General Fund</i> | <i>Total</i>    |  | <i>HRA</i>     | <i>General Fund</i> | <i>Total</i>    |
| <i>£000s</i>   | <i>£000s</i>        | <i>£000s</i>    |  | <i>£000s</i>   | <i>£000s</i>        | <i>£000s</i>    |
| 11,172         | 2,204               | 13,376          | Gross arrears                                | 11,849         | 3,335               | 15,184          |
| <u>(1,583)</u> | <u>(162)</u>        | <u>(1,745)</u>  | less Prepayments                             | <u>(1,927)</u> | <u>(251)</u>        | <u>(2,178)</u>  |
| 9,589          | 2,042               | 11,631          |  | 9,922          | 3,084               | 13,006          |
| <u>(7,971)</u> | <u>(2,313)</u>      | <u>(10,284)</u> | less Provisions                              | <u>(9,064)</u> | <u>(2,166)</u>      | <u>(11,230)</u> |
| 1,618          | (271)               | 1,347           | Net Arrears                                  | 858            | 918                 | 1,776           |

Arrears figures of £1.4 million have been transferred from Housing General Fund to HRA arrears. The gross rent arrears balances as at 31<sup>st</sup> March 2003 have been restated to reflect this transfer.

| <i>Movement in Provision</i>                 | <i>£000s</i> |
|--|--------------|
| <i>Opening balance 1<sup>st</sup> April</i>  | (7,971)      |
| <i>Increase in provision</i>                 | (1,400)      |
| <i>Write off – bad debts</i>                 | 307          |
| <i>Closing balance 31<sup>st</sup> March</i> | (9,064)      |

### Note 5. Cost of Capital Charges

This charge is calculated as 3.5% (6% in 2002/03) of the Balance Sheet value of assets as at the start of the year and acts as a measure of the cost of capital tied up in such assets. However, in order that the charge does not distort the net HRA operating expenditure it is reversed out through an adjustment below the line for net cost of services. This adjustment replaces the charge with the actual interest payable on loans. See note 12.

### Note 6. Housing Stock

The Council was responsible for the management of an average of 21,275 dwellings during 2003/04 (22,125 in 2002/03). The reduction is analysed below:

An analysis of Newham's residential property at 31<sup>st</sup> March 2004 by age and type is given below:

| <i>No. of Bedrooms</i> | <i>Pre 1919</i> | <i>1919-1944</i> | <i>1945-1964</i> | <i>1965-1974</i> | <i>1975-2000</i> | <i>Total</i> |
|------------------------|-----------------|------------------|------------------|------------------|------------------|--------------|
| 1                      | 333             | 105              | 2,288            | 2,656            | 1,435            | 6,817        |
| 2                      | 356             | 434              | 3,273            | 2,240            | 1,038            | 7,341        |
| 3 or more              | 601             | 764              | 2,647            | 1,269            | 1,358            | 6,639        |
| Total                  | 1,290           | 1,303            | 8,208            | 6,165            | 3,831            | 20,797       |
| Of which:              |                 |                  |                  |                  |                  |              |
| Low rise flats         | 393             | 381              | 540              | 122              | 525              | 1,961        |
| Medium rise flats      | 28              | 177              | 4,613            | 2,724            | 1,498            | 9,040        |
| High rise flats        | -               | -                | 1,943            | 2,706            | 27               | 4,676        |
| Houses and Bungalows   | 853             | 743              | 1,112            | 591              | 1,751            | 5,050        |
| Shared Dwellings       | 16              | 2                | -                | 22               | 30               | 70           |
| Total                  | 1,290           | 1,303            | 8,208            | 6,165            | 3,831            | 20,797       |

The change in the stock is detailed below:

| <i>2002/03</i> | <i>Housing Stock</i>                | <i>2003/04</i> |
|----------------|-------------------------------------|----------------|
| 22,495         | Properties at 1 <sup>st</sup> April | 21,754         |
| (748)          | Right to buy sales                  | (888)          |
| -              | Demolitions                         | (68)           |
| (1)            | Disposals                           | (1)            |
| 8              | Buy Backs                           | -              |
| -              | Other                               | -              |
| 21,754         |                                     | 20,797         |

### Note 7. Fixed Assets

|   | <i>Dwellings</i> | <i>Other Land and Buildings</i> | <i>Non-operational Assets</i> | <i>Total</i> |
|---|------------------|---------------------------------|-------------------------------|--------------|
|   | <i>£000s</i>     | <i>£000s</i>                    | <i>£000s</i>                  | <i>£000s</i> |
| Balance Sheet value 1 <sup>st</sup> April 2003  | 1,032,207        | 4,419                           | 21,873                        | 1,058,499    |
| Depreciation                                    | (17,573)         | (540)                           | -                             | (18,113)     |
| Additions                                       | 38,402           | 123                             | -                             | 38,525       |
| Disposals                                       | (59,082)         | -                               | (53)                          | (59,135)     |
| Write off to FARR                               | (32,103)         | -                               | -                             | (32,103)     |
| Revaluation                                     | 273,341          | 1,425                           | 2,462                         | 277,228      |
| Balance Sheet value 31 <sup>st</sup> March 2004 | 1,235,192        | 5,427                           | 24,282                        | 1,264,901    |

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 31<sup>st</sup> March 2004 is estimated to be £2,650 million has been reduced to £1,235 million to reflect social housing use. This social housing use value is included in the Consolidated Balance Sheet. The reduction of £1,415 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 2003/04 and methods of financing are set out below

| 2002/03         |                                | 2003/04         |
|-----------------|--------------------------------|-----------------|
| £000s           |                                | £000s           |
|                 | <b>Expenditure in year</b>     |                 |
| 32,500          | Fixed assets                   | 36,801          |
| 922             | Deferred charges               | 605             |
| <b>33,422</b>   |                                | <b>37,406</b>   |
|                 | <b>Methods of Financing</b>    |                 |
| (17,213)        | Major Repairs Allowance        | (17,573)        |
| (16,229)        | Loan                           | (20,093)        |
| -               | Other Grant Contributions      | (217)           |
| (23)            | Revenue Finance                | -               |
| 43              | Reduction in Capital Creditors | 477             |
| <b>(33,422)</b> |                                | <b>(37,406)</b> |

**Note 9. Capital Receipts**

Capital receipts from the sale of dwellings, land and other property are as follows:

| 2002/03         |              | 2003/04         |
|-----------------|--------------|-----------------|
| £000s           |              | £000s           |
| (37,391)        | Dwellings    | (62,996)        |
| -               | - Land       | -               |
| -               | - Other      | -               |
| <b>(37,391)</b> | <b>Total</b> | <b>(62,996)</b> |

**Note 10. Major Repairs Reserve**

| 2002/03  |  | 2003/04  |
|----------|--|----------|
| £000s    |  | £000s    |
| -        | Balance 1 <sup>st</sup> April  | -        |
| (17,573) | Transfer from Capital Financing Reserve (equivalent to HRA depreciation) | (18,113) |
| 360      | Transfers from HRA   | 540      |
| 17,213   | Financing of Capital expenditure   | 17,573   |
| <b>-</b> | <b>Total</b>   | <b>-</b> |

From 1<sup>st</sup> April 2001 Councils have been required to establish and maintain a Major Repairs Reserve in relation to their HRA property. The main credit to the reserve is an amount equivalent to the total depreciation charges for all HRA assets. The reserve is used to finance capital expenditure and the balance is included with other capital reserves in the Consolidated Balance Sheet.

**Note 11. Housing Repairs Reserve**

No contribution has been made in 2003/04 from the HRA to the Housing Repairs Reserve. This reserve, current balance £1.450 million, will be used to help maintain the level of repairs to Council houses in the event of management and maintenance expenditure exceeding the notional levels on which housing subsidy is calculated.

**Note 12. Adjusting Transfer From Housing Revenue Account**

The adjusting transfer from AMRA comprises a transfer to replace capital charges to the HRA with actual interest paid. This is to ensure that rent levels are not affected by non-cash notional capital charges.

| 2002/03         |   | 2003/04         |
|-----------------|---|-----------------|
| £000s           |   | £000s           |
| 31,072          | Actual interest paid – per Item 8 calculation | 26,612          |
| (63,738)        | Less reversal of capital charges              | (45,836)        |
| <b>(32,666)</b> | <b>Total</b>                                  | <b>(19,224)</b> |

**COLLECTION FUND  
INCOME AND EXPENDITURE ACCOUNT**

| 2002/03<br>£000s | <i>COLLECTION FUND</i>                          | 2003/04<br>£000s | 2003/04<br>£000s | Note |
|------------------|---|------------------|------------------|------|
|                  | Income  |                  |                  |      |
| (61,316)         | Council Tax                                     | (70,268)         |                  | 1    |
| (52,170)         | Non Domestic Rates                              | (48,527)         |                  | 2    |
| 2,260            | Recovery of previous years' Council Tax surplus | 1,401            |                  |      |
| (111,226)        |   |                  | (117,394)        |      |
|                  | Expenditure                                     |                  |                  |      |
|                  | Precepts and Demands                            |                  |                  |      |
| 47,957           | Newham  | 53,669           |                  |      |
| 11,734           | Greater London Authority (GLA)                  | 15,435           | 69,104           | 3    |
| 59,691           |   |                  |                  |      |
|                  | Business Rate                                   |                  |                  |      |
| 51,798           | Payment to National Pool                        | 47,959           |                  |      |
| 351              | Costs of Collection                             | 338              |                  |      |
| 21               | Appropriated credits to General Fund            | -                |                  |      |
| -                | Appropriated credits to Balance Sheet creditors | 230              | 48,527           |      |
| 52,170           |   |                  |                  |      |
|                  | Provisions for non collection                   |                  |                  |      |
| 422              | Council Tax                                     |                  | 1,625            |      |
| 1,057            | Deficit for the year                            |                  | 1,862            |      |
| (2,107)          | Surplus at 1st April                            |                  | (1,050)          |      |
| (1,050)          | Deficit at 31st March                           |                  | 812              | 4    |
|                  | The Deficit at 31st March consists of:          |                  |                  |      |
| (1,203)          | Current year's Council Tax (surplus)/deficit    |                  | 461              |      |
| 153              | Previous year's Council Tax (surplus)/deficit   |                  | 351              |      |
| (1,050)          |   |                  | 812              | 4    |

### Note 1. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands with estimated values at 1st April 1991 being used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and Greater London Authority (GLA) for the forthcoming year, and dividing by the Council Tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent), and then adjusting for discounts which in 2003/04 were 11,291 (11,205 in 2002/03). This basic amount of Council Tax for a Band D property of £1004.66 (£884.50 in 2002/03) 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 2003/04, of £70,268,000 was receivable from the following sources;

| 2002/03<br>£000s |                            | 2003/04<br>£000s |
|------------------|----------------------------|------------------|
| (42,895)         | Bills to Council Taxpayers | (48,824)         |
| (18,421)         | Council Tax Benefits       | (21,444)         |
| (61,316)         |                            | (70,268)         |

**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 2003/04 was £147,653,115 as per the District Valuer (£146,183,633 in 2002/03) and the national non-domestic multiplier for the year was 44.4p (43.7p in 2002/03) resulting in notional NNDR income of £65.6m. The NNDR income for 2003/04 of £48.5m (£52.2m in 2002/03) 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 £11.734million in 2002/03 and £15.435 million in 2003/04.

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

| <b>Collection Fund</b>                    |              |
|---|--------------|
|   | <i>£000s</i> |
| Surplus 1 <sup>st</sup> April             | (1,050)      |
| Recovery of previous year's surplus       | 1,401        |
| Balance pre 2003/04                       | 351          |
| Deficit for current year                  | 461          |
| <b>Deficit 31<sup>st</sup> March 2004</b> | <b>812</b>   |

**CONSOLIDATED BALANCE SHEET**  
at 31<sup>st</sup> MARCH

| 2003<br>£000s    | <b>BALANCE SHEET AT 31<sup>st</sup> MARCH</b>                 | 2004<br>£000s    | Notes     |
|------------------|---|------------------|-----------|
|                  | <b>FIXED ASSETS</b>   |                  |           |
|                  | <i>Operational Assets</i>                                     |                  |           |
| 1,032,207        | Council Dwellings   | 1,235,192        |           |
| 521,568          | Other Land and Buildings                                      | 602,218          |           |
| 85,474           | Infrastructure  | 91,065           |           |
| 18,266           | Community Assets  | 19,527           |           |
| 15,933           | Vehicles, Plant, Furniture & Equipment                        | 16,063           | 1,964,065 |
|                  | <i>Non Operational Assets</i>                                 |                  |           |
| 76,190           | Industrial and Commercial                                     | 89,057           |           |
| 27,057           | Surplus Properties  | 27,166           |           |
| 7,528            | Assets under Construction                                     | 3,842            | 120,065   |
| <b>1,784,223</b> | <b>Net Fixed Assets</b>                                       | <b>2,084,130</b> | 1 & 3     |
| -                | Deferred Charges  | -                | 10        |
| 412              | Long Term Debtors   | 322              |           |
| <b>1,784,635</b> | <b>Total Long Term Assets</b>                                 | <b>2,084,452</b> |           |
|                  | <b>CURRENT ASSETS</b>   |                  |           |
| 2,693            | Stocks and Work in Progress                                   | 3,384            | 19        |
| 119,221          | Debtors and Prepayments                                       | 107,867          | 17        |
| (42,924)         | Less Provisions   | (37,586)         | 17        |
| 86,882           | Investments   | 87,452           | 15        |
| 8,994            | Cash and Bank   | 12,588           |           |
|                  | <b>CURRENT LIABILITIES</b>                                    |                  |           |
| (30,097)         | Borrowing Repayable On Demand Or<br>Within 12 Months          | (51,495)         |           |
| (72,794)         | Creditors and Receipts in Advance                             | (70,398)         | 18        |
| (24,356)         | Bank  | (22,711)         |           |
| 47,619           | Net Current Assets  | 29,101           |           |
| <b>1,832,254</b> | <b>Total Assets less Current<br/>Liabilities</b>              | <b>2,113,553</b> |           |
|                  | <b>OTHER LIABILITIES</b>                                      |                  |           |
| (591,868)        | Borrowing repayable within a period in<br>excess of 12 months | (553,413)        | 16        |
| (145,419)        | Government Grants Deferred                                    | (165,360)        |           |
| (180)            | Deferred Capital Receipts                                     | (180)            |           |
| (5,491)          | Provisions  | (7,245)          | 20        |
| (325,666)        | Pension Liability   | (276,096)        | 27        |
| (3,657)          | Other Balances  | (5,105)          |           |
| <b>759,973</b>   | <b>Total Assets less Total Liabilities</b>                    | <b>1,106,154</b> |           |
| 862,818          | Fixed Asset Restatement Reserve                               | 1,134,508        | 11        |
| 160,897          | Capital Financing Reserve                                     | 195,648          | 12        |
| 6,728            | Usable Capital Receipts                                       | 289              | 4         |
| -                | Major Repairs Reserve   | -                |           |
| (325,666)        | Pension Reserve   | (276,096)        |           |
| 54,146           | Revenue Reserves  | 52,617           |           |
| 1,050            | Collection Fund   | (812)            |           |
| <b>759,973</b>   |   | <b>1,106,154</b> |           |

## Note 1. Fixed Assets

|                                | <i>Council Dwellings</i> | <i>Other Land and Buildings</i> | <i>Vehicles, Plant and Equipment</i> | <i>Infrastructure</i> | <i>Community Assets</i> | <i>Operational Assets</i> | <i>Assets under Construction</i> | <i>Surplus Assets</i> | <i>Commercial and Industrial</i> | <i>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>        |
| Gross Value as at 31/3/03      | <b>1,083,683</b>         | <b>601,700</b>                  | <b>42,184</b>                        | <b>116,406</b>        | <b>18,266</b>           | <b>1,862,239</b>          | <b>7,528</b>                     | <b>27,057</b>         | <b>76,190</b>                    | <b>110,775</b>                | <b>1,973,014</b>    |
| Revaluations etc               | 273,341                  | 77,161                          | -                                    | -                     | -                       | <b>350,502</b>            | -                                | 2,742                 | 15,758                           | <b>18,500</b>                 | <b>369,002</b>      |
| <b>Value at 1/4/03</b>         | <b>1,357,024</b>         | <b>678,861</b>                  | <b>42,184</b>                        | <b>116,406</b>        | <b>18,266</b>           | <b>2,212,741</b>          | <b>7,528</b>                     | <b>29,799</b>         | <b>91,948</b>                    | <b>129,275</b>                | <b>2,342,016</b>    |
| <b>Transactions</b>            |                          |                                 |                                      |                       |                         |                           |                                  |                       |                                  |                               |                     |
| Additions                      | 5,962                    | -                               | 4,749                                | 8,501                 | 1,261                   | <b>20,473</b>             | 4,214                            | 207                   | -                                | <b>4,421</b>                  | <b>24,894</b>       |
| Transfers                      | 337                      | 6,977                           | 212                                  | -                     | -                       | <b>7,526</b>              | (7,900)                          | 3,265                 | (2,891)                          | <b>(7,526)</b>                | -                   |
| Enhancements/Impairment        | 32,103                   | 21,473                          | -                                    | -                     | -                       | <b>53,576</b>             | -                                | -                     | -                                | -                             | <b>53,576</b>       |
| Disposals                      | (59,082)                 | -                               | (22)                                 | -                     | -                       | <b>(59,104)</b>           | -                                | (6,105)               | -                                | <b>(6,105)</b>                | <b>(65,209)</b>     |
| Revaluations at 31/3/04        | -                        | -                               | -                                    | -                     | -                       | -                         | -                                | -                     | -                                | -                             | -                   |
|                                | <b>(20,680)</b>          | <b>28,450</b>                   | <b>4,939</b>                         | <b>8,501</b>          | <b>1,261</b>            | <b>22,471</b>             | <b>(3,686)</b>                   | <b>(2,633)</b>        | <b>(2,891)</b>                   | <b>(9,210)</b>                | <b>13,261</b>       |
| Written off to FARR            | (32,103)                 | -                               | -                                    | -                     | -                       | <b>(32,103)</b>           | -                                | -                     | -                                | -                             | <b>(32,103)</b>     |
| <b>Value at 31/3/04</b>        | <b>1,304,241</b>         | <b>707,311</b>                  | <b>47,123</b>                        | <b>124,907</b>        | <b>19,527</b>           | <b>2,203,109</b>          | <b>3,842</b>                     | <b>27,166</b>         | <b>89,057</b>                    | <b>120,065</b>                | <b>2,323,174</b>    |
| <b>Depreciation</b>            |                          |                                 |                                      |                       |                         |                           |                                  |                       |                                  |                               |                     |
| Cumulative at 1/4/03           | (51,476)                 | (80,132)                        | (26,251)                             | (30,932)              | -                       | <b>(188,791)</b>          | -                                | -                     | -                                | -                             | <b>(188,791)</b>    |
| Depreciation for year          | (17,573)                 | (24,961)                        | (4,809)                              | (2,910)               | -                       | <b>(50,253)</b>           | -                                | -                     | -                                | -                             | <b>(50,253)</b>     |
| On assets sold                 | -                        | -                               | -                                    | -                     | -                       | -                         | -                                | -                     | -                                | -                             | -                   |
| <b>Depreciation at 31/3/04</b> | <b>(69,049)</b>          | <b>(105,093)</b>                | <b>(31,060)</b>                      | <b>(33,842)</b>       | -                       | <b>(239,044)</b>          | -                                | -                     | -                                | -                             | <b>(239,044)</b>    |
| <b>NET VALUE 31/3/04</b>       | <b>1,235,192</b>         | <b>602,218</b>                  | <b>16,063</b>                        | <b>91,065</b>         | <b>19,527</b>           | <b>1,964,065</b>          | <b>3,842</b>                     | <b>27,166</b>         | <b>89,057</b>                    | <b>120,065</b>                | <b>2,084,130</b>    |

## Note 2. Analysis of Capital Expenditure 2003/04

| 2002/03       |                          | Infrastructure | Community Assets | Equipment Plant and Vehicles | Asset Acquisition | Housing       | Assets under Construction | Other         | Total         | Deferred Charges | Total         |
|---------------|--------------------------|----------------|------------------|------------------------------|-------------------|---------------|---------------------------|---------------|---------------|------------------|---------------|
| £000s         |                          | £000s          | £000s            | £000s                        | £000s             | £000s         | £000s                     | £000s         | £000s         | £000s            | £000s         |
| 16,589        | Education                | -              | -                | 2,049                        | -                 | -             | 393                       | 14,267        | 16,709        | 985              | 17,694        |
| 33,422        | Housing - HRA            | -              | -                | 48                           | 5,962             | 30,791        | -                         | -             | 36,801        | 605              | 37,406        |
| 6,984         | Housing - General Fund   | -              | -                | 11                           | -                 | -             | -                         | 54            | 65            | 4,690            | 4,755         |
| 3,125         | Culture & Community      | -              | 91               | 44                           | -                 | -             | 954                       | 1,525         | 2,614         | -                | 2,614         |
| 8,276         | Corporate                | -              | 38               | 1,166                        | 207               | 140           | -                         | 3,044         | 4,595         | 4,789            | 9,384         |
| 1,400         | Social Services          | -              | -                | 497                          | -                 | -             | 56                        | 1,030         | 1,583         | 246              | 1,829         |
| 8,897         | Environment              | 6,759          | -                | -                            | -                 | -             | -                         | 305           | 7,064         | 767              | 7,831         |
| 14,399        | SRB/ERDF/NDC/Surestart   | 1,742          | 1,132            | 934                          | -                 | 1,172         | 2,811                     | 1,248         | 9,039         | 7,135            | 16,174        |
| <b>93,092</b> | <b>Total Expenditure</b> | <b>8,501</b>   | <b>1,261</b>     | <b>4,749</b>                 | <b>6,169</b>      | <b>32,103</b> | <b>4,214</b>              | <b>21,473</b> | <b>78,470</b> | <b>19,217</b>    | <b>97,687</b> |

| <i>The main items of capital expenditure during the year were:</i> | £000s  | <i>Capital expenditure in the year was financed as follows:</i> | £000s   |
|--|--------|---|---------|
| <i>Improvement and modernisation of existing housing</i>           | 32,103 | Loan (Credit Approval)  | 37,544  |
| <i>House Renovation Grants</i>                                     | 2,438  | Capital Grants and Contributions                                | 35,920  |
| <i>SRB Schemes excluding Housing</i>                               | 3,102  | Major Repairs Allowance   | 17,573  |
| <i>New Deal Communities</i>  | 4,171  | Use of Capital Receipts   | 7,885   |
| <i>Neighbourhood Renewal Fund</i>                                  | 6,088  | Revenue Finance   | -       |
| <i>ERDF</i>  | 1,258  |   | 98,922  |
| <i>IT Investment Strategy</i>                                      | 8,216  | Reduction in Capital Creditors                                  | (1,235) |
| <i>Royal Docks School</i>  | 1,608  | Total Expenditure   | 97,687  |
| <i>New Deal for Schools</i>  | 3,475  |   |         |
| <i>Langdon Sports Hall</i>   | 1,387  | Reconciliation to Note 1  |         |
| <i>Education Planned Maintenance</i>                               | 4,285  | Additions   | 24,894  |
| <i>Salway Arts Centre</i>  | 1,090  | Enhancements  | 53,576  |
|  |        | Deferred Charges  | 19,217  |
|  |        |   | 97,687  |

**Note 3. Fixed Assets Employed**

|                           | <i>Net Value<br/>31/3/03</i> | <i>Revaluation</i> | <i>Additions<br/>and<br/>Transfers</i> | <i>Write off to<br/>FARR</i> | <i>Dep'n</i>    | <i>Net Value<br/>31/3/04</i> |
|---------------------------|------------------------------|--------------------|--|------------------------------|-----------------|------------------------------|
|                           | <i>£000s</i>                 | <i>£000s</i>       | <i>£000s</i>                           | <i>£000s</i>                 | <i>£000s</i>    | <i>£000s</i>                 |
| <b>General Fund</b>       |                              |                    |  |                              |                 |                              |
| Infrastructure            | 85,474                       | -                  | 8,501                                  | -                            | (2,910)         | 91,065                       |
| Land and Buildings        | 514,437                      | 75,486             | 28,450                                 | -                            | (24,961)        | 593,412                      |
| Community Assets          | 18,266                       | -                  | 1,261                                  | -                            | -               | 19,527                       |
| Equipment, Vehicles etc   | 14,728                       | -                  | 4,816                                  | -                            | (4,252)         | 15,292                       |
| Non Operational Property  | 88,902                       | 16,038             | (9,157)                                | -                            | -               | 95,783                       |
|                           | <b>721,807</b>               | <b>91,524</b>      | <b>33,871</b>                          | <b>-</b>                     | <b>(32,123)</b> | <b>815,079</b>               |
| <b>HRA</b>                |                              |                    |  |                              |                 |                              |
| Council Dwellings         | 1,032,207                    | 273,341            | (20,680)                               | (32,103)                     | (17,573)        | 1,235,192                    |
| Land and Buildings        | 3,231                        | 1,425              | -                                      | -                            | -               | 4,656                        |
| Equipment, Vehicles etc   | 1,188                        | -                  | 123                                    | -                            | (540)           | 771                          |
| Non Operational Property  | 21,873                       | 2,462              | (53)                                   | -                            | -               | 24,282                       |
|                           | <b>1,058,499</b>             | <b>277,228</b>     | <b>(20,610)</b>                        | <b>(32,103)</b>              | <b>(18,113)</b> | <b>1,264,901</b>             |
| <b>Trading Activities</b> |                              |                    |  |                              |                 |                              |
| Land and Buildings        | 3,900                        | 250                | -                                      | -                            | -               | 4,150                        |
| Equipment, Vehicles etc   | 17                           | -                  | -                                      | -                            | (17)            | -                            |
|                           | <b>3,917</b>                 | <b>250</b>         | <b>-</b>                               | <b>-</b>                     | <b>(17)</b>     | <b>4,150</b>                 |
| <b>TOTAL ASSETS</b>       | <b>1,784,223</b>             | <b>369,002</b>     | <b>13,261</b>                          | <b>(32,103)</b>              | <b>(50,253)</b> | <b>2,084,130</b>             |

**Note 4. Capital Receipts**

Under the Local Government and Housing Act 1989, from 1st April 1990 when local authorities dispose of a capital asset or receive a repayment of a grant or loan, they must set aside a certain proportion of the sum received for use in the repayment of debt. The balance of the sum received can then be used towards capital expenditure, and is known as the usable receipt or can be used to voluntarily repay debt.

The table below shows the sums received by the Council and the use to which they were put in 2003/04. £21 million of usable receipts have been used to repay debt.

|   | <i>Sales of<br/>Council<br/>Houses</i> | <i>Disposal of<br/>other Land and<br/>Buildings</i> | <i>Repayments<br/>of Grants and<br/>Loans</i> | <i>Other</i> | <i>Total</i> |
|---|--|---|---|--------------|--------------|
|   | <i>£000s</i>                           | <i>£000s</i>  | <i>£000s</i>                                  | <i>£000s</i> | <i>£000s</i> |
| <b>Amounts available at 1<sup>st</sup> April 2003</b> | -                                      | (6,728)   | -   | -            | (6,728)      |
| <b>Amounts received in 2003/04</b>                    | (62,996)                               | (8,606)   | -   | (252)        | (71,854)     |
| <b>Less</b>   |  |   |   |              |              |
| Costs of Disposal                                     | 1,115                                  | 49  | -   | -            | 1,164        |
| <b>Set aside for debt redemption:</b>                 |  |   |   |              |              |
| - Statutory set aside                                 | 45,720                                 | 1,883   | -   | 46           | 47,649       |
| - Voluntary set aside                                 | 10,365                                 | 10,635  | -   | -            | 21,000       |
| Transfer to Gurney Trust Fund                         | -                                      | 595   | -   | -            | 595          |
| Amounts used toward expenditure                       | 5,796                                  | 1,883   | -   | 206          | 7,885        |
| <b>Balance available 31/3/04</b>                      | <b>-</b>                               | <b>(289)</b>  | <b>-</b>                                      | <b>-</b>     | <b>(289)</b> |

## Note 5. Capital Grants and Contributions

The following capital expenditure incurred in 2003/04 has been met from government grants and other contributions.

| <b>2002/03</b> |                                     | <b>2003/04</b> |
|----------------|-------------------------------------|----------------|
| <b>£000s</b>   | <b>Government Grants</b>            | <b>£000s</b>   |
| 512            | Housing Specified Capital Grant/DFG | 340            |
| 9,329          | Single Regeneration Budget          | 3,866          |
| 3,370          | New Deal for Communities            | 4,117          |
| 1,689          | Neighbourhood Renewal Fund          | 6,493          |
| 166            | Surestart                           | 333            |
| 385            | European Regional Development Fund  | 1,218          |
| 5,930          | Transport for London                | 5,605          |
| 4,460          | Education Standards Fund            | 5,153          |
| 346            | Department of Health                | 372            |
| 710            | ODPM Grants                         | 4,908          |
| 874            | Wired Up Communities                | 84             |
| 537            | Other Government Grants             | 342            |
| 28,308         |                                     | 32,831         |
| 17,213         | <b>Major Repairs Allowance</b>      | 17,573         |
|                | <b>Other Contributions</b>          |                |
| 587            | Space for Sport & the Arts          | 821            |
| 500            | New Opportunities Fund              | 1,115          |
| 101            | LDDC and successor bodies           | 26             |
| 3,102          | London Development Agency           | 173            |
| 25             | Heritage Economic Regeneration      | 53             |
| 573            | Section 106 Agreements              | 377            |
| 403            | Contributions from schools budgets  | 263            |
| 522            | Other Contributions                 | 261            |
| 5,813          |                                     | 3,089          |
| <b>51,334</b>  | <b>Total</b>                        | <b>53,493</b>  |

## Note 6. Capital Expenditure Commitments

The Council has authorised capital expenditure of £230 million under its Capital Programme and Investment Strategy over the three year period 2004/05 – 2006/07, of which £89 million has been committed at 31st March 2004 either through contracts or by virtue of statutory obligations. A further £141 million relates to schemes and programmes approved to proceed but which were not committed at that time. Further analysis is shown below:

|              | <b>2004/05</b> | <b>2005/06</b> | <b>2006/07</b> | <b>Total</b>   |
|--------------|----------------|----------------|----------------|----------------|
|              | <b>£000s</b>   | <b>£000s</b>   | <b>£000s</b>   | <b>£000s</b>   |
| Committed    | 85,337         | 2,498          | 1,449          | 89,284         |
| Uncommitted  | 30,374         | 70,875         | 39,256         | 140,505        |
| <b>Total</b> | <b>115,711</b> | <b>73,373</b>  | <b>40,705</b>  | <b>229,789</b> |

Commitments include the following major schemes and programmes:

| <b>Commitments (over £5 million)</b>                             | <b>£000s</b> |
|--|--------------|
| Housing Exp 2004/05 incl. Major repairs, Improvements and Grants | 38,602       |
| Regeneration Programmes 2004/05 (SRB, NDC, NRF and Surestart)    | 13,254       |

Approvals to proceed include the following major items and schemes:

| <i>Approvals to Proceed</i>  | <i>£000s</i> |
|--|--------------|
| Housing exp 2005/06 and 2006/07 including Major Repairs, Improvements and Grants | 65,059       |
| Regeneration Programmes 2005/06 and 2006/07 (SRB, NDC, NRF & Surestart)          | 24,651       |
| Provision for Unsupported Borrowing  | 10,000       |

The Council monitors its capital programme on a regular basis, taking action where necessary to ensure that its expenditure does not exceed resources available. Furthermore, the Council has set up special monitoring arrangements for its “major schemes”, involving detailed regular reports and risk assessments on more than 20 such projects.

The Council secures the majority of its new capital resources by bidding for specific projects or programmes. Examples are Single Regeneration Budget (SRB), New Deal for Communities, Surestart 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 2004 the Council approved the Mayor's proposals for the allocation of £59 million to capital and one-off projects, as the latest stage in the Council's Capital Investment Strategy. Public surveys were undertaken to enable resident’s views and concerns to be taken account of. 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 7. Assets held under Finance Lease**

There are were no assets held under Finance Lease during 2002/03 and 2003/04.

### **Note 8. Fixed Asset Valuation**

The freehold and leasehold properties within the Council’s asset holding were originally valued as at 1st April 1994 by the Council’s own Head of Valuation and Estates, M. Dawes FRICS in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. It was not considered practicable nor necessary to inspect all properties for the purposes of the valuation, with the “beacon principle” being applied to a number of assets. These are revalued on a five year rolling programme.

Council dwellings are revalued each year by reference to the values agreed for sales under Right to Buy legislation and other arrangements. Properties regarded as operational were valued on the basis of **open market value for the existing use** or, where this could not be assessed because there was no market for the asset concerned, the **depreciated replacement cost**.

Properties regarded as non operational e.g. commercial and industrial premises, have been valued on the basis of **open market value for the existing use**.

Properties transferred from the LDDC (London Docklands Development Corporation) are valued at Open Market Value.

**Note 9. Statement of Assets Held**

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

| <b>ASSETS HELD</b>                         | <b>Number at 31/03/03</b> | <b>Number at 31/3/04</b> |
|--|---------------------------|--------------------------|
| <u>Council Dwellings</u>                   | 21,754                    | 20,797                   |
| <u>Operational Property</u>                |                           |                          |
| Primary Schools                            | 56                        | 57                       |
| Secondary Schools                          | 12                        | 12                       |
| Nursery Schools                            | 7                         | 7                        |
| Special Schools                            | 3                         | 3                        |
| Youth Centres                              | 3                         | 3                        |
| Other Educational Facilities               | 5                         | 5                        |
| Housing District Offices                   | 10                        | 10                       |
| Municipal/Administrative Offices           | 14                        | 14                       |
| Children's Facilities                      | 7                         | 7                        |
| Elder's Facilities                         | 3                         | 3                        |
| Mental Health Facilities                   | 6                         | 5                        |
| Social Services Area/Patch Offices         | 6                         | 6                        |
| Other Social Services Facilities           | 3                         | 3                        |
| Libraries                                  | 6                         | 6                        |
| Leisure/Sports Centres                     | 5                         | 5                        |
| Children's Recreational Facilities         | 3                         | 3                        |
| Community Centres                          | 8                         | 8                        |
| Museum Facilities                          | 3                         | 3                        |
| Other Leisure Facilities                   | 6                         | 6                        |
| Public Conveniences                        | 5                         | 5                        |
| Depots (including those with offices)      | 4                         | 4                        |
| Other Operational Assets                   | 11                        | 11                       |
| Garages                                    | 2,547                     | 2,334                    |
|  | <b>2,733</b>              | <b>2,520</b>             |
| <u>Community Assets</u>                    |                           |                          |
| Parks and Open spaces (area in acres)      | 373                       | 373                      |
| Museum Exhibits - fine arts (items)        | 6                         | 6                        |
| - other items                              | 2                         | 2                        |
|  | <b>381</b>                | <b>381</b>               |
| <u>Infrastructure</u>                      |                           |                          |
| Length of road maintained (km)             |                           |                          |
| - Principal Roads                          | 46                        | 55                       |
| - Other Roads                              | 362                       | 336                      |
|  | <b>408</b>                | <b>391</b>               |
| <u>Non Operational Property</u>            |                           |                          |
| Assets Surplus to requirements             | 27                        | 24                       |
| Under construction                         | 9                         | 7                        |
| Commercial and Industrial Sites/Properties | 143                       | 141                      |
|  | <b>179</b>                | <b>172</b>               |

**Note 10. Deferred Charges**

| <b>2002/03</b> | <b>DEFERRED CHARGES</b>                                    | <b>2003/04</b> |
|----------------|--|----------------|
| <b>£000s</b>   |  | <b>£000s</b>   |
| -              | <b>Balance at 1st April</b>                                | -              |
| 24,988         | Expenditure in year  | 19,217         |
| (9,728)        | Less capital grant due                                     | (11,870)       |
| -              | Prior year adjustment                                      | (96)           |
| 1              | Created re. Long Term Debtors                              | -              |
| 15,261         |  | 7,251          |
| (15,260)       | Less written off to Consolidated Revenue Account (and HRA) | (7,251)        |
| (1)            | Less written off to Capital Financing Reserve              | -              |
| -              | <b>Balance at 31st March</b>                               | <b>(7,251)</b> |

**Note 11. Fixed Asset Restatement Reserve**

| 2002/03   | <i>FIXED ASSET RESTATEMENT RESERVE</i>                                      | 2003/04     |
|-----------|---|-------------|
| £000s     |   | £000s       |
| (564,303) | Balance at 1 <sup>st</sup> April 2003                                       | (862,818)   |
| (235,461) | Add (surplus)/less deficit on revaluation of Council Dwellings              | (273,341)   |
| (135,045) | Surplus on revaluation of existing fixed assets                             | (95,661)    |
| (934,809) |   | (1,231,820) |
| 40,233    | Less value of assets disposed of in 2003/04                                 | 65,209      |
| 31,758    | Less capital expenditure in year not resulting in increased value of assets | 32,103      |
| (862,818) | Balance at 31st March 2004  | (1,134,508) |

**Note 12. Capital Financing Reserve**

| 2002/03   | <i>CAPITAL FINANCING RESERVE</i>                           | 2003/04   |
|-----------|--|-----------|
| £000s     |  | £000s     |
| (145,930) | Balance at 1st April                                       | (160,897) |
|           | Reserved Capital Receipts in the year                      |           |
| (26,927)  | Right to Buy   | (45,720)  |
| (52)      | Other Asset Disposals                                      | (1,883)   |
| (131)     | Other Receipts   | (46)      |
| (27,110)  |  | (47,649)  |
|           | Voluntarily Reserved Capital Receipts in the year          |           |
| -         | Right to Buy   | (10,365)  |
| -         | Other Asset Disposals                                      | (10,635)  |
|           |  | (21,000)  |
|           | Reserved receipts by virtue of Capital Finance Regulations |           |
| (796)     | Local Authority Social Housing Grant                       | -         |
|           | Capital Financing in the year                              |           |
| (9,740)   | Usable Capital Receipts                                    | (7,885)   |
| -         | General Fund   | -         |
| (23)      | HRA  | -         |
| (17,213)  | HRA use of Major Repairs Allowance                         | (17,573)  |
| (26,976)  |  | (25,458)  |
| 11,161    | Minimum Revenue Provision (net of depreciation)            | 16,477    |
| -         | Premium Charged to Capital Financing Requirement           | 23,149    |
| -         | Less Premium Charged to Housing Revenue Account            | (1,192)   |
| (4,413)   | Write Down of Deferred Grants                              | (4,443)   |
| (194,064) |  | (221,013) |
| 17,573    | Less HRA Depreciation                                      | 18,113    |
| 15,594    | Less write off of Deferred Charges                         | 7,252     |
| (160,897) | Balance at 31st March                                      | (195,648) |

**Note 13. Provision for Credit Liabilities (Memorandum Account)**

| 2002/03  | <i>PROVISION FOR CREDIT LIABILITIES (Memorandum Account)</i> | 2003/04  |
|----------|--|----------|
| £000s    |  | £000s    |
| -        | Balance at 1st April   | -        |
| 15,669   | Minimum Revenue Provision                                    | 15,663   |
| 27,110   | Reserved capital receipts - asset disposals                  | 47,649   |
| 796      | - receipts by virtue of regulation                           | -        |
| -        | - voluntary set-aside of receipts                            | 21,000   |
| 43,575   |  | 84,312   |
| (43,575) | Used in debt redemption                                      | (84,312) |
| -        | Balance at 31st March  | -        |

**Note 14. Contingent Liabilities**

The Council has guaranteed loans from Prudential and Eagle Star, to the Southern Housing Group, at 31<sup>st</sup> March 2004 the amount guaranteed was £7.099 million (£8.091million as at 31<sup>st</sup> March 2003). The Council is involved in a contract dispute with a potential liability of £1.0 million.

**Note 15. Investments**

The Authority has total investments of £87.452 million at 31<sup>st</sup> March 2004. Investments are split between the following categories:

| <b>31/3/03</b> |                            | <b>31/3/04</b> |
|----------------|----------------------------|----------------|
| <b>£000s</b>   |                            | <b>£000s</b>   |
| 16,604         | Temporary cash investments | 10,104         |
| 4,200          | Money Market Funds         | 11,700         |
| 19,664         | Supranational Bonds        | 34,459         |
| 46,414         | External Managers          | 31,189         |
| <b>86,882</b>  | <b>Total</b>               | <b>87,452</b>  |

**Note 16. Borrowing Repayable Within A Period In Excess Of 12 Months**

| <b>31/3/03</b>   |                         | <b>31/3/04</b>   |
|------------------|-------------------------|------------------|
| <b>£000s</b>     |                         | <b>£000s</b>     |
|                  | Source of Loan:         |                  |
| (533,357)        | Public Works Loan Board | (453,401)        |
| (58,500)         | Money Market Loans      | (100,000)        |
| (11)             | Local Bonds/Mortgages   | (12)             |
| <b>(591,868)</b> | <b>Total</b>            | <b>(553,413)</b> |
|                  | Maturing within:        |                  |
| (78,608)         | 1-2 years               | (50,067)         |
| (61,138)         | 2-5 years               | (60,162)         |
| (55,858)         | 5-10 years              | (11,434)         |
| (396,264)        | More than 10 years      | (431,750)        |
| <b>(591,868)</b> | <b>Total</b>            | <b>(553,413)</b> |

There are also loans from PWLB of £33m (£30.1m in 2002/03) due to be repaid within 12 months. Market loans to the value of £18.5m could potentially be repaid within 12 months. Temporary borrowing outstanding at 31<sup>st</sup> March 2004 was £41,000 (£41,000 in 2002/03).

**Note 17. Analysis of Debtors and Doubtful Debts**

| <b>31/3/03</b>  |                                   | <b>31/3/04</b>  |
|-----------------|-----------------------------------|-----------------|
| <b>£000</b>     |                                   | <b>£000s</b>    |
|                 | <b>Debtors</b>                    |                 |
| 39,400          | Government Departments            | 30,702          |
| 4,486           | Other Statutory Authorities       | 4,757           |
| 56              | Other Local Authorities           | 1,027           |
| 19,741          | Ratepayers/Chargepayers           | 17,940          |
| 10              | Mortgage Payers                   | 10              |
| 13,376          | Housing Rents                     | 15,184          |
| 2,326           | Other Rents                       | 1,871           |
| 1,275           | Staff Loans                       | 1,124           |
| 13,257          | Benefit Claimants (overpayments)  | 9,453           |
| 20,439          | Sundry Debtors                    | 19,570          |
| 4,855           | Prepayments                       | 6,229           |
| <b>119,221</b>  |                                   | <b>107,867</b>  |
|                 | <b>Doubtful Debts</b>             |                 |
| (2,761)         | NNDR                              | (1,997)         |
| -               | Community Charge                  | -               |
| (10,674)        | Council Tax                       | (9,458)         |
| (10,284)        | Housing Rents                     | (11,230)        |
| (11,840)        | Housing Benefit overpayments      | (7,036)         |
| (357)           | Community Charge/NNDR Costs       | (336)           |
| (1,128)         | Residential Accommodation Charges | (2,055)         |
| (5,880)         | Sundry Debts                      | (5,474)         |
| <b>(42,924)</b> |                                   | <b>(37,586)</b> |

**Note 18. Analysis of Creditors**

| <i>31/3/03</i>  |                             | <i>31/3/04</i>  |
|-----------------|-----------------------------|-----------------|
| <i>£000s</i>    |                             | <i>£000s</i>    |
| (21,274)        | Government Departments      | (19,441)        |
| (301)           | Other Statutory Authorities | (810)           |
| (2,753)         | Other Local Authorities     | (3,134)         |
| (2,340)         | Ratepayers/Chargepayers     | (3,716)         |
| (1,745)         | Housing Rents               | (2,178)         |
| (41,252)        | Sundry Creditors            | (37,619)        |
| (3,129)         | Receipts in Advance         | (3,500)         |
| <b>(72,794)</b> |                             | <b>(70,398)</b> |

**Note 19. Stocks and Work in Progress**

Stocks and work in progress is as follows:

| <i>31/3/03</i> |                  | <i>31/3/04</i> |
|----------------|------------------|----------------|
| <i>£000s</i>   |                  | <i>£000s</i>   |
| 1,204          | Stocks           | 1,272          |
| 1,489          | Work in Progress | 2,112          |
| <b>2,693</b>   | <b>Total</b>     | <b>3,384</b>   |

**Note 20. Provisions**

The Council has made the following provisions;

| <i>2002/03</i> | <i>PROVISION</i>                        | <i>Insurance</i> | <i>Other</i>   | <i>2003/04</i> |
|----------------|---|------------------|----------------|----------------|
| <i>Total</i>   |   |                  |                | <i>Total</i>   |
| <i>£000s</i>   |   | <i>£000s</i>     | <i>£000s</i>   | <i>£000s</i>   |
| <b>(5,386)</b> | <b>Balance at 1<sup>st</sup> April</b>  | <b>(5,194)</b>   | <b>(297)</b>   | <b>(5,491)</b> |
| (3,169)        | Contribution to Provision               | (496)            | (1,851)        | (2,347)        |
| 2,118          | Charge to Provision                     | 2,628            | 19             | 2,647          |
| 946            | Transfer to/(from) Reserve              | (2,054)          | -              | (2,054)        |
| <b>(5,491)</b> | <b>Balance at 31<sup>st</sup> March</b> | <b>(5,116)</b>   | <b>(2,129)</b> | <b>(7,245)</b> |

INSURANCE – A provision of £5.1 million has been recognised for expected claims notified to the Council at 31<sup>st</sup> March 2004 under the Council's internal insurance arrangements. Further details are included in NOTE 21 below. Timing of future cashflows is uncertain due to the nature of the settlement of insurance claims.

OTHER – Provisions have been made for a number of disputed contracts and it is expected that they will be settled in the forthcoming year.

**Note 21. 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:

| <i>Risk</i>              | <i>Maximum Cover per Claim</i>   |
|--------------------------|--|
| Employers Liability      | £50,000 - amounts in excess of this covered externally   |
| Third Party              | as above   |
| Fire Damage              | £150,000 - excess as above   |
| Fidelity Guarantee       | £50,000 (£100,000 for Housing Benefits) - 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 department concerned - amounts in excess of this are covered externally |
| Loss of Computers        | as in Cash Loss, but excess is £500  |
| Damage/Theft of Vehicles | Third party liability £50,000 – amounts in excess of this are covered externally                                   |

The level of the Provision at 31st March 2004 was £5.1m, with the balance on the Reserve within the general fund account being £9.6m. External cover is provided by way of premiums paid to the Council's Insurers.

**Note 22. 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**

Classification of Council’s interest as “Minority Interest”, “Influence” or “Control”.

Application of Local Authorities (Capital Finance) Regulations 1997.

**Code of Practice on Local Authority Accounting**

Preparation of Group Accounts where the local authority has a material interest in associated or subsidiary companies.

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:

| <b>Organisation</b>                       | <b>Purpose and Relationship</b>  |
|---|--|
| Futures (Careers Company)                 | To provide a comprehensive careers information, guidance and advice service to individuals and employers in East London. Each of the six member Councils appoint one member to a board of 17 directors.                      |
| Gateway to London Ltd                     | To secure inward investment and business retention in Newham and associated Thames Gateway boroughs. The Council appoints one member to a board of 11 directors  |
| 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. The Council appoints two members to 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 two members to a board of 15 directors.  |
| 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 one member to a board of 9 trustees.   |
| Stratford Development Partnership Ltd     | To promote the regeneration of East London by reviewing, selecting and administering projects to be funded by the Government’s urban regeneration initiatives. The Council appoints four members to a board of 21 directors. |
| 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.   |
| 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. One member appointed.   |
| 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 27  |

### Note 23. Post Balance Sheet Events

There have been no events since the 31<sup>st</sup> March 2004 that require adjustment of, or disclosure in the accounts.

### Note 24. Joint Venture – New Deal IT Services

New Deal IT Services is a joint venture limited company owned by London Borough of Newham and Bull Information Systems. This joint venture has been formed primarily to provide IT products and services to the Council and eventually to other local companies in the borough. New Deal also provides a training environment for local unemployed people.

The company was set up in January 1999 with authorised share capital of £100,000. Bull Information Systems is the majority shareholder with 51% of the shares.

For the year ended 31<sup>st</sup> December 2003 it recorded a turnover of £3.66 million (£3.79 million in 2002) and a profit of £213,000 (£107,000 in 2002). As at 31<sup>st</sup> December 2003 total reserves of the company stood at £252,000 (£146,000 in 2002).

A dividend of £50,000 was paid to the Council in 2003/04.

Copies of the accounts for New Deal IT Services can be obtained from; New Deal IT Services Ltd, Bridge Road Depot, Abbey Road, Stratford, London E15 3LX.

### Note 25. Trust Funds

The Council administered trust and gift funds with a value of £1,212,000 at the end of year (£485,000 at 31<sup>st</sup> March 2003). These are not included in the Consolidated Balance Sheet, but are shown separately on page 45.

### Note 26. The Euro

The Council has decided not to undertake any changes to systems until the position concerning adoption of the Euro becomes clearer.

### Note 27. 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 2003/04 was based on the actuarial valuation as at 31<sup>st</sup> March 2001.

The market value of the Fund's assets at March 2001 was £385.6 million, compared to liabilities of £549.2 million, representing 70.2% 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 2001 are shown in the following table.

| Assumptions   | 2001 Valuation  |
|---|---|
| Rate of Return on Investments                               | 6.75% Equities / 5.75% Bonds  |
| Rate of general pay increases                               | 4.3% per annum  |
| Rate of increase to pensions in payment (in excess of GMPs) | 2.8% per annum  |
| Valuation of Assets   | Market value based on average values of assets in the 12 months prior to 31 <sup>st</sup> March 2001. |

The 2001 valuation showed that the required rate of contribution by the Council was 21% of pensionable pay. This rate of contribution is that which, when added to the contributions paid by the members, is sufficient to meet the following;

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

At 31<sup>st</sup> March 2004, the Council had the following overall assets and liabilities for pensions that have been included in the Balance Sheet:

| <i>FRS17 Disclosure</i>      |                         | <i>As at 31<sup>st</sup> March 2004</i> | <i>As at 31<sup>st</sup> March 2003</i> |
|------------------------------|-------------------------|---|---|
| <b>Assumptions</b>           |                         | <b>% per annum</b>                      | <b>% per annum</b>                      |
| Price increases              |                         | 2.9%                                    | 2.5%                                    |
| Salary increases             |                         | 4.4%                                    | 4.0%                                    |
| Pension increases            |                         | 2.9%                                    | 2.5%                                    |
| Discount rate                |                         | 6.5%                                    | 6.1%                                    |
| <b>Assets (Whole Fund)</b>   | <b>Long Term Return</b> | <b>Fund Value as at</b>                 | <b>Fund Value as at</b>                 |
|                              | <b>% per annum</b>      | <b>31<sup>st</sup> March 04</b>         | <b>31<sup>st</sup> March 03</b>         |
|                              |                         | <b>£000s</b>                            | <b>£000s</b>                            |
| Equities                     | 7.7                     | 266,700                                 | 202,245                                 |
| Bonds                        | 5.1                     | 40,400                                  | 34,393                                  |
| Property                     | 6.5                     | 36,300                                  | 34,558                                  |
| Cash                         | 4.0                     | 23,100                                  | 11,771                                  |
| <b>Total</b>                 | <b>7.1%</b>             | <b>366,500</b>                          | <b>282,967</b>                          |
|                              |                         | <b>As at 31<sup>st</sup> March 2004</b> | <b>As at 31<sup>st</sup> March 2003</b> |
| <b>Net Pension Assets</b>    |                         | <b>£000s</b>                            | <b>£000s</b>                            |
| Estimated Employer Assets    |                         | 366,500                                 | 282,967                                 |
| Total value of liabilities   |                         | (642,596)                               | (608,633)                               |
| <b>Net Pension Liability</b> |                         | <b>(276,096)</b>                        | <b>(325,666)</b>                        |

| <i>Year to 31<sup>st</sup> March 2003</i> | <i>Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)</i> | <i>Year to 31<sup>st</sup> March 2004</i> |
|---|--|---|
| <i>£000s</i>                              |  | <i>£000s</i>                              |
| (93,780)                                  | Actual return less expected return on pension scheme assets                                    | 52,000                                    |
| 4,705                                     | Experience gains and losses arising on the scheme liabilities                                  | 903                                       |
| <b>(89,075)</b>                           | <b>Actuarial gain/(loss) recognised in STRGL</b>   | <b>52,903</b>                             |

| <i>Year to 31<sup>st</sup> March 2003</i> | <i>Movement in Surplus/Deficit During the Year</i> | <i>Year to 31<sup>st</sup> March 2004</i> |
|---|--|---|
| <i>£000s</i>                              |  | <i>£000s</i>                              |
| (232,237)                                 | Surplus/(deficit) at beginning of the year         | (325,666)                                 |
| (14,950)                                  | Current Service Cost                               | (15,401)                                  |
| 22,837                                    | Employer contributions                             | 25,900                                    |
| -   | Contributions in respect of Unfunded Benefits      | 1,600                                     |
| (367)                                     | Past service costs                                 | (132)                                     |
| (146)                                     | Impact of settlements and curtailments             | (100)                                     |
| (11,728)                                  | Net return on assets                               | (15,200)                                  |
| (89,075)                                  | Actuarial gains/(losses)                           | 52,903                                    |
| (325,666)                                 | Surplus/(deficit) at end of year                   | (276,096)                                 |

| <i>Year to 31<sup>st</sup> March 2003</i> | <i>History of Experience Gains and Losses</i>               | <i>Year to 31<sup>st</sup> March 2004</i> |
|---|---|---|
| <i>£000s</i>                              |   | <i>£000s</i>                              |
| (93,780)                                  | Difference between the expected and actual return on assets | 52,000                                    |
| 282,967                                   | Value of assets   | 366,500                                   |
| <b>(33.1%)</b>                            | <b>Percentage of assets</b>                                 | <b>14.2%</b>                              |
| 4,705                                     | Experience gains/(losses) on liabilities                    | 903                                       |
| 608,633                                   | Present value of liabilities                                | 642,596                                   |
| <b>0.8%</b>                               | <b>Percentage of the present value of liabilities</b>       | <b>0.1%</b>                               |
| (89,075)                                  | Actuarial gains/(losses) recognised in STRGL                | 52,903                                    |
| 608,633                                   | Present value of liabilities                                | 642,596                                   |
| <b>(14.6%)</b>                            | <b>Percentage of the present value of liabilities</b>       | <b>8.2%</b>                               |

The pension net liability has been calculated by reference to the latest formal actuarial valuation as at 31<sup>st</sup> March 2001, which has been rolled forward and updated for changes in financial assumptions to arrive at an estimated position as at 31<sup>st</sup> March 2004. 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 Hymans Robertson, an independent firm of actuaries.

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

| <b>TOTAL MOVEMENTS IN RESERVES</b>      |                 |                 |                  |                 |                |                 |                |                         |                  |                 |                    |
|---|-----------------|-----------------|------------------|-----------------|----------------|-----------------|----------------|-------------------------|------------------|-----------------|--------------------|
|   | <i>Revenue</i>  | <i>Reserves</i> | <i>Earmarked</i> | <i>Reserves</i> |                |                 |                | <i>Capital Reserves</i> |                  |                 | <i>Total</i>       |
|   | <i>General</i>  | <i>HRA</i>      | <i>Capital</i>   | <i>Schools</i>  | <i>Other</i>   | <i>Total</i>    | <i>Pension</i> | <i>FARR</i>             | <i>Capital</i>   | <i>Usable</i>   | <i>All</i>         |
|   | <i>Fund</i>     |                 |                  |                 |                |                 | <i>Reserve</i> |                         | <i>Financing</i> | <i>Receipts</i> | <i>Reserves</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>       |
| <b>Balance at 1<sup>st</sup> April</b>  | <b>(25,445)</b> | <b>(10,447)</b> | <b>(8,166)</b>   | <b>(5,040)</b>  | <b>(5,048)</b> | <b>(18,254)</b> | <b>325,666</b> | <b>(862,818)</b>        | <b>(160,897)</b> | <b>(6,728)</b>  | <b>(758,923)</b>   |
| (Increase)/Decrease for year            | (123)           | (570)           | 3,980            | (1,688)         | (70)           | 2,222           | 3,333          |                         | 20,310           | 595             | 25,767             |
| Unrealised (gains)/losses               |                 |                 |                  |                 |                |                 | (52,903)       | (369,002)               |                  |                 | (421,905)          |
| Impairment losses                       |                 |                 |                  |                 |                |                 |                | 32,103                  | 21,473           |                 | 53,576             |
| Disposal of fixed assets                |                 |                 |                  |                 |                |                 |                |                         |                  |                 |                    |
| - Value of assets sold                  |                 |                 |                  |                 |                |                 |                | 65,209                  |                  |                 | 65,209             |
| - Proceeds from sale                    |                 |                 |                  |                 |                |                 |                |                         | (68,649)         | (2,041)         | (70,690)           |
| Financing of Fixed Assets               |                 |                 |                  |                 |                |                 |                |                         | (7,885)          | 7,885           | -                  |
| (Increase)/Decrease                     | (123)           | (570)           | 3,980            | (1,688)         | (70)           | 2,222           | (49,570)       | (271,690)               | (34,751)         | 6,439           | (348,043)          |
| <b>Balance at 31<sup>st</sup> March</b> | <b>(25,568)</b> | <b>(11,017)</b> | <b>(4,186)</b>   | <b>(6,728)</b>  | <b>(5,118)</b> | <b>(16,032)</b> | <b>276,096</b> | <b>(1,134,508)</b>      | <b>(195,648)</b> | <b>(289)</b>    | <b>(1,106,966)</b> |

| <i>Explanatory Notes</i>   | <i>Note 1</i> | <i>Note 2</i> | <i>Note 3</i> | <i>Note 4</i> | <i>Note 5</i> | <i>Note 6</i> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Note 1</b>  |               |               |               |               |               | <b>£000s</b>  |
| Capital Reserves consist of :  |               | <b>£000s</b>  |               |               |               |               |
| - Earmarked Reserves   |               | 355           |               |               |               | 1,450         |
| - Vehicles and Equipment   |               | 1,727         |               |               |               | 177           |
| - Investment Strategy  |               | <u>2,104</u>  |               |               |               | 1,906         |
|  |               | 4,186         |               |               |               | <u>1,585</u>  |
| <b>Note 2</b>  |               |               |               |               |               | 5,118         |
| Schools' balances are earmarked for use by schools and are separate from the General Fund. The balance comprises debit balances of £3.183 million and credit balances of £9.911 million. |               |               |               |               |               |               |
| <b>Note 4</b>  |               |               |               |               |               |               |
| Prior period adjustment – Pension Reserve balance from 1 <sup>st</sup> April 2003 now included (£325.7 million).   |               |               |               |               |               |               |
| <b>Note 3</b>  |               |               |               |               |               |               |
| Other Earmarked Balances at 31 <sup>st</sup> March 2004 (£5.1m) include  |               |               |               |               |               |               |
| Housing Repairs  |               |               |               |               |               | 1,450         |
| Trading Surpluses  |               |               |               |               |               | 177           |
| Reserves held for future service spending  |               |               |               |               |               | 1,906         |
| PFI Reserve Account  |               |               |               |               |               | <u>1,585</u>  |
| <b>Note 5</b>  |               |               |               |               |               | 5,118         |
| £21 million of usable capital receipts have been set aside for debt redemption   |               |               |               |               |               |               |
| <b>Note 6</b>  |               |               |               |               |               |               |
| In addition there is a Collection Fund Reserve Deficit of £812,000   |               |               |               |               |               |               |

## CASH FLOW STATEMENT

| 2002/03   |  | 2003/04   | Notes     |
|-----------|--|-----------|-----------|
| £000s     |  | £000s     |           |
|           | <b>Revenue Activities</b>                                |           |           |
|           | <b>Cash Outflows</b>                                     |           |           |
| 326,834   | Cash paid to and on behalf of employees                  | 352,391   |           |
| 253,919   | Other Operating cash payments                            | 340,959   |           |
| 109,241   | Housing Benefit paid out                                 | 122,080   |           |
| 50,607    | Non-domestic rates paid to National Pool                 | 50,636    |           |
| 12,146    | Precepts paid  | 15,710    |           |
|           | <b>Cash Inflows</b>                                      |           |           |
| (42,659)  | Rents (after rebates)                                    | (59,618)  |           |
| (41,762)  | Council Tax receipts                                     | (47,384)  |           |
| (53,265)  | Non Domestic Rate receipts – from ratepayers             | (49,038)  |           |
| (70,954)  | Non Domestic Rate receipts – from pool                   | (71,521)  |           |
| (243,200) | Revenue Support Grant                                    | (269,608) |           |
| (127,972) | DWP grants for Benefits                                  | (166,508) | 2         |
| (133,579) | Other government grants                                  | (173,895) | 2         |
| (60,828)  | Cash received from goods and services                    | (98,704)  |           |
| (12,521)  | Other operating cash receipts                            | (12,088)  |           |
| (33,993)  | Cash Inflow from Revenue Activities                      | (66,588)  | 1         |
|           | <b>Dividends from Joint Ventures</b>                     |           |           |
|           | <b>Cash Inflows</b>                                      |           |           |
| (50)      | Dividends Received                                       | (50)      |           |
|           | <b>Returns on Investments &amp; Servicing of Finance</b> |           |           |
|           | <b>Cash Outflows</b>                                     |           |           |
| 47,614    | Interest paid  | 68,647    |           |
| -         | Interest element of finance lease rentals                | -         |           |
| 47,614    |  | 68,647    |           |
|           | <b>Cash Inflows</b>                                      |           |           |
| (6,828)   | Interest received  | (3,932)   |           |
| 40,786    |  | 64,715    |           |
|           | <b>Capital Activities</b>                                |           |           |
|           | <b>Cash Outflows</b>                                     |           |           |
| 89,429    | Purchase of Fixed Assets                                 | 96,484    |           |
| 3,326     | Payment of Improvement Grants                            | 2,438     | 98,922    |
| 92,755    |  |           |           |
|           | <b>Cash Inflows</b>                                      |           |           |
| (45,751)  | Sales of Fixed Assets                                    | (72,766)  |           |
| (50,890)  | Capital Grants received                                  | (46,846)  |           |
| (182)     | Other capital cash receipts                              | (252)     |           |
| (96,823)  |  | (119,864) |           |
| 2,675     | Net Cash (Inflow) before Financing                       | (22,865)  | 3         |
|           | <b>Management of Liquid Resources</b>                    |           |           |
| (4,152)   | Net increase/(decrease) in short term deposits           | 570       |           |
|           | <b>Financing</b>   |           |           |
|           | <b>Cash Outflows</b>                                     |           |           |
| 132,421   | Repayments of amounts borrowed                           | 124,956   |           |
|           | <b>Cash Inflows</b>                                      |           |           |
| (94,500)  | New loans raised   | (82,900)  |           |
| (43,850)  | New short-term loans                                     | (25,000)  | (107,900) |
| (5,929)   |  | 17,056    |           |
| (7,406)   | (Increase)/Decrease in Cash                              | (5,239)   | 3         |

**Note 1. Reconciliation of Net Revenue Surplus to Cash Inflow from Revenue Activities**

| 2002/03  |  | 2003/04  |          |
|----------|--|----------|----------|
| £000s    |  | £000s    | £000s    |
|          | Revenue (Surplus)/Deficit for year:                    |          |          |
| (12,800) | General Fund   | (123)    |          |
| (2,130)  | Housing Revenue Account                                | (570)    |          |
| 1,057    | Collection Fund deficit                                | 1,862    | 1,169    |
|          | Remove Expenditure not resulting in a cash movement    |          |          |
| (15,669) | Provision for loan repayments etc.                     | (15,663) |          |
| -        | Deferred Charges                                       | -        |          |
| (23)     | Direct revenue financing of capital expenditure        | -        |          |
| -        | Gains & Losses From Early Settlement of Debt           | 22,344   |          |
| 602      | Provisions set aside in the year from revenue          | 5,638    |          |
| 13,947   | Contributions (to)/from Reserves                       | 2,222    | 14,541   |
| (172)    | Change in Stocks/Work in Progress                      | 691      |          |
| 2,449    | Change in Other Balances                               | (1,836)  |          |
| (51)     | Other Adjustments                                      | 219      | (926)    |
| 19,641   | (Reduction)/Increase in Debtors                        | 1,500    |          |
| (1,285)  | Reduction/(Increase) in Creditors                      | (19,371) | (17,871) |
|          | Add  |          |          |
| (39,559) | Financing Items shown later in the Cash Flow Statement |          | (63,501) |
| (33,993) | Cash Inflow from Revenue Activities                    |          | (66,588) |

**Note 2. Analysis of Revenue Grants**

| 2002/03        |                                       | 2003/04 |                |
|----------------|---------------------------------------|---------|----------------|
| £000s          | Grant                                 |         | £000s          |
| 17,970         | City Challenge/IAP/SRB                |         | 24,040         |
| 5,750          | Childrens Services Quality Protects   |         | 6,988          |
| 952            | Promoting Independence/Carers         |         | 711            |
| 1,002          | Mandatory Student Awards              |         | 384            |
| 28,971         | Standards Fund                        |         | 23,455         |
| 3,467          | School Standards Grant                |         | 4,474          |
| 37,098         | HRA Subsidy                           |         | 37,465         |
| 17,641         | Council Tax Benefit                   |         | 20,361         |
| 85,893         | Mandatory Rent Allowances             |         | 121,228        |
| 22,242         | Mandatory Rent Rebates inside HRA     |         | 20,769         |
| 4,981          | Mandatory Rent Rebates outside HRA    |         | 7,042          |
| 1,231          | Mental Health                         |         | 2,059          |
| 11,207         | Asylum Seekers                        |         | 22,790         |
| 2,383          | Teachers Pay reform                   |         | 4,760          |
| 1,854          | Preserved Rights                      |         | 1,826          |
| 2,062          | Education Maintenance Allowance       |         | 2,367          |
|                | Learning and Skills Council grant for |         |                |
| 2,757          | - Adult Education                     |         | 3,647          |
| 2,806          | - Sixth forms                         |         | 3,347          |
| 2,727          | Education PFI Grant                   |         | 3,743          |
| -              | Supporting people                     |         | 12,148         |
| -              | Childcare grant                       |         | 2,550          |
| 8,557          | Other                                 |         | 14,249         |
| <b>261,551</b> | <b>Total</b>                          |         | <b>340,403</b> |

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

| <i>Balance</i><br>31.3.03 |  | <i>Balance</i><br>31.3.04 |
|---------------------------|--|---------------------------|
| £000's                    |  | £000's                    |
| 7,406                     | (Decrease)/Increase in cash for the period                       | 5,239                     |
| (5,929)                   | Cash (inflow)/outflow from (increase)/decrease in debt financing | 17,056                    |
| (4,152)                   | Cash inflow from increase in liquid resources                    | 570                       |
| (2,675)                   | Movement in net debt in the period                               | 22,865                    |
| (547,770)                 | <b>Net Debt at 1<sup>st</sup> April</b>                          | (550,445)                 |
| (550,445)                 | <b>Net Debt at 31<sup>st</sup> March</b>                         | (527,580)                 |

**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 consisting mainly of sterling certificates of deposit with major banks or other financial institutions and UK gilt-edged securities.

**Note 4. Analysis Of Net Debt**

|  | <i>Balance</i><br>31.3.03 | <i>Movement</i><br>In the year | <i>Balance</i><br>31.3.04 |
|--|---------------------------|--------------------------------|---------------------------|
|  | £000's                    | £000's                         | £000's                    |
| Cash in hand                             | (15,362)                  | 5,239                          | (10,123)                  |
| Debt due after one year                  | (621,965)                 | 17,056                         | (604,909)                 |
| Debt due within one year                 | -                         | -                              | -                         |
| Short Term Investments                   | 86,882                    | 570                            | 87,452                    |
| <b>(Increase) / Decrease in Net Debt</b> | (550,445)                 | 22,865                         | (527,580)                 |

**TRUST AND GIFT FUNDS**

| <i>2002/03</i><br>£000's | <i>Trust &amp; Gift Funds 2003/04</i>                   | <i>2003/04</i><br>£000's |
|--------------------------|---|--------------------------|
| 267                      | Fund Balances at 1 <sup>st</sup> April                  | 485                      |
| 252                      | Income  | 855                      |
| (34)                     | Payments  | (128)                    |
| 485                      | Fund balances at 31 <sup>st</sup> March                 | 1,212                    |
|                          | <b>The following individual fund balances are held:</b> |                          |
| 78                       | Education Prize Funds                                   | 79                       |
| 355                      | Social Services Trust Funds                             | 320                      |
| 3                        | Funds received from LDDC/Thames Telethon                | 3                        |
| 39                       | Galleons Reach Enterprise Trust                         | 40                       |
| 10                       | Mayor's Benevolent Fund                                 | 10                       |
| -                        | Gurney School   | 760                      |
| 485                      | <b>TOTAL</b>  | 1,212                    |

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

The Education and Social Services 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.

Galleons Reach Enterprise Trust – this balance is being held on behalf of the Royal Docks Trust.

Gurney School – this fund was created from the sale of the site of the now demolished Gurney School. The trustees have yet to determine how to apply this fund.

## PENSION FUND

| 2002/03<br>£000s | <i>Pension Fund</i>   | £000s          | 2003/04<br>£000s |
|------------------|---|----------------|------------------|
|                  | <b>FUND ACCOUNT</b>   |                |                  |
|                  | <b>Contributions Receivable:</b>                            |                |                  |
| 7,240            | Contributions from Employees (note 1)                       | 7,652          |                  |
| 25,683           | Contributions from Employers (note 1)                       | <u>27,164</u>  | 34,816           |
| 6,087            | Transfer Values in  |                | 5,128            |
|                  | <b>Benefits Payable:</b>                                    |                |                  |
| (18,945)         | Pensions Payable  | (19,305)       |                  |
| (2,257)          | Lump Sum Benefits Payable                                   | <u>(2,481)</u> | (21,786)         |
|                  | <b>Payments to and on account of leavers:</b>               |                |                  |
| (138)            | Refunds of Contributions                                    | (105)          |                  |
| (7,064)          | Transfer Values Out   | (4,790)        |                  |
| (572)            | Administration and other expenses borne by the scheme       | (617)          | (5,512)          |
| <b>10,034</b>    | <b>Net Additions From Dealing With Members</b>              |                | <b>12,646</b>    |
|                  | <b>Return on Investments:</b>                               |                |                  |
| 6,503            | Investment Income   |                | 6,490            |
|                  | <b>Changes in Market Value of Investments:</b>              |                |                  |
| (16,512)         | Realised Gains and Losses on Investments Sold               | (3,612)        |                  |
| (64,650)         | Unrealised/Other Changes in Market Value                    | <u>70,834</u>  | 67,222           |
| (967)            | Investment Management Expenses                              | (1,116)        |                  |
| (448)            | Other Expenses (tax borne by Fund)                          | <u>(407)</u>   | (1,523)          |
| <b>(76,074)</b>  | <b>Net Returns On Investments</b>                           |                | <b>72,189</b>    |
| <b>(66,040)</b>  | <b>Net increase /(decrease) in the fund during the year</b> |                | <b>84,835</b>    |
| <b>357,999</b>   | <b>Opening Net Assets of the scheme</b>                     |                | <b>291,959</b>   |
| <b>291,959</b>   | <b>Closing Net Assets of the scheme</b>                     |                | <b>376,794</b>   |
|                  | <b>NET ASSETS STATEMENT</b>                                 |                |                  |
|                  | <b>Investment Assets</b>                                    |                |                  |
|                  | <b>Represented by:</b>                                      |                |                  |
|                  | <b>Investments at Market Value:</b>                         |                |                  |
| 22,187           | Fixed Interest Securities                                   | 30,203         |                  |
| 207,164          | Equities – Quoted   | 281,764        |                  |
| 1,508            | Equities – Unquoted   | 1,172          |                  |
| 13,299           | Index Linked Securities                                     | 13,738         |                  |
| 35,656           | Freehold and Leasehold Property                             | 31,372         |                  |
| 2,536            | Cash and Other Investments                                  | <u>8,873</u>   |                  |
| 282,350          |   |                | 367,122          |
|                  | <b>Current Assets:</b>                                      |                |                  |
| 1,206            | Debtors and Prepayments                                     | 4,542          |                  |
| 8,720            | Cash and Bank Balances                                      | <u>5,511</u>   |                  |
| 9,926            |   |                | 10,053           |
|                  | <b>Current Liabilities:</b>                                 |                |                  |
| (317)            | Creditors   |                | (381)            |
| <b>291,959</b>   | <b>Fund Balance at 31<sup>st</sup> March</b>                |                | <b>376,794</b>   |

**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 regulations issued by Central Government. 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 <sup>st</sup> March 2004 | At 31 <sup>st</sup> March 2003 |
|----------------------|--------------------------------|--------------------------------|
| Contributing Members | 6,739                          | 6,950                          |
| Current Pensioners   | 5,775                          | 5,585                          |
| Deferred Pensioners  | 3,265                          | 3,278                          |

Benefits are financed by contributions from employees, the Council as employer, and by income from investments. The employees basic contribution is 6% of pensionable pay for Officers and Manual Workers. The Employers contribution for 2003/04, paid by the Council, was 21% of pensionable pay.

In addition to the Council, there are five scheduled bodies participating in the scheme: Newham Sixth Form College (NewVIC), Newham Community College, Stratford School, and Greenwich Leisure. These had a 21% contribution rate.

| <i>Scheduled Body</i>                      | <i>Employee's Contributions</i> |                | <i>Employer's Contributions</i> |                |
|--|---------------------------------|----------------|---------------------------------|----------------|
|  | <i>2002/03</i>                  | <i>2003/04</i> | <i>2002/03</i>                  | <i>2003/04</i> |
|  | £000s                           | £000s          | £000s                           | £000s          |
| <b>LB Newham</b>                           | 6,878                           | 7,261          | 24,481                          | 25,860         |
| <b>Stratford School</b>                    | 16                              | 15             | 54                              | 54             |
| <b>NewVIC</b>                              | 68                              | 71             | 238                             | 247            |
| <b>Newham College of Further Education</b> | 232                             | 264            | 813                             | 920            |
| <b>Greenwich Leisure</b>                   | 45                              | 41             | 92                              | 83             |
| <b>David Webster</b>                       | 1                               | -              | 4                               | -              |
| <b>TOTAL</b>                               | <b>7,240</b>                    | <b>7,652</b>   | <b>25,682</b>                   | <b>27,164</b>  |

The Council administers the investment of the Fund. The bulk of the Fund is actually invested by external fund managers. The management of the majority of assets is divided between Deutsche Asset Management (DeAM), Capital International (Capital) and Legal & General (L&G), on a balanced basis. In addition, a small proportion of the Fund is held in a small company unit trust, property and 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 31<sup>st</sup> March 2004.

| <i>Investment</i>               | <i>Capital</i> | <i>Legal &amp; Gen.</i> | <i>L&amp;G</i> | <i>DeAM*</i>   | <i>Barings</i> | <i>GLE</i>  | <i>LBN</i>   | <i>Total</i>   |
|---------------------------------|----------------|-------------------------|----------------|----------------|----------------|-------------|--------------|----------------|
| Fixed Interest (UK)             | 1,217          | 6,797                   | -              | 18,451         | -              | -           | -            | 26,465         |
| Fixed Interest (Overseas)       | 59             | 1,642                   | -              | 2,037          | -              | -           | -            | 3,738          |
| Index Linked – UK               | 5,018          | 8,720                   | -              | -              | -              | -           | -            | 13,738         |
| UK Equities – Quoted            | 49,866         | 29,080                  | 14,215         | 49,269         | -              | -           | 934          | 143,364        |
| Overseas Equities - Quoted      | 58,968         | 25,630                  | -              | 53,802         | -              | -           | -            | 138,400        |
| Equities – Unquoted             | -              | -                       | -              | -              | 577            | 595         | -            | 1,172          |
| Freehold Property               | -              | -                       | -              | -              | -              | -           | 820          | 820            |
| Unit Trusts – Property          | -              | -                       | -              | 30,552         | -              | -           | -            | 30,552         |
| Cash & Liquid Assets (UK)       | 2,720          | -                       | 30             | 6,123          | -              | -           | -            | 8,873          |
| <b>TOTAL HOLDING</b>            | <b>117,848</b> | <b>71,869</b>           | <b>14,245</b>  | <b>160,234</b> | <b>577</b>     | <b>595</b>  | <b>1,754</b> | <b>367,122</b> |
| <i>As a percentage of total</i> | <b>32.10</b>   | <b>19.58</b>            | <b>3.88</b>    | <b>43.65</b>   | <b>0.16</b>    | <b>0.16</b> | <b>0.47</b>  | <b>100</b>     |

\* DeAM includes £30.5 million of Prudential property units held by Deutsche Asset Management held on behalf of the Council.

The 31<sup>st</sup> March 2003 investment market values were as follows (in £000s):

| <i>Investment</i>               | <i>Capital</i> | <i>Legal<br/>&amp; Gen.</i> | <i>L&amp;G</i> | <i>DeAM</i>    | <i>Barings</i> | <i>GLE</i>   | <i>LBN</i>   | <i>Total</i>   |
|---------------------------------|----------------|-----------------------------|----------------|----------------|----------------|--------------|--------------|----------------|
| Fixed Interest (UK)             | 1,211          | 0                           | 5,228          | 12,432         | 0              | 0            | 0            | 18,871         |
| Fixed Interest (Overseas)       | 21             | 0                           | 1,406          | 1,889          | 0              | 0            | 0            | 3,316          |
| Index Linked – UK               | 4,732          | 0                           | 6,709          | 1,858          | 0              | 0            | 0            | 13,299         |
| UK Equities – Quoted            | 34,565         | 11,221                      | 23,686         | 36,551         | 0              | 0            | 480          | 106,503        |
| Overseas Equities - Quoted      | 41,892         | 0                           | 20,231         | 38,538         | 0              | 0            | 0            | 100,661        |
| Equities – Unquoted             | 0              | 0                           | 0              | 0              | 693            | 815          | 0            | 1,508          |
| Freehold Property               | 0              | 0                           | 0              | 0              | 0              | 3,906        | 820          | 4,726          |
| Unit Trusts – Property          | 0              | 0                           | 0              | 30,930         | 0              | 0            | 0            | 30,930         |
| Cash and Liquid Assets (UK)     | 1,423          | (30)                        | 0              | 1,143          | 0              | 0            | 0            | 2,536          |
| <b>TOTAL HOLDING</b>            | <b>83,844</b>  | <b>11,191</b>               | <b>57,260</b>  | <b>123,341</b> | <b>693</b>     | <b>4,721</b> | <b>1,300</b> | <b>282,350</b> |
| <i>As a percentage of total</i> | <i>29.70</i>   | <i>3.96</i>                 | <i>20.28</i>   | <i>43.68</i>   | <i>0.25</i>    | <i>1.67</i>  | <i>0.46</i>  | <i>100</i>     |

### Note 3. Actuarial Position

Details of the Actuarial position of the fund are with note 9 of the Consolidated Revenue Account on page 19 and note 27 of the Consolidated Balance Sheet on pages 40 to 41 of these accounts.

### Note 4. Accounting Policies

The 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 accounts have been prepared in accordance with the principles specified in the Code of Practice on Local Authority Accounting, the SORP for Pension Scheme accounts, and as described below.

**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:

- UK and Overseas quoted securities are valued at mid-market prices at the close of business on 31st March 2004.
- Foreign currency is translated to sterling at the closing mid-market rate on the 31st March 2004
- UK unlisted unit trusts and other securities are valued in accordance with the managers' own valuation of the underlying securities or, where appropriate, at cost
- Property under the direct ownership of the Pension Fund is shown at its open market value as determined periodically by a professional valuer. The last valuation of the Fund's property was conducted in March 2002.

**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.

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

### Note 5. Related Party Transactions

There were no related party transactions in 2003/04.

A potential investment opportunity in schools was discussed in outline. As this investment company already provides services to Kingsford School, Councillor Kellaway declared that he is a school governor of the school and did not contribute to the investment decision. Councillor Kellaway registered his interest in accordance with the Local Government Act 2000.

**Note 6. Additional Information**

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

| <i>Administration and Investment Management Costs</i> | <i>2002/03</i>      | <i>2003/04</i>      |
|---|---------------------|---------------------|
| <b><i>Scheme Administration.</i></b>                  | <b><i>£000s</i></b> | <b><i>£000s</i></b> |
| Officers' salaries and related costs.                 | 497                 | 540                 |
| Direct running costs                                  | 75                  | 77                  |
| Administration & other expenses borne by fund         | <b>572</b>          | <b>617</b>          |
| Fund Management Expenses                              | 967                 | 1,116               |
|   | <b>1,539</b>        | <b>1,733</b>        |
| <b><i>Investment Income</i></b>                       |                     |                     |
| Interest  | 1,309               | 922                 |
| Dividends   | 4,633               | 4,945               |
| Rents   | 57                  | 57                  |
| <b><i>Sub total</i></b>                               | <b>5,999</b>        | <b>5,924</b>        |
| Bank Interest   | 504                 | 566                 |
| <b><i>Total</i></b>                                   | <b>6,503</b>        | <b>6,490</b>        |

**Analysis of Purchases and Sales of Investments during 2003/04**

| <i>Investment</i>          | <i>At 1<sup>st</sup> April 03</i> | <i>Purchases</i> | <i>Sales</i>    | <i>At 31<sup>st</sup> March 04</i> |
|----------------------------|-----------------------------------|------------------|-----------------|------------------------------------|
|                            | <i>£000s</i>                      | <i>£000s</i>     | <i>£000s</i>    | <i>£000s</i>                       |
| Fixed Interest – UK        | 18,076                            | 11,648           | (4,177)         | 25,547                             |
| Fixed Interest - Overseas  | 3,119                             | 670              | (97)            | 3,692                              |
| Index Linked – UK          | 12,407                            | 11,097           | (11,047)        | 12,457                             |
| UK Equities - Quoted       | 146,155                           | 47,385           | (44,626)        | 148,914                            |
| Overseas Equities - Quoted | 144,924                           | 26,305           | (23,487)        | 147,742                            |
| Equities - Unquoted        | 1,545                             | 120              | -               | 1,665                              |
| Property Trust             | 23,787                            | -                | (3,200)         | 20,587                             |
| Freehold Property          | 3,048                             | -                | (2,988)         | 60                                 |
| UK Cash                    | 2,536                             | 6,337            | -               | 8,873                              |
| <b>Total</b>               | <b>355,597</b>                    | <b>103,562</b>   | <b>(89,622)</b> | <b>369,537</b>                     |

**Analysis of Gains and Losses on Investments during 2003/04**

| <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        | 38             | (96)            | (58)              |
| Index Linked – UK          | 394            | (18)            | 376               |
| UK Equities - Quoted       | 4,070          | (7,171)         | (3,101)           |
| Overseas Equities - Quoted | 1,985          | (4,367)         | (2,382)           |
| Equities - Unquoted        | 8              | -               | 8                 |
| Property                   | 1,532          | -               | 1532              |
| Currency                   | 328            | (315)           | 13                |
| <b>Total</b>               | <b>8,355</b>   | <b>(11,967)</b> | <b>(3,612)</b>    |

**Schedule of Debtors and Creditors**

| <i>Debtors</i>                    | <i>£000s</i> | <i>Creditors</i>                     | <i>£000s</i> |
|-----------------------------------|--------------|--------------------------------------|--------------|
| Contributions from outside bodies | 136          | Tax payable on outstanding dividends | (111)        |
| Dividends outstanding – DAM       | 402          | Fees due to Fund Managers            | (270)        |
| Dividends outstanding – L&G       | 152          |                                      |              |
| Dividends outstanding – CAP       | 643          |                                      |              |
| Bank Interest                     | 48           |                                      |              |
| Sale of Property Fund             | 3,161        |                                      |              |
|                                   | <b>4,542</b> |                                      | <b>(381)</b> |