

# **Audit, Governance and Standards Committee**

Wednesday 18 July 2018

7.00 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1  
2QH

## **Supplemental Agenda No. 1**

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<b>13.</b>	<b>Independent members: Verbal update</b> Norman Coombe, head of governance team, legal services, will present a brief verbal update to the committee on the independent members of the committee.	

### **Contact**

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Date: 13 July 2018

<b>Item No.</b> 11.	<b>Classification:</b> Open	<b>Date:</b> 18 July 2018	<b>Meeting Name:</b> Audit, Governance and Standards Committee
<b>Report title:</b>		Southwark Council Audit Findings Report 2017-18 and Pension Fund Audit Findings Report 2017-18	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance and Governance	

## RECOMMENDATION

1. That the audit, governance and standards committee:
  - a) consider the matters raised in Grant Thornton's audit findings report for 2017-18 (Appendix A) before approval of the council's accounts
  - b) note the adjustments to the accounts as set out on pages 22-24 of the audit findings report
  - c) approve the council's letter of representation set out at Appendix B
  - d) consider the matters raised in the pension fund audit findings report 2017-18, (Appendix C) prior to approval of the pension fund statement of accounts
  - e) note the adjustments to the pension fund statement of accounts as set out in page 14 of the audit findings report
  - f) approve the pension fund letter of representation set out at Appendix D
  - g) approve the Statement of Accounts 2017-18 (Appendix E), subject to any final changes required by the conclusion of the audit, being delegated to the strategic director of finance, in consultation with the chair of audit, governance and standards committee.
  - h) note the audit fee letter (Appendix F).

## BACKGROUND INFORMATION

2. As the council's appointed external auditor, Grant Thornton is required under the statutory Code of Audit Practice for Local Government Bodies to issue reports to those charged with governance summarising the conclusions of the audit work. The audit, governance and standards committee is the council's constitutional body for receiving these reports and needs to consider the auditor's reports before approving the accounts.
3. The audit of the pension fund accounts is separate from the audit of the council's main accounts. There is a separate audit findings reports from the auditor for the Pension Fund accounts.

4. The auditor is required by professional auditing standards to report to the committee certain matters before giving their opinion on the financial statements. There are separate sections in each report covering these matters.
5. In addition to reporting on the financial statements, the auditor reports on any circumstances where they suspect or detect fraud and on whether, in their view, the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
6. The principal purposes of the reports are to:
  - reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the audit and governance committee;
  - share information to assist both the auditor and the committee to fulfil their respective responsibilities;
  - provide the committee with recommendations for improvement arising from the audit process.
7. Before the auditor issues their formal opinion, they will require letters of representations to be provided by the council. The draft letters, relating to each of the main accounts and pension fund accounts, are set out in Appendices B and D respectively. The final letters, once approved by this committee, will be signed by the strategic director of finance and governance on behalf of the council.

## **KEY ISSUES FOR CONSIDERATION**

### **Audit opinion**

8. The auditor expects to give unqualified opinions on both council's accounts and pension fund accounts prior to the statutory deadline of 31 July 2018, two months earlier than last year.
9. The purpose of the Grant Thornton's Audit Findings Report (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. The report of the main council accounts is attached as Appendix A, and includes key audit issues, value for money conclusions and a management action plan. The Auditors will also make an oral presentation of their findings to the Committee.
10. Whilst the auditors have identified a number of amendments to the accounts, (pages 22-24) there are no areas of dispute between the Council and the auditors and no unadjusted misstatements.
11. The AFR identified one misstatement which required adjustment (page 22). As part of the audit, Grant Thornton's technical team undertook a review of the accounts. The review highlighted that the presentation of Support Service Costs on the face of the Comprehensive Income and Expenditure Account was not strictly in accordance with the requirements of the accounting Code, despite the presentation having previously been agreed, and we have revised the presentation accordingly.
12. The audit has been extremely thorough and highlighted a few other areas where improvements could be made to disclosures and to correct some minor misclassifications, all of which will be reflected in the final accounts.

### **Letters of representation**

13. The proposed letters of representation for the main council statements and the pension fund are set out in Appendices B and E respectively. The auditor has asked for a number of representations to be given, and there are no reservations in being able to give these representations.

### **Audit fee letter**

14. Following the council's decision to opt in to the Public Sector Audit Appointments Ltd (PSAA) auditor appointment arrangements, Grant Thornton (UK) LLP was appointed to audit the accounts of the council for five years from 2018-19. The 2018-19 audit fee letter is attached at Appendix F. The Council's scale fee for 2018-19 has been set by PSAA at £182,718.

### **Community impact statement**

15. This report and the accompanying statement of accounts are not considered to have a direct impact on local people and communities.

### **Resource implications**

16. There are no direct resource implications arising from this report.

### **Consultation**

17. Consultation on the accounts is carried out through public inspection. The accounts were open for public inspection from 1 June 2018 until 12 July 2018. The audit findings reports are key documents in assessing the council's progress and plans for the future, such as through the council's policy and resources strategy. The final report will be published on the council's website.

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

18. None required.

### **Reasons for lateness**

19. The audit of the accounts is ongoing. The Audit Findings Reports were received and agreed after the dispatch of the audit, governance and standards committee agenda.

### **Reasons for urgency**

20. Accounts and Audit Regulations require the council to approve the accounts by 31 July 2018.

**BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
Finance and Governance files	Finance and Governance, Second Floor, Tooley Street	Rob Woollatt 020 7525 0614

**APPENDICES**

<b>No.</b>	<b>Title</b>
Appendix A	Grant Thornton – Council Audit Findings Report 2017-18
Appendix B	Letter of Representation – Council
Appendix C	Grant Thornton – Pension Fund Audit Findings Report 2017-18
Appendix D	Letter of Representation – Pension Fund
Appendix E	Statement of Accounts 2017-18
Appendix F	Grant Thornton Fee letter 2018-19

**AUDIT TRAIL**

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance		
<b>Report Author</b>	Rob Woollatt, Interim Departmental Finance Manager		
<b>Version</b>	Final		
<b>Dated</b>	13 July 2018		
<b>Key Decision?</b>	No		
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>			
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>	
Director of Law and Democracy	No	N/A	
Strategic Director of Finance and Governance	N/A	N/A	
<b>Cabinet Member</b>	N/A	N/A	
<b>Date final report sent to Constitutional Team</b>		13 July 2018	



# Audit Findings Report

*Year ending 31 March 2018*

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**Southwark Council**

18 July 2018



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team members are:**

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li> <li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 11. To date we have not identified any amendments to the overall financial position reported within the Statement of Comprehensive Income and Expenditure, although some presentation changes have been to this Statement. A number of other audit adjustments have been identified and are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 18 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"> <li>completion of our testing in a few areas (refer to the following page for more detail)</li> <li>completion of our internal quality review process;</li> <li>receipt of management representation letter;</li> <li>review of the final set of financial statements;</li> <li>completion of our work on the Whole Government Accounts (WGA) Exercise.</li> </ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Southwark Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 12 to 18.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.



# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 19 July 2018, as detailed in Appendix E. These outstanding items include:

- completion of our testing in the following areas: Property, Plant and Equipment Additions and Revaluations, Investment Property Additions, Journals, Welfare Benefit Analytical Review and review of the Cash Flow
- completion of our internal quality review process;
- receipt of management representation letter;
- review of the final set of financial statements;
- completion of our work on the Whole Government Accounts (WGA) Exercise.

# Our approach to Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of materiality and related measures has been adjusted to reflect the change in Gross Expenditure in 2017/18, when compared to the spend incurred in the previous year. We detail in the table below our assessment of materiality for Southwark Council.

	Council Amount (£) – Planning Stage	Council Amount (£) – Final Accounts	Qualitative factors considered
Materiality for the financial statements	£25.146m	£25.000m	As mentioned above, the value of our overall Materiality threshold decreased from the planning stage to the final Accounts stage due to the decrease in expenditure incurred during the course of the year.
Performance materiality	£18.860m	£18.750m	Performance Materiality is based on a percentage of the overall materiality, hence an decrease in this value has decreased Performance Materiality in line with this.
Trivial matters	£1.257m	£1.250m	As above, Triviality is based on a percentage of the overall materiality, hence an decrease in this value has decreased Triviality in line with this.
Materiality for specific transactions, balances or disclosures	n/a	n/a	As at the Planning Stage, no specific materialities have been set for the purposes of our work in 2017-18.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<div>1</div> <p><b>Improper revenue recognition</b></p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• The culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable</li></ul> <p>Therefore we do not consider this to be a significant risk for Southwark Council.</p> <p>To support this assessment, we have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"><li>• reviewed and tested the Council's revenue recognition policies</li><li>• performed testing on material revenue streams</li></ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<div>2</div> <p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li><li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li><li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li></ul> <p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>




# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of property, plant and equipment</b> The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul> <p>The work completed to date has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.</p>
<p><b>4 Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;</li> <li>• gained an understanding of the basis on which the valuation is carried out;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>The work completed to date has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.</p>




# Reasonably possible audit risks

Risks identified in our Audit Plan		Commentary
5	<b>Employee remuneration</b> Payroll expenditure represents a significant percentage (13%) of the Council's operating expenses.  As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	<b>Auditor commentary</b> We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;</li><li>gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls;</li><li>agreed that payroll costs are complete within the financial statements via review of the reconciliations between the payroll system and the General Ledger; and</li><li>We have obtained assurances via a trend analysis and detailed analytics to ensure that pay included within the accounts is materially complete. Given we were able to obtain this assurance, we did not need to undertake detailed testing in this area.</li></ul> Our audit work has not identified any significant issues in relation to the risk identified.
	<b>Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage (70%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.  We identified completeness of non-pay expenses as a risk requiring particular audit attention:	<b>Auditor commentary</b> We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li><li>gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;</li><li>perform detailed substantive testing on operating expenditure recorded for the financial year, including a separate sample of schools expenditure; and</li><li>tested operating expenditure to ensure cut-off has been correctly applied.</li></ul> Our audit work has not identified any significant issues in relation to the risk identified.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council's revenue recognition policy is disclosed within Note 1(ii) of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.	<p>Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code. We have made some recommendations for improved disclosure around the revenue policies which have been added within the revised Accounts.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p>	 <b>Amber</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include: <ul style="list-style-type: none"> <li>Useful life of Property, plant and equipment</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for Business Rate appeals</li> <li>Other provisions</li> </ul> </li> </ul>	<p>Following our consideration of these judgements we are satisfied they are in line with the Code of Practice, and with the approach taken by the Council in the previous year.</p> <ul style="list-style-type: none"> <li>We did not identify any issues with the items relating to property, plant and equipment, such as the calculation of depreciation, the asset lives applied, or the revaluations applied by the Council during the course of the year.</li> <li>We confirmed the pension fund valuations were consistent with the reports received from the Fund's Actuary, Hymans Robertson. Our use of an expert, PwC, to assess the work performed by the Actuary did not identify any issues either.</li> <li>Our work on the Business Rate Provision identified a considerable decrease in provision from the previous year, which was due changes in a number of the inputs to the calculation prepared by the Council. We reviewed the Council's approach and assumptions around this area and are comfortable with the revised provision included in this year's Accounts.</li> </ul>	 <b>Green</b>
<b>Other critical policies</b>		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. We have identified some enhancements to these policies to ensure that they cover all of the material balances included within the Accounts, all of which have been processed by the Council.	 <b>Amber</b>

## Assessment

-  - **Red** - Marginal accounting policy which could potentially be open to challenge by regulators
-  - **Amber** - Accounting policy appropriate but scope for improved disclosure
-  - **Green** - Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
①	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
②	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included within the papers for this meeting of the Audit, Governance and Standards Committee.</li> </ul>
⑤	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> <li>We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.</li> </ul>
⑥	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.</li> </ul>

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
<b>1 Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>Inconsistencies and omissions have been identified from the work performed on the Annual Governance Statement but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to Appendix E</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of [£tbc] we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>At the date of issuing this Report our work in this area had yet to be started, but we are aiming to complete in advance of us issuing our Audit Opinion at the end of July 2018.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Southwark Council in the audit opinion, as detailed in Appendix E.</p>



# Value for Money

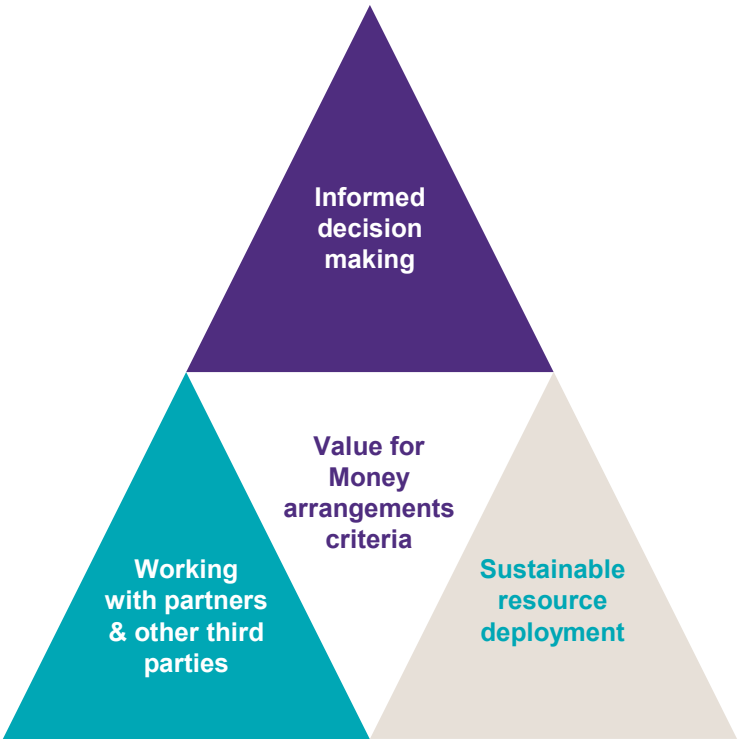
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 19 February 2018, which was as follows:

### Ongoing Financial Performance

#### Risk

The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement.

#### Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review the 2017-18 Outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2018-19 financial plan up to the completion of our audit; and
- obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council have managed to deliver a balanced budget in 2017-18, including the movement of **£10.799m** to General Fund Reserves to help strengthen the overall financial position of the Council. This helps to offset some of the **£27.4m** draw on reserves that took place in 2016-17, which was largely due to the challenges on Social Care.
- Significant improvements have been made in respect of Social Care, with the total overspend in this area arriving at **£2.4m**, with **£2.042m** relating to Children's. This is clearly an area which the Council is going to need to continue to work on during 2018-19 and beyond, with a plan already in place to recoup the 2017-18 overspend in 2018-19.
- A balanced budget has been set for 2018-19, which includes the delivery of **£18.209m** of further efficiencies and income to offset the shortfall in the budget. Plans are in place for the delivery of this sum, which will need close monitoring during the course of the year.
- The Council is continuing to adopt a one-year planning timeframe due to the level of uncertainty post-2020, which is something that will need to be tackled soon to ensure the Council is in a position to face the challenges

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

## Overall conclusion

Based on the work we performed to address the significant risk, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed two recommendations for improvement as follows:

- The Council needs to start looking ahead to 2020 onwards and ensure that both Officer and Members are on board with the challenges that the Council may potentially face from this period onwards.
- The Council encountered considerable challenges on spending normally covered via the Dedicated Schools Grant, due to challenges around those children with High Needs and Special Needs. These overspends are not sustainable over the Medium Term if spending in these areas cannot be brought back under control.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment:

	Significant risk	Findings
1	<p><b>Ongoing financial performance</b></p> <p>The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement.</p> <p>To gain assurance over this risk we have undertaken the following:</p> <ul style="list-style-type: none"><li>• reviewed the 2017-18 Outturn, and progress against the 2018-19 financial plan up to the completion of our audit; and</li><li>• obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.</li></ul>	<p><b>Revenue Outturn for 2017/18</b></p> <p>The Council has managed to deliver a balanced budget for 2017-18, following the movements to and from reserves which have been processed at year end. Unlike in the prior year, the Council has been able to contribute a considerable balance to reserves during the course of the year</p> <p>In terms of providing further detail on the delivery of the balanced budget for 2017/18, as mentioned above, this allowed the Council to move <b>£10.799m</b> of funding to General Fund Reserves, which will help provide support for the challenges that are potentially ahead for the Council on the back of the outcome of the Local Government Spending Review, which is due to be released in December 2019. This contribution to Reserves also helps to offset some of the <b>£27.4m</b> which had to be utilised by the Council in the previous financial year to deliver the balanced budget agreed at the start of the year, much of which was to cover overspends on Social Care. However there was still the need for the use of some Reserves to help support the Schools Position, where an additional <b>£5.361m</b> was used to offset the overspend incurred in relation to High Needs and Special Needs requirements, which the Schools Forum has been tasked with getting back under control in 2018-19 to ensure this does not have a significant impact on the wider sustainability of the Council.</p> <p>Despite this improved position, challenges still remain for the Council in several areas. One of these is Social Care, where whilst Adults was able to be contained within its revised budget, Children's delivered a <b>£2.042m</b> adverse variance to its budget, which was however a significant improvement on the <b>£7.193m</b> adverse variance recorded in 2016-17. As reported in previous years, the Council has been proactive in managing the pressures in this area, and the Budget Recovery Board remains in place for 2018-19 to continue to provide support in this area to ensure it is able to finally obtain a secure financial footing, and some additional resource is being provided to this area in 2018-19 as well. The overspend in 2017-18 is planning to be covered as part of the 2018-19 Budget for this area, and overall reflects a significant improvement in this area compared to the challenges that were encountered in 2016-17.</p> <p>The other main area which put the Council's budget under pressure was Housing and Modernisation, which ended up overspent by <b>£3.845m</b>. The two specific challenges in this area are common themes across a range of London Boroughs, which were Nil Recourse to Public Funds and Temporary Accommodation. Despite the Council increasing the Budget for Nil Recourse for Public Funds, they still incurred an overspend of <b>£1.3m</b>. This is an area where the Council is reliant on the Home Office on clearing the case load, and thus the Council only has a degree of control and will thus will need to be monitored more closely to ensure this doesn't impact the wider financial sustainability as well. Temporary Accommodation has been a particular challenge for several years and led to a <b>£2.6m</b> overspend during the course of the year. There have been a number of causes for this overspend, one of which was moving residents out of the Ledbury to undertake the repairs required from the learning of Grenfell. The other main element to this was the introduction of Universal Credit, which to date has only been rolled out across a handful of Boroughs across the Country, of which Southwark is part of the pilot. The introduction of Universal Credit had led to a greater level of bad debt being incurred from the tenancies where these claimants were being housed, which were almost all Council Tenancies.</p> <p>Therefore compared to the performance in 2016-17, it is clear that the Council has had a positive 12 months, and being able to return nearly £11m to the General Fund is a very strong financial performance given the challenges facing the sector as whole. However given the challenges which are just over the horizon, then there is a need for the Council to continue to exercise robust financial management over the coming years, which is covered in more detail on later pages.</p>

1

Significant risk Findings

Ongoing financial performance

Continuation of risk noted on page 14.

Taxation collection rates

As part of our review of the Medium term Financial Strategy (MTFS), we have reviewed your performance in your collection of Council Tax and Business Rates income. It should be highlighted that in some cases, collection of taxation revenues takes place across an number of years and not just in the year of billing. Overall, your collection rates are lower than the average for Inner London and for England, due to the higher levels of deprivation in your Borough compared to other parts of London and nationally. This in part explains the variances that are outline below and overall we note that your performance remains strong and has improved during 2017/18.

Collection of Council Tax

Over the last four years, your rates of Council Tax collection have been an average of 95.4%, which is below the average for Inner London Boroughs of 95.8% and the national average for England of 97.1%

You have taken actions in recent years to improve your Council Tax collection rate through improving the capacity of your collections team. You achieved an overall collection rate of 95.5% in 2017/18, which represents a slight worsening of the collection rate of 95.9% achieved for 2016/17. We recognise that this performance needs to be viewed against an increase in your Council Tax base of 4.7% for 2017/18, as a result of continued housing development, and also a 4% increase in Council Tax rates, inclusive of the 3% adult social care precept and the GLA precept. This comes on top of successive expansion of your Council Tax base in recent years. This shows that your collection rates have been maintained at a largely consistent level despite increases in the volumes and amounts of Council Tax bills levied, as well as the potential impact of Universal Credit being rolled out to selected tenants within the Borough as part of the Government's national roll out of Universal Credit over the coming years.

Council Tax collection rates



Significant risk	Findings
<div>1</div> <div>Ongoing financial performance</div> <div>Continuation of risk noted on page 14.</div>	<div>Collection of Business Rates</div> <div>In contrast to the trend for your Council Tax income, your business rates collection rates are above the average for Inner London and for England. Your average business rates collection rate over the last four year was 99.2%, compared to 98.7% for boroughs in Inner London 98.2% for authorities across England. Over the course of the past four years, the Council's collection rates were above your neighbouring authorities and the average across England. For 2017/18, you reported a collection rate of 99.4%, which represents a 0.1% increase on the previous year. We consider this a strong level of performance given the additional pressure faced by your business rates collection team due to the national revaluation of rateable values by the Valuation Office Agency, and is an achievement which the Council should be proud of. Clearly this level of collection will aid the Council further under the planned move to 100% Business Rate Retention in 2018-19.</div>

Business Rates collection rates



Conclusion

Your collection rates for Council Tax and Business Rates income have improved during 2017/18 and remain at a strong level. This indicates that your arrangements for the collection of taxation income are working well. Based on your recent track record, we have no overall concerns around the reasonableness of the collection rate assumptions reflected within the MTFS.

1

**Significant risk****Findings****Ongoing financial performance**

Continuation of risk noted on page 14.

**2018/19 budget and Medium Term Financial Strategy**

In February 2018, the Council approved its Budget for 2018/19, which continues to remain the Council's overall financial planning timeframe, due to the level of uncertainty around the Local Authority Spending Review, which is due for publication in December 2019, and will take effect from the 2020-21 financial year. Whilst we can understand this approach, it does mean that the Authority is potentially missing a chance to start scenario planning as to what life post-2020 may look like, which will limit the time available for this exercise once the final outcomes are identified. Other authorities are considering this timeframe already so there maybe the opportunity to share learning, which would benefit from both Officer and Member involvement.

In terms of the plans for 2018-19, the Council is looking to build on the relatively strong performance delivered in 2017-18, which as mentioned previously allowed the Council to move nearly **£11m** to General Fund Reserves. In the plan approved in February 2018, the Council is going to be required to deliver **£18.209m** of efficiencies and additional income during the course of the year to enable it to deliver a balanced budget. This demand is split with **£10.9m** being obtained from efficiencies and effective use of existing resources, and the remaining **£7.3m** being generated from additional income generated from fees and charges. This remains a positive way of dealing with the shortfall in funding as clearly savings on their own are no longer able to cover budget gaps given this continued period of austerity in local authority finance, which shows no signs on abating either. At the date of approving the budget all of the efficiencies and additional sources of income had been identified, which is also a positive position to be in at this stage of proceedings.

As in previous years, the Council has been very prudent in terms of the assumptions underlying the budget, with allowances included for inflation, pay increases, and a range of other growth factors which are likely to occur over the course of year. The demand on services across the whole country continues to increase despite the fall in the revenue available to support them, and is requiring all local authorities to be innovative when it comes to identifying solutions to these challenges. This is something that the Council will not be immune to, and this will require involvement from both Officers and Members to ensure the Council does not drift off course and face some really difficult financial decisions in later years.

Some of the key elements of the budget include a further **5.99%** increase in Council Tax, including a further 3% in respect of funding Adult Social Care Funding, which will generate a potential further **£5.9m** of revenue for the Council. 2018-19 is also the first year of a two-year Business Rates Pilot across London whereby authorities are able to keep hold of a greater proportion of this revenue as part of the move towards self-sufficiency, which is clearly something that all local authorities are going to be moving towards over the coming years. 2018-19 is the first year that the Council's budget does not include any central Government funding, and this is likely to remain the case over the coming year, even once the revised funding position for 2020 onwards is known.

Whilst the plans in place seem robust, there will clearly be challenges for the Council to manage during the course of the year, in particular around Children's Social Care, which has been a challenge for the last couple of years, albeit close management has reduced the level of overspend in 2017-18. A number of the proposed efficiencies are aimed in this area, so if things start to slip again in this area then it will place considerable pressure on the remaining of the Council's services to fill the gap.

**Conclusion**

Therefore overall it is clear that whilst a robust plan has been prepared for 2018-19, the Council is struggling to look further ahead which is understandable given the lack of certainty in this area. Therefore both Officers and Members need to make sure that effective financial management is at the heart of all decisions to ensure that the Council is best placed to deal with the challenges ahead.

21



1

**Significant risk****Ongoing financial performance**

Continuation of risk noted on page 14.

**Findings****Reserves and financial position**

While your reserves have reduced in recent years as a result of the financial pressures that you have faced and your investments in supporting the borough, you continue to maintain a reserves position that is largely average when compared to other London Boroughs. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £89.5m, compared to £73.3m as at 31 March 2017 and £91.8m as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

**London Borough of Southwark - financial position: key performance measures**

Measure	London Borough of Southwark	Average for London Boroughs	Ranking relative to other
			London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	89,455	102,647	16 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	99,312	112,924	16 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	210,041	253,592	18 / 32
General fund and earmarked general fund reserves as a percentage of gross service revenue expenditure	7.9%	13.5%	28 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	16.7%	28.9%	25 / 32

This analysis highlights that as at 31 March 2018 your reserves level placed you in the middle of all of the London Boroughs on several metrics, although it is concerning that the Council is ranked so lowly when the level of reserves are compared to the Council's Gross Revenue Spend on an annual basis, where you are ranked in the bottom five London Boroughs on this metric. This is linked with the demands on reserves which have been incurred by the Council in recent years as well to offset in-year revenue overspends.

Thus it is clear that there is not a huge level of reserves in place to weather the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. Clearly you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls. This is evidenced by the demand on reserves that was incurred during 2016-17 due to the overspends on Adult's and Children's Social Care, and similar demands going forward would place the Council in a challenging position. Linked to this, the financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and do not represent an easy way to resolve immediate budget pressures. This needs to be considered as part of the decision-making process to ensure the Council is able to face the upcoming challenges from a relative position of strength.

**Conclusion**

**On the basis of the work completed we have concluded that the risk that we identified in respect of your financial sustainability has been sufficiently mitigated and that you have proper arrangements. However it is clear that the Council needs to do more moving forward to make sure it is able to deal with the upcoming challenges in local government financing.**

# Independence and ethics

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £237,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pensions Return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £237,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights Subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this subscription is £10,000 in comparison to the total fee for the audit of £237,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.



The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.




None of the services provided are subject to contingent fees.



# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1  <b>Amber</b>	<b>Value for Money – future financial sustainability</b> The Council needs to start looking ahead to 2020 onwards and ensure that both Officer and Members are on board with the challenges that the Council may potentially face from this period onwards	The Council needs to start undertaking work to consider the environment post-2020 so it will be able to deal with the challenges that may be faced from this date. <b>Management response</b> To be provided
2  <b>Amber</b>	<b>Value for Money – Dedicated Schools Grant</b> The Council encountered considerable challenges on spending normally covered via the Dedicated Schools Grant, due to challenges around those children with High Needs and Special Needs. These overspends are not sustainable over the Medium Term if spending in these areas cannot be brought back under control.	The Council needs to continue with the work in this area to ensure that budgets are closely managed and overspends challenged and dealt with to ensure this doesn't continue to have an adverse impact on the Council's overall financial position. <b>Management response</b> To be provided

**Controls**  
 - Red - High – Significant effect on control system  
 - Amber - Medium – Effect on control system  
 - Green - Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2016/17 financial statements, which resulted in two recommendations being reported in our 2016/17 Audit Findings Report. We have followed up on the implementation of our recommendations and note that as it stands one of these still needs to be carried forward to 2018-19, with the other recommendation subject to confirmation at the date of issuing the Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 TBC	<b>HR – Casual Workers</b>  In the previous year, we identified an issue that the Council needed to ensure sufficient documentation is in place to confirm the employment status of casual workers employed during the course of the year.	<p>The Council have provided us with the following response in this area::</p> <p>‘The Council has taken active steps to ensure that casual workers are engaged in a manner that is appropriate to the setting in which they will be operating. Therefore where such workers will be working in settings where appropriate disclosure and barring checks are required, these checks are undertaken before the casual worker undertakes any work for the Council. We are continuing to review the status of those appearing on the Councils payroll as casual workers to assure ourselves about their employment status in terms of worker/employee especially where the relationship with the individual persists for a significant time.’</p> <p>We are currently selecting a small sample of these workers to confirm whether this issue has been cleared and will provide an update to the Committee once this work is completed.</p>
2 Partially	<b>Value for Money – Social Care</b>  From our Value for Money work, we identified that the Council needs to continue to work to understand the issues causing the overspends in Social Care to ensure the Council is in a sustainable financial position ahead of the revised Local Government Funding Settlement being announced in 2020.	<p>Based on our Value for Money work in 2017-18 it is clear that the Council has managed to deal with the challenges in respect of Adult Social Care, but that some of these challenges still remain in respect of Children’s. As a result the Council is planning to continue with the Budget Recovery Board in 2018-19, with the focus now solely on Children’s, which will need to be managed closely given the continued pressure on Local Government Finances.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	<b>Removal of Support Cost Recharges from the CIES</b> Our work on the CIES identified the inclusion of support costs as a line on the CIES, which is not permitted by the CIPFA Code of Practice. Whilst this issue impacts the values in the individual lines within Net Cost of Services, it has no impact on the overall Net Cost of Services balance. The prior year balances have also been adjusted to ensure consistency year-on-year.	Net impact is nil, however the balance of £42,109k has been removed from the face of the CIES.	Nil impact – this only has an impact on the CIES	Nil
Overall impact		£0	£0	£0

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
<b>Note 1 – Expenditure and Funding Analysis (EFA)</b>	Various	Following the amendment to the CIES, the Council has provided additional disclosures within the EFA to enable the revised CIES to be clearly linked back to the Council’s internal reporting, which is required by the Code for this Analysis	✓
<b>Note 2 – Accounting Policies</b>	n/a – narrative disclosures	Our initial review of the Accounts identified that several material accounting policies required enhancements to aid the transparency of these disclosures. The Council has subsequently updated the Accounts to provide the required transparency in these areas.	✓
<b>Note 13 – Property, Plant and Equipment</b>	Various	We identified that the Council had not provided an analysis of the valuation dates of their asset base, which is required by the Code. This disclosure has now been provided within the revised Accounts.	✓
<b>Note 13 – Property, Plant and Equipment and Note 14 – Investment Properties</b>	Various	The Council had also not included the required disclosures relating to the fair value measurements of Surplus Assets and Investment Properties, which have subsequently been included within the revised Accounts.	✓
<b>Note 16 – Cash and Cash Equivalents</b>	£6,754k	The draft Accounts showed the Council’s overdraft being netted off against the positive cash balances. The Council has since revised this disclosure to make the status of this overdraft clear in the Accounts.	✓
<b>Note 37 – Defined Benefit Pension Schemes</b>	£121,081k	The initial disclosure showed a value under Quoted Investments shown as ‘Other’, which did not provide sufficient detail over the nature of these Assets. This has subsequently been updated in the revised Accounts.	✓
<b>Note 38 – Financial Instruments</b>	Various	Our work identified that several disclosures relating to Financial Instruments required enhancements in the revised Accounts, which have subsequently been processed by the Council.	✓
<b>Note 38 – Financial Instruments – Fair Value of PFI Liability</b>	£95,454k	Our review of the draft Accounts identified that the Fair Value of the PFI Liabilities included within the Accounts had not been correctly calculated. This value has been correctly amended within the revised Accounts.	✓

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
Multiple Areas	Various	The disclosures required by the Code, around the group element of Local Authority Schools had not been included within the draft Accounts. These disclosures have since been provided within the revised Accounts.	✓

# Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<div>1 <b>Investment Properties</b> During our testing of Investment Properties, we identified one property with a total value of £1.96m which had been disposed of during the course of the year which was still included within the Accounts at year end. This property should have been removed from the Balance Sheet, along with the balance held in the Revaluation Reserve in respect of this property.</div>	<div>Dr Gain/Loss on Disposal 1,960</div> <div>Cr MIRS 1,960</div>	<div>Cr Investment Property 1,960</div> <div>Dr Capital Adjustment Account 1,960</div> <div>Dr Capital Adjustment Account 153</div> <div>Cr Revaluation Reserve 153</div>	<div>1,960</div>	<div>2016-17 - The Council have not adjusted for this misstatement as it is immaterial to the overall financial statements, as well as the complexity of ensuring all the related PPE amendments are processed correctly.</div> <div>2017-18 Update – we have reviewed the PPE Balances included within the Accounts and can confirm this amendment has been subsequently processed by the Council during the course of this year.</div>
Overall impact	£1,960	£1,960	£1,960	

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

	Proposed fee £	Final fee £
Council Audit	237,296	237,296
Grant Certification	17,717	17,717
Total audit fees (excluding VAT)	£255,013	£255,013

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of Housing Capital Receipts Grant	5,000
• Certification of Teachers Pensions Return	5,000
Non-audit services:	
• CFO Insights Subscription	10,000
Total	20,000

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor’s report to the members of Southwark Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Southwark Council (the ‘Authority’) for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority’s arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the ‘Delivering Good Governance in Local Government: Framework (2016)’ published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.



# Audit opinion (continued)

We anticipate we will provide the Council with an unmodified audit report

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of 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 Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit, Governance and Standards Committee is Those Charged with Governance

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.

### Report on other legal and regulatory requirements - Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Responsibilities of the Authority

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

### Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Audit opinion (continued)

We anticipate we will provide the Council with an unmodified audit report

**Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Paul Dossett  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
30 Finsbury Square  
LONDON  
EC2P 2YU

xx July 2018





Our Ref  
Your Ref: LBS201718/LoR

Grant Thornton UK LLP  
30 Finsbury Square  
LONDON  
EC2P 2YU

18 July 2018

Dear Sirs

## **Southwark Council**

### **Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Southwark Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### Information Provided

- xiv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

- xxi We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

- xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### **Narrative Report**

- xxvii The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 18 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Governing Body**

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

# Audit Findings Report

*Year ending 31 March 2018*

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**Southwark Council Pension Fund**

18 July 2018



Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

## Introduction

This table summarises the key issues arising from the statutory audit of Southwark Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;</li> </ul>	<p>Our audit work was completed on site during June and July 2018. Our findings are summarised on pages 4 to 11. We have identified no adjustments affecting the Fund's reported net assets position in the draft financial statements. However we identified several presentation and disclosure adjustments, which are detailed in Appendix A.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 18 July 2018, as detailed in Appendix C. These outstanding items include:</p> <ul style="list-style-type: none"> <li>- completion of our outstanding testing and internal reviews</li> <li>- completion of our work on the Fund's Annual Report;</li> <li>- receipt of the management representation letter; and</li> <li>- review of the final set of financial statements.</li> </ul>
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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 18 July 2018, as detailed in Appendix C. These outstanding items include:

- completion of our outstanding testing in the following areas: Investments – Cut-Off and Movements, Contribution Testing, and Starters and Leavers
- completion of our internal quality reviews
- completion of our work on the Fund's Annual Report;
- receipt of management representation letter; and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of all levels of materiality has been adjusted to reflect the change in the Fund's Net Asset Value during the course of the year. We detail in the table below our assessment of materiality for Kent Superannuation Fund.

	Amount (£) – Planning Stage	Amount (£) – Final Accounts Stage	Qualitative factors considered
Materiality for the financial statements	£14.950m	£15.000m	As mentioned above, the value of our overall Materiality threshold increased from the planning stage to the final Accounts stage due to the increase in the Fund's Net Assets during the course of the year.
Performance materiality	£11.213m	£11.250m	Performance Materiality is based on a percentage of the overall materiality, hence an increase in this value has increased Performance Materiality in line with this.
Trivial matters	£747k	£750k	As above, Triviality is based on a percentage of the overall materiality, hence an increase in this value has increased Triviality in line with this.
Materiality for specific transactions, balances or disclosures	n/a	n/a	As at the Planning Stage, no specific materialities have been set for the purposes of our work in 2017-18.

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management's assessment process

### Auditor commentary

- Management's Assessment of the Going Concern of the Pension Fund is largely supported by the Triennial Valuations provided by the Fund's independent Actuary, Aon Hewitt. The most recent Triennial Valuation took place as at the 31 March 2016, and has provided Contribution Rates for the period to 31 March 2020.
- Also the Fund monitors future demands in respect of its Cash balances, such as to pay a large bulk transfer. However the Fund can easily liquidate resource from its Investments to ensure it is able to make these payments as they fall due.

### Work performed

Detail audit work performed on management's assessment

### Auditor commentary

- As mentioned above, the main support to the Fund's assessment that it remains a Going Concern is the assurance provided by the Fund's independent Actuary, Aon Hewitt. On a triennial basis they are required to value to net asset/liability position of the Fund. On the back of this, they will then set a contribution rate that will enable the Fund to return to a fully funded position by a certain date in the future.
- The most recent Triennial Valuation for the Fund was undertaken as at 31 March 2016, and details of this can be seen within the Accounts and Annual Report. The results of this Valuation confirmed that the Fund was 88% funded, which compared to 83% as at 31 March 2013. This shows that the Fund is in a relatively strong position, and contribution rates have been set for the next 18 years to return the Fund back to 100% funding.
- This position is monitored by the Actuary in the intervening years as well, so that rates can be potentially altered in year if needed, although this hasn't occurred since the 2016 Valuation.
- Other items such as bulk transfers can impact on the Cash position of the Fund, although these are always reviewed by the Actuary to ensure sufficient cash flow is available to fund the transfer if needed. No bulk transfers occurred in 2017-18 and we are not aware of any planned for 2018-19 either.
- Based on the audit work performed, we are satisfied that no additional disclosures relating to going concern are required within the Accounts.

### Concluding comments

### Auditor commentary

- Based on the work performed, we are proposing to issue an unmodified opinion relating to the going concern of the Southwark Council Pension Fund.

# Significant audit risks

Risks identified in our Audit Plan		Commentary
1	<b>Improper revenue recognition</b>  Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	<b>Auditor commentary</b>  Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Southwark Council Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• The culture and ethical frameworks of local authorities, including Southwark Council Pension Fund, mean that all forms of fraud are seen as unacceptable</li></ul> Therefore we do not consider this to be a significant risk for Southwark Council Pension Fund.
2	<b>Management override of controls</b>  Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.  We identified management override of controls as a risk requiring special audit consideration.	<b>Auditor commentary</b>  We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li><li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li><li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li></ul> Our audit work has not identified any issues in respect of management override of controls.

# Significant audit risks

Risks identified in our Audit Plan		Commentary
<div>3</div> <b>The valuation of Level 3 investments is incorrect</b> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>		<b>Auditor commentary</b> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of the associated controls</li><li>reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments</li><li>consideration of the competence, expertise and objectivity of any management experts used</li><li>reviewed the qualifications of the Fund Managers to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached</li><li>for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We also reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period</li></ul> <p>Our audit work to date has not identified any issues in respect of this risk. Should any issues be identified from our remaining testing then we will provide an update to Management and the Committee.</p>

# Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p><b>5 Contributions</b> Contributions from employers and employees' represents a significant percentage (75%) of the Fund's revenue.</p> <p>We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• evaluate the Fund's accounting policy for recognition of contributions for appropriateness;</li> <li>• gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls;</li> <li>• test a sample of contributions to source data to gain assurance over their accuracy and occurrence;</li> <li>• rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.</li> </ul> <p>Our audit work to date has not identified any issues in respect of this risk. Should any issues be identified from our remaining testing then we will provide an update to Management and the Committee</p>
<p><b>6 Pension Benefits Payable</b> Pension benefits payable represents a significant percentage (84%) of the Fund's expenditure.</p> <p>We identified completeness of pension benefits payable as a risk requiring particular audit attention:</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;</li> <li>• gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;</li> <li>• tested a sample of individual pensions in payment by reference to member files;</li> <li>• rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.</li> </ul> <p>Our audit work has not identified any issues in respect of this risk. Should any issues be identified from our remaining testing then we will provide an update to Management and the Committee</p>

# Reasonably possible audit risks

Risks identified in our Audit Plan

7

The valuation of Level 2 investments is incorrect

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We identified valuation of level 2 investments as a risk requiring particular audit attention.

Commentary




Auditor commentary

We have undertaken the following work in relation to this risk:




- gain an understanding of the Fund’s process for valuing Level 2 investments and evaluate the design of the associated controls.
- review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.
- consider the competence, expertise and objectivity of any management experts used.
- review the qualifications of the expert used to value the level 2 investments at year end and gain an understanding of how the valuation of these investment has been reached.
- for a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.

Our audit work to date has not identified any issues in respect of this risk. Should any issues be identified from our remaining testing then we will provide an update to Management and the Committee

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The financial statements include policies for recognition of the following:</p> <ul style="list-style-type: none"> <li>Investment income</li> <li>Contribution income</li> <li>Transfers in to the scheme</li> </ul> <p>Revenue for the first two categories is recognised on an accruals basis, whilst for the third category it is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.</p>	<p>Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities.</p> <p>Our testing has confirmed that these policies have been correctly and consistently applied.</p>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Valuation of private equity, property and infrastructure investments</li> <li>Present value of future retirement benefits</li> </ul>	<p>Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.</p> <p>The Fund has enhanced its narrative in respect of the estimates included within the Accounts to provide further detail over this area. We are comfortable with the revised disclosure provided by the Fund.</p>	 <b>Green</b>
<b>Other critical policies</b>		<p>We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.</p>	 <b>Green</b>

## Assessment

-  - **Red** - Marginal accounting policy which could potentially be open to challenge by regulators
-  - **Amber** - Accounting policy appropriate but scope for improved disclosure
-  - **Green** - Accounting policy appropriate and disclosures sufficient



# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We have not identified any related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Pension Fund, which is included within the Audit, Governance and Standards Committee Papers as a separate item.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our work identified some minor presentation improvements, details of which can be seen within Appendix A</li> </ul>
7	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report in late July 2018, as part of issuing our Opinion on the main financial statements.</li> </ul>

# Independence and ethics

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

# Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council Pension Fund's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Audit Findings report. *[We are pleased to report that management have implemented all of our recommendations./We have followed up on the implementation of our recommendations and note [X] are still to be completed.]*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 TBC	<b>Use of Pension Fund Bank Account</b> Our contributions testing identified a number of payments which were received into the Pension Fund Bank Account later than the 19 <sup>th</sup> of the following month, as is required by the Pensions Regulations. The Council should look to ensure payments received into the main Council Bank Account are moved to the Pension Fund Bank Account in a timely manner to ensure the Regulations are met for all payments received during the course of the year.	TBC – following completion of our work in this area.
2 TBC	<b>Overseas Pensioners</b> Our work in previous years identified that pensioners domiciled abroad had not been circularized for over two years to confirm they are still eligible for their pensions. The Council should undertake this exercise with sufficient regularity to confirm pensions are only been paid to valid pensioners, which is challenging when these pensioners are domiciled overseas.	TBC – awaiting response from client
3 TBC	<b>Errors in Member Data</b> In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This then could have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.	TBC - following the completion of our Testing in this area.

Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted and unadjusted misstatements

No adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
Various Notes	Various	A number of minor presentational and disclosure amendments have been made to the Accounts to enhance the transparency of the disclosures within the Accounts.	✓

# Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	21,000	21,000
Total audit fees (excluding VAT)	£21,000	£21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

## Non Audit Fees

No non audit services have been provided in respect of the Kent Pension Fund during the course of the 2017-18 financial year.

# Audit Opinion

**We anticipate we will provide the Pension Fund with an unmodified audit report**

## Independent auditor's report to the members of Southwark Council on the pension fund financial statements

### Opinion

We have audited the pension fund financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members

those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

### Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Audit Opinion (continued)

We anticipate we will provide the Pension Fund with an unmodified audit report

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

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

- Under the Code of Audit Practice we are required to report to you if:
- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
  - we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
  - we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

**Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of 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 Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Strategic Director of Finance and Governance is responsible for assessing the pension fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy

decisions have been made that affect the services provided by the pension fund.

The Audit, Governance and Standards Committee is Those Charged with Governance.

**Auditor’s responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council’s website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.

Paul Dossett  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2A 1AG

xx July 2018







Our Ref  
Your Ref: LBSPF201718/LoR

Grant Thornton UK LLP  
30 Finsbury Square  
LONDON  
EC2P 2YU

18 July 2018

Dear Sirs

## **Southwark Council Pension Fund**

### **Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Southwark Council Pension Fund ('the Fund') for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and

experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

## Information Provided

- xiv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxii We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxiii We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 18 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of Southwark Council as administering body of the Southwark Council Pension Fund.



# **STATEMENT OF ACCOUNTS**

**2017-18**

SOUTHWARK COUNCIL  
STATEMENT OF ACCOUNTS 2017-18

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## NARRATIVE REPORT

### From the Strategic Director of Finance and Governance, Duncan Whitfield

#### Introduction

The Narrative Report provides information about Southwark including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2017-18 and of its financial position at 31 March 2018 including:

- An introduction to Southwark
- The council's performance during 2017-18
- Financial performance during 2017-18 and financial position at 31 March 2018
- Principal risks and uncertainties
- An explanation of the financial statements

#### An Introduction to Southwark

Southwark is a dynamic borough in the centre of London, a truly global city. This brings change, challenges and opportunity to all those who work here, pass through here and most of all call Southwark their home. Our ability to develop, transform and renew the borough landscape helps to drive local growth. There is regeneration abound with some of Europe's most exciting and complex schemes such as Elephant and Castle, Aylesbury, Canada Water and London Bridge Quarter, home of the Shard, being delivered bringing thousands of new homes and jobs to Southwark.

In economic terms Southwark is a net importer of labour in London, powering the jobs market across the city. The borough has a rich mix of employers, including internationally renowned names such as PwC, Ernst & Young, News UK and Hilton hotels. The business mix ranges across construction, health and social care, retail, catering, hospitality, public sector and administration and finance and legal. However, as across London, there lies a skills challenge in getting more people into the jobs of the future and ensuring all benefit from growth and development in years to come.

The borough is highly diverse demographically, a product of history and the ability to welcome new communities alongside existing residents. Over 120 languages are spoken in local schools, 66% of the under-20 population and 75 per cent of reception-age children are from black and minority ethnic (BME) groups. Southwark is densely populated and has the ninth-highest population density in England and Wales at 10,632 residents per square kilometre compared to the London average of 5,510. In May 2015 the borough population was estimated to be 306,745, with 64 per cent aged 39 or under. By 2037, that estimate rises to 376,000. This is a pressure facing many boroughs in London although the issue of meeting demand, especially with a relatively youthful population, is most acute in a borough like Southwark.

The significant programme of regeneration will help Southwark to meet this rising demand for homes of all kinds across a range of incomes and create new job opportunities especially for high demand jobs in the construction sector.

Southwark represents a place of huge excitement and opportunity - for residents, for businesses, for voluntary organisations and the community at large. Investment in the borough is creating new and dynamically different places such as around One Blackfriars through to Elephant and Castle, pulling central London southwards and revitalising places like Peckham, Camberwell, Canada Water and the Old Kent Road.

At the same time, the consequence of this scale of change cannot be underestimated. Pressure will continue on already stretched public services to meet the demands of a rising and increasingly mobile population. As a council we'll need to be fit for the future, with responsive, digitally enabled services that adapt well to change. Embracing the opportunity to deliver services in a smarter way also of course means leaving no one behind in a fast changing city and world.

SOUTHWARK COUNCIL  
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## Council Performance

Over the last year we have continued to deliver on our promises to make Southwark a borough which puts our residents at the heart of everything that we do. To achieve what we have against a backdrop of unprecedented and sustained financial reductions serves only to highlight our ambitious, innovative approach and our unwavering commitment to achieving a fair future for all.

In 2010, the council set out a plan which committed to deliver ten promises. In February 2015 Council Assembly approved the Council Plan 2014-18. This set out how the council sought to realise its Fairer Future for All vision. Ten fairer future promises and a set of themed commitments were agreed. In 2016 the Council Plan was refreshed, recognising that the context in which the organisation operates in had changed since the adoption of the original plan. The Council has made huge strides in delivering key commitments and has delivered on the ten promises made. Further detail is available on the council's website.

Consultation on a new council plan, setting out the programme of work that the council will achieve over the period 2018-19 to 2021-22, is ongoing. The plan is a clear statement to the residents, businesses, local voluntary/community sector organisations and other stakeholders of that programme and how the council will continue to deliver a fairer future for all in Southwark. This Council Plan covering the period from 2018-19 – 2021-22 builds on the achievements of the previous Council Plan, which included key commitments such as delivering free swim and gym, delivering new affordable homes, making council homes warm, dry and safe and supporting over 5,000 residents into employment.

## Financial Performance

### Revenue

The budget strategy is underpinned by the principles set out in the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan 2017-18 to 2019-20 agreed by cabinet on 20 September 2016.

The council continues to operate in a financially challenging environment aiming to continue to “spend money as our own” in order to best use council resources. Over the period to 2019-20 the council settlement shows a reduction in government grant funding of £28m and a loss of spending power of 2.7%. At the same time as the reduction in government funding, specific grants have reduced and services have faced increased demand led pressures, for example in social care and temporary accommodation. Nationally the cost pressures experienced in Adult Social Care are well publicised. Council tax and business rates become the council's main source of income and regeneration becomes integral to a sustainable budget. This climate of funding cutbacks and increasing spending demands is likely to continue until at least 2019-20.

For 2017-18, a budget of £274.3m was set, this included savings of £26.4m in response to reduced government funding and increasing cost pressures and commitments. The revenue outturn position is summarised below, further detail can be found on the council's website (see Cabinet agenda July 2018).

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General Fund	Budget	Movement	Budget	Year	Reserve	Resources	after Use of
Chief Executive	6,552	2,450	9,002	9,934	(987)	8,947	(55)
Children's and Adults' Services (excluding DSG)	176,302	(718)	175,584	176,794	1,048	177,842	2,258
Dedicated Schools Grant	(11)	1,631	1,620	6,280	(549)	5,731	4,111
Environment and Social Regeneration	60,348	4,654	65,002	63,323	1,476	64,799	(203)
Housing and Modernisation	71,860	(2,854)	69,006	74,055	(1,204)	72,851	3,845
Finance and Governance (including Strategic	2,453	(6,231)	(3,778)	(25,168)	15,545	(9,623)	(5,845)
Support Cost Reallocations	(43,177)	1,068	(42,109)	(42,109)	-	(42,109)	-
<b>Total General Fund</b>	<b>274,327</b>	<b>0</b>	<b>274,327</b>	<b>263,109</b>	<b>15,329</b>	<b>278,438</b>	<b>4,111</b>
DSG Reserve to Balance Budget							(4,111)

The outturn report highlights the success of the budget recovery work in Children's and Adults, with adults spending contained within budget and Children's Social Services overspend limited to £2m, after the use of reserves. This is an improvement on the position reported during the year, however, pressure from increasing demand persists. Elsewhere there were significant spending pressures within Housing and Modernisation (specifically No Recourse to Public Funds, Temporary Accommodation, ICT and Corporate Facilities Management) and within schools budgets. As an indication of the financial challenges in schools, the DSG reserve was £10.172m at 1 April 2016. At 31 March 2018 it was overdrawn by £4.111m.

Despite these spending pressures, strong financial management during the year enabled the councils overall financial standing, as measured by its usable reserves, to improve by £10.9m, compared to a reduction of £27.4m in 2016-17.

As the period of austerity and funding reductions for local government continues, the council will wish to ensure that rigour in financial management arrangements continues and that reserves are retained at appropriate and adequate levels to safeguard service provision and to support modernisation of the organisation and challenging regeneration projects across the borough.

The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The revenue outturn for 2017-18 shows an operating surplus of £5.6m that has been taken to HRA balances.



SOUTHWARK COUNCIL  
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## Capital

Southwark has one of the largest capital investment programmes in London, with current plans to spend over £2bn by 2026-27. Capital spending and financing in 2017-18 is shown in the table below. This is set out in more detail at cabinet capital outturn report.

Capital spending and financing	2017-18 £000	2016-17 £000	2015-16 £000
<b>Spending:</b>			
Children's and adults services (including schools)	79,669	52,591	27,065
Environment and social regeneration	16,086	17,164	11,630
Housing and modernisation	16,070	7,009	8,525
Finance and governance	-	-	50
Chief executive's department	121,501	22,126	26,430
Housing Investment Programme	167,523	153,079	243,582
<b>Total capital expenditure</b>	<b>400,849</b>	<b>251,969</b>	<b>317,282</b>
<b>Financed by:</b>			
Capital receipts	69,481	71,793	75,303
Grants and other contributions	94,972	42,515	114,551
Revenue contributions and reserves	21,579	58,070	42,545
Major Repairs Reserve	51,000	46,778	84,883
Prudential Borrowing	163,817	32,813	-
<b>Total</b>	<b>400,849</b>	<b>251,969</b>	<b>317,282</b>

The Housing Investment Programme is by some way the council's largest area of capital investment need and spend, the council being the third largest social housing landlord in the country. The council's housing investment is constrained by the HRA debt cap, a government imposed limit on the level of borrowing that local housing authorities can undertake under the HRA self-financing regime.

## Balance Sheet

### Reserves

The 2017-18 outturn position enabled the council to set aside additional resources of £10.9m to mitigate future risks, fulfill commitments already made and to provide resources to support service transformation. Whilst this improvement in financial resilience at the end of 2017-18 is good news, the relative level of financial reserves held by the council remains low given the financial risks faced by the authority and when compared to similar councils across London. The council's General Fund Reserves at 31 March 2018 were £85.3m. Of this £66.5m is earmarked for capital investment, corporate and departmental projects and to manage specific financial risks, e.g. self insurance. The uncommitted general fund reserve is £18.8m, representing just 2.6% of annual net general fund expenditure (approximately 1% of the council's total turnover). This means we are bottom quartile for the relative size of reserves in London. A full list of earmarked reserves is included at table 1.

The reduction in School Balances reflects the full drawdown of the Dedicated Schools Grant Reserve of £1.2m as well as a further £4.1m borrowed against future years allocations. Schools Forum has been consulted on measures to fund the carried forward deficit in 2018-19. However given the ongoing structural pressures on the high needs block which continue into 2018-19 and beyond, together with new stricter regulations on movement between blocks and pressures associated with the new national funding formula, a deficit position on the DSG is likely to persist for a number of years.

The ring-fenced nature of the Housing Revenue Account (HRA) requires that surpluses/deficits are carried forward between years. At 31 March 2018 the HRA balance stood at £19.9m (£14.4m at 31 March 2017). The reserve is largely committed for specific purposes with the balance held as contingency against unforeseen events, in line with the council's medium-term resource strategy.

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	31 March 2018	31 March 2017	31 March 2016
	£000	£000	£000
<b>General Fund</b>	<b>18,803</b>	<b>18,803</b>	<b>18,803</b>
<b>Earmarked Reserves</b>			
Corporate projects and priorities	5,500	4,955	9,572
Service reviews and improvements	9,419	5,476	7,829
Capital programme and other capital investment	22,502	22,516	26,822
Strategic financing, technical liabilities and future risks	33,231	21,546	28,777
<b>Sub total – earmarked reserves</b>	<b>70,652</b>	<b>54,493</b>	<b>73,000</b>
<b>Schools (including Dedicated Schools Grant)</b>	<b>9,857</b>	<b>17,263</b>	<b>28,550</b>
<b>HRA</b>			
HRA Balance	19,959	14,355	16,613
Major Repairs Reserve	10,921	5,389	3,577
<b>Sub total - HRA</b>	<b>30,880</b>	<b>19,744</b>	<b>20,190</b>
<b>Capital reserves</b>	<b>79,849</b>	<b>80,489</b>	<b>50,750</b>
<b>Total</b>	<b>210,041</b>	<b>190,791</b>	<b>191,293</b>

### Borrowing and Lending

The council borrows money to support its capital financing requirement. Long-term borrowing outstanding at 31 March 2018 was £440m (£453m at 31 March 2017). All loans are from the Public Works Loans Board (PWLB, a body operating within the UK Debt Management Office, an Executive Agency of HM Treasury) at fixed rates.

Short-term/temporary borrowing was £130m at 31 March 2018 (£10m at 31 March 2017). The increase reflects spending on the capital programme not funded by capital receipts, grants or cash balances. All borrowing is in accordance with the Treasury Management Strategy approved by council Assembly and as reported in monitoring reports throughout the financial year. The council's policy has been to defer long-term borrowing as this has minimised interest costs. However, the timing of long-term borrowing needs to be weighed against the risk that interest rates will increase in the future.

The council invests its cash in GBP bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities such as the European Investment Bank and the World Bank. The money market investments are in short term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. As at 31 March 2018 stood at £126m (£159m 31 March 2017). The overall rate of return on investments during 2017-18 was 0.34% (0.71% 2016-17).

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## Pensions

The council has net pension liabilities of £640m in the Balance Sheet. This reflects the value of pension liabilities which the council is required to pay in the future, offset by the value of assets invested in the Pension Fund.

The council's pension fund must be revalued every three years to set future contribution rates. The last valuation was in 2016 which reported that the Fund's assets represented 88% of the estimated future pension liabilities. The council has a deficit recovery plan in place to make additional contributions into the Pension Fund over the next 16 years in line with the Funding Strategy Statement of the Southwark Pension Fund (the latest interim valuation at March 2018 indicates 99% funding).

## Principal Risks and Uncertainties

The council has an embedded process to manage risk and assist the achievement of its objectives. The corporate risk register captures the key departmental and corporate risks to the council, including areas of risk opportunity. Key risks are held on the council-wide risk management system.

The council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded properly accounted for and used economically, efficiently and effectively. The council's governance arrangements are reviewed annually and, within the Annual Governance Statement, assurance is given on the effectiveness of the council's system of internal control. The Annual Governance Statement, published alongside the accounts, details the issues and areas of significant change that will require consideration and action as appropriate over the medium to long term. These include:

- the increased dependency on locally generated resources (e.g. council tax and business rates)
- uncertainty over transition to a new local government finance system based on business rates retention
- the future duration of the London devolution pool
- Children's and adults social care budgets remain exposed to significant price and demand pressures
- the impact of universal credit and welfare reform
- funding of the council's capital investment ambitions, specifically in regeneration and social housing
- ensuring that the highest health and safety standards continue to be met consistently across all services.

SOUTHWARK COUNCIL  
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## Explanation of Accounting Statements

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2015. These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.

**The Expenditure and Funding Analysis** - The analysis shows how annual expenditure is used and funded from resources by the Council in comparison to those resources consumed or earned by the council in accordance with generally accepted accounting practices.

The primary statements of the Accounts are set out below. A full description of the nature and use of each statement is included before each of the statements:

- **The Movement in Reserves Statement** – a summary of the changes to the council's reserves over the course of the year. Reserves are divided into 'usable', which can be invested in capital projects or service improvements, and 'unusable', which must be set aside for specific purposes.
- **The Comprehensive Income and Expenditure Statement** – this records all the council's income and expenditure for the year. The top half of the statement provides an analysis by service area, the bottom half deals with corporate transactions and funding.
- **The Balance Sheet** – a snapshot of the council's assets, liabilities and reserves at the year end date.
- **The Cash Flow Statement** – shows the reason for changes in the council's cash balances during the year, and whether that change is due to operating activities, new investment or financing activities.

In addition to the primary statements, the accounts contain notes explaining or analysing further the figures in the primary statements.

Supplementary financial statements are:

- **Housing Revenue Account (HRA)** Statements and explanatory notes. The HRA figures are included in the figures in the primary statements.
- **The Collection Fund** shows the amounts raised and collected through taxation. Only the council's entitlement to taxation is included in the primary statements. The amounts collected on behalf of the government and the Greater London Authority are not included apart from amounts owing to or from those bodies.
- **Pension Fund Accounts** are the funds the council manages, to provide future retirement benefits for its employees. The funds are not included within the primary statements.

SOUTHWARK COUNCIL  
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**TABLE 1 - EARMARKED RESERVES**

<b>CORPORATE PROJECTS AND PRIORITIES RESERVES</b>			
	<b>Balances as at 31 March 2017 £000</b>	<b>Net movement £000</b>	<b>Balances as at 31 March 2018 £000</b>
Southwark emergency support scheme	1,250	1,233	2,483
Homelessness prevention	628	75	703
Modernisation, service & operational improvement	749	(99)	650
Southwark scholarship scheme (including Youth Fund)	478	(76)	402
Voluntary sector transition fund	391	-	391
Neighbourhood fund	157	49	206
Internal audit & anti fraud	200	-	200
Revenue grants	164	(40)	124
Community engagement & links development	169	(51)	118
Artefacts replacement & security reserve	117	-	117
Community safety schemes	106	-	106
Business support fund	510	(510)	-
Community restoration fund	30	(30)	-
Department of Works and Pensions (DWP) community budget	6	(6)	-
<b>Total</b>	<b>4,955</b>	<b>545</b>	<b>5,500</b>

<b>CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES</b>			
	<b>Balances as at 31 March 2017 £000</b>	<b>Net movement £000</b>	<b>Balances as at 31 March 2018 £000</b>
Aylesbury development	6,000	-	6,000
Planned preventative maintenance & building compliance	4,444	(35)	4,409
Regeneration & development	2,639	622	3,261
IT and customer service development	3,171	(976)	2,195
BSF PFI transition	1,632	(9)	1,623
Modernisation, service & operational improvement	1,356	-	1,356
Schools capital programme contribution	1,473	(180)	1,293
Capital contingency	1,287	-	1,287
Public realm	-	600	600
Legal case management system	300	(36)	264
Canada Water	214	-	214
<b>Total</b>	<b>22,516</b>	<b>(14)</b>	<b>22,502</b>

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<b>SERVICE REVIEWS AND IMPROVEMENTS RESERVES</b>			
	Balances as at 31 March 2017 £000	Net movement £000	Balances as at 31 March 2018 £000
Adult Social Care Transformation Fund	-	1,500	1,500
New Homes Bonus funded LEP Programme	2,582	(940)	1,642
Adult Social Care Homes	-	1,500	1,500
Cycling Safety	1,000	-	1,000
Care Leavers Innovation Grant	-	964	964
Highways	746	-	746
Local Economy	-	719	719
Local flood risk	628	-	628
Homelessness Training Academy	-	615	615
Highways winter maintenance	576	-	576
Organisational development	1,245	(874)	371
Tree Recovery Works	-	216	216
Blackfriars trust allocation	138	-	138
Member development	182	(67)	115
Temporary Accommodation Strategy	220	(122)	98
HR transformation	94	-	94
Prevention of illegal tobacco distribution	91	-	91
Youth service	70	-	70
LEA Music Service	110	(47)	63
Workforce development (adults services)	222	(202)	20
Street trading account	(521)	521	-
Public Health	(1,907)	160	(1,747)
<b>Total</b>	<b>5,476</b>	<b>3,943</b>	<b>9,419</b>

<b>STRATEGIC FINANCING, TECHNICAL LIABILITIES AND FUTURE FINANCIAL RISKS RESERVES</b>			
	Balances as at 31 March 2017 £000	Net movement £000	Balances as at 31 March 2018 £000
Business rate retention risk	1,958	5,746	7,704
Insurance	5,376	2,224	7,600
Financial risk & future liabilities	2,875	3,494	6,369
Interest and debt equalisation	3,000	500	3,500
Council tax and housing benefits subsidy equalisation	1,648	1,352	3,000
Waste PFI equalisation reserve	2,921	-	2,921
Universal Credit Implementation	-	997	997
Election Reserve	-	888	888
Schools in financial difficulties, schools closures and academies	252	-	252
Planned contribution to support General Fund budget 2017-18	3,700	(3,700)	-
Queen's Road lease smoothing	(184)	184	-
<b>Total</b>	<b>21,546</b>	<b>11,685</b>	<b>33,231</b>
<b>Total</b>	<b>54,493</b>	<b>16,159</b>	<b>70,652</b>

SOUTHWARK COUNCIL  
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## **Independent auditor's report to the members of Southwark Council**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017-18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017-18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Who we are reporting to**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

SOUTHWARK COUNCIL  
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### Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of 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 Strategic Director of Finance and Governance. The Strategic Director of Finance



SOUTHWARK COUNCIL  
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and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017-18, which give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit, Governance and Standards Committee is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Responsibilities of the Authority**

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

### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Paul Dossett

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP

30 Finsbury Square

LONDON

EC2P 2YU

x July 2018

SOUTHWARK COUNCIL  
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## **Independent auditor's report to the members of Southwark Council on the pension fund financial statements**

### **Opinion**

We have audited the pension fund financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017-18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017-18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Who we are reporting to**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

### **Other information**

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

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

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

**Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of 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 Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017-18, which give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Strategic Director of Finance and Governance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit, Governance and Standards Committee is Those Charged with Governance.

**Auditor's responsibilities for the audit of the financial statements**

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

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A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

[Signature]

Paul Dossett

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square

London

EC2A 1AG

x July 2018

## STATEMENT OF RESPONSIBILITIES

### The Council's responsibilities

The Council 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 council that officer is the Strategic Director of Finance and Governance;
- manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets; and
- approve the Statement of Accounts.

### The Strategic Director of Finance and Governance responsibilities

The Strategic Director of Finance and Governance is responsible for the preparation of the council's Statement of Accounts and of its Pension Fund Statement of Accounts in accordance with proper practices as set out in the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statements of Accounts, the Strategic Director of Finance and Governance has:

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

The Strategic Director of Finance and Governance has also:

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

I certify that the Statement of Accounts presents a true and fair view of the financial position of Southwark Council as at 31 March 2018 and its income and expenditure for the financial year ended 31 March 2018.

**Duncan Whitfield**  
**Strategic Director of Finance and Governance**  
x July 2018

**Council approval**

**Councillor Gavin Edwards**  
**Chair of the Audit, Governance and Standards Committee**  
18 July 2018

## Note 1. EXPENDITURE AND FUNDING ANALYSIS

The analysis shows how annual expenditure is used and funded from resources by the Council in comparison to those resources consumed or earned by the Council in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

Expenditure and Funding Analysis	2017-18				
	As reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Chief Executive's	8,947	(1,786)	7,161	6,516	13,677
Children & Adults (including Dedicated Schools Grant)	183,573	(18,119)	165,454	37,804	203,258
Environment and Social Regeneration	64,799	(31,895)	32,904	20,342	53,246
Finance and Governance (including Strategic Finance)	(9,623)	36,272	26,649	(7,672)	18,977
Housing and Modernisation	72,851	(9,162)	63,689	18,707	82,396
Housing Revenue Account (HRA)	-	(33,629)	(33,629)	40,959	7,330
Public Health	-	(484)	(484)	55	(429)
Support Cost Recharges	(42,109)	42,109	-	-	-
<b>Net cost of services</b>	<b>278,438</b>	<b>(16,694)</b>	<b>261,744</b>	<b>116,711</b>	<b>378,455</b>
<b>Other income and expenditure</b>	<b>(274,327)</b>	<b>(1,775)</b>	<b>(276,102)</b>	<b>(58,490)</b>	<b>(334,592)</b>
<b>(Surplus) or deficit</b>	<b>4,111</b>	<b>(18,469)</b>	<b>(14,358)</b>	<b>58,221</b>	<b>43,863</b>
<b>(Surplus)/Deficit on opening General Fund (including earmarked reserves), School Balances and DSG and HRA Balance at 1 April</b>			(104,913)		
<b>(Surplus)/Deficit on General Fund and HRA Balance in year</b>			(14,358)		
<b>Closing General Fund and HRA Balance at 31 March</b>			<b>(119,271)</b>		

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Expenditure and Funding Analysis	Restated 2016-17				
	As reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Chief Executive's	7,096	(3,883)	3,213	5,207	9,408
Children & Adults (including Dedicated Schools Grant)	185,530	1,297	186,827	18,879	217,920
Environment and Social Regeneration	70,120	(26,655)	43,465	27,189	81,151
Finance and Governance (including Strategic Finance)	(8,693)	50,497	41,804	(17,090)	28,533
Housing and Modernisation	69,832	(9,002)	60,830	11,227	75,158
Housing Revenue Account (HRA)	-	(26,753)	(26,753)	40,713	26,719
Public Health	-	1,609	1,609	26	1,932
Support Cost Recharges	(43,677)	43,677	-	-	(43,677)
<b>Net cost of services</b>	<b>280,208</b>	<b>30,787</b>	<b>310,995</b>	<b>86,151</b>	<b>397,144</b>
<b>Other income and expenditure</b>	(271,378)	(7,565)	(278,943)	(70,082)	(349,024)
<b>(Surplus) or deficit</b>	<b>8,830</b>	<b>23,222</b>	<b>32,052</b>	<b>16,069</b>	<b>48,120</b>
<b>(Surplus)/Deficit on opening General Fund (including</b>			(136,965)		
<b>(Surplus)/Deficit on General Fund and HRA Balance in year</b>			32,052		
<b>Closing General Fund and HRA Balance at 31 March</b>			<b>(104,913)</b>		



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## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). The council raises taxation (and rents) to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and in the Movement in Reserves Statement.

			2017-18	Restated		2016-17
	Gross	Gross	Net	Gross	Gross	Net
	Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
	£000	£000	£000	£000	£000	£000
Chief Executive's	25,307	(11,630)	13,677	15,960	(7,540)	8,420
Children & Adults	482,412	(279,154)	203,258	468,744	(263,038)	205,706
Environment & Social Regeneration	121,016	(67,770)	53,246	101,841	(31,187)	70,654
Finance and Governance	214,522	(195,545)	18,977	244,271	(219,558)	24,713
Housing and Modernisation	115,633	(33,237)	82,396	88,207	(16,150)	72,057
Housing Revenue Account (HRA)	263,462	(256,132)	7,330	306,193	(292,233)	13,960
Public Health	27,878	(28,307)	(429)	32,111	(30,476)	1,635
<b>Net cost of services</b>	<b>1,250,230</b>	<b>(871,775)</b>	<b>378,455</b>	<b>1,257,327</b>	<b>(860,182)</b>	<b>397,145</b>
Other Operating Expenditure (note 8)			23,899			(37,405)
Financing and Investment Income and Expenditure (note 9)			36,977			29,362
Taxation and Non-Specific Grant Income (note 10)			(395,468)			(340,982)
<b>(Surplus or deficit on provision of services)</b>			<b>43,863</b>			<b>48,120</b>
(Surplus)/deficit on revaluation of non current assets (note 23)			(159,486)			(351,123)
(Surplus)/deficit on revaluation of available for sale financial assets (note 38)			(40)			(163)
Remeasurement of the net defined benefit liability (note 37)			47,549			104,976
<b>Other Comprehensive Income and Expenditure</b>			<b>(111,977)</b>			<b>(246,310)</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>(68,114)</b>			<b>(198,190)</b>

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## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the general fund balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The net increase/decrease before the transfers to earmarked reserves line shows the statutory general fund balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves have been undertaken by the council.

### MOVEMENT IN RESERVES 2017-18

	General Fund Balance	Earmarked General Fund Reserves	School Balances and DSG reserve	HRA Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves (note 23)	Total Reserves of the council
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 1 April 2017</b>	<b>18,803</b>	<b>54,492</b>	<b>17,263</b>	<b>14,355</b>	<b>5,389</b>	<b>80,489</b>	<b>-</b>	<b>190,791</b>	<b>3,737,832</b>	<b>3,928,623</b>
<b>Movement in reserves during 2017-18</b>										
Total Comprehensive Income and Expenditure	(8,046)	-	-	(35,817)	-	-	-	(43,863)	111,977	68,114
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	16,800	-	-	41,421	5,532	(640)	-	63,113	(63,113)	-
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>8,754</b>	<b>-</b>	<b>-</b>	<b>5,604</b>	<b>5,532</b>	<b>(640)</b>	<b>-</b>	<b>19,250</b>	<b>48,864</b>	<b>68,114</b>
Transfers to/(from) earmarked reserves (note 12)	(8,754)	16,160	(7,406)					-		
<b>Increase/(Decrease) in year</b>	<b>-</b>	<b>16,160</b>	<b>(7,406)</b>	<b>5,604</b>	<b>5,532</b>	<b>(640)</b>	<b>-</b>	<b>19,250</b>	<b>48,864</b>	<b>68,114</b>
<b>Balance as at 31 March 2018</b>	<b>18,803</b>	<b>70,652</b>	<b>9,857</b>	<b>19,959</b>	<b>10,921</b>	<b>79,849</b>	<b>-</b>	<b>210,041</b>	<b>3,786,696</b>	<b>3,996,737</b>

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**MOVEMENT IN RESERVES 2016-17 (RESTATED)**

	General Fund Balance	Earmarked General Fund Reserves	School Balances and DSG reserve	HRA Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves (Note 23)	Total Reserves of the council
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 1 April 2016</b>	<b>18,803</b>	<b>73,000</b>	<b>28,550</b>	<b>16,613</b>	<b>3,576</b>	<b>50,749</b>	<b>-</b>	<b>191,291</b>	<b>3,539,142</b>	<b>3,730,433</b>
<b>Movement in reserves during 2016-17</b>								-		
Total Comprehensive Income and Expenditure	(36,702)	-	-	(11,418)	-	-	-	(48,120)	246,310	198,190
Adjustments between accounting basis and funding basis under statutory provisions (Note 11)	6,907	-	-	9,160	1,813	29,740	-	47,620	(47,620)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(29,795)</b>	<b>-</b>	<b>-</b>	<b>(2,258)</b>	<b>1,813</b>	<b>29,740</b>	<b>-</b>	<b>(500)</b>	<b>198,690</b>	<b>198,190</b>
Transfers to/(from) earmarked reserves (note 12)	29,795	(18,508)	(11,287)					-	-	-
<b>Increase/(decrease) in year</b>	<b>-</b>	<b>(18,508)</b>	<b>(11,287)</b>	<b>(2,258)</b>	<b>1,813</b>	<b>29,740</b>	<b>-</b>	<b>(500)</b>	<b>198,690</b>	<b>198,190</b>
<b>Balance as at 31 March 2017</b>	<b>18,803</b>	<b>54,492</b>	<b>17,263</b>	<b>14,355</b>	<b>5,389</b>	<b>80,489</b>	<b>-</b>	<b>190,791</b>	<b>3,737,832</b>	<b>3,928,623</b>

Note - this statement has been represented in a simplified format with some minor correction of opening and closing balances.

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## BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category are unusable reserves which the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2018	31 March 2017
		£000	£000
Property, Plant & Equipment	13	5,074,856	4,854,987
Heritage Assets		1,223	1,224
Investment Property	14	232,394	147,803
Assets Held For Sale	15	65,339	77,589
Long term Investments	38	27,164	32,320
Long term Debtors	17	31,642	51,018
<b>Long Term Assets</b>		<b>5,432,618</b>	<b>5,164,941</b>
Current Intangible Assets		169	169
Short-term Investments	38	51,254	70,534
Inventories		476	636
Short-term Debtors	17	106,051	127,438
Cash and Cash Equivalents	16	39,126	48,590
Assets Held For Sale	15	8,854	13,275
<b>Current Assets</b>		<b>205,930</b>	<b>260,642</b>
Short-term Borrowing	38	(130,215)	(10,219)
Short-term Creditors	18	(196,125)	(176,159)
Short-term Provisions	19	(8,401)	(10,664)
Grants Receipts In Advance	21	(107,093)	(151,722)
<b>Current Liabilities</b>		<b>(441,834)</b>	<b>(348,764)</b>
Long-term Creditors	18	(10,944)	(10,623)
Long-term Provisions	19	(13,511)	(13,916)
Long-term Borrowing	38	(440,164)	(452,851)
Pension Liabilities	37	(639,864)	(570,452)
Other Long-term Liabilities	35	(95,494)	(100,354)
<b>Long Term Liabilities</b>		<b>(1,199,977)</b>	<b>(1,148,196)</b>
<b>Net Assets</b>		<b>3,996,737</b>	<b>3,928,623</b>
Usable Reserves	12	(210,041)	(190,791)
Unusable Reserves	23	(3,786,696)	(3,737,832)
<b>Total Reserves</b>		<b>(3,996,737)</b>	<b>(3,928,623)</b>

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## CASH FLOW STATEMENT

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

	Notes	2017-18	2016-17
		£000	£000
Net surplus or (deficit) on the provision of services		(43,863)	(48,120)
Adjustment to surplus or deficit on the provision of services for noncash movements	24	316,929	289,155
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(173,221)	(150,620)
<b>Net cash flows from operating activities</b>		<b>99,845</b>	<b>90,415</b>
Net cash flows from investing activities	25	(211,387)	(73,774)
Net cash flows from financing activities	26	102,078	(9,494)
<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(9,464)</b>	<b>7,147</b>
Cash and cash equivalents at the beginning of the reporting period	16	48,590	41,442
<b>Cash and cash equivalents at the end of the reporting period</b>	16	<b>39,126</b>	<b>48,590</b>

## NOTES TO THE ACCOUNTS

### 2. ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The Statement of Accounts summarises the council's transactions for the 2017-18 financial year and its position at the year end of 31 March 2018. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared using the going concern and accruals bases. The historical cost convention has been applied, modified by the valuation of the following material categories of non-current assets and financial instruments:

Class of Assets	Valuation Basis
Property, Plant and Equipment - Dwellings	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, Plant and Equipment – Land and Buildings	Current value, comprising existing use value Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, Plant and Equipment – Surplus Assets	Fair value
Investment Properties	Fair value
Financial Instruments – Available for Sale Assets	Fair value
Pensions Assets	Fair value

#### 2.2 Adjustments between accounting basis and funding basis

The resources available to the council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations). Where the statutory provisions are different from the accruals basis used in the Comprehensive Income and Expenditure Statement, adjustments to the accounting treatment are made in the Movement in Reserves Statement (MiRS) so that usable reserves reflect the funding available at the year-end. Unusable reserves are created to manage the timing differences between the accounting and funding bases. The material adjustments are:

Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant and Equipment	Depreciation and revaluation/impairment losses	Revenue provision to cover historical cost determined in accordance with 2003 Regulations	Capital Adjustment Account
Intangible Assets	Amortisation and impairment		
Investment Properties	Movement in fair value		
Revenue Expenditure Funded from Capital under statute	Expenditure incurred in year		
Capital Grants and Contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital Grants unapplied reserve (unapplied at 31 March) Capital Adjustment Account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less	No charge or credit	Capital Adjustment Account

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Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
	carrying amount of asset (net of costs of disposal)		(carrying amount) Capital Receipts Reserve (sale proceeds & cost of disposal) Deferred capital Receipts Reserve (where sale proceeds not yet received)
Financial Instruments	Premiums payable & discounts receivable on early repayment of borrowing in 2017-18  Losses on soft loans and interest receivable on an amortised cost basis	Deferred debits/credits of premiums/discounts from earlier years  Interest due to be received on soft loans in year	Financial Instruments Adjustment Account
Pension Costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions Reserve
Council Tax	Accrued income from 2017-18 bills	Demand on the Collection Fund for 2017-18 plus share of estimated surplus for 2016-17	Collection Fund Adjustment Account
Business Rates	Accrued income from 2017-18 bills	Budgeted income receivable from the Collection Fund for 2017-18 plus share of estimated surplus 2016-17	Collection Fund Adjustment Account
Holiday Pay	Projected cost of untaken leave entitlements at 31 March 2018	No charge	Accumulated absence adjustment account

### 2.3 Accruals of income and expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Revenue from housing rents is recognised in the year the billing amount falls due.
- Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as it is a non-contractual, non-exchange transaction with no difference between the delivery and payment dates. It is recognised in the financial statements when it is probable that the economic benefits associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories in the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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## 2.4 Business Improvement Districts

A Business Improvement District (BID) scheme may apply across the whole of the council, or to specific areas of the council. Schemes are funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under these schemes, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement. Southwark has five BIDS in operation; Better Bankside, Blue Bermondsey, Southbank, Team London Bridge and We Are Waterloo.

## 2.5 Employee Benefits

### Employee Benefits - Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Finance and Corporate Services line in the Comprehensive Income and Expenditure Statement at the earliest of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructure.

### Post-employment Benefits

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

- The Teachers' Pension Scheme, administered [by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by Southwark Council and the London Pension Fund Authority
- The NHS Pension Scheme, administered by NHS Pensions.

All the schemes provide defined benefits to members, i.e. retirement lump sums and pensions, earned as employees worked for the Council.

However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Within the Comprehensive Income and Expenditure Statement the Children's and Adult's and Public Health services lines respectively are charged with the employer's contributions payable to Teachers' Pensions and NHS Pensions in the year.

### Employment Benefits - The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme. The Council contributes to two pension funds – its own, the London Borough of Southwark Pension Fund, and that of the London Pension Fund Authority Pension Fund.

The Council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures on Note 40 to the Accounts set out the discount rates and assumptions applied by each fund.

The assets of funds attributable to the council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

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

- Service cost comprising
  - current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Finance and Corporate Services
  - net interest on the net defined benefit liability (asset) - charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement



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- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

### Discretionary Benefits

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

## 2.6 Financial Instruments

Financial instruments are recognised on the Balance Sheet when the council becomes a party to the contractual provisions and are initially measured at fair value.

Borrowings and investments are generally carried at their amortised cost. Annual debits and credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable and receivable are based on the carrying amount of the instrument, multiplied by the effective rate of interest. For most of the instruments that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable or receivable (plus accrued interest); and interest debited/credited to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the instrument agreement.

Changes in the fair value of financial assets that have fixed or determinable payments and are not quoted in an active market (loans and receivables) are not recognised in the Balance Sheet as they arise but are debited or credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when the instrument matures or is sold. However, where loans and receivables become impaired the carrying amount of the instrument is written down in the Balance Sheet to the present value of the revised future cash flows discounted at the original effective interest rate and the loss is debited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the fair value of financial assets that have a quoted market price and/or do not have fixed or determinable payments (available for sale assets) are recognised in the Balance Sheet and balanced by a debit or credit to the Available for Sale Reserve. However, where available for sale assets become impaired the fair value of the instrument is written down in the Balance Sheet to the new fair value (no fixed/determinable payments) or the present value of the revised future cash flows discounted at the original effective interest rate (fixed/determinable payments) and the loss is debited to the Financing and Investment Income and Expenditure line in the CIES (plus any net gain/loss for the instrument accumulated in the Available for Sale Reserve). Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

## 2.7 Government Grants and Contributions

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

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

Amounts recognised as due to the council are carried on the balance as grants received in advance and only credited to the Comprehensive Income and Expenditure Statement when conditions attached to the grant or contribution have been satisfied. .

The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the CIES.

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## 2.8 Investment Property

Investment properties are those that are held solely to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value, based on the highest or best price that can be obtained in the most advantageous market, in an arms length transaction between knowledgeable participants at the measurement date. Investment properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

## 2.9 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

### *The council as Lessee – Finance leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability. Lease payments are apportioned between;

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

### *The council as lessee - operating leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### *The council as lessor – operating leases*

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

## 2.10 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the absorption costing principle. The full cost of overheads and support services is shared between users

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principle. The full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- The Chief Executives, Finance and Governance, Housing and Modernisation and HRA services contain costs relating to the council's status as a multi-functional, democratic organisation
- The Finance and Governance contains the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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## 2.11 Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

## 2.12 Property, Plant and Equipment

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred. If the amount of expenditure on an individual asset within Other Land and Buildings is above £500,000, details of the works are provided to the valuer with a request to revalue the asset.

Assets are initially measured at cost, comprising:

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

Certain categories of Property, Plant and Equipment are measured subsequently at current value – see Policy i for details. Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

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

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

Assets are assessed at each year-end as to whether there is any indication that items have been impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for in the same way as revaluation losses.

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

Useful lives are assessed on the following bases:

- Council dwellings – weighted average life based on major components – typically 50-60 years
- Other operational buildings – as valuation – 10-60 years
- Surplus assets – as valuation – 9-40 years
- Vehicles, furniture & IT hardware – 5-8 years
- Plant, fittings & play equipment – 7-15 years
- Infrastructure assets – 5-50 years
- Intangible assets – 3-5 years.

Where an item of property has major components whose cost or value is 20% or more of the total cost or value of the non-land element of the property and whose useful economic life differs by 10 years or more from the life of the main asset, the components are depreciated separately. In principle the policy for componentisation applies to all items of PP&E, however typically PP&E items other than property assets are not of a nature that would require the policy to be applied, such that only property assets are

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considered for componentisation.

Depreciation is not provided for on newly acquired assets or construction or enhancement expenditure in the year of acquisition, construction or enhancement. A full year's depreciation is provided for in the year in which an asset is derecognised.

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

#### **Sites under development**

Where the council is holding land for the purpose of constructing dwellings the land is held in Surplus Assets until the construction work commences. Once construction work commences and is anticipated to last longer than 12 months, the asset is transferred to assets under construction. Once substantially complete the valuer is asked to value the site as a completed development, including land value and the construction costs incurred to date, and the asset is transferred to operational assets.

#### **Disposals and non-current assets held for sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to right to buy disposals (net of statutory deductions and allowances) is payable to the government based on an agreed schedule. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the Movement in Reserves Statement.

### **2.13 Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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### **Contingent Liabilities**

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

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts.

### **2.14 Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and do not represent usable resources for the council – these reserves are explained in the relevant policies above.

### **2.15 Schools**

The Code specifies that all schools maintained by the council are deemed to be under the council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the council and schools have been eliminated.

### **2.16 VAT**

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

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### 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments has been adopted by the 2018-19 Accounting Code, with an application date of 1 April 2018. IFRS 9 was devised to correct weaknesses in accounting practices that contributed to the global financial crisis. In particular it:

- (i) changes the default accounting treatment for investments from one where gains and losses in value are not recognised as income or expenditure until an investment matures or is disposed of to one where income or expenditure is recognised as fair value gains and losses arise.

The council does not expect the reclassification changes to have a material impact on the financial statements because the majority of its financial assets will retain the same measurement basis. There are not expected to be any changes in the measurement of financial assets.

- (ii) changes the model for impairment loss allowances for financial assets from one based on incurred losses to one based on expected losses

Initial assessment of the council's financial assets does not anticipate any impairment.

- IFRS 15 Revenue from Contracts with Customers has been adopted by the 2018-19 Accounting Code, with an application date of 1 April 2018. IFRS 15 introduces a new model for the recognition of contractual income, based on allocating the overall transaction price for the goods and/or services to be provided against the satisfaction of the various performance obligations in the contract. The new model has the potential to change the date at which revenue is recognised compared to the current accounting requirements.

It is not anticipated that there will be any material impact on the revenue recognised in relation to the significant contracts entered by the Council.

### 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in preparing the Statement of Accounts are as follows:

#### Accounting for schools non-current assets

The council has undertaken a school by school assessment across the different types of school it controls. Judgements have been made to determine the arrangements in place and the accounting treatment of the non-current assets. The council has concluded that the assets of foundation and voluntary aided schools in the borough should not be brought on to the balance sheet as these assets are not controlled by the council but rather by whichever trust or religious body is associated with each individual school.

	Number of schools	Value of land and buildings recognised £'000
Community schools, nursery schools and special schools	48	358,927
Voluntary aided faith schools and foundation schools	31	0

St Michael's, St Thomas and Sacred Heart are voluntary aided secondary schools. St Michael's became operational in January 2011, St Thomas in February 2012 and Sacred Heart in September 2014. The schools have been built and operated under PFI arrangements, under 25 year contracts with 4 Futures Ltd.

The assets of voluntary aided schools are deemed not to be assets of the council. Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd for operating the schools and reimbursement of the capital expense

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incurred, the council does not have an interest in the assets. Further details of the financial arrangements for the schools PFI contracts, and the obligations outstanding, can be found in Note 34.

#### Integrated waste management facility

The integrated waste management facility at the Old Kent Road became operational in February 2012. This is a facility constructed by Veolia Environmental Services under a 25 year PFI contract for the collection and disposal of waste in the borough. The scheme has been evaluated in accordance with IFRS accounting practices, and it is considered that the council has an interest in the asset which should be reflected in the council's Balance Sheet, with a matching liability to make capital repayments as part of the unitary charges. The council has separated Waste PFI contract payments between elements that vary according to availability of the property and another element that varies according to usage or performance of services using estimation techniques in accordance with the code. The property and related liability is measured at the fair value of the asset and the payments allocated between: (a) repayment of liability, (b) finance charge and (c) service element. The council further considers that payments prior to the asset becoming operational reasonably represent the fair value of services. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 34.

#### Heat and energy supply arrangement

The Heat Supply PFI Arrangement with Veolia Environmental Services became operational in November 2013. It placed piping and associated facilities to deliver heating to council residents. It has been assessed as a service concession in accordance with IFRS accounting practice. Unitary charges are payable until 2033 and allocated as charges for service, interest and principal. Further details of the financial arrangements for the heat and energy supply contract, and the obligations outstanding, can be found in Note 34.

### 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

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

#### Valuation of property, plant and equipment

The requirements of the Code specify that the carrying amount of assets should not differ materially from that which would be determined using the fair value at the end of the reporting period. To ensure the council complies with this requirement assets held at fair value are revalued on a rolling basis such that assets are revalued every five years as a minimum. Assets are revalued more frequently where there is indication that a material change in fair value has taken place (see Accounting Policies for how this assessment is made).

A sensitivity analysis detailing movement in valuations is as follows:

Asset Category	Assets Valued at 31 March 2018 £000	Increase in Valuation			Decrease in Valuation		
		1% £000	2% £000	3% £000	(1)% £000	(2)% £000	(3)% £000
Council Dwellings	3,412,190	34,122	68,244	102,366	(34,122)	(68,244)	(102,366)
Other Land and Buildings	764,749	7,647	15,295	22,942	(7,647)	(15,295)	(22,942)
Surplus Assets	122,700	1,227	2,454	3,681	(1,227)	(2,454)	(3,681)
Investment property	231,155	2,312	4,623	6,935	(2,312)	(4,623)	(6,935)
Assets Held For Sale	74,193	742	1,484	2,226	(742)	(1,484)	(2,226)
<b>Total</b>	<b>4,604,987</b>	<b>46,050</b>	<b>92,100</b>	<b>138,150</b>	<b>(46,050)</b>	<b>(92,100)</b>	<b>(138,150)</b>

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The council recognises its outstanding liabilities to meet future pension's costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2018 the outstanding net liability was assessed at £639.864 million (£570.452 million at 31 March 2017). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund.

Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension's liability of changes in individual assumptions can be measured. The estimates, assumptions and sensitivity of changes in assumptions are provided in note 37.

**6. EVENTS AFTER THE BALANCE SHEET DATE**

The Statement of Accounts were authorised for issue by the Strategic Director of Finance and Governance on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the balance sheet date.



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**7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS: ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS**

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	2017-18				2016-17 Restated			
	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000	£000	£000	£000
Chief Executive's	5,778	758	(20)	6,516	4,952	240	15	5,207
Children & Adults	30,537	7,268	(1)	37,804	16,351	2,247	281	18,879
Environment and Social Regeneration	17,059	3,279	4	20,342	26,176	983	30	27,189
Finance and Governance	1,056	(8,493)	(235)	(7,672)	(12,575)	(4,271)	(244)	(17,090)
Housing and Modernisation	17,076	1,645	(14)	18,707	10,733	483	11	11,227
Housing Revenue Account (HRA)	38,106	3,018	(165)	40,959	38,501	1,002	1,210	40,713
Public Health	-	59	(4)	55	-	17	9	26
<b>Net cost of services</b>	<b>109,612</b>	<b>7,534</b>	<b>(435)</b>	<b>116,711</b>	<b>84,138</b>	<b>701</b>	<b>1,312</b>	<b>86,151</b>
Other income and expenditure from the funding analysis	(69,279)	14,329	(3,540)	(58,490)	(81,396)	14,679	(3,365)	(70,082)
<b>Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit</b>	<b>40,333</b>	<b>21,863</b>	<b>(3,975)</b>	<b>58,221</b>	<b>2,742</b>	<b>15,380</b>	<b>(2,053)</b>	<b>16,069</b>

**Adjustments for capital purposes**

This column adds in depreciation and impairment and revaluation gains and losses in the service line. For other operating expenditure it adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. For financing and investment income and expenditure it adjusts for the statutory charges for capital financing and investment i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices. For taxation and non-specific grant income and expenditure, capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

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**Net change for the pensions adjustments**

This column adjusts for the net change for the renewal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income. For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs. For financing and investment income and expenditure, this adjusts for the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

**Other differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute. For services, this represents removal of the annual leave accrual adjustment. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and Non-Domestic Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the CIPFA Code of Accounting Practice for Local Authorities 2017-18. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

**An analysis of the nature of expenditure and income is detailed as follows:**

	2017-18	2016-17
	£000	£000
<b>Expenditure</b>		
Employee Expenses	364,808	375,315
Other Services Expenses	859,021	834,266
Support Service Recharges	(42,109)	(43,677)
Depreciation, amortisation and impairment	99,102	111,779
Interest payments	33,968	34,085
Precepts and Levies	1,938	1,611
(Gains)/losses on the Disposal of Assets	17,687	(43,360)
<b>Sub-total</b>	<b>1,334,415</b>	<b>1,270,018</b>
<b>Income</b>		
Fees, Charges and Other Service Income	(468,299)	(371,568)
Interest and Investment Income	(15,707)	(13,575)
Income from Council Tax and NDR	(188,855)	(158,559)
Government Grants and Contributions	(617,691)	(678,195)
<b>Sub-total</b>	<b>(1,290,552)</b>	<b>(1,221,898)</b>
<b>(Surplus)/Deficit on the provision of Services</b>	<b>43,863</b>	<b>48,120</b>

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## 8. OTHER OPERATING EXPENDITURE

	2017-18	2016-17
	£000	£000
Levies	1,938	1,611
Payment to the government's housing capital receipts pool	4,274	4,344
(Gain)/loss on the disposal of non-current assets	17,687	(43,360)
<b>Total Other Operating Expenditure</b>	<b>23,899</b>	<b>(37,405)</b>

## 9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017-18	2016-17
	£000	£000
Interest payable and similar charges	34,183	34,243
Grant contributions towards interest costs on PFI schemes	(7,478)	(7,158)
Net interest on the net defined benefit liability	14,330	14,679
Interest receivable and similar income	(2,220)	(2,162)
Income, expenditure and changes in the fair value of investment properties	(1,838)	(10,240)
<b>Total Financing and Investment Income and Expenditure</b>	<b>36,977</b>	<b>29,362</b>

Income and expenditure from Housing Revenue Account commercial properties is disclosed within net cost of HRA services within the Housing Revenue Account Income and Expenditure Statement.

## 10. TAXATION AND NON-SPECIFIC GRANT INCOME

	2017-18	2016-17
	£000	£000
Council Tax Income	(97,348)	(89,217)
Non-domestic rates income and expenditure	(91,507)	(69,342)
Un-ringfenced government grants	(111,641)	(138,200)
Capital Grants and contributions	(94,972)	(44,223)
<b>Total Taxation and Non-Specific Grant Income</b>	<b>(395,468)</b>	<b>(340,982)</b>

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## 11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments made to the total comprehensive income and expenditure recognised by the council in the year and to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. This is in accordance with proper accounting practice. The following sets out a description of the reserves that the adjustments are made against.

### General Fund balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. The balance is not available to be applied to funding HRA services.

### Housing Revenue Account balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function. The balance is not available to be applied to funding HRA services.

### Major Repairs Reserve

The Major Repairs Reserve controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure for the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land and other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### Capital Grants Unapplied

The Capital Grants Unapplied account holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the income but which has yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and or the financial year in which this can take place.

2017-18	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the capital adjustment account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	38,937	60,165	-	-	-	(99,102)
Revaluation losses on Property, Plant and Equipment	(146)	54,933	-	-	-	(54,787)
Movements in the fair value of Investment Properties	18,066	(10,660)	-	-	-	(7,406)
Capital grants and contributions applied	(85,809)	(9,163)	-	-	-	94,972

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2017-18	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Revenue expenditure funded from capital under statute	34,877	1,526	-	-	-	(36,403)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	20,825	42,810	-	-	-	(63,635)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Provision to reduce the capital financing requirement (minimum revenue provision MRP)	(1,748)	-	-	(4,244)	-	5,992
Lease & PFI repayment	-	(221)	-	-	-	221
Repayment of premiums	(241)	(824)	-	-	-	1,065
Capital expenditure charged against the General Fund and HRA balances	(415)	(21,164)	-	-	-	21,579
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(22,097)	(56,151)	-	78,248	-	-
Transfer from deferred debtors to usable capital receipts reserve	-	-	-	11	-	(11)
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	(69,481)	-	69,481
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	147	753	-	(900)	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	4,274	-	-	(4,274)	-	-
<b>Adjustments primarily involving the deferred capital receipts reserve</b>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	31,400	-	-	-	(31,400)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
MRR credited with an amount equal to the depreciation charged to the HRA	-	(50,566)	50,566	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	(5,966)	5,966	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	(51,000)	-	-	51,000

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2017-18	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	(936)	-	-	-	936
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	48,544	9,905	-	-	-	(58,449)
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,166)	(4,420)	-	-	-	36,586
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,606)	-	-	-	-	1,606
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(4,613)	-	-	-	-	4,613
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(29)	-	-	-	-	29
<b>Total adjustments</b>	<b>16,800</b>	<b>41,421</b>	<b>5,532</b>	<b>(640)</b>	<b>-</b>	<b>(63,113)</b>

2016-17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the capital adjustment account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	33,292	78,484	-	-	-	(111,779)
Revaluation losses on Property, Plant and Equipment	14,783	62,413	-	-	-	(77,196)
Movements in the fair value of Investment Properties	(1,938)	(656)	-	-	-	2,594

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2016-17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Capital grants and contributions applied	(39,053)	(5,169)	-	-	-	44,223
Revenue expenditure funded from capital under statute	16,165	2,954	-	-	-	(19,119)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	7,883	53,878	-	-	-	(61,761)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Provision to reduce the capital financing requirement	(2,778)	-	-	-	-	2,778
Lease & PFI repayment	(4,581)	(185)	-	-	-	4,766
Repayment of premiums	(241)	(824)	-	-	-	1,065
Capital expenditure charged against the General Fund and HRA balances	(3,081)	(55,960)	-	-	-	59,041
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-		
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(23,726)	(82,672)	-	106,398	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	99	-	(99)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(71,137)	-	71,137
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	153	1,124	-	(1,277)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	4,344	-	-	(4,344)	-	-
Provision to reduce the capital financing requirement	-	-	-	-	-	-
<b>Adjustments primarily involving the deferred capital receipts reserve:</b>						
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA	-	(48,590)	48,590	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(46,778)	-	-	46,778

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2016-17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	843	-	-	-	(843)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	44,257	8,249	-	-	-	(52,506)
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,372)	(4,754)	-	-	-	37,126
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,934)	-	-	-	-	1,934
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(4,609)	-	-	-	-	4,609
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	343	25	-	-	-	(368)
<b>Total adjustments</b>	<b>6,907</b>	<b>9,160</b>	<b>1,812</b>	<b>29,739</b>	<b>-</b>	<b>(47,620)</b>



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## 12. USABLE RESERVES

Reserves represent the authority's net worth and show its spending power. Usable reserves result from the authority's activities and can be spent in the future. This note sets out the amounts set aside and posted back to usable reserves in 2017-18, they include:

- General Fund Strategic Reserve – to cushion the impact of unexpected events or emergencies
- Earmarked Reserves – to provide financing to meet known or predicted future General Fund expenditure plans
- School Balances/Dedicated Schools Grant – amounts required by statute to be set aside for future expenditure in schools
- Housing Revenue Account Reserves – amounts specifically required by statute to be set aside and ring-fenced for future investment in HRA
- Capital reserves – includes capital receipts and capital grants set aside to finance future capital spending plans

	1 April 2016	Transfer out 2016	Transfer in 2016	31 March 2017	1 April 2017	Transfer out 2017	Transfer in 2017	31 March 2018
	£000	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Reserve</b>	<b>(18,803)</b>	<b>-</b>	<b>-</b>	<b>(18,803)</b>	<b>(18,803)</b>	<b>-</b>	<b>-</b>	<b>(18,803)</b>
<b>Earmarked Reserves:</b>								
Corporate Projects and Priorities	(9,572)	9,934	(5,317)	(4,955)	(4,955)	2,235	(2,780)	(5,500)
Service Improvement Reserves	(7,829)	5,215	(279)	(2,893)	(2,893)	1,706	(8,232)	(9,419)
Capital Investment Reserves	(26,822)	4,806	(500)	(22,516)	(22,516)	1,787	(1,773)	(22,502)
Strategic Financing, Technical and Risk reserves	(28,777)	12,794	(8,145)	(24,128)	(24,128)	8,350	(17,453)	(33,231)
<b>Total</b>	<b>(73,000)</b>	<b>32,749</b>	<b>(14,241)</b>	<b>(54,492)</b>	<b>(54,492)</b>	<b>14,078</b>	<b>(30,238)</b>	<b>(70,652)</b>
<b>Schools Reserves</b>								
Schools – DSG	(10,172)	8,922	-	(1,250)	(1,250)	5,361	-	4,111
Schools - Balances	(18,378)	4,977	(2,612)	(16,013)	(16,013)	8,963	(6,918)	(13,968)
<b>Total Schools</b>	<b>(28,550)</b>	<b>13,899</b>	<b>(2,612)</b>	<b>(17,263)</b>	<b>(17,263)</b>	<b>14,324</b>	<b>(6,918)</b>	<b>(9,857)</b>
<b>HRA Reserves</b>								
HRA General Reserve	(16,613)	9,771	(7,513)	(14,355)	(14,355)	71	(5,675)	(19,959)
Major Repairs Reserve	(3,577)	46,778	(48,590)	(5,389)	(5,389)	51,000	(56,532)	(10,921)
<b>Total HRA Reserves</b>	<b>(20,190)</b>	<b>56,549</b>	<b>(56,103)</b>	<b>(19,744)</b>	<b>(19,744)</b>	<b>51,071</b>	<b>(62,207)</b>	<b>(30,880)</b>
<b>Capital Reserves</b>								
Capital Receipts	(50,750)	76,758	(106,497)	(80,489)	(80,489)	73,725	(73,085)	(79,849)
Capital Grants Unapplied	-	-	-	-	-	-	-	-
<b>Total Usable Capital Reserves</b>	<b>(50,750)</b>	<b>76,758</b>	<b>(106,497)</b>	<b>(80,489)</b>	<b>(80,489)</b>	<b>73,725</b>	<b>(73,085)</b>	<b>(79,849)</b>
<b>Total Usable Reserves</b>	<b>(191,293)</b>	<b>179,955</b>	<b>(179,453)</b>	<b>(190,791)</b>	<b>(190,791)</b>	<b>153,198</b>	<b>(172,448)</b>	<b>(210,041)</b>

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### 13. PROPERTY, PLANT AND EQUIPMENT (PP&E)

This note summarises the changes that have taken place during the year to the carrying amounts of the council's net book value of property, plant and equipment.

2017-18	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value</b>									
Opening balance	3,340,587	988,501	88,228	361,942	11,792	180,448	56,940	5,028,441	85,906
Additions	127,541	56,938	6,866	36,303	642	5,781	40,538	274,609	113
Revaluation increases/(decreases) recognised in the Revaluation Reserve	70,479	18,492	-	-	-	12,960	-	101,931	1,353
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(70,181)	1,803	-	-	-	-	-	(68,378)	79
Derecognition – Disposals	(15,269)	-	-	-	-	(140)	-	(15,409)	-
Derecognition – Other	(1,656)	(11,865)	-	-	-	(16,357)	(385)	(30,263)	-
Assets reclassified	28,377	(28,545)	-	(4,216)	(39)	(20,657)	3,900	(21,180)	-
Other movements in Cost or Valuation	431	182	-	-	-	1,744	(1,772)	582	(291)
<b>Balance as at 31 March 2018</b>	<b>3,480,309</b>	<b>1,025,506</b>	<b>95,094</b>	<b>394,029</b>	<b>12,395</b>	<b>163,779</b>	<b>99,221</b>	<b>5,270,333</b>	<b>87,160</b>
<b>Depreciation and Impairment</b>									
Opening balance	(95)	29,942	47,253	91,945	901	3,622	(112)	173,454	5,806
Depreciation charge	48,937	14,321	9,562	13,651	-	3,032	-	89,503	1,900
Depreciation written out on revaluations recognised in the Revaluation Reserve	(42,786)	(14,708)	-	-	-	(61)	-	(57,555)	(808)
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(5,886)	1,752	-	-	-	-	-	(4,134)	-
Derecognition – Disposals	(263)	-	-	-	-	-	-	(263)	-
Derecognition – Other	(35)	(2,301)	-	-	-	(1,025)	-	(3,361)	-
Assets reclassified	1,666	(1,725)	-	(401)	-	(2,450)	400	(2,510)	-
Other movements in Depreciation and Impairment	189	23	-	129	-	-	-	343	(1,089)
<b>Balance as at 31 March 2018</b>	<b>1,727</b>	<b>27,304</b>	<b>56,815</b>	<b>105,324</b>	<b>901</b>	<b>3,118</b>	<b>288</b>	<b>195,477</b>	<b>5,809</b>
<b>Net Book Value at 31 March 2018</b>	<b>3,478,582</b>	<b>998,202</b>	<b>38,279</b>	<b>288,705</b>	<b>11,494</b>	<b>160,661</b>	<b>98,933</b>	<b>5,074,856</b>	<b>81,351</b>

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2016-17	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	TOTAL PP&E £000	PFI Assets Included in Property, Plant and Equipment £000
<b>Gross Book Value</b>									
Opening balance	3,125,482	875,032	82,092	333,939	11,219	168,196	65,529	4,661,489	73,461
Additions	120,324	51,372	3,934	28,003	546	3,078	23,074	230,331	307
Revaluation increases/(decreases) recognised in the Revaluation Reserve	188,413	81,637	-	-	27	398	-	270,476	12,852
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(75,741)	(17,207)	-	-	-	-	-	(92,947)	(714)
Derecognition – Disposals	(24,100)	-	-	-	-	-	-	(24,100)	-
Derecognition – Other	(15,256)	-	-	-	-	(254)	(7,995)	(23,505)	-
Assets reclassified (to)/from Held for Sale	21,465	(2,333)	2,202	-	-	9,030	(23,668)	6,696	-
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-	-
<b>Balance as at 31 March 2017</b>	<b>3,340,587</b>	<b>988,501</b>	<b>88,228</b>	<b>361,942</b>	<b>11,792</b>	<b>180,448</b>	<b>56,940</b>	<b>5,028,441</b>	<b>85,906</b>
<b>Depreciation and Impairment</b>									
Opening balance	383	34,935	41,296	79,593	902	2,807	-	159,916	5,531
Depreciation charge	75,724	14,719	5,957	12,352	-	3,027	-	111,779	1,884
Depreciation written out on revaluations recognised in the Revaluation Reserve	(61,222)	(17,426)	-	-	(1)	(2,187)	-	(80,836)	-
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(13,378)	(2,139)	-	-	-	-	-	(15,518)	(1,609)
Derecognition – Disposals	(568)	-	-	-	-	-	-	(568)	-
Derecognition – Other	(1,034)	-	-	-	-	(25)	(112)	(1,172)	-
Other movements in Depreciation and Impairment	-	(147)	-	-	-	-	-	(147)	-
<b>Balance as at 31 March 2017</b>	<b>(95)</b>	<b>29,942</b>	<b>47,253</b>	<b>91,945</b>	<b>901</b>	<b>3,622</b>	<b>(112)</b>	<b>173,454</b>	<b>5,806</b>
<b>Net Book Value at 31 March 2017</b>	<b>3,340,682</b>	<b>958,559</b>	<b>40,975</b>	<b>269,997</b>	<b>10,891</b>	<b>176,826</b>	<b>57,052</b>	<b>4,854,987</b>	<b>80,100</b>

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**PP&E (continued)**

The valuation of assets has been carried out by the council's internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluation of council dwellings is 1 April 2017. Other Land and Buildings (OLB) and Surplus Assets are valued at 31 December 2017 on a 20% rolling basis to ensure valuation of all assets in this category within 5 years. Assets Held for Sale and Investment Properties are valued at 31 March 2018.

The entire housing stock, Assets Held for Sale and Investment properties are valued on an annual basis. Review of assets under construction as well as general impairments to assets are also carried out on an annual basis.

The effective date of valuations arising from in-year capital expenditure of £0.500m and above, physical impairment or material changes in the value of assets in any category is 31 March 2018. In 2017-18, a sum of £9.6m was charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account due to impairments to Maydew and Ledbury Estates (council dwellings).

Surplus assets have been valued on the basis of best use unless it can clearly be demonstrated that the asset is being held in anticipation of a continuing operational use, where existing use value will continue to apply.

In valuing the assets regard has been had to the use of relevant observable inputs. Primarily this will entail market based valuation techniques using prices and other information generated by market transactions, selecting those inputs that market participants would typically take into account. The council's Head of Property has reviewed surplus assets to be valued and is of the opinion that they can be categorised as being consistent with level 2 of the fair value hierarchy of inputs i.e. the valuation may be based on quoted prices, yield etc. for comparable assets, subject to adjustment as necessary in the valuers judgement to equate the evidence with the subject of the valuation.

At 31 March 2018, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017-18 and future years budgeted to cost £65 million. Similar commitments at 31 March 2017 were £93 million. The commitments are as below:

	£m
General Fund	38.7
Housing Revenue Account	26.3
<b>Total</b>	<b>65.0</b>

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## 14. INVESTMENT PROPERTIES

The income and expenditure on investment assets was as follows:

	2017-18	2016-17
	£000	£000
Rental income from investment property	(13,609)	(11,413)
Fair value adjustments	7,406	(2,594)
Direct operating expenses arising from investment property	4,365	3,767
<b>Net (gain)/loss included in Financing &amp; Investment Income in CIES</b>	<b>(1,838)</b>	<b>(10,240)</b>

The movement in the fair value of investment properties held was as follows:

	2017-18	2016-17
	£000	£000
<b>Balance as at 1 April</b>	<b>147,803</b>	<b>152,267</b>
Additions	78,623	563
Disposals	(5,055)	(776)
Net gains/(losses) from fair value adjustments	(7,406)	2,594
Reconciliation to current balances	(241)	-
Transfers (to)/from Property, Plant and Equipment	18,670	(6,845)
<b>Balance as at 31 March</b>	<b>232,394</b>	<b>147,803</b>

### Properties held under operating leases

The council holds a number of properties as lessee, held as operating leases, which are then sub-leased out as investment properties. The income and expenditure on these leases is included above but, being operating leases, are not included with property, plant & equipment. The council also rents out property for shops, community, and commercial use, including the Surrey Quays Shopping Centre on Redriff Road.

### Fair value valuation

The basis of valuation for investment properties is fair value for the unit of account, taking into account the characteristics of the assets (including location, condition, restrictions on sale), the nature of relevant markets for those assets and the behaviours of those participating in these markets. The valuations have assumed the highest and best use for the asset which is physically possible, legally permissible and financially viable. This may not be the existing use, and where an alternative use is advocated the valuation will reflect the cost of delivering the alternative insofar as this would be reflected in the market.

In valuing the assets, regard has been had to the use of relevant observable inputs. Primarily this will entail market based valuation techniques using prices and other information generated by market transactions, selecting those inputs that market participants would typically take into account. The council's Head of Property has reviewed investment properties to be valued and is of the opinion that they can be categorised as being consistent with level 2 of the fair value hierarchy of inputs i.e. the valuation may be based on quoted prices, yield etc. for comparable assets, subject to adjustment as necessary in the valuers judgement to equate the evidence with the subject of the valuation.

## 15. ASSETS HELD FOR SALE

	Current		Non-Current	
	2017-18	2016-17	2017-18	2016-17
	£000	£000	£000	£000
<b>Balance at 1 April</b>	<b>13,275</b>	<b>20,067</b>	<b>77,589</b>	<b>79,500</b>
Additions	-	2,376	-	4,089
Revaluation loss taken to Surplus or Deficit on the Provision of Services	-	(50)	-	-
Assets sold	(4,421)	(9,118)	(12,250)	(6,000)
<b>Balance at 31 March</b>	<b>8,854</b>	<b>13,275</b>	<b>65,339</b>	<b>77,589</b>

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## 16. CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The balance of cash and cash equivalents is made up of the elements set out below. The bank overdraft is a function of the council's utilisation of multiple pooled bank accounts and is an integral to the day-to-day cash management of the council. The bank overdraft includes all outstanding and unrepresented items.

	31 March 2018	31 March 2017
	£000	£000
Cash held by the council	10	7
Short-term funds in money markets	45,870	55,743
<b>Sub-total</b>	<b>45,880</b>	<b>55,750</b>
Bank current accounts (bank overdraft)	(6,754)	(7,160)
<b>Total cash and cash equivalents</b>	<b>39,126</b>	<b>48,590</b>

## 17. DEBTORS

	31 March 2018		31 March 2017	
	Short Term Debtors	Long Term Debtors	Short Term Debtors	Long Term Debtors
	£000	£000	£000	£000
Central government bodies	16,696	-	19,852	-
Other local authorities	3,964	-	5,215	-
NHS bodies	4,243	-	6,395	-
Public corporations and trading funds	-	-	448	-
Other entities and individuals	134,231	31,642	142,968	51,018
<b>Total before impairment</b>	<b>159,134</b>	<b>31,642</b>	<b>174,878</b>	<b>51,018</b>
Impairment	(53,083)	-	(47,440)	-
<b>Total net of impairment</b>	<b>106,051</b>	<b>31,642</b>	<b>127,438</b>	<b>51,018</b>

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## 18. CREDITORS

	Short Term Creditors		Long Term Creditors	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
Central government bodies	32,703	35,768	-	-
Other local authorities	32,465	20,804	-	-
NHS bodies	6,532	8,604	-	-
Public corporations and trading funds	-	16	-	-
Other entities and individuals	124,425	110,967	10,944	10,623
<b>Total</b>	<b>196,125</b>	<b>176,159</b>	<b>10,944</b>	<b>10,623</b>

## 19. PROVISIONS

	Short Term Provisions		Long Term Provisions	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
Insurance Provision	-	-	8,357	8,900
Business Rates Appeals	8,401	10,664	1,593	1,436
Provision for refunds - Thames Water (former tenants)	-	-	2,888	3,449
Other miscellaneous provisions	-	-	673	131
<b>Total</b>	<b>8,401</b>	<b>10,664</b>	<b>13,511</b>	<b>13,916</b>

The insurance provision represents amounts set aside to meet known liabilities but where settlements have not been agreed. Payment for these claims will be made over a number of years. The provision includes an amount in respect of Municipal Mutual Insurance (MMI). The council is responsible for its share of any claims where the incident occurred prior to 31 March 1996.

The amount provided for business rate appeals (council share) has decreased from £12.100m at 31 March 2017 to £9.994m at 31 March 2018. The provision is based on data and trends that reflect local circumstances.

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## 20. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant provided by the Education and Skills Funding Agency (ESFA), the Dedicated Schools Grant (DSG). An element of DSG is recouped by the ESFA to fund academy schools in the council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2013. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017-18 are as follows:

	Central Expenditure	Individual Schools Budgets	Total	Total
			2017-18	2016-17
	£000	£000	£000	£000
Final DSG before academy recoupment	(36,156)	(271,447)	<b>(307,603)</b>	(298,333)
Academy figure recouped	-	108,351	<b>108,351</b>	108,998
Total DSG after academy recoupment	(36,156)	(163,096)	(199,252)	(189,335)
Brought forward from previous year	(1,249)	-	<b>(1,249)</b>	(10,172)
Carry forward agreed in advance	-	-	-	1,249
Agreed budgeted distribution	(37,405)	(163,096)	(200,501)	(198,258)
Actual central expenditure	41,516	-	<b>41,516</b>	40,591
Actual ISB deployed to schools	-	163,096	<b>163,096</b>	157,667
<b>Carry-forward</b>	<b>4,111</b>	-	<b>4,111</b>	-
<b>Total carry forward including agreed in advance</b>	<b>4,111</b>	-	<b>4,111</b>	<b>(1,249)</b>

## 21. GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement

	2017-18	2016-17
	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue support grant	(57,790)	(73,480)
Business rates top up grant	(33,483)	(45,339)
New homes bonus	(13,048)	(16,569)
Autumn Statement compensation grant	(7,320)	(2,812)
Other grants individually less than £1 million	-	-
Capital grants and contributions	(94,972)	(44,223)
<b>Sub total</b>	<b>(206,613)</b>	<b>(182,423)</b>



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	2017-18	2016-17
	£000	£000
<b>Credited to Provision of Services</b>		
Dedicated Schools Grant	(199,252)	(190,249)
Housing Benefits Subsidy - rent rebates granted to HRA tenants	(82,889)	(100,620)
Housing Benefits Subsidy - rent allowances	(78,814)	(95,081)
Housing Benefits Subsidy - non HRA rent rebates	(5,064)	(6,741)
Housing Benefit / Council Tax administration	(2,572)	(3,025)
Public Health	(28,194)	(29,228)
Better Care Fund	(15,652)	(15,423)
Improved Better Care Fund	(9,169)	-
Pupil Premium Grant	(11,880)	(11,715)
The Private Finance Initiative (PFI)	(9,935)	(9,935)
Universal Infant free school meals	(2,900)	(2,744)
Education services grant	(712)	(2,500)
Tackling troubled families	(1,521)	(1,559)
School sixth form funding	(2,073)	(2,116)
Community learning grant	(1,512)	(1,364)
Discretionary housing payment	(1,233)	(1,099)
TfL Implementation Grant	(697)	(2,056)
Youth Justice good practice	(634)	(1,117)
Unaccompanied Asylum Child Grant	(1,472)	-
Catch 22 Innovation Grant	(1,580)	-
Flexible Homelessness Support Grant	(2,670)	-
Adult Social Care Support Grant	(1,578)	-
Other grants individually less than £1 million	(8,829)	(12,042)
<b>Sub total</b>	<b>(470,832)</b>	<b>(488,614)</b>
<b>Total</b>	<b>(677,445)</b>	<b>(671,037)</b>

Capital grants received in advance and applied towards capital expenditure were:

	2017-18	2016-17
	£000	£000
Balance as at 1 April	(151,722)	(127,649)
New capital grants received in advance	(50,343)	(68,296)
Amounts released to the CIES (conditions met)	94,972	44,223
<b>Balance as at 31 March</b>	<b>(107,093)</b>	<b>(151,722)</b>

The balance of capital grants unapplied remaining as receipts in advance were:

	2017-18	2016-17
	£000	£000
Planning Gains	(101,322)	(145,033)
Lottery Funds	-	(1,039)
Education	(1,369)	(2,084)
Transport for London	(2,124)	(1,611)
Other grants individually less than £1 million	(2,278)	(1,955)
<b>Balance as at 31 March</b>	<b>(107,093)</b>	<b>(151,722)</b>

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## 22. POOLED BUDGETS

### Better Care Fund (BCF)

Southwark Council and Southwark Clinical Commissioning Group (CCG) are partners in the provision of services to support reduced hospital admissions and length of stay. Joint arrangements of this type are permitted under Section 75 of the National Health Service Act 2006. The BCF provides various services to residents of Southwark who benefit from specific targeted interventions, as well as supporting hospitals to treat people closer to their homes and communities. The council is the lead authority for the arrangement.

	2017-18		2016-17	
	£000	£000	£000	£000
<b>Funding Provided to the Pooled Budget:</b>				
· Council	10,403		1,149	
· CCG	21,050		20,679	
		<b>31,453</b>		<b>21,828</b>
<b>Expenditure met from the pooled budget:</b>				
· Council	26,046		15,335	
· CCG	5,407		6,493	
		<b>31,453</b>		<b>21,828</b>
<b>Net surplus arising on the pooled budget in the year</b>		-		-

### Integrated Community Equipment Store (ICES)

Southwark Council and the CCG also operate pooled fund arrangements for an Integrated Community Equipment Service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £1.840m in 2017-18 (£1.948m in 2016-17).

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## 23. UNUSABLE RESERVES

Unusable reserves are those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. Unusable reserves comprise:

	31 March 2018	31 March 2017
	£000	£000
Capital Adjustment Account	2,489,076	2,433,367
Financial Instruments Adjustment Account	(22,625)	(24,626)
Revaluation Reserve	1,943,936	1,858,258
Available for Sale Financial Instruments Reserve	172	132
Pensions Reserve	(639,864)	(570,452)
Deferred Capital Receipts	11,000	42,400
Collection Fund Adjustment Account	12,385	6,166
Accumulating Compensated Absences Adjustment Account	(7,384)	(7,413)
<b>Total unusable reserves</b>	<b>3,786,696</b>	<b>3,737,832</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 11 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2017-18		2016-17	
	£000	£000	£000	£000
<b>Balance at 1 April</b>		<b>2,433,367</b>		<b>2,410,004</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non current assets	(99,102)		(111,777)	
Revaluation Losses on Property Plant & Equipment	(54,787)		(77,196)	
Revenue expenditure funded from capital under statute	(36,403)		(19,119)	
Movements in the market value of Investment Properties	(7,406)		2,594	
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(63,635)		(61,761)	
		<b>(261,333)</b>		<b>(267,259)</b>
Adjusting amounts written out of the Revaluation Reserve for disposals	44,979		28,020	
Adjusting amounts written out of the Revaluation Reserve for the difference between fair value depreciation and historical cost depreciation	28,829		33,976	

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Transfer from deferred debtors	(11)		(99)	
<b>Net written out amount of the cost of non current assets consumed in the year</b>		<b>73,797</b>		<b>61,897</b>
<b>Capital financing applied in the year:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	69,481		71,137	
Use of the Major Repairs Reserve to finance new capital expenditure	51,000		46,778	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	94,972		44,223	
Provision for the financing of capital investment charged against the General Fund and HRA balances	1,969		7,546	
Provision to reduce the capital financing requirement (minimum revenue provision)	4,244		-	
Capital expenditure charged against the General Fund and HRA balances	21,579		59,041	
<b>Total</b>		<b>243,245</b>		<b>228,725</b>
<b>Balance at 31 March</b>		<b>2,489,076</b>		<b>2,433,367</b>

#### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Amongst the transactions on this Account are premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the in the Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31 March 2018 includes £17.820 million premiums (£18.885 million at 31 March 2017) to be discharged in future.

	<b>2017-18</b>	<b>2016-17</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	<b>(24,626)</b>	<b>(24,848)</b>
Proportion of premiums to be charged against the General Fund Balance in accordance with statutory requirements	1,065	1,065
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	936	(843)
<b>Balance at 31 March</b>	<b>(22,625)</b>	<b>(24,626)</b>

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### Revaluation reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

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

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

	2017-18		2016-17	
	£000	£000	£000	£000
<b>Balance at 1 April</b>		<b>1,858,258</b>		<b>1,569,131</b>
Upward revaluation of assets	394,768		301,441	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(235,282)		49,682	
Total of Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		159,486		351,123
Adjusting amounts written to the Capital Adjustment Account re disposals and restatements		(44,979)		(28,020)
Difference between fair value depreciation and historical cost depreciation		(28,829)		(33,976)
<b>Balance at 31 March</b>		<b>1,943,936</b>		<b>1,858,258</b>

### Pensions Reserve

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

	2017-18	2016-17
	£000	£000
<b>Balance at 1 April</b>	<b>(570,452)</b>	<b>(450,096)</b>
Remeasurements of the net defined benefit liability	(47,549)	(104,976)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(58,449)	(52,506)
Employer's pension contributions and direct payments payable to pensioners in the year	36,586	37,126
<b>Balance at 31 March</b>	<b>(639,864)</b>	<b>(570,452)</b>

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### Deferred Capital Receipts Reserve

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

	2017-18	2016-17
	£000	£000
<b>Balance at 1 April</b>	<b>42,400</b>	<b>42,400</b>
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(31,400)	-
<b>Balance at 31 March</b>	<b>11,000</b>	<b>42,400</b>

### Collection Fund Adjustment Account

	2017-18	2016-17
	£000	£000
<b>Balance at 1 April</b>	<b>6,166</b>	<b>(377)</b>
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	6,219	6,543
<b>Balance at 31 March</b>	<b>12,385</b>	<b>6,166</b>

The Collection Fund Adjustment Account is analysed into council tax and business rates:

#### Collection Fund Adjustment Account – Council Tax

	2017-18	2016-17
	£000	£000
<b>Balance at 1 April</b>	<b>5,653</b>	<b>3,719</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,606	1,934
<b>Balance at 31 March</b>	<b>7,259</b>	<b>5,653</b>

#### Collection Fund Adjustment Account – NNDR

	2017-18	2016-17
	£000	£000
<b>Balance at 1 April</b>	<b>513</b>	<b>(4,096)</b>
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	4,613	4,609
<b>Balance at 31 March</b>	<b>5,126</b>	<b>513</b>

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## 24. CASH FLOW FROM OPERATING ACTIVITIES

	2017-18	2016-17
	£000	£000
<b>Adjustment to surplus or deficit on the provision of services for non cash movement:</b>		
Depreciation	99,102	111,779
Impairment & downward valuation	62,192	74,602
Increase/(decrease) in impairment for bad debts	1,172	(1,061)
Increase/(decrease) in creditors	20,938	18,244
(Increase)/decrease in debtors	50,601	1,822
(Increase)/decrease in inventories	158	74
Movement in pension liability	21,863	15,380
Movement in provisions	(2,667)	5,517
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	63,635	61,761
Other non-cash items charged to the net surplus or deficit on the provision of services	(65)	1,039
	<b>316,929</b>	<b>289,155</b>

	2017-18	2016-17
	£000	£000
<b>Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities :</b>		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(78,248)	(106,397)
Capital grants included in "Taxation & non-specific grant income"	(94,973)	(44,223)
<b>Total</b>	<b>(173,221)</b>	<b>(150,620)</b>

The cash flows from operating activities include the following amounts:

	2017-18	2016-17
	£000	£000
Interest received	(2,422)	(1,155)
Interest paid	32,054	34,545
<b>Net interest</b>	<b>29,632</b>	<b>33,390</b>

## 25. CASH FLOW FROM INVESTING ACTIVITIES

	2017-18	2016-17
	£000	£000
Purchase of PP&E, investment property and intangible assets	(364,614)	(237,445)
Proceeds from the sale of Property, Plant and equipment, investment property and intangible assets	78,248	106,398
Proceeds from sale of short-term investments (not considered to be cash equivalents)	24,636	(11,023)
Capital grants and contributions received	50,343	68,296
<b>Net cash flows from Investing Activities</b>	<b>(211,387)</b>	<b>(73,774)</b>

Short and long term investments are instruments held as part of the cash management activities of the council, not as an investment activity in its own right. The figures above are the net movements in investments held, not gross purchases and sales.

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## 26. CASH FLOW FROM FINANCING ACTIVITIES

	2017-18	2016-17
	£000	£000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(5,230)	(4,373)
Cash receipts of short and long term borrowing	112,308	-
Repayments of short and long term borrowing	(5,000)	(5,121)
<b>Net Cash flows from Financing Activities</b>	<b>102,078</b>	<b>(9,494)</b>



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## 27. EXTERNAL AUDIT COSTS

	2017-18	2016-17
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	237	237
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	28	33
Fees payable in respect of other services provided by the appointed auditor during the year	10	80
<b>Total</b>	<b>275</b>	<b>350</b>

## 28. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2017-18 was £1,307,827.16 (2016-17 was £1,295,975).

## 29. OFFICER REMUNERATION

In accordance with regulations, it is necessary to report on the remuneration of senior employees. Senior employees are defined as those who are members of the Chief Officer Team or those whose remuneration is £150,000 or more per year.

Postholder	2017-18		2016-17	
	Total remuneration	Council's contributions to the Pension Fund	Total remuneration	Council's contributions to the Pension Fund
	£000	£000	£000	£000
Chief Executive - E Kelly	204,031	14,344	202,072	28,403
Strategic Director of Environment & Leisure - D Collins	179,883	-	178,158	-
Strategic Director of Housing & Community Services – G Scott	134,912	-	178,158	-
Strategic Director of Housing & Community Services – M Scorer	20,382	2,955	-	-
Strategic Director of Finance & Governance - D Whitfield	174,084	12,621	178,158	24,992
Strategic Director of Children's & Adult Services - D Quirke-Thornton	152,967	21,339	147,212	20,505

Notes to the above table:

Total remuneration reflects actual payments made to the postholders in the financial years and the related pension fund contributions made in respect of the Local Government Pension Scheme (LGPS) during that same year.

Total remuneration figures represent gross pay for the postholder before that individuals' personal contributions to the Southwark Pension Fund. They include basic salary plus any contracted additions paid during the financial year.

The Chief Executive and Strategic Director of Finance and Governance both elected to reduce their pensions contributions (and therefore the benefits receivable), under the LGPS 50/50 scheme, with effect from 1 April 2017.

The last day of service for Strategic Director of Housing & Community Services, G Scott, was 31 December 2017. The first day of service for Strategic Director of Housing & Community Services, M Scorer, was 28 February 2018.

The Director of Public Health, K Fenton, is a secondee from Public Health England. The secondment commenced from 01-04-2017. During 2017-18, the total costs for the services of the Director of Public Health amounted to £161,564.

During 2017-18 the council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

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			Number of employees	Number of employees
Band (£)	Schools	Non schools	2017-18	2016-17
50,000 - 54,999	104	114	218	241
55,000 - 59,999	80	64	144	173
60,000 - 64,999	64	64	128	98
65,000 - 69,999	28	19	47	71
70,000 - 74,999	23	22	45	60
75,000 - 79,999	20	14	34	46
80,000 - 84,999	6	13	19	27
85,000 - 89,999	10	8	18	17
90,000 - 94,999	3	4	7	18
95,000 - 99,999	8	1	9	9
100,000 - 104,999	1	2	3	5
105,000 - 109,999	-	5	5	4
110,000 - 114,999	2	2	4	5
115,000 - 119,999	1	1	2	2
120,000 - 124,999	-	3	3	5
125,000 - 129,999	2	4	6	5
130,000 - 134,999	-	-	-	-
135,000 - 139,999	-	-	-	2
<b>Total</b>	<b>352</b>	<b>340</b>	<b>692</b>	<b>788</b>

For the financial year 2017-18, the total number of non-school employees whose earnings exceeded £100,000 pa (excluding payments on termination of employment) was 17 (13 in 2016-17).

### 30. TERMINATION BENEFITS

Exit package cost band	Number of exit packages		Number of exit packages		Total number of exit packages		Total cost of exit packages by band	
	Schools		Non-schools					
	2017-18 No. staff	2016-17 No. staff	2017-18 No. staff	2016-17 No. staff	2017-18 No. staff	2016-17 No. staff	2017-18 £000	2016-17 £000
£0 - £20,000	20	18	50	152	70	170	569	1,814
£20,001 - £40,000	4	4	52	185	56	189	1,738	5,447
£40,001 - £60,000	-	1	16	81	16	82	748	3,941
£60,001 - £80,000	-	1	1	11	1	12	68	839
£80,001 - £100,000	-	-	-	3	-	3	-	263
£100,001 - £150,000	-	-	-	1	-	1	-	150
<b>Total</b>	<b>24</b>	<b>24</b>	<b>119</b>	<b>433</b>	<b>143</b>	<b>457</b>	<b>3,123</b>	<b>12,454</b>

There were three compulsory redundancies made relating to schools, all within the £0 - £20,000 exit package cost band, totalling £20,878 in 2017-18 (£6,530 in 2016-17).

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### 31. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

#### Central Government

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding. Grants received from government departments during the year and receipts outstanding at 31 March 2018 are set out in note 21 to the accounts.

#### Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2017-18 is shown in note 28. Information regarding reportable transactions has been collated by requiring all members and chief officers to declare any related party transactions. A review of the register of members' interests, including the register of declarations at committee meetings has been conducted. For chief officers, direct confirmation of any related party interest has been sought and obtained. Related party interests for which transactions exist in 2017-18 were declared by 27 councillors and 1 chief officer (20 and nil respectively in 2016-17):

- with voluntary bodies or charitable organisations that received funding totalling an estimated value of £1.0 million (£1.6 million in 2016-17);
- with businesses or other organisations that have contracted for goods and services with the council to the estimated value of £4.9 million (£1.9 million in 2016-17).

In addition to the above, many members have relationships or hold positions with other public bodies and voluntary organisations, e.g. schools, with which the council does not have a financially material relationship, but with which the council has a financial or influential relationship.

#### Pensions

The council is the administering authority of the Pension Fund. The council charged the fund £0.8 million (£1.0 million in 2016-17) for expenses incurred in administering the Pension Fund. A detailed summary of the Pension Fund Accounts is included within the Statement of Accounts.

#### Other Public Bodies

The council has a pooled arrangement with Southwark Clinical Commissioning Group (CCG). This is now included in note 22.

#### Shared Services

The council has entered into a Shared ICT Service (SICTS) with Brent and Lewisham Councils from 1st November 2017. There is no defined time period for this arrangement. However, it is governed by an Inter-Authority Agreement that makes provision for performance management, expansion and exit from the SICTS. The nature of these arrangements does mean that each borough influences the others specifically on IT spend and budget, however, each borough remains sovereign.

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### 32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2017-18	2016-17
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>798,310</b>	<b>777,086</b>
<b>Capital Investment</b>		
Property, Plant & Equipment	274,609	230,266
Revenue expenditure funded from capital under statute (REFCUS)	36,403	19,119
Long-term debtor	11,214	563
Investment Property	78,623	-
<b>Total capital investment</b>	<b>400,849</b>	<b>249,948</b>
Sources of capital finance		
Capital receipts	(69,481)	(71,137)
Government grants and other contributions	(94,972)	(44,223)
Direct revenue contributions	(21,579)	(59,040)
Major Repairs Reserve	(51,000)	(46,778)
Minimum Revenue Provision (MRP) / Loans fund principal	(6,213)	(7,546)
<b>Total capital investment financed</b>	<b>(243,245)</b>	<b>(228,724)</b>
<b>Closing Capital Financing Requirement</b>	<b>955,914</b>	<b>798,310</b>
<b>Explanation of movement</b>		
Increase in underlying need to borrow	157,491	20,831
Assets acquired under PFI contracts	113	393
<b>Net movement in year</b>	<b>157,604</b>	<b>21,224</b>

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### 33. LEASES

#### The council as Lessee – operating leases

The council pays rent on property leases, of which some are sublet.

Expenditure charged to services in the CIES during the year in the use of operating leases:

	2017-18	2016-17
	£000	£000
Minimum lease payments	2,321	1,578
Less sub-lease payments	(439)	(147)
<b>Total</b>	<b>1,882</b>	<b>1,431</b>

The council has obligations to make minimum lease payments in future periods of:

	31 March 2018	31 March 2017
	£000	£000
Within 1 year	1,963	1,527
Within 2 to 5 years	5,219	4,681
After 5 years	14,569	15,338
<b>Total</b>	<b>21,751</b>	<b>21,546</b>

#### The council as Lessor – operating leases

The council has industrial and commercial units which it lets out. The largest industrial sites are on Sandgate Street and Dockley Road. It also lets out workshops and property for shops, community, and commercial use, including the Surrey Quays Shopping Centre.

The future minimum rentals receivable under these leases are set out below:

	31 March 2018	31 March 2017
	£000	£000
Within 1 year	11,873	9,395
Within 2 to 5 years	34,790	26,078
After 5 years	110,890	105,570
<b>Total</b>	<b>157,553</b>	<b>141,043</b>

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### 34. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Private Finance Initiatives (PFI) and similar contracts typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time, in return for a series of payments over the period of the arrangement.

A contract is determined to meet the definition of a service concession arrangement where the following two tests are met:

- the council controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price
- the council controls any significant residual interest in the property at the end of the term of the arrangement (typically through ownership or beneficial entitlement).

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, and
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

The following schemes have been accounted for as PFI or similar contracts:

- St Michael's is a new build voluntary aided secondary school, which became operational in January 2011. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd.
- St Thomas is a new build voluntary aided secondary school, which became operational in February 2012. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd.
- Sacred Heart Catholic School is a new build voluntary aided secondary school, which became operational in September 2014. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd.
- on 11 February 2008 the council entered into a 25-year PFI contract with Veolia Environmental Services for the collection and disposal of waste in the borough. The £682 million contract has enabled the council to deliver government targets for waste minimisation, landfill diversion and recycling. Veolia are to provide high specification facilities to receive transfer and treat waste under the PFI contract for a period of 25 years from the date of completion of a new facility at Old Kent Road, a site the council has leased to the company with effect from 9 September 2008.
- In July 2013 the council entered into the Heat Supply PFI Arrangement, which will involve the contractor putting in place piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public.

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The movements in liabilities resulting from PFI (or similar) contracts were as follows:

	St Michael's Catholic College	St Thomas the Apostle College	Sacred Heart Catholic School	Integrated Waste Management Facility	Heating Supply Arrangement	Total
	£000	£000	£000	£000	£000	£000
<b>Value at 1 April 2016</b>	<b>14,836</b>	<b>19,390</b>	<b>18,624</b>	<b>51,633</b>	<b>4,760</b>	<b>109,243</b>
New liability incurred	-	-	-	307	86	393
Repayments made in year	(242)	(363)	(351)	(3,562)	(186)	(4,704)
<b>Value at 1 April 2017</b>	<b>14,594</b>	<b>19,027</b>	<b>18,273</b>	<b>48,378</b>	<b>4,660</b>	<b>104,932</b>
New liability incurred	-	-	-	-	113	113
Repayments made in year	(261)	(338)	(338)	(3,306)	(221)	(4,464)
<b>Value at 31 March 2018</b>	<b>14,333</b>	<b>18,689</b>	<b>17,935</b>	<b>45,072</b>	<b>4,552</b>	<b>100,581</b>

The following has been recognised in the Balance Sheet in respect of PFI (or similar) arrangements:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Total
	£000	£000	£000	£000
<b>Net Book Value at 1 April 2016</b>	<b>43,590</b>	<b>17,759</b>	<b>4,554</b>	<b>65,903</b>
Additions	-	307	-	307
Depreciation & Impairment	805	(909)	(170)	(274)
Revaluation	12,138	-	-	12,138
<b>Net Book Value at 1 April 2017</b>	<b>56,533</b>	<b>17,157</b>	<b>4,384</b>	<b>78,074</b>
Additions	-	-	113	113
Depreciation & Impairment	(808)	(922)	(170)	(1,900)
Revaluations	5,275	(250)	39	5,064
<b>Net Book Value at 31 March 2018</b>	<b>61,000</b>	<b>15,985</b>	<b>4,366</b>	<b>81,351</b>

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The projected payments under the agreements are as follows:

	1 year	2-5 years	6-10 years	11-15 years	16-20 years	Total
	£000	£000	£000	£000	£000	£000
<b>St Michael's Catholic College</b>						
Liability	262	1,478	2,736	5,383	4,474	14,333
Interest	1,827	6,850	7,334	4,823	1,016	21,850
Service Charges	609	2,686	3,959	4,607	2,852	14,713
<b>St Thomas the Apostle College</b>						
Liability	446	2,258	3,716	6,175	6,094	18,689
Interest	1,973	7,366	7,675	5,236	1,328	23,578
Service Charges	312	1,184	1,658	1,942	1,096	6,192
Lifecycle Payments	38	378	730	1,144	902	3,192
<b>Sacred Heart Catholic School</b>						
Liability	438	2,111	3,091	5,529	6,766	17,935
Interest	1,807	6,755	7,133	5,037	1,674	22,406
Service Charges	475	1,893	2,643	3,075	3,352	11,438
Lifecycle Payments	49	428	911	857	1,351	3,596
<b>Integrated Waste Management Facility</b>						
Liability	3,313	13,212	15,335	13,212	-	45,072
Interest	2,347	7,821	6,493	2,952	-	19,613
Service Charges	19,762	84,672	117,391	134,726	-	356,551
Lifecycle Payments	412	4,545	14,627	17,690	-	37,274
<b>Heat Supply Arrangement</b>						
Liability	124	661	1,370	2,397	-	4,552
Interest	554	2,053	2,022	995	-	5,624
Service Charges	1,199	5,102	7,129	8,066	-	21,496
Lifecycle Payments	90	386	540	611	-	1,627



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### 35. OTHER LONG-TERM LIABILITIES

	31 March 2018	31 March 2017
	£000	£000
<b>Payments due under PFI schemes and similar arrangements:</b>		
St Michaels Catholic college	14,071	14,329
St Thomas the Apostle College	18,243	18,644
Sacred Heart Catholic school	17,497	17,869
Integrated waste Management Facility	41,347	45,072
Heat Supply Arrangement	4,336	4,439
<b>Total</b>	<b>95,494</b>	<b>100,354</b>

### 36. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES (NHS AND TEACHERS)

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Education and Skills Funding Agency. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. As part of its public health responsibilities the council employs staff who are members of the NHS Pension Scheme.

The schemes are technically defined benefit schemes. However, both schemes are unfunded and use notional funds as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the schemes with sufficient reliability for accounting purposes. For the purposes of the council's Statement of Accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2017-18, the council paid £9.87 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay, (£9.73 million and 16.5% respectively in 2016-17). It also paid £0.057 million to the NHS Pension Scheme representing 14.4% of pensionable pay (£0.115 million 2016-17, representing 14.2% of pensionable pay). There were no contributions remaining payable at the year end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 37 below.

### 37. DEFINED BENEFIT PENSION SCHEMES

#### Participation in the Local Authority Pension Scheme

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

The council participates in two pension fund schemes, the London Borough of Southwark Pension Fund (council) and the London Pension Fund Authority Pension Fund (LPFA). Both are funded schemes, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension fund's liabilities with investment assets.

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	2017-18			2016-17		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
<b>Cost of services:</b>						
- current service cost	43,100	419	<b>43,519</b>	33,400	327	<b>33,727</b>
- past service costs	600	-	<b>600</b>	4,100	-	<b>4,100</b>
<b>Financing and investment income and expenditure:</b>						
- net interest expense	14,300	30	<b>14,330</b>	14,500	179	<b>14,679</b>
<b>Total post employment benefit charged to the surplus or deficit on the provision of services</b>	<b>58,000</b>	<b>449</b>	<b>58,449</b>	<b>52,000</b>	<b>506</b>	<b>52,506</b>
<b>Other post employment benefit charged to the comprehensive income and expenditure statement:</b>						
Remeasurement of the net defined benefit						
- Return on plan assets (excluding amount included in the net interest expense)	(900)	(1,036)	<b>(1,936)</b>	(202,300)	(8,455)	<b>(210,755)</b>
- Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	(32,400)	(1,466)	<b>(33,866)</b>
- Actuarial gains and losses arising on changes in financial assumptions	38,000	(2,115)	<b>35,885</b>	334,200	9,040	<b>343,240</b>
- Actuarial gains and losses arising on changes in liability experience	13,600	-	<b>13,600</b>	9,800	(3,091)	<b>6,709</b>
- Other	-	-	-	-	(352)	<b>(352)</b>
<b>Total post employment benefit charged to the comprehensive income and expenditure statement</b>	<b>108,700</b>	<b>(2,702)</b>	<b>105,998</b>	<b>161,300</b>	<b>(3,818)</b>	<b>157,482</b>
<b>Movement in reserves statement:</b>						
- reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code	58,000	449	<b>58,449</b>	52,000	506	<b>52,506</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>						
- employers' contributions payable to the scheme	36,400	186	<b>36,586</b>	36,600	526	<b>37,126</b>

#### Transactions relating to post employment benefits

The council recognises the cost of retirement benefits in the Comprehensive Income and Expenditure Statement (CIES) when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the CIES and the General Fund balance via the Movement in Reserves Statement during the year:

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### Pensions assets and liabilities recognised in the balance sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	31 March 2018			31 March 2017		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Fair value of plan assets	1,476,600	57,723	1,534,323	1,447,000	58,143	1,505,143
Present value of defined benefit obligation	2,118,000	56,187	2,174,187	2,016,100	59,495	2,075,595
<b>Net (liability) arising from defined benefit obligation</b>	<b>(641,400)</b>	<b>1,536</b>	<b>(639,864)</b>	<b>(569,100)</b>	<b>(1,352)</b>	<b>(570,452)</b>

### Reconciliation of present value of the scheme assets:

	2017-18			2016-17		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
<b>Opening balance at 1 April 2017</b>	1,447,000	58,143	1,505,143	1,212,400	50,134	1,262,534
Interest income on assets	37,500	1,307	38,807	41,100	1,616	42,716
Remeasurement gains/(losses) on assets	900	1,036	1,936	202,300	8,455	210,755
Other actuarial gains/(losses)	-	-	-	-	352	352
Administration expenses	-	(76)	(76)	-	(65)	(65)
Employer contributions	37,200	186	37,386	37,500	526	38,026
Contribution by participants	11,000	44	11,044	11,100	57	11,157
Net benefits paid out	(57,000)	(2,917)	(59,917)	(57,400)	(2,932)	(60,332)
<b>Closing balance at 31 March 2018</b>	<b>1,476,600</b>	<b>57,723</b>	<b>1,534,323</b>	<b>1,447,000</b>	<b>58,143</b>	<b>1,505,143</b>

### Reconciliation of present value of the scheme liabilities:

	2017-18			2016-17		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
<b>Opening balance at 1 April 2017</b>	2,016,100	59,495	2,075,595	1,656,800	55,830	1,712,630
Current service cost	43,100	255	43,355	33,400	261	33,661
Interest cost	51,800	1,337	53,137	55,600	1,795	57,395
Contributions by scheme participants	11,800	44	11,844	12,000	57	12,057
Change in financial assumptions	38,000	(2,115)	35,885	334,200	9,040	320,640
Change in demographic assumptions	-	-	-	(32,400)	(1,466)	(1,466)
Experience loss/(gain) on defined benefit obligation	13,600	-	13,600	9,800	(3,091)	(3,091)
Benefits paid	(57,000)	(2,917)	(59,917)	(57,400)	(2,932)	(60,332)
Past service costs	600	88	688	4,100	1	4,101
<b>Closing balance at 31 March 2018</b>	<b>2,118,000</b>	<b>56,187</b>	<b>2,174,187</b>	<b>2,016,100</b>	<b>59,495</b>	<b>2,075,595</b>

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**Scheme assets comprised:**

	31 March 2018			31 March 2017		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
<b>Quoted</b>						
- Equities	846,091	35,296	881,387	827,684	34,452	862,136
- Government bonds	149,137	-	149,137	143,253	-	143,253
- Corporate bonds	118,128	-	118,128	121,548	-	121,548
- Target return portfolio	-	12,936	12,936	-	12,286	12,286
- Multi-asset pooled funds	121,081	-	121,081	120,101	-	120,101
	<b>1,234,437</b>	<b>48,232</b>	<b>1,282,669</b>	<b>1,212,586</b>	<b>46,738</b>	<b>1,259,324</b>
<b>Unquoted</b>						
- Infrastructure	-	2,525	2,525	-	3,061	3,061
- Property	225,920	4,154	230,074	227,179	2,964	230,143
- Cash	16,243	2,812	19,055	7,235	5,380	12,615
	<b>242,163</b>	<b>9,491</b>	<b>251,654</b>	<b>234,414</b>	<b>11,405</b>	<b>245,819</b>
	<b>1,476,600</b>	<b>57,723</b>	<b>1,534,323</b>	<b>1,447,000</b>	<b>58,143</b>	<b>1,505,143</b>

**Basis for estimating assets and liabilities**

The scheme assets, as shown above, are those attributable to the council from its membership of the Local Government Pension Scheme (LGPS) for both the London Borough of Suthwark Pension Fund and the London Pension Fund Authority. The value of the assets is provided by both fund actuaries originally using market values at 31 December 2017, then indexed for market movements to arrive at a valuation for 31 March 2018.

Liabilities for the council and LPFA schemes have been assessed by AON Hewitt Limited and Barnett Waddingham respectively. Both have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on data relating to the latest full valuations as at 31 March 2016 and rolled forward.

The principal assumptions used by the actuaries have been:

	Council		LPFA	
	2017-18	2016-17	2017-18	2016-17
<b>Mortality assumptions</b>				
Longevity at 65 for current pensioners				
- Men (years)	22.5	22.5	20.5	20.4
- Women (years)	26.2	26.1	23.6	23.5
<b>Longevity at 65 for future pensioners</b>				
- Men (years)	24.2	24.1	22.9	22.7
- Women (years)	28.0	27.9	25.9	25.8
<b>Principal financial assumptions</b>				
- rate of inflation - RPI	3.2%	3.1%	3.4%	3.3%
- rate of inflation - CPI	2.1%	2.0%	2.4%	2.4%
- rate of increase in salaries	3.6%	3.5%	3.9%	3.9%
- rate of increase in pensions	2.1%	2.0%	2.4%	2.4%
- rate of pension accounts revaluation	2.1%	2.0%	0.0%	0.0%
- rate for discounting scheme liabilities	2.6%	2.6%	2.6%	2.3%

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The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant.

Assumption	Impact of increase			Impact of decrease		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
<b>Present value of total obligation</b>						
Longevity (+/- 1 Year)	2,055,200	58,505	<b>2,113,705</b>	2,181,200	53,963	<b>2,235,163</b>
Rate of increase in salaries (+/- 0.1%)	2,125,200	56,211	<b>2,181,411</b>	2,110,900	56,163	<b>2,167,063</b>
Rate of increase in pensions (+/- 0.1%)	2,149,200	56,867	<b>2,206,067</b>	2,087,300	55,515	<b>2,142,815</b>
Rate for discounting scheme liabilities (+/- 0.1%)	2,080,200	55,493	<b>2,135,693</b>	2,156,400	56,890	<b>2,213,290</b>
<b>Projected service cost</b>						
Longevity (+/- 1 Year)	47,700	248	<b>47,948</b>	44,300	233	<b>44,533</b>
Rate of increase in salaries (+/- 0.1%)	46,000	240	<b>46,240</b>	46,000	240	<b>46,240</b>
Rate of increase in pensions (+/- 0.1%)	47,400	244	<b>47,644</b>	44,600	236	<b>44,836</b>
Rate for discounting scheme liabilities (+/- 0.1%)	44,600	236	<b>44,836</b>	47,400	244	<b>47,644</b>

#### Impact on the council's cash flows

The objective of the schemes is to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £2,174 million (£2,076 million 2016-17) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £640 million (£570 million 2016-17). However statutory arrangements for funding the deficit mean that the council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Governments Pension Scheme may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2018/19 is £46.0 million for the council scheme and £0.240 million for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 18.0 years (18.0 years 2016-17) and 13 years for LPFA scheme members (13 years 2016-17).

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### 38. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The value of assets and liabilities as reported in note 38 is only those within the definition of a financial instrument.

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments. The following categories of financial instrument assets are carried in the Balance Sheet:

Short term debtors that do not meet the definition of a financial instrument, with a value of £10.853m, are excluded from the below table.

	Long Term	Long Term	Short Term	Short Term
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
<b>Investments</b>				
Available for Sale	27,164	32,320	52,960	71,233
Loans & Receivables	0	0	(222)	784
Less Trust Funds	0	0	(1,484)	(1,483)
<b>Total Investments</b>	<b>27,164</b>	<b>32,320</b>	<b>51,254</b>	<b>70,534</b>
<b>Debtors</b>				
Loans and receivables	31,642	50,058	95,198	114,055
<b>Total Debtors</b>	<b>31,642</b>	<b>50,058</b>	<b>95,198</b>	<b>114,055</b>
<b>Cash and Cash Equivalents</b>				
Cash and bank	0	0	(6,744)	(7,153)
Short term deposits	0	0	45,870	55,743
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>39,126</b>	<b>48,590</b>

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets. The following categories of financial instrument liabilities are carried in the Balance Sheet:

Short term creditors that do not meet the definition of a financial instrument, with a value of £44.799m, are excluded from the below table.

	Long Term	Long Term	Short Term	Short Term
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
<b>Borrowings</b>				
Financial Liabilities at Amortised Cost	(440,164)	(452,851)	(130,215)	(10,219)
<b>Total Borrowings</b>	<b>(440,164)</b>	<b>(452,851)</b>	<b>(130,215)</b>	<b>(10,219)</b>

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<b>Other Long Term Liabilities</b>				
PFI and Finance Lease Liabilities	(95,494)	(100,354)	0	0
<b>Total Other Long Term Liabilities</b>	<b>(95,494)</b>	<b>(100,354)</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>				
Financial Liabilities at Amortised Cost	(10,944)	(10,623)	(151,326)	(134,155)
<b>Total Creditors</b>	<b>(10,944)</b>	<b>(10,623)</b>	<b>(151,326)</b>	<b>(134,155)</b>

### Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consists of the following items:

	2017-18				2016-17			
	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense	25,157	0	0	25,157	25,185	0	0	25,185
Other charges	393	0	0	393	366	0	0	366
<b>Total Expenses in Surplus or Deficit on the Provision of Services</b>	<b>25,550</b>	<b>0</b>	<b>0</b>	<b>25,550</b>	<b>25,551</b>	<b>0</b>	<b>0</b>	<b>25,551</b>
Interest income	0	(30)	(438)	(468)	0	(131)	(860)	(991)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(30)</b>	<b>(438)</b>	<b>(468)</b>	<b>0</b>	<b>(131)</b>	<b>(860)</b>	<b>(991)</b>
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure	0	0	40	40	0	0	(163)	(163)
<b>Net Gain/(Loss) for Year</b>	<b>25,550</b>	<b>(30)</b>	<b>(398)</b>	<b>25,122</b>	<b>25,551</b>	<b>(131)</b>	<b>(1,023)</b>	<b>24,397</b>

### Financial Instruments - Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31st March 2018. Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2018, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans
- PFI Liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Description of asset/liability	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments (money market funds, bond, equity funds, corporate, covered, government bonds)	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Long Term Loans from PWLB	Level 2	Discounting of contractual cash flows over the whole life of the instrument at an appropriate market rate.	The attributable market derived discount rate for each individual loan.	Not required
Leases payable and PFI Liabilities	Level 2	Projected discounted future unitary contractual payments.	Payments determined by contractual agreement, discounted at an appropriate market derived corporate bond yield.	Not required



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Fair values are shown in the table below, split by their level in the fair value hierarchy:

·Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

·Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

·Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

	Fair value level	Balance Sheet 31 March 2018 £000	Fair Value 31 March 2018 £000	Balance Sheet 31 March 2017 £000	Fair Value 31 March 2017 £000
<b>Financial liabilities</b>					
Long-term loans	2	(440,164)	(624,519)	(457,851)	(674,020)
Lease payable and PFI liabilities*	2	(95,494)	(213,292)	(100,354)	(228,922)
<b>Sub total</b>		<b>(535,658)</b>	<b>(837,811)</b>	<b>(558,205)</b>	<b>(902,942)</b>
Assets for which carrying value is considered as a reasonable approximation of fair value		(292,485)	(292,485)	(149,997)	(143,559)
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>(828,143)</b>	<b>(1,130,296)</b>	<b>(708,202)</b>	<b>(1,046,501)</b>
<b>Recorded on the balance sheets as:</b>					
Long-term creditors		(10,944)		(10,623)	
Long-term borrowing		(440,164)		(452,851)	
Short-term creditors		(151,326)		(134,155)	
Short-term borrowing		(130,215)		(10,219)	
Other long-term liabilities		(95,494)		(100,354)	
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>(828,143)</b>		<b>(708,202)</b>	

\*The fair value of PFI liabilities as at 31 March 2017 has been restated to £228.922m and to fair value hierarchy level 2 to better reflect requirements of the Code of Practice.

The fair value of certain financial liabilities including creditors is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

	Fair value level	Balance Sheet 31 March 2018 £000	Fair Value 31 March 2018 £000	Balance Sheet 31 March 2017 £000	Fair Value 31 March 2017 £000
<b>Financial assets held at fair value:</b>					
Money Market Funds	1	45,870	45,870	50,681	50,681
Bond, Equity and property funds	1	79,924	79,924	56,009	56,009
Corporate, covered and government bonds	2	-	-	36,846	36,846
<b>Sub total</b>		<b>125,794</b>	<b>125,794</b>	<b>143,536</b>	<b>143,536</b>
Assets for which carrying value is considered as a reasonable approximation of fair value		118,590	118,590	172,781	172,781
<b>TOTAL FINANCIAL ASSETS</b>		<b>244,384</b>	<b>244,384</b>	<b>316,317</b>	<b>316,317</b>

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Recorded on the balance sheets as:					
Long-term debtors		31,642		50,818	
Long-term investments		27,164		32,320	
Short-term debtors		95,198		114,055	
Short-term investments		51,254		70,534	
Cash and cash equivalents		39,126		48,590	
<b>TOTAL FINANCIAL ASSETS</b>		<b>244,384</b>		<b>316,317</b>	

The fair value of certain financial assets including debtors is assumed to approximate to the carrying amount.

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### 39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with the Prudential Code for Capital Finance in Local Authorities.

As part of the adoption of the Treasury Management Code, the Council approves an annual Treasury Management Strategy prior to the commencement of the financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Council's treasury investments are primarily delegated to two external fund managers with an internal operation to manage short term liquidity.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Communities and Local Government Guidance on Local Government Investments. The Strategy emphasises that priority is given to security and liquidity, rather than yield. The main risks covered are:

- Credit Risk: the possibility that the counterparty to a financial asset will fail to meet its contractual obligations causing a loss to the Council
- Liquidity Risk: the possibility that the Council might not have the liquid assets available to make contracted payments on time
- Market Risk: the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or asset prices

#### Credit risk - investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The Council is able to utilise the expertise of external fund managers to seek to mitigate credit risk in the construction of a well diversified treasury portfolio. Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and no more than 50% of total investments can be for a period longer than one year. The Council's exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally, as the risk of any institution failing to make interest repayments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is extremely rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2018 is set out below:

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	<b>A</b>	<b>AA</b>	<b>AAA</b>	<b>Total</b>
Up to 1 year	3%	17%	57%	<b>77%</b>
1 - 2 years	0%	7%	7%	<b>14%</b>
2 - 5 years	1%	2%	6%	<b>9%</b>
<b>Total investments</b>	<b>4%</b>	<b>26%</b>	<b>70%</b>	<b>100%</b>

#### Credit risk - receivables

Trade receivables arise from the provision of goods and services and the carrying out of the council's functions.

In the normal course of carrying out its operations, the council is exposed to the potential risk of default from individuals, firms and organisations that it deals with. Credit is assessed prior to being granted in commercial transactions, for example commercial rents. Debts arising are actively managed and collection targets are used to raise receipts. Debt outstanding is pursued and in appropriate cases further credit is suspended. A charge may be placed on property for debt, but the bulk of the exposure is unsecured and subject to credit risk and notably concentrated within the council's geographical boundary.

#### Liquidity risk

The council has access to long term loan facilities from the Public Works Loans Board to fund maturing debt and capital financing requirements. Investment may also be realised for working capital requirements.

The council is exposed to the risk that refinancing of maturing debt may occur at times of unfavourable external borrowing rates. To mitigate this risk the Council has a diversified debt maturity profile limiting the amount of debt required to be refinanced in the course of any one financial year.

The maturity analysis of principal sums borrowed is as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>
Less than 1 year	122,688	5,000
Between 1 and 5 years	56,342	50,751
Between 5 and 10 years	92,952	104,134
Between 10 and 20 years	97,979	105,076
Over 20 years	192,891	192,891
<b>Total</b>	<b>562,852</b>	<b>457,851</b>

#### Market risk

The council has exposure to interest rate movements in its borrowing and investments.

Outstanding council debt at 31 March 2018 is from the PWLB and from short term borrowing. The debt is at fixed rates, with an average maturity of 17 years. The maturity profile of the debt is set out in Note 38 and the council may draw further loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £74 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such a change, unless the debt was extinguished. Legislation would then require a charge to be taken to the Financial Instruments Adjustment Account.

The overall average life of council investments is 0.7 years, within that, the available-for-sale investments have an average life of 1.2 years. A 1% change in discount rates on available-for-sale investments at Balance Sheet date would change the fair value by £0.6 million and would be reflected in the Balance Sheet in the available-for-sale reserve. There would be no impact on the comprehensive income and expenditure statement, unless the investments were realised.

Investments are held in short term deposits or certificate of deposits with major banks and building societies. Money is also held in money market funds, treasury bills and bonds, and investments of more than one year are usually held in UK government gilts or supranational banks.

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## HOUSING REVENUE ACCOUNT

### INCOME AND EXPENDITURE STATEMENT

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

		2017-18	2016-17
	Note	£000	£000
<b>Income</b>			
Dwelling Rents		(197,606)	(198,889)
Non dwelling rents		(13,277)	(12,022)
Charges for services and facilities		(49,158)	(83,270)
Contributions towards expenditure		(2,402)	(4,937)
<b>Total Income</b>		<b>(262,443)</b>	<b>(299,118)</b>
<b>Expenditure</b>			
Repairs and maintenance		46,989	51,795
Supervision and management		101,323	109,764
Rents, rates, taxes and other charges		7,965	13,612
Depreciation and impairment of non-current assets	3	104,438	140,337
Debt management costs		177	208
Increase in provisions for bad debts		2,095	(331)
Revenue expenditure funded from capital under statute	4	1,526	2,954
<b>Total expenditure</b>		<b>264,513</b>	<b>318,339</b>
<b>Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement</b>		<b>2,070</b>	<b>19,221</b>
HRA share of cost of democracy		1,106	1,106
<b>Net Cost of HRA Services</b>		<b>3,176</b>	<b>20,327</b>
Gains and losses on the sales of HRA non-current assets		18,812	(27,670)
Interest payable and similar charges		22,742	22,843
Interest and investment income		(2,217)	(1,406)
Pensions interest cost and expected return on pensions assets		2,467	2,493
Capital grants and contributions receivable		(9,163)	(5,170)
<b>Total (surplus)/deficit for the year</b>		<b>35,817</b>	<b>11,417</b>

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## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

This is a reconciliation statement summarising the differences between the outturn on the HRA Income and Expenditure Statement and the HRA Balance.

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources generated and used in the last twelve months. However, a number of items have to be included or removed from the HRA Income and Expenditure Statement to comply with the statutory requirements of accounting for the HRA.

	Note	2017-18	2016-17
		£000	£000
(Surplus)/deficit for the year on HRA services		35,817	11,417
Net additional amounts required by statute	5	(41,421)	(9,159)
<b>(Increase)/decrease in the HRA Balance</b>		<b>(5,604)</b>	<b>2,258</b>
HRA Balance brought forward		(14,355)	(16,613)
<b>Balance carried forward</b>	6	<b>(19,959)</b>	<b>(14,355)</b>

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## NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

### 1. THE HOUSING REVENUE ACCOUNT (HRA)

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

### 2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of Dwelling		Number of bedrooms				Total	Total
		1	2	3+	Other	31 March 2018	31 March 2017
Houses and bungalows	31 March 2018	397	725	2,850	-	3,972	
	31 March 2017	401	724	2,862	-		3,987
Low rise flats	31 March 2018	2,828	622	359	-	3,809	
	31 March 2017	2,846	624	352	-		3,822
Medium rise flats	31 March 2018	6,616	7,163	6,113	-	19,892	
	31 March 2017	6,650	7,172	6,132	-		19,954
High rise flats	31 March 2018	2,980	4,776	1,824	-	9,580	
	31 March 2017	2,912	4,706	1,801	-		9,419
Non-permanent	31 March 2018	-	-	-	1	1	
	31 March 2017	-	-	-	2		2
Multi-occupied	31 March 2018	-	-	-	342	342	
	31 March 2017	-	-	-	385		385
<b>TOTALS</b>	31 March 2018	12,821	13,286	11,146	343	37,596	
	31 March 2017	12,809	13,226	11,147	387		37,569

In addition to the numbers shown in the table above, as at 31 March 2018 there were also 556 void properties (637 at 31 March 2017). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.

On 31 March 2018 the Council acquired 115 properties at Churchyard Row and 80 properties at Sylvan Grove. Although not available for letting during the financial year, they are included in the table above.

The vacant possession value of buildings as at 1 April 2018 was £13.5 billion (£13.3 billion as at 1 April 2017). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

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### 3. DEPRECIATION AND REVALUATION CHARGES

	2017-18	2016-17
	£000	£000
Dwellings depreciation	48,937	75,723
Other property depreciation	1,629	2,761
Revaluation losses on non-current assets	53,872	61,853
<b>Total</b>	<b>104,438</b>	<b>140,337</b>

Revaluation charges arise from capital expenditure carried out on dwellings which has not changed the value of those dwellings, or from reductions in the value of assets in excess of any carrying values held in the Revaluation Reserve.

All depreciation and impairment charges are reversed out of the HRA to the Capital Adjustment Account, the values consequently having no net effect on rents or other HRA income. Revaluation charges related to other HRA land and buildings are not reversed out and so consequently there is the potential for these values to have an effect on rents or other HRA income.

### 4. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

REFCUS is a class of expenditure that may meet statutory definitions of capital expenditure, but is of a nature that is not consistent with the accounting standards definitions of additions to Property Plant and Equipment. Examples include expenditure incurred on assets that are not owned by the council, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises, but is then charged to the Capital Adjustment Account to be financed from capital resources. For the HRA this expenditure would include cash incentive payments (grants to tenants as an incentive to vacate their properties and purchase private accommodation), and statutory home loss payments where the council necessarily relocates tenants to other accommodation.

In 2017-18 £1.526 million was incurred in the HRA as REFCUS (£2.954 million in 2016-17).

### 5. MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE, NET ADDITIONAL AMOUNTS REQUIRED BY STATUTE

The following table shows Items included in the HRA Income and Expenditure Account but which are excluded from the movement on HRA Balance for the year:

	2017-18	2016-17
	£000	£000
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	1,760	(19)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	(25)
Gain or loss on the sale of HRA non current assets	(18,812)	27,670
HRA share of contributions to or from the Pensions Reserve	(5,485)	(3,495)
Capital expenditure funded by the HRA	21,164	55,960
Transfer to/from the Major Repairs Reserve	56,532	48,590
Transfer to/from the Capital Adjustment Account	(96,580)	(137,840)
<b>Net additional amount required by statute to be charged to the HRA</b>	<b>(41,421)</b>	<b>(9,159)</b>



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## 6. HRA BALANCE

HRA reserves at 31 March 2018 are £19.959 million (£14.356 million at 31 March 2017) and are allocated as follows:

	31 March 2018	31 March 2017
	£000	£000
Modernisation, Service and Operational Improvement Reserve	4,146	3,257
Financial Risk Reserve	15,813	11,098
<b>Total</b>	<b>19,959</b>	<b>14,355</b>

The Modernisation, Service and Operational Improvement reserve of £4.1 million comprises £0.6 million for IT transformation, and £3.5 million for investment in energy infrastructure.

The Financial Risk reserve, £15.8 million, includes £5.8 million contingency, broadly representing 1.6% of gross HRA revenue spend and Housing Investment Programme spend. The reserve also provides £1.2 million to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £2.5 million heating account reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, £0.7 million for estate parking and £3.7 million relating to debt financing. New reserves relating to the Homeowners and Tenants Funds (a combined total of £0.5 million), and for repairs and maintenance transition (£1.4 million) were established.

## 7. MAJOR REPAIRS RESERVE

	2017-18	2016-17
	£000	£000
Balance 1 April	5,389	3,577
Transfers from the Capital Adjustment Account	50,566	78,484
Transfer from / (to) the HRA	5,966	(29,894)
Financing of capital expenditure	(51,000)	(46,778)
<b>Balance 31 March</b>	<b>10,921</b>	<b>5,389</b>

## 8. CAPITAL EXPENDITURE AND FINANCING

	2017-18	2016-17
	£000	£000
Capital Investment		
Non-current assets	165,997	150,125
REFCUS	1,526	2,954
<b>Total</b>	<b>167,523</b>	<b>153,079</b>
Funding Source:		
Revenue contributions	21,164	55,960
Capital receipts from the sales of assets	49,521	45,171
Grants and other contributions	9,162	5,170
Major Repairs Reserve	51,000	46,778
Borrowing	36,676	-
<b>Total</b>	<b>167,523</b>	<b>153,079</b>

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**9. CAPITAL RECEIPTS FROM DISPOSAL OF LAND, HOUSES AND OTHER PROPERTY WITHIN THE HOUSING REVENUE ACCOUNT**

	2017-18	2016-17
	£000	£000
Council dwellings		
Right to Buy	(33,130)	(46,416)
Discounts repaid	(66)	(268)
Non Right to Buy	(8,984)	(28,129)
Other receipts		
Land sales	(13,203)	(6,718)
Mortgages	(15)	(17)
<b>Sub total</b>	<b>(55,398)</b>	<b>(81,548)</b>
Less: Pooled (paid to central Government)	4,274	4,344
<b>Total</b>	<b>(51,124)</b>	<b>(77,204)</b>

**10. HOUSING TENANTS ACCOUNTS**

	2017-18	2016-17
	£000	£000
Gross arrears as at 1 April	19,382	17,380
Prior year payments	(10,103)	(9,077)
<b>Arrears as at 1 April</b>	<b>9,279</b>	<b>8,303</b>
Charges due in the year	227,218	240,316
Rent rebates	(83,662)	(100,544)
Write-offs	(1,053)	(1,033)
Adjustments	(5,393)	(9,072)
Cash collected	(134,611)	(128,691)
<b>Net arrears as at 31 March</b>	<b>11,778</b>	<b>9,279</b>
Payments in advance	12,009	10,103
<b>Gross arrears as at 31 March</b>	<b>23,787</b>	<b>19,382</b>

The arrears position comprises all dwelling stock and non-residential properties, hostels and Browning Estate Management Board. It excludes temporary accommodation, i.e. bed and breakfast, private sector leasing, and travellers' sites, as these are General Fund services.

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## 11. IMPAIRMENT OF DEBTORS

	31 March 2018	31 March 2017
	£000	£000
Rents	11,515	9,880
Income from hostels	1,145	870
Court costs	835	789
Commercial rents	1,164	577
Penalty Charge Notices and parking warrants	2,182	2,069
<b>Total</b>	<b>16,841</b>	<b>14,185</b>

## 12. PENSIONS COSTS

The HRA is charged with the costs of pensions for its employees in accordance with IAS 19. The costs are then reversed out of the HRA to the Pensions Reserve. The values have no net effect on rents or other HRA income.

The apportionment of charges to the HRA under IAS 19 is based on the ratio of employer payroll costs incurred by the council for staff charged to the HRA against those employed for the council as a whole. This apportionment is also applied to actuarially assessed items such as pensions interest cost, the expected return on pension assets, and actuarial gains and losses.

	2017-18	2016-17
	£000	£000
Current service cost	2,675	5,756
Interest on pension scheme liabilities	2,467	2,493
Actuarial (gains)/losses	8,388	18,590
<b>Total IAS 19 charges</b>	<b>13,530</b>	<b>26,839</b>
Less Pensions costs attributable to the HRA	(4,420)	(4,754)
<b>Movement on the Pensions Reserve</b>	<b>9,110</b>	<b>22,085</b>

## 13. WATER CHARGES

In March 2016, the High Court (Chancery Division) found that the council had been overcharging a tenant for water supplies via Thames Water, contrary to the Water Resale Order 2006. Refunds to current and former tenants commenced in 2016-17, and the council made appropriate provision in its accounts for this purpose. This process has continued during 2017-18, with the amount provided for reduced accordingly.

Under the terms of the Water Resale Order 2006, the refunds are net of a daily administrative charge, but inclusive of interest at a rate determined by the Regulations.

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## COLLECTION FUND

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

### INCOME AND EXPENDITURE ACCOUNT

	Notes	Council Tax £000	Business Rates £000	Business Rates Supplement £000	2017-18 £000	2016-17 £000
<b>Income</b>						
Income from Council Tax	1	(126,521)			(126,521)	(117,090)
Transfer from the General Fund		(57)			(57)	
Income from Business Rates	2		(273,161)		(273,161)	(256,737)
Transitional protection payments from CLG			(25,871)		(25,871)	
Income from Business Rate Supplement	3			(8,323)	(8,323)	(6,962)
Contribution from preceptors towards previous years					-	(14,607)
Collection Fund deficit						
<b>Total Income</b>		<b>(126,578)</b>	<b>(299,032)</b>	<b>(8,323)</b>	<b>(433,933)</b>	<b>(395,396)</b>
<b>Expenditure</b>						
Precepts and Demands						
Greater London Authority (GLA)		26,865			26,865	25,180
London Borough of Southwark		93,715			93,715	84,879
Share of Business Rates						
Greater London Authority (GLA)			101,564		101,564	46,077
London Borough of Southwark			82,349		82,349	69,115
Communities and Local Government			90,584		90,584	115,192
Transitional protection payment to CLG					-	446
Cost of Collection allowance (NNDR)			720		720	659
Business Rate Supplement	3					
Payment to GLA				8,308	8,308	6,948
Administrative costs				15	15	14
Council Tax impairment of debts						
Allowance for impairment		206			206	(1,602)
Write Offs		1,122			1,122	3,043
NDR Impairment of debts & appeals						
Allowance for impairment & write offs			306		306	3,421
Provision for appeals	5		(7,018)		(7,018)	21,071
Contribution to preceptors towards previous years	4	2,628	15,151		17,779	3,180
Collection Fund surplus						
<b>Total Expenditure</b>		<b>124,536</b>	<b>283,656</b>	<b>8,323</b>	<b>416,515</b>	<b>377,623</b>
Net deficit/(surplus) for the year		(2,042)	(15,376)	-	(17,418)	(17,773)
Deficit/(surplus) at 1 April 2017		(7,295)	(1,709)	-	(9,004)	8,769
<b>Deficit/(surplus) at 31 March</b>		<b>(9,337)</b>	<b>(17,085)</b>	<b>-</b>	<b>(26,422)</b>	<b>(9,004)</b>

SOUTHWARK COUNCIL  
STATEMENT OF ACCOUNTS 2017-18

## NOTES TO THE COLLECTION FUND

### 1. COUNCIL TAX

Council tax is a property-based tax, which is assessed on the value of residential property. For this purpose, the Valuation Office Agency has set residential properties into eight valuation bands (A to H) using estimated market value at 1 April 1991. The council tax charges are calculated by estimating the amount of income required from the Collection Fund by the council and preceptors for the forthcoming year, and dividing this by the council tax base, which is the estimated total number of properties liable to tax, expressed as a band D equivalent.

In 2017-18 the estimated income required from all preceptors for the Collection Fund was £120.6m (£110.1m in 2016-17). The amount of council tax for a band D property was £1,256.82 in 2017-18 inclusive of the GLA precept (£1,206.38 in 2016-17) and is multiplied by the ratio specified for the particular band to give the council tax due from properties in other bands. The 2017-18 council taxbase after allowing for adjustments for non collection (97.2% collection rate) was 95,941. The table below shows how the council tax base was set and the resulting band D council tax.

Band	Estimated number of properties after discounts		Ratio	Equivalent number of band D properties	
	2017-18	2016-17		2017-18	2016-17
A	7,247	8,537	6/9	4,831	5,691
B	24,597	27,900	7/9	19,131	21,700
C	25,589	25,118	8/9	22,746	22,327
D	18,827	17,112	1	18,827	17,112
E	13,970	11,961	11/9	17,074	14,619
F	5,689	4,612	13/9	8,217	6,662
G	4,001	3,020	15/9	6,669	5,033
H	605	454	18/9	1,210	909
<b>Total</b>	<b>100,525</b>	<b>98,714</b>		<b>98,705</b>	<b>94,053</b>
Less adjustment for collection rate				(2,764)	(2,822)
Council tax base for year				<b>95,941</b>	<b>91,231</b>
Estimated Income Required from Collection Fund				<b>£ 120,580,568</b>	<b>£ 110,059,254</b>
Band D council tax				<b>£ 1,256.82</b>	<b>£ 1,206.38</b>

### 2. NON-DOMESTIC RATES

Non-Domestic Rates (NDR), known as business rates are collected from local businesses by the council. From 1 April 2013 the Business Rates Retention scheme was introduced nationally. For 2017-18, the council entered into a London arrangement whereby the council retained 30% of business rates, with 37% paid to the Greater London Authority and the Ministry of Housing, Communities and Local Government (MHCLG) allocated 33%. In 2016-17, the council could retain 30% business rates income, with the remainder allocated to the Greater London Authority at 20% and the MHCLG (formerly the Department for Communities and Local Government) at 50%.

Business rates are based on local rateable values set by the Valuation Office Agency (VoA) and a multiplier set by the MHCLG. The non-domestic rating multiplier and the small business non-domestic rating multiplier for England for 2017-18 were:

- non-domestic rating multiplier **47.9p**, (in 2016-17 49.7p);
- small business non-domestic rating multiplier **46.6p**, (in 2016-17 48.4p).

Local businesses pay NDR calculated by multiplying their rateable value by the appropriate multiplier and subtracting any relevant reliefs. The total rateable value in Southwark at 31 March 2018 was **£755.7m** (£571.4m at 31 March 2017) - the increase in the total RV is almost entirely due to the 2017 Revaluation.

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### 3. BUSINESS RATE SUPPLEMENT

Business Rate Supplements (BRS) are collected from local businesses by the council, on behalf of the Greater London Authority (GLA) for the Crossrail project in London. For 2017-18, the levy set was 2p per pound of rateable value (RV), (unchanged since its inception in 2010) on non-domestic properties with a rateable value greater than £70,000 (an increase from £55,000 in 2016-17).

### 4. CONTRIBUTION TO / FROM PRECEPTORS OF THE PREVIOUS YEAR'S ESTIMATED COLLECTION FUND SURPLUS/DEFICIT

As a billing authority, the council is required to make an estimate of the surplus or deficit on the Collection Fund for council tax by the 15 January and for non-domestic rates by 31 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing the council tax if there is a surplus or increasing council tax if there is a deficit. In January 2017, the council estimated an accumulated collection fund surplus balance of £15.151m for 2016-17 as follows:

	Council Tax	Business Rates Total	
	£000	£000	£000
(Surplus)/Deficit as at 31 March 2016	(3,180)	14,607	11,427
Less estimated (surplus)/deficit for 2016-17	552	(29,758)	(29,206)
<b>Estimated surplus as at 31 March 2017</b>	<b>(2,628)</b>	<b>(15,151)</b>	<b>(17,779)</b>

The estimated surplus for council tax was apportioned between the council and the GLA based on their respective demands and precepts on the collection fund and the estimated surplus for business rates was apportioned between the council, the GLA and MHCLG as follows for 2017-18:

Authority		Council Tax		Business Rates	Total
	%	£000	%	£000	£000
Southwark Council	77.1	(2,027)	30%	(4,545)	(6,572)
Greater London Authority	22.9	(601)	20%	(3,030)	(3,631)
Central Government			50%	(7,576)	(7,576)
<b>Estimated surplus for 2016-17 redistributed in 2017-18</b>		<b>(2,628)</b>		<b>(15,151)</b>	<b>(17,779)</b>

### 5. PROVISION FOR BUSINESS RATE APPEALS

The introduction of the Business Rates Retention scheme in 2013 allows the council to retain a share of any growth in NDR income, but also transfers some of the risk of non-collection. Accordingly the council must provide for potential losses on appeal.

The appeals provision as at 31 March 2018 has reduced by £7m to £33.3m (£40.3m at 31 March 2017), based on consideration of recent case law and other factors including information from the Valuation Office Agency. As at the 31 March 2018, approximately 1827 appeals remain unsettled / outstanding with the VOA.

Following the 2017 revaluation, a new check, challenge, appeals process was introduced by central government to reform the business rates appeals system applicable to the new rating list effective on 1 April 2017.

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**LONDON BOROUGH OF SOUTHWARK PENSION FUND  
STATEMENT OF ACCOUNTS**

**FUND ACCOUNT**

	Note	2017-18		2016-17	
		£000	£000	£000	£000
<b>Dealings with members, employers and others directly involved in the fund</b>					
Contributions	6	(51,919)		(52,212)	
Transfers in from other pension funds	7	(2,792)		(3,577)	
<b>Sub total</b>			<b>(54,711)</b>		<b>(55,789)</b>
Benefits	8	55,276		57,367	
Payments to and on account of leavers	9	4,124		2,902	
<b>Sub total</b>			<b>59,400</b>		<b>60,269</b>
<b>Net reduction/(addition) from dealing with members of the fund</b>			<b>4,689</b>		<b>4,480</b>
<b>Management expenses</b>	10		<b>6,422</b>		<b>5,096</b>
<b>Returns on investments</b>					
Investment income	11	(14,743)		(14,324)	
Taxes on income	11	273		175	
Profit and losses on disposal of investments and changes in market value of investments	12	(32,596)		(234,037)	
<b>Net return on investments</b>			<b>(47,066)</b>		<b>(248,186)</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>			<b>(35,955)</b>		<b>(238,610)</b>
Opening net assets of the scheme			<b>(1,494,992)</b>		(1,256,382)
<b>Net assets of the scheme available to fund benefits at 31 March</b>			<b>(1,530,947)</b>		<b>(1,494,992)</b>

**NET ASSETS STATEMENT**

	Note	31 March 2018 £000	31 March 2017 £000
Investment assets	12	1,521,727	1,487,842
Current assets	13	14,649	13,612
Current liabilities	13	(5,429)	(6,462)
<b>Net assets of the scheme available to fund benefits at 31 March</b>		<b>1,530,947</b>	<b>1,494,992</b>

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at Note 19.

SOUTHWARK COUNCIL  
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## NOTES TO THE PENSION FUND STATEMENTS

### 1. INTRODUCTION

The Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the Pension Fund Annual Report 2017-18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

#### a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council. This responsibility is delegated to the strategic director of finance and governance, taking account of the advice of the Pensions Advisory Panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a Local Pension Board to assist the council in its role as scheme manager of the Pension Fund. The Board meets on a quarterly basis and has its own terms of reference. Board members are independent of the Pensions Advisory Panel.

#### b) Membership

Membership of LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year 2017-18 is included within the Pension Fund Annual Report 2017-18. This is available from the council website on the following link.

[https://www.2.southwark.gov.uk/downloads/download/2717/pension\\_fund\\_annual\\_report](https://www.2.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report)

	31 March 2018	31 March 2017
Number of contributors to the Fund	6,291	6,914
Number of contributors and dependants receiving allowances	7,620	7,483
Number of contributors who have deferred their pensions	9,063	10,269

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2016. For the 2017-18 financial year primary employer contribution rates ranged from 7.3% to 17.8% of pensionable pay, plus additional deficit payments where appropriate.



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d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarized in the following table:

	Service Pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is uprated annually in line with Consumer Prices Index.

## 2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2017-18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017-18*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits, which fall due after the end of the financial year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and or losses during the year.

d) Fund account – benefits payable

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

e) Fund account – taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of pensions administration are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

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## Net Asset Statement

### g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund. The values of investments as shown in the net assets statement have been determined as follows:

- Equity investments, unit trusts and unitised insurance policies at their market bid price on 31 March each year.
- Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.
- End of year balances on foreign currency transactions have been translated at the exchange rate on 31 March each year.
- Investment assets have been valued and included in the accounts at bid price except for derivative contracts which are valued on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

### h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by TH Real Estate is carried out annually by an independent valuer.

### i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### k) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

### l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note in the net assets statement.

### m) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts but are disclosed as a note (Note 6).

## 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to underlying assumptions.

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## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits (Note 19)	<p>This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>The council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied.</p>	A 1.0% change in the discount rate is estimated to change the present value of pension liability by £215m
Freehold and leasehold property, pooled property funds (Note 12)	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 3% would be an increase or decrease in the value of directly held property of £8m, on a fair value of £266m.

## 6. CONTRIBUTIONS RECEIVABLE

Contributions represent the total amount receivable from employees and employers of the scheme.

	2017-18			2016-17		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark Council	(10,603)	(36,921)	(47,524)	(10,906)	(37,315)	(48,221)
Admitted bodies	(280)	(811)	(1,091)	(298)	(873)	(1,171)
Scheduled bodies	(1,009)	(2,295)	(3,304)	(905)	(1,915)	(2,820)
<b>Total Contributions</b>	<b>(11,892)</b>	<b>(40,027)</b>	<b>(51,919)</b>	<b>(12,109)</b>	<b>(40,103)</b>	<b>(52,212)</b>

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Contributions receivable from employers are shown below:

	2017-18 £000	2016-17 £000
Normal	(26,136)	(23,075)
Early retirement strain	(2,225)	(3,840)
Deficit funding	(11,666)	(13,188)
<b>Total contributions from employers</b>	<b>(40,027)</b>	<b>(40,103)</b>
Contributions from employees	(11,892)	(12,109)
<b>Total Contributions</b>	<b>(51,919)</b>	<b>(52,212)</b>

During 2017-18 employees made Additional Voluntary Contributions (AVCs) of £165k (£179k in 2016-17). The value of the AVCs at 31 March 2018 was £2.8 million (£2.6 million at 31 March 2017).

## 7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2017-18 £000	2016-17 £000
Individual transfers	(2,792)	(3,577)
<b>Total transfers in from other pension funds</b>	<b>(2,792)</b>	<b>(3,577)</b>

## 8. BENEFITS PAYABLE

The table below shows the types of benefit payable by category:

	2017-18 £000	2016-17 £000
Pensions	47,669	44,118
Commutation of pensions and lump sum retirement benefits	6,338	11,960
Lump sums – death benefits	1,269	1,289
<b>Total benefits payable</b>	<b>55,276</b>	<b>57,367</b>

The table below shows the total benefits payable grouped by entities:

	2017-18 £000	2016-17 £000
Southwark Council	53,193	55,182
Admitted bodies	1,437	1,431
Scheduled bodies	646	754
<b>Total benefits payable</b>	<b>55,276</b>	<b>57,367</b>

## 9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017-18 £000	2016-17 £000
Refund of contributions	76	94
State Scheme Premiums	-	40
Individual transfers out to other schemes	4,048	2,768
<b>Total payments</b>	<b>4,124</b>	<b>2,902</b>

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## 10. MANAGEMENT EXPENSES

	2017-18 £000	2016-17 £000
Administrative costs	1,398	1,579
Investment and management expenses	4,698	3,103
Oversight and governance costs	326	414
<b>Total management expenses</b>	<b>6,422</b>	<b>5,096</b>

During 2017-18, the fee for external audit services for the pension fund was £23k (£21k in 2016-17).

The table below shows the total investment and management expenses

	2017-18 £000	2016-17 £000
Management fees	3,063	2,342
Performance fees	-	-
Property management expenses	1,567	694
Custody fees	68	67
<b>Total investment expenses</b>	<b>4,698</b>	<b>3,103</b>

The pension fund incurred expenses of £0.8m in relation to services provided by the council during 2017-18 (£1.0m during 2016-17).

## 11. INVESTMENT INCOME

	2017-18 £000	2016-17 £000
Dividends from equities	(3,493)	(3,404)
Income from pooled investment vehicles	(2,904)	(2,034)
Rent from properties	(8,211)	(8,819)
Interest on cash deposits	(9)	(10)
Other income	(126)	(57)
<b>Total investment income before taxes</b>	<b>(14,743)</b>	<b>(14,324)</b>
Taxes on income	273	175
<b>Total investment income after taxes</b>	<b>(14,470)</b>	<b>(14,149)</b>

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## 12. INVESTMENT ASSETS

		31 March 2018 £000	31 March 2017 £000
<b>Bonds</b>			
	Quoted Overseas	8,582	11,702
<b>Equity</b>			
	Quoted UK	17,340	11,353
	Quoted Overseas	130,416	130,931
<b>Pooled Funds</b>			
	Fixed Income Overseas	124,553	121,111
	Index Linked Gilts	157,390	144,332
	Multi Asset	127,113	122,264
<b>Unitised Insurance Policy</b>			
	Equity	686,592	696,217
<b>Property</b>			
	Direct Property	197,579	160,200
	Property Unit Trust	68,611	80,057
<b>Derivatives</b>			
	Forward currency contracts	103	(19)
<b>Short Term Cash Deposits</b>		1,000	8,100
<b>London Collective Investment Vehicle (CIV)</b>		150	150
<b>Other Investment Balances</b>		2,298	1,445
<b>Investment Assets</b>		<b>1,521,727</b>	<b>1,487,842</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Value at 31 March 2017 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31 March 2018 £000
Bonds	11,702	31,167	(33,065)	(1,222)		8,582
Equity	142,284	71,910	(63,689)	(2,749)		147,756
Pooled Funds	387,706	11,978	0	9,372		409,056
Unitised Insurance Policy	696,217	147	(33,376)	23,604		686,592
Property	240,257	45,123	(22,394)	3,204		266,190
Derivatives	(19)	867	(1,132)	387		103
Cash Deposits	8,100				(7,100)	1,000
London Collective Investment Vehicle (CIV)	150					150
Other Investment balances	1,445				853	2,298
<b>Investment Assets</b>	<b>1,487,842</b>	<b>161,192</b>	<b>(153,656)</b>	<b>32,596</b>	<b>(6,247)</b>	<b>1,521,727</b>

	Value at 31 March 2016 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31 March 2017 £000
Bonds	5,793	40,221	(35,633)	1,321	-	11,702
Equity	116,684	48,550	(47,183)	24,233	-	142,284
Pooled Funds	355,888	76,074	(116,961)	72,705	-	387,706
Unitised Insurance Policy	555,780	288,120	(287,123)	139,440	-	696,217
Property	210,989	40,123	(6,913)	(3,942)	-	240,257
Derivatives	55	1,535	(1,889)	280	-	(19)
Cash Deposits	100	-	-	-	8,000	8,100
London Collective Investment Vehicle (CIV)	150	-	-	-	-	150
Other Investment balances	1,143	-	-	-	302	1,445
<b>Investment Assets</b>	<b>1,246,582</b>	<b>494,623</b>	<b>(495,702)</b>	<b>234,037</b>	<b>8,302</b>	<b>1,487,842</b>

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The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, our active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by TH Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2018. All properties have been valued at market value.

The Investment Strategy Statement can be accessed on the council's website via the following link [http://www.2.southwark.gov.uk/downloads/download/4759/southwark\\_pension\\_fund\\_administration\\_strategy](http://www.2.southwark.gov.uk/downloads/download/4759/southwark_pension_fund_administration_strategy). Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark Council, Finance and Governance, PO Box 64529, London SE1P 5LX.

The following investments represent more than 5% of investment assets.

Name of Investment	Fund Manager	31 March 2018	% of investment assets	31 March 2017	% of investment assets
		£000	%	£000	%
North America Equity	Legal & General	196,033	13%	206,559	14%
US Equity Fund	Blackrock	136,998	9%	134,526	9%
Diversified Growth Fund	Blackrock	127,113	8%	122,264	8%
Absolute Return Bond Fund	Blackrock	124,553	8%	121,111	8%
+5 Year Index Linked Gilt Fund	Legal & General	88,823	6%	77,043	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2018 has been set out in the table below.

Investment Manager	31 March 2018		31 March 2017	
	£000	%	£000	%
BlackRock	688,588	45%	670,335	45%
Legal & General Investment Managers	407,059	27%	413,588	28%
TH Real Estate	219,873	15%	200,608	13%
Newton Investment Management	156,441	10%	153,966	10%
M&G Real Estate	20,938	1%	20,006	1%
Invesco Real Estate	14,541	1%	14,897	1%
Brockton Capital LLP	7,791	1%	7,934	-
Frogmore Real Estate Partners	4,048	-	4,913	-
London CIV	150	-	150	-
<b>Total</b>	<b>1,519,429</b>	<b>100%</b>	<b>1,486,397</b>	<b>100%</b>

### 13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2018	31 March 2017
	£000	£000
Contribution due from employers	1,211	3,578
Other current assets	1,874	3,467
Cash at managers	1,941	5,835
Cash and bank	9,623	732
<b>Total</b>	<b>14,649</b>	<b>13,612</b>



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The current liabilities of the fund are analysed as follows:

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
Support services	0	(1,759)
Benefits	(34)	(111)
Professional fees	(894)	(563)
Investment	(3,041)	(2,131)
Taxes	(680)	(1,361)
Other	(780)	(537)
<b>Total</b>	<b>(5,429)</b>	<b>(6,462)</b>

#### 14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as where the related party has, or is perceived to have, real influence over any transaction between the parties.

Through its administration of the Fund, the council has a related party interest with the Pension Fund, and the costs charged by the council are disclosed in Note 31.

Management of the Pension Fund is the responsibility of the council's strategic director of finance and governance. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 10. The strategic director of finance and governance remuneration is disclosed in Note 29 of the council's Statement of Accounts.

The Pension Advisory Panel (PAP) offers advice to the strategic director of finance and governance. Councillor members of the Panel make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the pension fund and contributed £36.9 million to the fund in 2017-18 (£37.3 million in 2016-17).

#### 15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. They comprise property unit trusts.
- Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data

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Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Futures and options in UK bonds</b>	Level 1	Published exchange prices at the year-end	Not required	Not required
<b>Exchange traded pooled investments</b>	Level 1	Closing bid value on published exchanges	Not required	Not required
<b>Unquoted bonds</b>	Level 2	Average of broker prices	Evaluated price feeds	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Overseas bond options</b>	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
<b>Pooled investments – overseas unit trusts and some property funds</b>	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
<b>Freehold, leasehold properties</b>	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

The following table shows the fair value valuation hierarchy of Fund assets and liabilities.

Value as at 31 March 2018	Quoted market price	Using observable inputs	With significant un-observable inputs	Total
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial assets at fair value through profit and loss	1,001,423	251,816	68,611	<b>1,321,850</b>
Non-financial assets at fair value through profit and loss			197,579	<b>197,579</b>
Financial liabilities at fair value through profit and loss				
<b>Total</b>	<b>1,001,423</b>	<b>251,816</b>	<b>266,190</b>	<b>1,519,429</b>

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Value as at 31 March 2017	Quoted market price	Using observable inputs	With significant un- observable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,002,635	243,524	80,057	1,326,216
Non-financial assets at fair value through profit and loss	-	-	160,200	160,200
Financial liabilities at fair value through profit and loss	(19)	-	-	(19)
<b>Total</b>	<b>1,002,616</b>	<b>243,524</b>	<b>240,257</b>	<b>1,486,397</b>

The following table shows the reconciliation of fair value measurements within level 3.

	Value at 31 March 2017 £000	Transfers in/ (out) of level 3	Purchase £000	Sales £000	Realised gain/(loss)	Unrealised gain/(loss)	Value at 31 March 2018 £000
Property	240,257	-	45,123	(22,394)	(5,117)	8,321	266,190
<b>Total</b>	<b>240,257</b>	<b>-</b>	<b>45,123</b>	<b>(22,394)</b>	<b>(5,117)</b>	<b>8,321</b>	<b>266,190</b>

	Value at 31 March 2016 £000	Transfers in/ (out) of level 3	Purchase £000	Sales £000	Realised gain/(loss)	Unrealised gain/(loss)	Value at 31 March 2017 £000
Property	167,000	43,989	40,123	(6,913)	(519)	(3,423)	240,257
<b>Total</b>	<b>167,000</b>	<b>43,989</b>	<b>40,123</b>	<b>(6,913)</b>	<b>(519)</b>	<b>(3,423)</b>	<b>240,257</b>

The sensitivity of pricing methodology for property assets within fair value level three is considered to be +/-3%. This equates to a pricing volatility of +/- £8.0m for property assets as at 31 March 2018 (£7.2m as at 31 March 2017).

## 16. FINANCIAL INSTRUMENTS

The following table shows the classification of the Fund's financial instruments:

	31 March 2018 £000	31 March 2017 £000
<b>Financial assets</b>		
Loans and receivables	16,736	23,157
Financial assets at fair value through profit and loss	1,320,850	1,318,117
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	(5,429)	(6,462)
Financial liabilities at fair value through profit and loss	-	(19)
<b>Total</b>	<b>1,332,157</b>	<b>1,334,793</b>

**17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS**

Outstanding capital commitments (investments) at 31 March 2018 totalled £20.8m (31 March 2017: £19.2m)

These commitments relate to outstanding call payments due on property funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

**18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS***Risk and Risk Management*

The Pension Fund's primary long-term risk is that the funds assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the funds risk management strategy rests with the strategic director for finance and governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

*Market Risk*

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

*Price Risk*

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities, other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible for the 2017-18 reporting period:

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2017-18 - Asset Type	31 March 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	834,348	10	917,783	750,913
Total Bonds & Indexed linked	290,525	7.5	312,314	268,736
Multi-Asset	127,113	4.7	133,087	121,139
Property	266,190	2.6	273,111	259,269
Cash Deposits	1,000	0.7	1,007	993
Other Assets	2,551	0	2,551	2,551
<b>Total Investment Assets</b>	<b>1,521,727</b>			

2016-17 - Asset Type	31 March 2017 £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	838,500	9.7	919,835	757,166
Total Bonds & Indexed linked	277,145	8.8	301,542	252,748
Multi-Asset	122,264	5.1	128,499	116,028
Property	240,257	4.1	250,108	230,407
Cash Deposits	8,100	0	8,101	8,099
Other Assets	1,576	0	1,576	1,576
<b>Total Investment Assets</b>	<b>1,487,842</b>			

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

#### Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
<b>As at 31 March 2018</b>	133,135	134,466	131,804
<b>As at 31 March 2017</b>	146,725	148,192	145,257

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### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

The fund's currency risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 10 per cent strengthening or weakening of the pound against foreign currencies.

<b>Assets exposed to currency risk</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on foreign exchange rate increase £000</b>	<b>Value on foreign exchange rate decrease £000</b>
<b>As at 31 March 2018</b>	892,292	12.0	999,002	785,583
<b>As at 31 March 2017</b>	912,889	11.2	1,015,176	810,601

### Credit Risk

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

### Liquidity Risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the Global Custodian and holds cash relating to investment activities, the other is the pension fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

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## 19. ACTUARIAL POSITION OF THE FUND

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,256.4M) covering 88% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:

- 15.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate).

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 18 years from 1 April 2017 (the secondary rate), equivalent to 5.6% of pensionable pay (or £10.7M in 2017/18, and increasing by 3.5% p.a. thereafter).

In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 30 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.

The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate	4.55% p.a.
Rate of pay increases (additional allowance made for promotional increases)	3.50% p.a.
Rate of increase to pension accounts	2.00% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.00% p.a.

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) Core Projections Model released with Working Paper 91 with Core assumptions, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.4	26.1
Future pensioners aged 45 at the valuation date	24.0	27.8

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

SOUTHWARK COUNCIL  
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The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 30 March 2017. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.

In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.

This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

The actuarial valuation report as at 31 March 2016 is available from the fund's website at the following address:

<https://www.southwark.gov.uk/council-and-democracy/pensions/pension-fund>

Aon

## May 2018

### Actuarial Present Value of Promised Retirement Benefits

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2016.

	31 March 2016 £m	31 March 2013 £m
Fair value of net assets	1,256	995
Actuarial present value of promised retirement benefits	(1,671)	(1,451)
<b>Surplus/(deficit) in the fund as measured for IAS26</b>	<b>(415)</b>	<b>(456)</b>

## 20. POST BALANCE SHEET EVENTS

No such material events have occurred.



## GLOSSARY

### ACCOUNTING STANDARDS

These are the 'proper accounting practices' that the council must follow. They comprise laws and regulations, which are set out in Acts of Parliament and in codes of practice recommended by professional bodies.

### ACCRUAL

An accounting principle where income and expenditure is recognised as it is earned or spent rather than when money is received or paid. This concept is reflected in the accounts by the inclusion of debtors and creditors.

### ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have changed.

### ASSET

An item having value to the council in monetary terms. Assets are categorised as either current or non-current:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the council and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

### BALANCES (OR RESERVES)

These represent accumulated funds available to the council. Some balances (reserves) may be earmarked for specific purposes for funding future initiatives or meeting identified risks or liabilities. There are a number of unusable reserves which are established for technical purposes, it is not possible to utilise these to provide services.

### BUDGET

A forecast of the council's planned expenditure and income, either over a set period or for a specific project.

### CAPITAL ADJUSTMENT ACCOUNT

An account recording financing and disposals transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

### CAPITAL EXPENDITURE

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

### CAPITAL FINANCING

Capital financing is the process which occurs after capital expenditure has been incurred. There are a number of different sources of capital funding such as government capital / revenue grants, non-government grants, contributions from private developers, capital receipts and unsupported borrowing. Various funding sources are applied to capital spend to ensure that a project is fully financed from approved finance sources.

### CAPITAL FINANCING REQUIREMENT (CFR)

The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

### CAPITALISATION

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

### CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

### CAPITAL RECEIPTS

Income received from the sale of land, buildings and other capital assets. These can be used to finance new capital expenditure within rules and limits set by the government, but they cannot be used to finance day to day spending.

SOUTHWARK COUNCIL  
STATEMENT OF ACCOUNTS 2017-18

**COLLECTION FUND**

This is a statutory account, which records income and expenditure on council tax, National Non Domestic Rates and the sums paid to precepting authorities.

**COMMUNITY ASSETS**

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

**CONTINGENT ASSET**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control.

**CONTINGENT LIABILITY**

A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control; or  
A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

**COUNCIL TAX**

The main source of local taxation to local authorities. It is levied on households within the council's area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the council's own General Fund.

**CREDITORS**

Amounts owed by the council for goods and services received but not paid for as at 31 March.

**CURRENT SERVICE COST**

An estimate of the true economic cost of employing people in a financial year.

**DEBTORS**

Amounts owed to the council for goods and services provided but where the associated income was not received as at 31 March.

**DEFERRED CAPITAL RECEIPTS**

These represent capital income still to be received after disposals have taken place and wholly consist of principal outstanding from the sale of council houses.

**DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

**DEFINED CONTRIBUTION SCHEME**

A pension or other retirement benefit scheme into which an employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to the employee service in the current and prior periods.

**DEPRECIATION**

A measure of the cost of the economic benefits of the tangible non-current assets consumed during the period.

 **earmarked RESERVES**

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

**EVENTS AFTER THE BALANCE SHEET DATE**

Events after the Balance Sheet date are those events, favourable or unfavourable.

**FAIR VALUE**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**FINANCE & OPERATING LEASES**

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

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### **FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT**

The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

### **FINANCIAL INSTRUMENT**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### **GENERAL FUND**

This is the main revenue account of the council and includes the net cost of all services (except council housing) financed by local taxpayers and government grants.

### **HOUSING REVENUE ACCOUNT (HRA)**

This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the council's housing stock. Under the Local Government and Housing Act 1989, this account is kept separate from the General Fund and the account must balance. The council is not allowed to make up any deficit in the HRA from the General Fund.

### **IAS19**

International Accounting Standard 19 is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

### **IMPAIRMENT**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS.

### **INVESTMENT PROPERTIES**

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

### **LEVIES**

Payments to levying bodies such as the London Pension Fund Authority, Lee Valley Park Authority and Environment agency. The cost of these bodies is borne by local authorities in the area concerned, based on their council tax base and is met from the General Fund.

### **IMPAIRMENT**

A reduction in the value of a non-current asset, greater than normal depreciation, through economic consumption or through a fall in price.

### **INFRASTRUCTURE ASSETS**

A classification of non current assets, whose life is of indefinite length and which are not usually capable of being sold, e.g. highways, street lighting and footpaths.

### **INTANGIBLE ASSETS**

Non-financial assets that do not have physical substance but are identifiable and are controlled by the council, for example, purchased software licences, patents and trademarks.

### **MINIMUM REVENUE PROVISION (MRP)**

The minimum amount which must be charged to the revenue account each year and set aside as provision for credit liabilities, as required by the Local Government Act 2003.

### **NATIONAL NON DOMESTIC RATES (NNDR)**

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the Government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the council on behalf of itself, the greater London Authority (GLA) and Central Government.

### **NET BOOK VALUE**

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

SOUTHWARK COUNCIL  
STATEMENT OF ACCOUNTS 2017-18

**NET REALISABLE VALUE**

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**NON OPERATIONAL ASSETS**

Non current assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**OPERATING LEASES**

Refer to Finance and operating leases.

**OPERATIONAL ASSETS**

Non current assets held, occupied, used or consumed by the council in the direct delivery of its services.

**PRIVATE FINANCE INITIATIVE (PFI)**

A Government initiative that enables authorities to carry out capital projects through partnership with the private sector.

**PRECEPT**

These are demands made upon the Collection Fund, by the Greater London Authority (GLA), for monies which it requires to finance the services it provides.

**PROVISIONS**

Amounts set aside for liabilities and losses which are likely to occur but where the exact amount or timing is uncertain.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

Expenditure that is not related to the council's non current assets but statutory regulations allow the cost to be funded from capital resources. The expenditure is recorded in the Comprehensive Income and Expenditure Statement as it arises.

**RELATED PARTIES**

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.
- the parties, or any member of a group of which it is a part, provides key management personnel services to the other, or to the parent of the other, reporting entity.

**RELATED PARTY TRANSACTION**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made.

**REVENUE EXPENDITURE**

Day to day payments on the running of council services such as salaries and wages, operating costs and charges for the use of assets.

**REVENUE SUPPORT GRANT (RSG)**

A grant paid by central government in aid of local authority services in general as opposed to specific grants that may only be used for specific purposes.

**USEFUL LIFE**

The period over which the council will derive benefits from the use of a fixed asset.

**WRITE-OFFS**

Income is recorded in the council's accounts on the basis of amounts due. When money owing to the council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

**APPENDIX 1****DISCLOSURE NOTES LIST**

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17 April 2018

Dear Duncan

### **Planned audit fee for 2018/19**

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

### **Scale fee**

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the [PSAA website](#). The Council's scale fee for 2018/19 has been set by PSAA at £182,718.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;

- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### Pension Fund audit

PSAA has also established a scale of fees for pension fund audits. The scale fee for the audit of the pension fund is £16,710, which also reflects a 23 per cent reduction on last year. Our work on the pension fund will be undertaken by our specialist pension fund audit team, also led by Paul Dossett.

### Billing schedule

Fees will be billed as follows:

<b>Main Audit Fee</b>	<b>£</b>
September 2018	45,679
December 2018	45,680
March 2019	45,679
June 2019	45,680
<b>Total</b>	<b>182,718</b>
<b>Pension Fund Audit Fee</b>	
March 2019	16,170

### Outline audit timetable

We will undertake our audit planning and interim audit procedures between October 2018 and March 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July 2019 and work on the Whole of Government Accounts return in July 2019.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
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Audit Planning and Interim Audit	October 2018 to March 2019	Audit Plan	The Plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final Accounts Audit	June and July 2019	Audit Findings Report (Report to Those Charged with Governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM Conclusion	January to March and July 2019	Audit Findings Report (Report to Those Charged with Governance)	As above
Whole of Government Accounts	July 2019	Opinion on the WGA Return	This work will be completed alongside the accounts audit.
Annual Audit Letter	September 2019	Annual Audit Letter to the Council	The letter will summarise the findings of all aspects of our work.

### Our team

The key members of the audit team, covering both the main Audit and the Pension Fund Audit, for 2018/19 are:

Role	Name	Phone Number	E-mail
Engagement Lead	Paul Dossett	020 7728 3180	<a href="mailto:Paul.Dossett@uk.gt.com">Paul.Dossett@uk.gt.com</a>
Senior Manager	Matt Dean	020 7728 3181	<a href="mailto:Matthew.Dean@uk.gt.com">Matthew.Dean@uk.gt.com</a>
In Charge Auditor	Liulu Chen	020 7865 2561	<a href="mailto:Liulu.Chen@uk.gt.com">Liulu.Chen@uk.gt.com</a>

### Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

### Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance.



Yours sincerely

A handwritten signature in black ink that reads "Paul Dossett". The signature is written in a cursive, slightly slanted style.

Paul Dossett

Engagement Lead

For Grant Thornton UK LLP

**COMMITTEE: AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)**

**NOTE:** Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or [virginia.wynn-jones@southwark.gov.uk](mailto:virginia.wynn-jones@southwark.gov.uk)

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Councillor Gavin Edwards (Chair)	By email
Councillor Victor Chamberlain	By email
Councillor Dora Dixon-Fyle	By email
Councillor Nick Dolezal	1
Councillor Victoria Olisa	By email
Councillor Andy Simmons	1
Councillor Dan Whitehead	By email

**RESERVES**

Councillor Eleanor Kerslake	By email
Councillor Sarah King	By email
Councillor Hamish McCallum	By email
Councillor Cleo Soanes	By email
Councillor Bill Williams	By email

**OTHER COUNCILLORS**

Councillor Vicky Mills	By email
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Norman Coombe	1
Doreen Forrester-Brown	1

**COMMUNICATIONS**

Louise Neilan	By email
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**CONSTITUTIONAL TEAM**

Virginia Wynn-Jones	8
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**INDEPENDENT PERSONS**

Mr William Dee	By email
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Mr Charles Wynn-Evans	By email
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Jo Anson	1
Ian Young	1
Rob Woollatt	1

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