

Audit, Governance and Standards Committee

Thursday 14 July 2016

7.00 pm

Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1 2QH

Membership

Councillor Paul Fleming (Chair)
Councillor James Barber (Vice-Chair)
Councillor Catherine Dale
Councillor Nick Dolezal
Councillor Renata Hamvas
Councillor Hamish McCallum
Councillor Andy Simmons

Reserves

Councillor Evelyn Akoto
Councillor Dora Dixon-Fyle MBE
Councillor Karl Eastham
Councillor David Hubber
Councillor Sarah King
Councillor Rosie Shimell
Councillor Cleo Soanes

INFORMATION FOR MEMBERS OF THE PUBLIC

Access to information

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Contact

Victoria Foreman on 020 7525 5485 or email: victoria.foreman@southwark.gov.uk

Members of the committee are summoned to attend this meeting

Eleanor Kelly

Chief Executive

Date: 6 July 2016



Audit, Governance and Standards Committee

Thursday 14 July 2016
7.00 pm

Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1 2QH

Order of Business

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PART A - OPEN BUSINESS

THE CHAIR WOULD LIKE TO REMIND MEMBERS THAT PRIOR TO THE MEETING THEY HAVE THE OPPORTUNITY TO INFORM OFFICERS OF PARTICULAR AREAS OF INTEREST RELATING TO REPORTS ON THE AGENDA, IN ORDER FOR OFFICERS TO UNDERTAKE PREPARATORY WORK TO ADDRESS MATTERS THAT MAY ARISE DURING DEBATE.

1. APOLOGIES

To receive any apologies for absence.

2. CONFIRMATION OF VOTING MEMBERS

A representative of each political group will confirm the voting members of the committee.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

In special circumstances, items of business may be added to an agenda within five clear days of the meeting.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

Members to declare any personal interests and dispensation in respect of any item of business to be considered at this meeting.

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| | To approve as a correct record the minutes of the open section of the meeting held on 22 February 2016. | |
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ANY OTHER BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED AS THE CHAIR AS URGENT

EXCLUSION OF PRESS AND PUBLIC

The following motion should be moved, seconded and approved if the committee wishes to exclude the press and public to deal with reports revealing exempt information:

“That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1-7, Access to Information Procedure rules of the Constitution.”



Audit and Governance Committee

MINUTES of the OPEN section of the Audit and Governance Committee held on Monday 22 February 2016 at 7.00 pm at Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1 2QH

PRESENT: Councillor Paul Fleming (Chair)
Councillor Nick Dolezal
Councillor Karl Eastham
Councillor Renata Hamvas
Councillor Andy Simmons

OFFICER SUPPORT: Jennifer Seeley, Director of Finance
Gerri Scott, Strategic Director of Housing and Modernisation
Marie Rance, Interim Head of Human Resources
Jo Anson, Head of Financial Information and Governance
Maureen McBain, Corporate Risk and Insurance Manager
Mike Pinder, Head of Anti-Fraud and Internal Audit
Dick Frak, Interim Director of Commissioning
James Postgate, Commissioning Manager
Chris Harris, Partner, RSM
Angela Mason-Bell, Internal Audit Manager, RSM
Paul Dossett, Engagement Lead, Grant Thornton
Nick Taylor, Senior Audit Manager, Grant Thornton
Victoria Foreman, Constitutional Officer

1. APOLOGIES

Apologies for absence were received from Councillor James Barber.

2. CONFIRMATION OF VOTING MEMBERS

Those members listed as present were confirmed as voting members for the meeting.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were no late items.

4. **DISCLOSURE OF INTERESTS AND DISPENSATIONS**

There were no disclosures of interest or dispensations.

5. **MINUTES**

RESOLVED:

The minutes of the meeting held on 11 November 2015 were agreed as a correct record and signed by the chair.

6. **2015/16 THEMATIC REVIEW OF GOVERNANCE: HUMAN RESOURCES**

The committee heard from Gerri Scott, Strategic Director of Housing and Modernisation and Marie Rance, Head of Human Resources.

RESOLVED:

The audit and governance committee noted the progress in changes across human resources services and the achievements since September 2015.

7. **REPORT ON RETROSPECTIVE CONTRACT-RELATED DECISIONS**

RESOLVED:

1. The committee noted the retrospective contract decision detailed in the report.
2. The committee noted the actions taken by the Strategic Director of Children's and Adult Services to ensure that the risk of future retrospective contract decisions was minimised for the future.

8. **ANNUAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE ON THE COUNCIL'S RISK REGISTER**

RESOLVED:

The committee noted the annual report on the council's risk register.

9. **PROGRESS REPORT ON THE WORK OF THE INTERNAL AUDIT AND ANTI-FRAUD TEAMS FOR THE PERIOD 1 OCTOBER 2015 TO 31 JANUARY 2016**

RESOLVED:

The committee noted the progress report on the work of the internal audit and anti-fraud teams for the period 1 October 2015 to 31 January 2016.

10. INTERNAL AUDIT PLAN FOR 2016/17 AND UPDATED STRATEGY FROM 2016/17 TO 2020/21

RESOLVED:

The committee approved the draft internal audit plan for 2016/17 and the revised internal audit strategy 2016/17 to 2020/21.

11. GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT FOR SOUTHWARK COUNCIL AND SOUTHWARK PENSION FUND

RESOLVED:

The committee noted the audit risk assessment for Southwark Council and Southwark Pension Fund.

12. GRANT THORNTON - AUDIT PLANS FOR SOUTHWARK COUNCIL AND SOUTHWARK PENSION FUND AUDITS 2015/16

RESOLVED:

The committee noted Grant Thornton's audit plans for Southwark Council and for the pension fund 2015/16.

13. GRANT THORNTON - AUDIT AND GOVERNANCE COMMITTEE UPDATE FEBRUARY 2016

RESOLVED:

The committee noted Grant Thornton's update, including the 2014/15 certification report.

14. DRAFT WORK PROGRAMME FOR 2016/17

RESOLVED:

1. The committee considered the proposed draft work programme for 2016/17 and agreed that, rather than select a single governance theme, it would identify a number of areas for consideration at future meetings, and also that the additions to the work programme as set out in paragraphs 9 and 10 of the report be added to the work programme.
2. The committee, subject to requested changes, agreed the work programme for 2016/17.

15. ANNUAL REPORT TO COUNCIL ASSEMBLY ON WORK AND PERFORMANCE IN 2015/16

RESOLVED:

1. The committee reviewed the draft self-assessment of good practice and indicated that further consideration to member training be given.
2. The committee agreed to forward the report on its work and performance in 2015/16 to council assembly.

The meeting ended at 8.57pm.

CHAIR:

DATED:

| | | | |
|------------------------------------|--------------------------------|---|---|
| Item No. 6. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Report on retrospective contract-related decision | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATIONS

1. That the audit, governance and standards committee note the retrospective contract decision detailed in the report.
2. That the audit, governance and standards committee note the actions taken by the strategic director of children's and adult services as set out in paragraph 10 to ensure that the risk of future retrospective contract decisions is minimised for the future.
3. That the audit, governance and standards committee consider whether it would wish to make recommendations to help improve future decision-making.

BACKGROUND INFORMATION

4. Where an approval to a contract decision has been sought retrospectively and has an estimated value of more than £100,000, there is a requirement under contract standing order 4.7 to submit a report to the audit, governance and standards committee. The report should set out the circumstances and manner in which the decision was taken, for the purpose of obtaining guidance to inform future decision making.
5. This requirement applies to decisions relating to the approval of a procurement strategy (Gateway 1 or GW1), decisions relating to the approval of a contract award (Gateway 2 or GW2) and decisions relating to the approval of a variation or extension to a contract (Gateway 3 or GW3) decisions.
6. On 6 June 2016, the strategic director of finance and governance approved retrospectively variations to the contract to provide for the home visiting special educational service for pre-school children who have significant learning difficulties or complex needs and their families. This service is known as a portage service. The contract was awarded to through a variation to the independent voluntary organisation, KIDS, through a Gateway 1 & 2 report. The chair and vice-chair of the audit and governance committee were made aware of this decision on the same day.

KEY ISSUES FOR CONSIDERATION

7. The Gateway report relating to the variation decision (attached at Appendix 1) sets out the nature of the portage contract, its values and timelines, including the extensions to the contracts required.

8. The report explains that a review of the portage service was conducted to compare what was provided in Southwark with services in other London councils. Although the review included consideration of bringing the service in-house, it was concluded that this had significant disadvantages and would not offer best value for money.
9. Although this review did not significantly delay the process, the committee was made aware at its meeting in February 2016 of significant pressures in the commissioning and contract monitoring team. In the period July-September 2015, fourteen officers in commissioning and contract monitoring (of a team establishment of thirty-one officers) left the council under the voluntary severance scheme. This included the commissioning officer responsible for this procurement. Unfortunately, the member of the team who then took over this task subsequently experienced a lengthy period of sickness absence. With attention focused on the ongoing provision and monitoring of the service, the associated governance processes, including formal decision taking and report sign-off, were not followed through in a timely manner.
10. To help ensure that workloads are managed more effectively in the future and due attention is paid to governance requirements, the commissioning team are implementing a report tracker so that the team knows when, where and at what stage any report is, including approval deadlines. This will also follow through post-decision, so that the contracts register is updated.
11. The commissioning team is being maintained at its current establishment level. It is not expected to be adversely affected by the current voluntary severance round.

Summary

12. Officers in the legal and procurement sections have discussed and agreed the conclusions set out above.
13. In relation to the contract set out in the report, monitoring shows that KIDS continues to perform satisfactorily against the performance targets.

Policy implications

14. There are no policy implications arising from this report.

Community impact statement

15. This report is not considered to contain proposals that would have a significant impact on any particular community or group.

Resource implications

16. There are no direct resource implications in this report.

Consultation

17. There has been no consultation on this report.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|--------------------------|--|-----------------------------------|
| Constitution 2015-16 | Constitutional Team, Tooley Street, Second Floor | Victoria Foreman 020 7525 5485 |

APPENDICES

| No. | Title |
|------------|--|
| Appendix 1 | Gateway 1&2: Procurement Strategy Approval and Award of Contract: Special Educational Needs and Disabilities - Portage Service |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Jo Anson, Head of Financial and Information Governance Dick Frak, Interim Director of Commissioning, Children's and Adults Services | |
| Version | Final | |
| Dated | 27 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Corporate Contract Review Board | Yes | Yes |
| Director of Law and Democracy | No | No |
| Strategic Director of Finance and Governance | N/A | N/A |
| Cabinet Member | No | No |
| Date final report sent to Constitutional Team | | 27 June 2016 |

| | | | |
|------------------------------------|--------------------------------|--|---|
| Item No. | Classification: Open | Date: 11 March 2016 | Decision Taker Strategic Director of Finance and Governance |
| Report title: | | Gateway 1&2 Procurement Strategy Approval and Award of Contract: Special Educational Needs and Disabilities – Portage Service | |
| Ward(s) or groups affected: | | Children and Young People with Special Educational Needs and Disabilities aged 0-5 and their Families in Southwark | |
| From: | | Director of Education | |

RECOMMENDATIONS

1. That the strategic director of finance and governance retrospectively approves agreement of the procurement strategy outlined in this report for a Portage (Home Learning) service, namely to undertake single supplier negotiations with the service provider for the reasons detailed at paragraphs 15-19.
2. That the strategic director of finance and governance retrospectively approves the award of the Portage service, to KIDS for an initial period of three years commencing on 1 October 2015 at an annual value of £200,000 with the option to extend up to a further two years giving a total contract value of £1,000,000. This contract will also be subject to a six month break clause. The award will be effected by way of a legal variation of the existing contract.

BACKGROUND INFORMATION

3. There is no legal requirement on local authorities to provide portage service. The Children and Families Act 2014 replaced the statement of special educational needs with an integrated education, health and care (EHC) plan and a single assessment process. This and other changes necessitated changes in the way local authorities support children and young people with special educational needs and disabilities (SEND). Although not a statutory service it does contribute to the local authority's duty to make adjustments in order to be inclusive under the terms of the Disability Discrimination Act 1995.
4. Portage is a home visiting educational service for pre-school children with significant learning difficulties or complex needs and their families. The staff delivering the service needs to receive the National Portage Association (NPA) accredited training and workshops. Registration with the NPA is a prerequisite for service delivery. The portage service is provided in most London boroughs (apart from Islington, Lambeth, Newham and Redbridge) and nearly exclusively it is in-house provision. Where portage is delivered in-house it is usually located within Special Educational Needs and Disabilities sections or Early Years, both being part of the education department.
5. The portage model of teaching/learning is characterised by the following attributes:
 - regular home visiting;
 - supporting the development of play, communication, relationships, and learning for young children within the family;
 - supporting the child and family's participation and inclusion in the community in their own right;

- working together with parents within the family, with them taking the leading role in the partnership that is established;
 - helping parents to identify what is important to them and their child and plan goals for learning and participation;
 - keeping a shared record of the child's progress and other issues raised by the family;
 - responding flexibly to the needs of the child and family when providing support;
6. The service provides support to, and the portage workers assess the child's progress against the following skills/competencies areas:
- a. Cognitive
 - b. Language and communication
 - c. Motor
 - d. Self help
 - e. Social
7. In Southwark portage is currently provided for children aged 0-5 with developmental delay and disabilities, and who are not accessing any early years provisions. In partnership with parents/carers, the service provider plans an individualised education programme for each child and provides home visits to children for up to a maximum of six months (24 home visits). This service is also offered in the form of group sessions (developmental play sessions) for children aged 2 and under who are not attending any nursery and for whom there are some concerns about their general development, or if they have a disability or a developmental delay. The group session can be attended by up to 12 families at any given time. At any given time there are around 53 children receiving home learning and around 10 receive developmental play sessions. Children receiving the portage service progress developmentally. This is quantified through the portage assessment, whereby, children are assessed at the start and end of the service, their development is monitored through reviewing aims and progress reports. As children reach the age of five years old they access primary education and portage is no longer available to them.
8. The portage service has been provided in Southwark by KIDS, a voluntary organisation for many years and originally was commissioned through Sure Start PCT grant in 2005.
9. A review of the service has been conducted comparing the service provided in Southwark to other portage services provided elsewhere within London. The review undertaken looked at the different aspects of the portage service:
- Location (in-house or outsourced) – only two other than Southwark London boroughs – Camden and Westminster – have the portage service outsourced to an independent service provider. In both cases KIDS is delivering that service on their behalf
 - Cohort (age) – most boroughs provide the service to pre-school children aged 0-5. However, the age of children in some boroughs plays a significant role in prioritising the service. For example some boroughs are moving towards providing the service mainly to children aged 0-2 as two year olds are eligible for a free childcare.
 - Length of portage support – this is the area where there are the biggest differences among London boroughs' service provision of portage. As a minimum portage should be provided over six months (24 home visits). In most boroughs the home visiting support is not time limited and in most cases is provided on the basis of individual needs. Portage in some boroughs is extended to support for staff in early years settings to ensure smooth hand over/personalised pathway to pre-school education and continuity of individual children educational development.
 - Waiting list – in most boroughs the waiting list is managed by providing drop-in sessions. Also one borough response to the growing demand for the service was offering home visits on fortnightly instead of weekly basis.
 - Unit cost – the financial information gathered during the review offers an interesting point of reference in terms of budget allocation in other boroughs. Southwark budget is very similar to Camden, Greenwich, Lewisham; Hounslow, Sutton and Wandsworth.

Due to significant differences in the way the service is organised and the length of time the support is provided by the unit cost is not reliable measure to use.

10. Although the cost per visit lasting an hour in Southwark is around £70, the cost includes additional two hours of preparation/supervision and travel time. There are three full time and two part time portage service workers engaged in providing the service and an office manager who also holds two/three cases at any given time. A full time portage worker on average holds ten cases.
11. The current contract with the contractor ended on 30 September 2015.

Summary of the business case/justification for the procurement

12. The proposed procurement route ensures the council continues to offer access to early education to children aged 0-5 with developmental delay and disabilities and who are not accessing any other early years provision and parents/carers receive support in coping with their child's disability.
13. Given the needs of the children locally between 0-5 and that those needs are not always highlighted within the first two years of the child's life, it is proposed that the service continues to support children from 0-5 years old.
14. We have negotiated the following:
 - f. a reduced hourly rate
 - g. number of visits per child – especially to request the provider to seek prior agreement/authorisation from the council for providing more visits than 24 over six months
 - h. additional support for the child after it's enrolment to a nursery – this could constitute either alternative home visits and support in early years setting or support in early years setting only (training to staff)
 - i. graduated response for some more complex cases (intensive package at the beginning followed by more fluid and flexible reviews of progress)
 - j. ensure priority for the older children.
15. The new contract will be outcomes-based with clear and measurable outcomes that reflect service user needs. The service provider will be required to review at least twice a year, plans and goals with parents/carers that promote each child's:
 - play and personal development;
 - learning, physical development and communication;
 - participation and inclusion within the day to day life of the family and the wider community.

Market Considerations

16. KIDS is the only independent provider among the 64 portage services currently registered with the National Portage Association (NPA) in the London and South East region. All the rest are provided by local authorities providing their own in-house portage service except for KIDS which provide portage services on behalf of three London boroughs; Camden, Westminster and Southwark. Six other London boroughs do not have a registered portage service.
17. KIDS has a proven track record of delivering a high quality portage service. It has developed effective local relationships with the council and other partners. Given the expertise and relationships that KIDS has there is confidence that it can continue to deliver the service for Southwark in the future.

18. The council and children and their families additionally benefit from funding raised by KIDS through their fundraising activities.
19. It is unlikely that additional value for money or improved outcomes would be achieved by following any other procurement route and that the strong relationship with KIDS will ensure that the service model described can be delivered in an effective and efficient way.
20. A detailed review and costed plan showed there is also no added value or benefit (in terms of delivering savings or improved service delivery) identified by bringing the service in-house.

KEY ISSUES FOR CONSIDERATION

Options for procurement including procurement approach

21.

| Option | Advantages | Disadvantages |
|--------------------------------|---|---|
| Single supplier negotiations | <ul style="list-style-type: none"> The existing provider - KIDS is highly experienced in providing the portage service. This option offers the consistency and continuity of support and care in a time of significant change Protection from budget cuts as it is not a statutory requirement to provide portage service Control over the cost of the service | <ul style="list-style-type: none"> None - KIDS are performing to the contract standard and do not pose any financial risks to the council. EU risk - given the lack of competition in the market (only one independent provider registered with NPA) an open tender is not a viable option. |
| Bring the service in-house | <ul style="list-style-type: none"> Opportunity to integrate the service fully within other Early Years and SEND services Flexibility to respond to changes | <ul style="list-style-type: none"> TUPE implications including staff costs, provision of management and workplaces (office space, desks, IT etc) Prone to frequent changes in team structure Lack of focus on portage service as staff may be requested to perform other duties |
| Undertake a competitive tender | <ul style="list-style-type: none"> Opportunity to go to the market in order to achieve good value for money | <ul style="list-style-type: none"> The market is not developed as most authorities provide it in-house Lengthy and costly process |
| Discontinue the service | <ul style="list-style-type: none"> Opportunity to rethink the whole offer for pre-school children with additional needs in light of the new legislation (SEND reform) Saving of £200,000 per year | <ul style="list-style-type: none"> Discontinuation of support to the very vulnerable children in the borough and their families Impact on other children's social and education services such as Early Help, SEND Children's future development adversely affected Possibility of getting complaints from the public leading to worsening reputation of the council |

Procurement Route followed

22. Single supplier negotiation procurement would deliver the best contract outcomes and value for money.

Procurement project plan (Non Key decisions)

| Activity | Complete/Completed by |
|--|-----------------------|
| Negotiations held with providers in preparation for the end of the current contract | 29 May 2015 |
| Children's and Adults' Board Review Gateway 1/ 2 : Procurement strategy and award report | 14 October 2015 |
| CCRB Review Gateway 1/ 2 : Procurement strategy and award report | 22 October 2015 |
| Approval of Gateway 1/ 2: Procurement strategy and award report | 14 March 2016 |
| Contract start | 1 October 2015 |
| Publish award notices in Contracts Finder | 21 March 2016 |
| Initial Annual Review of Contracts | 30 October 2016 |
| Initial Contract completion date | 30 September 2018 |

Procurement Outcomes

23. The contract will be over the EU "light touch" threshold, however, given the lack of competition in the market (only one independent provider registered with NPA) an open tender is not a viable option. The absence of competition is not the result of an artificial narrowing down of the parameters of the procurement.

Identified risks and how they were/ will be managed

24. There have been no significant risks identified for this service. The service provider is currently meeting all performance and activity requirements and families and professionals report positive experiences. There is an ongoing need for the service.

Key/Non Key Decision

25. This is a non-key decision.

Policy implications

26. Although not a statutory service it does contribute to the local authority's duty to make adjustments in order to be inclusive under the terms of the Disability Discrimination Act 1995.

Plans for monitoring and management of the contract

27. The contract will be performance managed by the quality and performance team in children's & adults' commissioning unit in conjunction with service leads.
28. The contract and performance management of a broad range of care and support services and has well established and robust monitoring processes in place to monitor this contract. Contract monitoring will also include:
 - Analysis of service user client record returns.
 - Analysis of service user outcome returns.
 - Provider visits that can be announced or unannounced spot checks.
 - Agreed action plans for continuous improvement.
 - Consultation with Service users.
29. Outcomes will also be a key focus for the contract and performance management of this contract. A range of outcome data will be collected through monitoring returns that the provider is required to send through to the council's Quality and Performance team.
30. Compliance with contractual terms, poor quality or poor performance is dealt with through comprehensive default procedures that can ultimately lead to decommissioning and /or substitution of provider.

Community Impact Statement

31. Officers have been mindful of the need to have due regard to the Public Sector Equality Duty imposed by section 149 of the Equality Act 2010, which requires the Council to:
 - Eliminate discrimination, harassment, victimisation or other prohibited conduct;
 - Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it;
 - Foster good relations between person who share a relevant protected characteristic and those who do not share it.
32. The key affected groups are children with autism, developmental delay and other learning disabilities and their families. A large number of children with autism in Southwark come from BME backgrounds and the service is targeted at the 0-5 age group so there is the potential for a positive impact on these groups as well. This contract will enable the local authority's inclusion duties to be met regarding this cohort of families.
33. The provision of the portage home learning service responds to the needs of these groups by enabling parents and carers to access free inclusive childcare. This may enhance parents' ability to pursue employment and training opportunities and could also have a positive impact on those currently unable to work due to their children's disabilities.
34. This is a specialist targeted service that is unlikely to be delivered to more than 150 families annually and should not materially impact any other groups.

Sustainability considerations

35. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area. These issues are considered in the following paragraphs which set out economic, social and environmental considerations.

Economic Considerations

36. The provider has satisfactory employment records and policies and will seek staff from the local area wherever possible.
37. The current provider is a small / medium sized enterprise with a base within Southwark. There is an expectation that providers will seek to employ, and recruit appropriate staff locally. In addition, one of the strategic drivers of the council is working with the local voluntary and charitable sector and this contract reflect this. The provider works with families who come from a wide range of hard to reach groups where social exclusion and pockets of economic deprivation persist.

Social Considerations

38. All their employees in connection with the contract funded support hours of this service are paid at the current LLW rate. The provider works with user groups who are reflective of the overall population of Southwark.

Environmental Considerations

39. The council will expect the majority of the workforce to use public transport to travel. The provider is expected to use digital resources, including electronic mail and databases in order to eliminate the unnecessary use of paper.

Resource implications

40. The contract will be monitored and supported within the existing resources of the commissioning department.

Staffing/procurement implications

41. N/A

Financial implications (CSC0359SR)

42. The budget for this service sits within the Commissioning Service and will be funded by £100,000 from SP046. £50,000 - SP041 and £50,000 - SP047. From 1st April 2016 all three budgets will be consolidated under one budget cost centre (SP046)
43. This service supports children through access to learning and development opportunities at home, reducing the need for more expensive specialist provision in schools. The service also supports children with challenging behaviour.

Legal implications

44. The report advises that the nature and expected individual value of the proposed negotiated contract is such that they are not subject to the full application of the EU procurement regulations, including public advertisement.
45. The council's Contract Standing Orders ("CSOs") require that all reasonable steps should be taken to obtain at least five tenders following a publicly advertised competitive tendering process; however, CSOs also permit an exemption to be granted from such tendering requirements where exceptional circumstances exist. Paragraphs 12 and 15 explain why it is considered necessary and appropriate to enter into a contract directly with the service provider listed under paragraph 2.
46. Although this is a new award, it will be implemented by way of a legal variation of the existing contract.

Other implications or issues

47. None

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

46. This report is seeking retrospective approval for both the procurement strategy and award decision in relation to a Portage (home learning) service.
47. The report summarises the context for this service including the nature and delivery of current community-based preventative services. Paragraphs 12 to 15 outline the financial and qualitative rationale for procuring a five year contract with Kids namely the features of this service and the benefits it will bring to children with learning difficulties aged 0 to 5.
48. Paragraphs 16 to 20 confirms that there are no other independent providers other than Kids, with local authorities providing their own in-house portage service. As this concurrent is provided retrospectively it is not possible to confirm whether market conditions have altered.
49. Paragraph 21 confirms the alternative procurement options that were considered and discounted including the possibility of delivering the service in-house.
50. Paragraphs 27 to 30 confirm the monitoring and management arrangements that will be established.

Director of Law and Democracy

51. This report seeks approval of a procurement strategy and contract award in relation to the provision of a portage service as described within paragraphs 4 to 6.
52. The director of law and democracy ("DLD", acting through the corporate team) notes the content of this report and, in particular the reasons why a single supplier negotiation has been undertaken. Paragraph 42 confirms that adequate budgetary provision has been made to cover the expenditure associated with the proposed contract, in line with the requirements of the council's Contract Standing Orders ("CSOs"). The Community Impact Statement acknowledges the requirements of the Public Sector Equality Duty and explains that the key affected groups who are intended to benefit from the provision of the portage service have one or more of the protected characteristics defined in the Equality Act 2010.

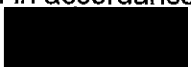
- 53. The decision to approve the recommendations is one which is required to be taken by the strategic director of finance and governance under CSOs. In this instance CSOs further require that a separate report must be submitted to the audit and governance committee.
- 54. The DLD will provide advice and assistance to officers as necessary in connection with the drafting of appropriate legal terms to record and regulate the proposed continuation of the contractual relationship between the council and KIDS.

Strategic Director of Finance and Governance (CAS15/009)

- 55. The strategic director of finance and governance notes the recommendations in this report, and the financial implications which demonstrate how the contract will be funded. The contract covers a period over which government grant to the council will reduce significantly, and the contract includes a six month break clause, should this be required.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature  Date..... 6-6-16

Designation STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

BACKGROUND DOCUMENTS

| Background Documents | Held At | Contact |
|----------------------|---------|---------|
| | | |
| | | |

APPENDICES

| No | Title |
|----|-------|
| | |
| | |

AUDIT TRAIL

| | | |
|---|-----------------------------------|--------------------------|
| Lead Officer | Nina Dohel, Director of Education | |
| Report Author | Peta Smith, Commissioning Manager | |
| Version | FINAL | |
| Dated | 11 March 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Head of Procurement | Yes | Yes |
| Director of Law and Democracy | Yes | Yes |
| Strategic Director of Finance and Governance | Yes | Yes |
| Contract Review Boards | | |
| Departmental Contract Review Board | Yes | Yes |
| Corporate Contract Review Board | Yes | Yes |

| | | | |
|------------------------------------|--------------------------------|--|---|
| Item No. 7. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Draft Annual Governance Statement 2015-16 | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATION

1. That the audit and governance committee note the draft annual governance statement 2015-16, as attached (Appendix 1).

BACKGROUND INFORMATION

2. The Accounts and Audit Regulations 2015, require that the annual governance statement for 2015-16 be presented to an appropriate committee of the body. Under the constitution, the audit, governance and standards committee is the body that formally receives the annual governance statement.
3. The regulations require the annual governance statement to accompany the signed and dated accounts and to be approved at the same time as the statement of accounts. Formal approval will therefore be sought at the September meeting.
4. Following this approval, the annual governance statement should be signed by the most senior member of the council and most senior officer, i.e. the leader of the council and the chief executive.

KEY ISSUES FOR CONSIDERATION

5. Every year, each local authority is required by law to conduct a review of the effectiveness of its system of internal control and to publish a statement reporting on the review, the annual governance statement (AGS), with its financial statements.
6. The annual governance statement is therefore a mandatory statement that recognises, records and publishes the council's governance arrangements as defined in the CIPFA/SOLACE framework for good governance in local authorities. It reflects how the council conducts its business, both internally and in its dealings with others. Its objective is to provide assurance on the effectiveness of the corporate governance arrangements and to identify significant governance issues requiring management action.
7. The statement is produced following a review of the council's governance arrangements and system of internal control. The review consists of an evaluation of the council's governance arrangements against the best practice described in the CIPFA guidelines, as updated in 2012. This includes an assessment of the systems and processes for:

- establishing the council's principal statutory obligations and organisational objectives and applying the six SOLACE/CIPFA core principles of good governance
 - identifying the principal risks to the achievement of the council's objectives
 - identifying and evaluating key controls to manage the council's principal risks
 - obtaining assurances on the effectiveness of key controls.
8. The assurances on the effectiveness of key controls are obtained throughout the year in the form of internal and external audit and inspection reports, risk management and performance management activities. In addition, each strategic director completes an annual governance assurance statement describing the key governance and internal control arrangements within their department, the arrangements they have made to provide assurance that those arrangements are effective and any opportunities for improvement identified through the assurance review processes.
9. The corporate governance panel (CGP) is responsible for evaluating assurances and the supporting evidence, and agreeing the final draft of the AGS. In agreeing the draft AGS, the CGP will consider issues that are of significance and comment in the final draft AGS as appropriate. Issues that are considered "significant" are those that meet the following criteria:
- The issue has seriously prejudiced or prevented achievement of a principal objective
 - The issue has resulted in a need to seek additional funding to allow it to be resolved or has resulted in significant diversion of resources from another aspect of the business
 - The issue has led to a material impact on the accounts
 - The audit, governance and standards committee has advised that it should be considered significant for this purpose
 - The head of anti-fraud and internal audit has reported on it as significant for this purpose in the annual opinion on the internal control environment
 - The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
 - The issue has resulted in formal action being taken by the S.151 officer and/or monitoring officer.
10. The draft AGS (Appendix 1) is presented to the audit, governance and standards committee for review. It will be brought again in September for further consideration and approval and, subject to this approval, will need to be signed by the leader of the council and the chief executive.

Community impact statement

11. This report and the accompanying draft annual governance statement are not considered to have a direct impact on local people and communities. However, good governance arrangements are important to the delivery of local services and to the achievement of outcomes.

Resource implications

12. There are no direct resource implications in this report.

Consultation

13. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

14. None required.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|--|---|---------------------------|
| Financial and Information Governance files | Finance and Governance, Second Floor, Tooley Street, London SE1 | Jo Anson 020 7525 4308 |

APPENDICES

| No. | Title |
|------------|---|
| Appendix 1 | Draft annual governance statement 2015-16 |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Jo Anson, Head of Financial and Information Governance | |
| Version | Final | |
| Dated | 23 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Director of Law and Democracy | No | N/A |
| Strategic Director of Finance and Governance | N/A | N/A |
| Cabinet Member | N/A | N/A |
| Date final report sent to Constitutional Team | | 23 June 2016 |

Annual Governance Statement

Scope of responsibility

1. Southwark Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Southwark Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which include arrangements for the management of risk.
3. Southwark Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at www.southwark.gov.uk. This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6, which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

4. The governance framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and the activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
5. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
6. The governance framework has been in place at Southwark Council for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

The council's governance framework

7. The council assembly is responsible for approving the budget, developing policies, making constitutional decisions and deciding local legislation. The council assembly elects the leader for a term of four years, and the leader appoints a cabinet of up to ten councillors (including himself), each holding a special portfolio of responsibility.
8. The council's [constitution](#) is updated throughout the year and sets out how the council operates. It states what matters are reserved for decision by the whole council, the responsibilities of the cabinet and the matters reserved for collective and

individual decision, and the powers delegated to panels, committees and community councils. Decision-making powers not reserved for councillors are delegated to chief officers and heads of service. The monitoring officer ensures that all decisions made are legal and supports the standards committee in promoting high standards of conduct amongst members.

9. The overview and scrutiny committee and its sub-committees scrutinise decisions made by the cabinet, and those delegated to officers, and review services provided by the council and its partners. The scrutiny officer promotes and supports the council's scrutiny functions.
10. The cabinet has developed a [fairer future vision](#) for Southwark, which is published on the council's website. It is reviewed and updated according to changing statutory requirements, the evolving social and economic situation, analyses of needs and the performance of the council against its priorities. The vision is underpinned by five principles and guides ten promises, made to help achieve the vision.
11. The overall budget and policy framework of the council is set by the council assembly and all decisions are made within this framework. The council's overall policy is represented through the [council plan](#), which is developed alongside the budget through consultation with residents and other stakeholders in the borough, and which sets out how the fairer future vision will be delivered. Performance against the council plan is monitored throughout the year. Progress is reviewed quarterly by the leader, lead cabinet member for performance and respective cabinet members and is reported through an annual performance report at the end of each financial year. The council also monitors its performance through feedback from its residents and service users.
12. The council welcomes views from the public and community as part of the constitutional process. These views are considered through formal and informal consultation processes, attendance at local meetings (e.g. community council meetings) or contact with a local ward councillor. Trades unions are consulted on issues that affect council staff.
13. The council plan is a key reference tool for the [Medium Term Resources Strategy](#), which enables the council to make best use of financial, human, technological and other resources available and to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders. At the broadest level, the council also works with a number of key strategic partners.
14. From the council plan, service plans and business plans are developed and individual officer work plans are agreed, with performance targets agreed at every level. Detailed budgets are aligned to corresponding plans following a robust budget challenge process, which challenges managers to demonstrate efficiency and value for money, and performance is monitored and managed at every level on a regular basis.
15. The performance management process helps to identify learning and development needs, which are translated into personal development plans for staff. Members are also offered development opportunities, in line with their own personal development plans. The council provides a complete programme of learning and development to officers and members. Senior officers are also expected to keep abreast of developments in their profession.

16. The council also has a [whistleblowing policy](#), which encourages staff to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment.
17. The council expects the highest standards of conduct and personal behaviour from members and staff; and promotes and maintains high standards of conduct by both elected and co-opted members of the authority. These standards are defined and communicated through codes of conduct, protocols and other documents.
18. The council's financial management arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2010) as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The chief financial officer is the strategic director of finance and governance, who has statutory responsibility for the proper management of the council's finances and is a key member of the chief officer team. He formally devolves the management of the council's finances within departments to strategic directors through the Scheme of Delegation for Financial Authority and Accountability. Strategic directors further devolve decision making through departmental schemes of management. The strategic director of finance and governance also provides detailed finance protocols, financial regulations, procedures, guidance and finance training for managers and staff.
19. The council's assurance arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Head of Internal Audit in Public Service Organisations" (2010). The head of anti-fraud and internal audit reports functionally to the audit and governance committee (audit, governance and standards committee from May 2016), which approves the audit plan and strategy and receives reports throughout the year on audit and anti-fraud activity as well as the annual report and opinion on the internal control framework.
20. The council's risk management strategy ensures proper management of the risks to the achievement of the council's priorities and helps decision making. In the council's day-to-day operations, a framework of internal controls (e.g. authorisation, reconciliations, separation of duties, etc) controls the risks of fraud or error, and this framework is reviewed by internal audit. The council has appropriate arrangements in place to deal with fraud and corruption risks and is committed to maintaining its vigilance to tackle fraud. Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The council's legal services and procurement teams ensure that all are fit for purpose and the council's interests are protected.
21. The audit and governance committee (audit, governance and standards committee from May 2016) is responsible for monitoring the effective development and operation of corporate governance in the council. It provides independent assurance of the adequacy of the council's governance arrangements, including the risk management framework and the associated control environment, the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, oversight of the financial reporting process and scrutiny of the treasury management strategy and policies.

Review of effectiveness

22. Southwark Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the

council who have responsibility for the development and maintenance of the governance environment, the head of anti-fraud and internal audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

23. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:

- the council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; internal surveys of awareness of corporate policies; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process
- the work of the corporate and departmental contract review boards
- the work of the corporate governance panel
- an annual self assessment of the adequacy of the governance arrangements in departments completed by each strategic director
- the council's internal audit coverage, which is planned using a risk-based approach. The outcome from the internal audit coverage helps form the head of anti-fraud and internal audit's opinion on the overall adequacy of the council's internal control framework, which is reported in his annual report
- the head of anti-fraud and internal audit's annual report on anti-fraud and corruption activities
- Ofsted's three yearly inspection of safeguarding and looked after children services
- external audit of the council's financial statements and the pension fund accounts
- the work of the audit and governance committee (audit, governance and standards committee from May 2016), which reviews the outcomes from the annual audit plan and the annual report of the head of anti-fraud and internal audit
- the work of the overview and scrutiny committee and its sub-committees
- review of the constitution by the constitutional steering panel, which recommends amendments, where appropriate, to the constitution for agreement by the council assembly
- work of the standards committee (audit, governance and standards committee from May 2016), which includes monitoring the operation of the members' code of conduct and the member and officer Protocol
- statutory officers' reports, if applicable.

24. We have been advised on the implications of the result of the effectiveness of the governance framework by the audit and governance committee (audit, governance and standards committee from May 2016), and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

Significant governance issues

25. The review, as detailed above, provides good overall assurance of the effectiveness of the council's system of internal control. Specific opportunities for improvement in governance and internal controls identified as part of the assurance processes detailed above have been addressed or are included in action plans for the relevant managers.
26. The council faces a number of issues and areas of significant change that will require consideration and action as appropriate over the medium to long term:
- Continuing ongoing impact of reduced government funding and demand pressures which will require an updated Medium Term Resources Strategy
 - Funding of the capital programme, specifically in recognition of regeneration and housing activity and aspirations
 - Continued potential impact of welfare reform including the imminent introduction of universal credit – work is still required to understand the timing and detail of the roll out and to quantify the possible impact across the council
 - Ongoing and additional impact of business rates appeals, including on the achievement of government targets, and the review of the business rate retention arrangements including potential extension of discretionary rate relief policy on funding
 - The net reduction in funding available to the council and the continuing need to improve services and enhance customer access to those services means that integration and optimisation of the use of data held and managed by council departments becomes increasingly important.
 - After three years of shared responsibilities for public health services across Southwark and Lambeth and with the additional public health function now being transferred, there will be an ongoing need to scrutinise closely to provide best value and optimum outcomes
 - The council is increasingly dependent on shared arrangements with health partners, in order to fund the growing demand for services in the context of reduced council funding. This will require appropriate strategies and planning.
 - The council continues to experience pressures, as a consequence of changes in the rented and private residential housing market across London. While in some cases this may create opportunities for the council, there are overriding budget pressures within the social rented sector and, as a result, a significant impact on temporary accommodation costs. These are anticipated to continue through 2016/17 and beyond and continue to need close monitoring and management
 - As with temporary accommodation, the council is experiencing significant demand increases in respect of the no recourse to public funds (NRPF) budget. Although this has been mitigated by robust management action, the budget remains subject to significant pressure
 - The nature of the council's business activities means that there are ongoing information governance risks which continue to require careful management,

particularly in the context of a period of transition to new IT provider arrangements

- The introduction of Individual Electoral Registration and attendant challenges including migration issues have highlighted the need for a complete and accurate register
- The need to maintain, develop and improve governance arrangements gives rise to governance issues as the council continues to undergo rapid transformation.

27. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements, including the continual development of the council’s risk management framework. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Southwark Council:

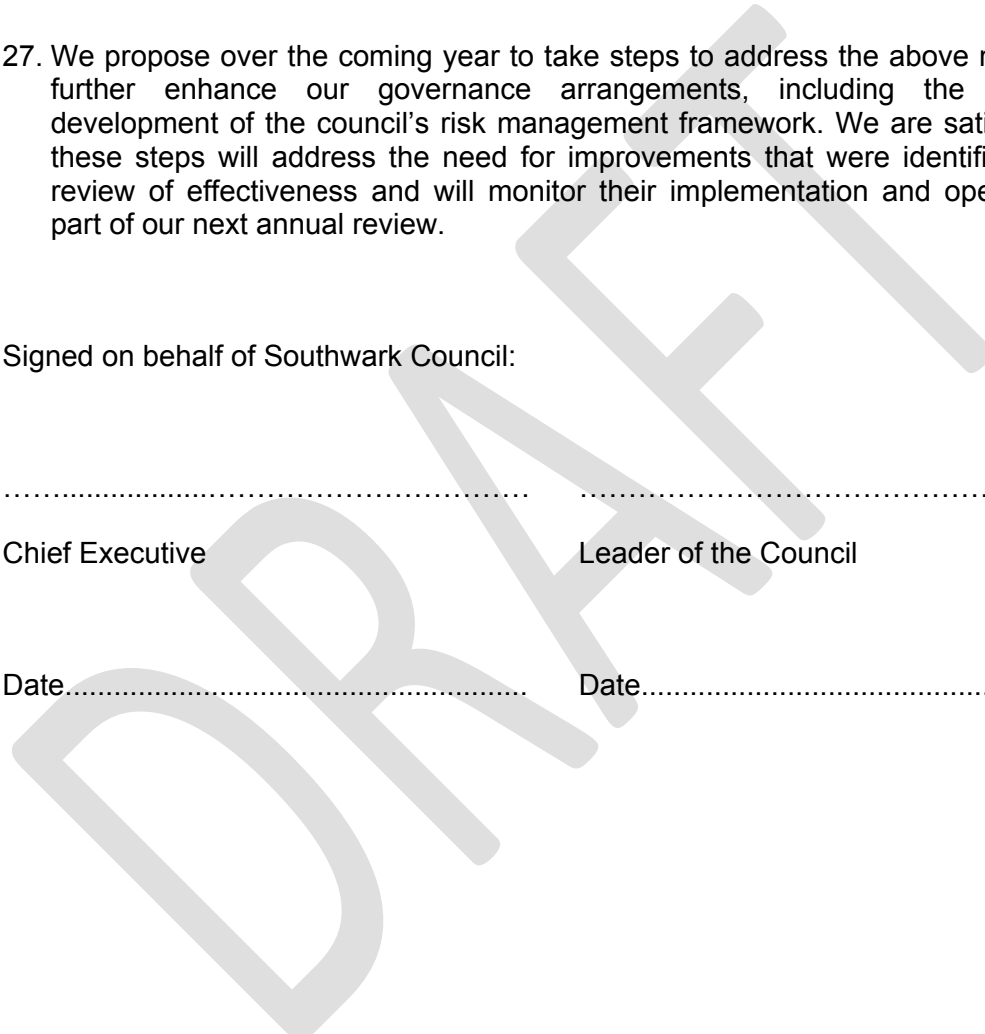
.....

Chief Executive

Leader of the Council

Date.....

Date.....



| | | | |
|------------------------------------|--------------------------------|--|---|
| Item No. 8. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Draft statement of accounts 2015/16 | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATION

1. That the audit, governance and standards committee note the draft statement of accounts for 2015/16 (Appendix 1).

BACKGROUND INFORMATION

2. Each year, the council is required by the Accounts and Audit Regulations 2015 (the Regulations) to prepare a statement of accounts in accordance with proper accounting practices. By the end of June, as the council's responsible financial officer, the strategic director of finance and governance must certify that the accounts present a true and fair view of the council's financial position as at 31 March and its income and expenditure for the year.
3. Under the constitution, the audit, governance and standards committee is the body that formally receives the statement of accounts. Although not required by the regulations, in line with good practice recommended by CIPFA, the draft statement of accounts are presented to the audit and governance committee for review.
4. No later than 30 September:
 - the strategic director of finance and corporate services must re-certify the statement of accounts
 - members must consider and approve the re-certified statement of accounts
 - the council must publish statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the Audit Commission Act 1998.
5. The audit, governance and standards committee is scheduled to meet on 14 September 2016 to consider and approve the statement of accounts.

KEY ISSUES FOR CONSIDERATION

6. Good practice recommended by CIPFA suggests members consider the following in relation to the statement of accounts:
 - the suitability of, and changes in accounting policies and treatments

- major judgements made
- large write offs
- the reasonableness of accounting estimates
- the narrative aspects of reporting.

7. To assist members in their consideration of these issues, the following table sets out how they have been addressed by officers in preparing the statement of accounts.

| Issue | Response |
|---|--|
| The suitability of, and changes in accounting policies and treatments | <p>Accounting policies for the main statements are set out in note 1 of the main accounts (pages 21 to 30) and at pages 76 to 79 for the pension fund accounts.</p> <p>The accounting policies are subject to annual review, with reference to the code of practice on local authority accounting, published by CIPFA. There were no significant changes in accounting policies and treatments during 2015/16 for the main statements or the pension fund accounts.</p> |
| Major judgements made | <p>Major judgements made in preparing the accounts are set out in note 2 of the main statement of accounts and note 5 of the pension fund accounts. In the main statements, specific reference is made to:</p> <ul style="list-style-type: none"> • accounting for schools' non current assets • integrated waste management facility • heat and energy supply arrangement • fair value of PFI liabilities • HRA depreciation, impairment and valuation losses • Review of Minimum Revenue Provision Policy. <p>and in the pension fund accounts, reference is made to the pension fund liability.</p> |
| The reasonableness of accounting estimates | <p>Significant accounting estimates used in preparing the accounts are set out in note 3 of the main statement of accounts and note 6 of the pension fund accounts. In the main statements, specific reference is made to estimates used for:</p> <ul style="list-style-type: none"> • Valuation of property, plant and equipment • defined benefit pension amounts. <p>and in the pension fund accounts, reference is made to the net liability to pay pensions.</p> |

| Issue | Response |
|------------------------------------|--|
| The narrative aspects of reporting | <p>Before 2015/16, councils have been required by the Code of Practice to accompany their Statement of Accounts with an Explanatory Foreword.</p> <p>For 2015/16, the Accounts and Audit Regulations 2015 have introduced a new requirement (Regulation 8) for local authorities to prepare a narrative statement in respect of each financial year which must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.</p> <p>CIPFA has specified the principles for narrative reporting which it considers should be used to meet the new requirements. These include</p> <ul style="list-style-type: none"> • the development and the performance of the authority in that financial year and its position at the end of the year (using financial and non-financial indicators) • future financial prospects and progress in managing risks and opportunities • that the report should be comprehensive but concise; forward-looking (e.g. to reflect the impact of changes in government policies), and linked to related areas in the financial statements. |
| Large write offs | In accordance with the council's constitution, large write offs of individual debts owed to the council (i.e. those over £50,000) must be approved by cabinet. There were no large write-offs requiring cabinet approval during the year. |

Community impact statement

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

Resource implications

9. The narrative report to the statement of accounts provides a commentary on the outturn for the year.

CONSULTATION

10. Consultation on the accounts is carried out through the public inspection. The accounts are open for public inspection from 1 July to 31 July 2016. From 7 August 2015 until the conclusion of the audit process, local government electors for the area of the council may ask the auditor questions about and/or make objections in writing to the council's accounts.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|--|---|-------------------------------|
| Financial accounting closing files 2015/16 | Finance and Governance, Tooley Street, Second Floor | Rob Woollatt 020 7525 1798 |

APPENDICES

| No. | Title |
|------------|-------------------------------------|
| Appendix 1 | Draft Statement of Accounts 2015/16 |

AUDIT TRAIL

| | | |
|---|---|------------------------|
| Lead Officer | Fay Hammond, Departmental Finance Manager, Finance and Governance | |
| Report Author | Robert Woollatt, Interim Chief Accountant, Finance and Governance | |
| Version | Final | |
| Dated | 30 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| | Officer Title | Comments Sought |
| | Director of Law and Democracy | No |
| | Strategic Director of Finance and Governance | Yes |
| | Cabinet Member | N/A |
| | Date final report sent to Constitutional Team | 1 July 2016 |

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015/16



**DRAFT
STATEMENT OF ACCOUNTS
2015/16**

SUBJECT TO AUDIT

This Statement of Accounts is unaudited and may be subject to change.

Certified _____

**Duncan Whitfield, Strategic Director of Finance and Governance
30 June 2016**

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

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**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

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 2015/16 and of its financial position at 31 March 2016. The Narrative Report is a change in requirements for 2015/16 and replaces the Explanatory Foreword. It is structured as below:

- An introduction to Southwark
- The council's performance during 2015/16
- Financial performance during 2015/16 and financial position at 31 March 2016
- Principal risks and uncertainties
- An explanation of the financial statements

An Introduction to Southwark

Southwark is a place of growth, development and opportunity. It is a borough with a rich and proud history, strong sense of community and a great ability to transform and renew, sometimes very much against the odds. Southwark is highly diverse, in some ways 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. Over 4 in 5 residents believe this is a place where people of all races live in harmony.

It is a densely populated borough with the ninth highest population density in England and Wales at 9,988 residents per square kilometre. The mid-year population estimate for 2014 states the population of Southwark to be 302,538, with 58 per cent aged 35 or under. By 2037, that estimate rises to 376,000. This is a pressure facing many in London, although the issue of meeting demand especially with a relatively youthful population is most acute in a borough like Southwark.

The borough is economically strong, exploiting our strategic location by the River Thames. Regeneration and development is borough wide with some of Europe's most exciting 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. Some £4billion of construction works is set to be completed by 2017 alone. The extension of the Bakerloo line south will transform the Old Kent Road as our next major opportunity area with even more homes and jobs. Southwark is a net importer of labour in London. The borough has a rich mix of employers, including international names such as PwC, Ernst & Young, News UK and Hilton hotels. Most businesses are small and medium sized enterprises. Growth sectors include health, information technology/digital, managerial sectors and the arts. A key challenge is ensuring residents are equipped with the skills to take up these job opportunities, which is why the Council is investing in projects like a new construction skills centre at Elephant Park, which opened in June 2016.

The borough has a vibrant mix of leisure and arts facilities and 7% of Southwark's population work in the cultural sector. The borough is home to Shakespeare's Globe, Tate Modern, Dulwich Picture Gallery and looking to the future in 2017 will welcome London's newest international theatre at One Tower Bridge. As a result of the council's investment in regeneration "The Castle", a brand new £20m leisure centre located in the heart of the regeneration area, opened in April 2016.

Southwark possibly more than most typifies the changes, challenges and opportunities of being part of London as a global city and international destination of choice for business, enterprise, entertainment and the arts.

Council Performance

When the LGA's peer review team visited Southwark late last year they found a council with a 'can-do approach' and a great deal to be proud of. Ambitious, innovative and confident, we want the very best for our residents, and put their needs at the heart of everything we do. Not only have we delivered £156m savings over the last five

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

years while also protecting frontline services, we are leading the way in transforming our part of London and making Southwark a place where people from all walks of life choose to live, learn, earn and have fun.

In 2010, the council set out a plan to deliver a fairer future for all which was renewed following the re-election of the Labour administration in May 2014. This committed to delivery of ten new promises to 2018 to meet the borough's needs. These include among others: free swim and gym use for residents, supporting 5,000 local people into jobs, building 1,500 new council homes by 2018 and revitalising neighbourhoods by transforming Elephant and Castle and the Aylesbury, and making the borough age friendly so people from all ages get the best from living in Southwark.

The plan groups priorities and activities under six themes, all of which impact on residents' lives – quality, affordable homes; the best start in life; a strong, local economy; healthy, active lives; cleaner, greener, safer; and revitalised neighbourhoods. As a plan of action, it shapes what every team and member of staff does. It also makes a number of commitments to equality and fairness in line with our approach to equality.

We have made real progress in delivering against our promises to Southwark's residents, assisted by our approach to invest through the regeneration of the borough. This is despite unprecedented funding reductions by the government. Highlights include:

- Free gym and swim for all 18s and under and those over 60 and in February 2016 cabinet approved the rollout of the scheme borough-wide from July to all Southwark residents on Friday afternoons and weekend times demonstrating our commitment to improved health and well-being for all;
- A new library at Camberwell was opened in November 2015 and in the six years from 2010 all our libraries have remained open with Canada Water registering as the second busiest in London;
- Invested over £250m on improvements to council housing stock since April 2011 to make council properties warm, dry and safe benefitting over 5,000 residents and improving decency rates;
- One of the best records in the country for delivering new affordable homes, with 2,646 delivered in the last five years and over half of these at social rents;
- Our pupils perform better than ever with Southwark now in the top 20 of local authorities in the country for GCSE attainment and nine in ten schools rated good or better by Ofsted;
- The first borough in London in June 2015 to be officially recognised by the World Health Organisation (WHO) as part of its Global Network of Age-friendly Cities and Communities.

An annual performance report for 2015/16 is being presented to Cabinet and will be published in July 2016. [insert link on publication]

Financial Performance

Economic climate

Since 2010 Southwark Council has had to make over £156m of general fund savings in order to balance the budget. Despite being one of the most deprived areas of the country we have faced some of the largest reductions in government funding for local authorities. At the same time as the reduction in government funding, services have faced increased demand led pressures (for example in social care and temporary accommodation). This climate of funding cutbacks and increasing spending demands is likely to continue until at least 2019/20.

The 2015 Spending Review set out the strategic direction for public expenditure and the subsequent autumn Statement outlined a number of significant changes to the local government funding regime:

- providing local authorities with the power to levy a 2% increase on council tax to fund social care
- by the end of the Parliament local government will retain 100% of business rates revenue to fund local services
- greater flexibility for local authorities to use capital receipts to fund revenue costs of business transformation
- a national funding formula for schools to be introduced in 2017/18

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 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.

Revenue

The council's expenditure and income is defined as either revenue (spending on day to day services) or capital (spending on items that provide a benefit for more than one year such as major building works). Revenue expenditure and income is divided between 'General Fund' (all services excluding council housing) and the 'Housing Revenue Account' (a separate account for the council acting as a housing landlord).

SOUTHWARK COUNCIL
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Revenue outturn - General Fund

In February 2015, Council Assembly set a net budget for the year 2015/16 of £283.2 million. The final outturn position for general fund services after the use of reserves was a favourable variance of £0.678m. The table below shows the outturn position for 2015-16 by department.

| General fund | Original budget £000 | Revised budget £000 | Spend in year £000 | Variance before use of reserves £000 | Variance after use of reserves £000 |
|--|-------------------------|------------------------|-----------------------|---|--|
| Children and adults services/Public Health | 183,602 | 185,137 | 203,864 | 18,727 | 1,585 |
| Environment and leisure | 67,481 | 68,874 | 73,413 | 4,539 | (1) |
| Housing and modernisation | 36,604 | 61,781 | 72,990 | 11,209 | 5,718 |
| Chief executive's department | 11,735 | 7,015 | 9,193 | 2,178 | (2) |
| Finance and governance | 21,887 | 20,656 | 21,920 | 1,264 | 33 |
| Corporate | 10,587 | (11,999) | (31,152) | (19,153) | (4,011) |
| Support cost recharges | (46,508) | (46,076) | (46,076) | 0 | 0 |
| Contingency | 4,000 | 4,000 | 0 | (4,000) | (4,000) |
| Total general fund services | 289,388 | 287,388 | 304,152 | 14,764 | (678) |
| Use of reserves | (6,163) | (6,163) | 0 | 6,163 | 0 |
| Net revenue budget | 283,225 | 281,484 | 297,989 | 20,927 | (678) |

Revenue outturn - HRA

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 table below summarises the HRA income and expenditure and movement on balances for 2015/16.

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Income | (298,205) | (290,231) |
| Expenditure | 262,876 | 266,868 |
| Net cost of services | (35,329) | (23,363) |
| Non operating costs | (51,896) | (46,861) |
| Net statutory accounting adjustments | 131,886 | 67,747 |
| (Increase)/Decrease in the HRA Balance | 9,332 | (2,477) |
| HRA Balance at 1 April | (25,945) | (23,468) |
| (Increase)/Decrease in the HRA Balance | 9,332 | (2,477) |
| HRA Balance at 31 March | (16,613) | (25,945) |

Capital

Southwark has one of the largest capital investment programmes in London, with current plans to spend over £1.9 billion by 2023/24. Capital spending and financing in 2015/16 is indicated in the table below:

| | 2015/16 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Children's and adults services (including schools) | 27,065 | 25,837 |
| Environment and leisure | 11,630 | 22,252 |
| Housing and modernisation | 8,525 | 1,974 |
| Finance and governance services | 50 | 8,205 |
| Chief executive's department | 26,430 | 22,498 |
| Housing Investment Programme | 243,582 | 168,597 |
| Total | 317,282 | 249,363 |
| Financed by: | | |
| Use of capital receipts | 75,303 | 111,525 |
| Specific grants and other contributions | 114,551 | 94,379 |
| Sums set aside from revenue | 42,545 | 24,889 |
| Contribution from Major Repairs Reserve | 84,883 | 18,570 |
| Total | 317,282 | 249,363 |

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

Balance Sheet

- Reserves**

In line with the Medium Term Resources Strategy (MTRS), the council has maintained appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made, and to provide resources to enable services to transform over time. The council has a target of increasing its General Fund balance to £20 million. The favourable 2015/16 outturn position enabled the General Fund reserve to be increased by £0.678m.

Overall there has been a reduction in reserves as resources have been used to fund planned investment, for example the use of the Major Repairs reserve to help fund the Housing Investment Programme.

| | 31/03/2016 | 31/03/2015 | 31/03/2014 |
|---|----------------|----------------|----------------|
| | £000 | £000 | £000 |
| General Fund | 18,803 | 18,125 | 18,125 |
| Earmarked Reserves | | | |
| Corporate projects and priorities | 9,055 | 16,866 | 11,219 |
| Service reviews and improvements | 9,657 | 14,495 | 14,468 |
| Capital programme and other capital investment | 27,261 | 30,345 | 31,898 |
| Strategic financing, technical liabilities and future risks | 28,553 | 29,645 | 37,785 |
| Sub total – earmarked reserves | 74,526 | 91,351 | 95,370 |
| Schools (including DSG) | 27,024 | 32,719 | 32,638 |
| HRA | | | |
| HRA Balance | 16,613 | 25,945 | 23,468 |
| Major Repairs Reserve | 3,577 | 39,541 | 10,269 |
| Sub total - HRA | 20,190 | 65,486 | 33,737 |
| Capital reserves | 50,750 | 45,102 | 73,203 |
| Total | 191,294 | 252,783 | 253,073 |

A full list of earmarked reserves is included at Appedix 1.

- Borrowing and Lending**

The council borrows money to support its capital financing requirement. The borrowing outstanding as at 31 March 2016 is £463 million (£469 million at 31 March 2015). 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. The average rate of interest payable is 5.5% at 31 March 2016 (5.5% at 31 March 2015) and the average life of all loans is 20 years.

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. The cash held in investments at 31 March 2016 was £144 million (£166 million at 31 March 2015).

Pensions

The council has net pension liabilities of £450m 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 has to be revalued every three years to set future contribution rates. The last valuation was in 2013 which reported that the Funds assets represented 83% 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 18 years in line with the Pension Funding Statement.

**SOUTHWARK COUNCIL
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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 and properly accounted for, and used economically, efficiently and effectively. The council's governance arrangements are reviewed annually and within the Annual Governance Statement, assurance 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:

- Continuing ongoing impact of reduced government funding,
- Impact of business rate appeals and government review of business rate retention system,
- Funding of the capital programme, specifically in recognition of regeneration and housing ambition,
- Increased dependency on shared service arrangements with health partners in order to fund the growing demand for services
- Pressures arising as a consequence of changes in the rented and private residential housing market across London, in particular temporary accommodation costs
- Continued potential impact of welfare reform and the imminent introduction of universal credit

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 2015/16 (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 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**, showing 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.** These 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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EARMARKED RESERVES

Appendix 1

| CORPORATE PROJECTS AND PRIORITIES RESERVES | Balances as at 31 March 2015 £000 | Net movement £000 | Balances as at 31 March 2016 £000 |
|---|--|----------------------------------|--|
| Southwark emergency support scheme | 3,100 | (607) | 2,493 |
| Modernisation, service & operational improvement | 5,110 | (2,753) | 2,357 |
| Fair and valued treatment of staff | 3,707 | (2,216) | 1,491 |
| Southwark scholarship scheme (including Youth Fund) | 465 | 313 | 778 |
| Business support fund | 725 | (215) | 510 |
| Voluntary sector transition fund | 391 | - | 391 |
| Community engagement & Links development | 428 | (39) | 389 |
| Internal audit & anti fraud | 356 | - | 356 |
| Revenue grants | 164 | - | 164 |
| Neighbourhood fund | 149 | 2 | 151 |
| Artefacts replacement & security reserve | 183 | (66) | 117 |
| Community safety schemes | 106 | - | 106 |
| DWP community budget | 100 | (19) | 81 |
| Welfare hardship fund | 800 | (721) | 79 |
| Adaptations and capital works | - | 79 | 79 |
| Community restoration fund | 30 | - | 30 |
| Contract realignment (low paid staff) | 1,052 | (1,052) | - |
| Total | 16,866 | (7,294) | 9,572 |

| CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES | Balances as at 31 March 2015 £000 | Net movement £000 | Balances as at 31 March 2016 £000 |
|--|--|----------------------------------|--|
| Aylesbury development | 6,441 | - | 6,441 |
| Planned preventative maintenance & building compliance | 5,912 | (627) | 5,285 |
| IT and customer service development | 3,171 | - | 3,171 |
| Regeneration & development | 2,835 | (657) | 2,178 |
| BSF PFI transition | 1,866 | (235) | 1,631 |
| Contracts realignment (capital) | 1,396 | - | 1,396 |
| Capital contingency | 2,369 | (1,080) | 1,289 |
| Modernisation, service & operational improvement | 1,783 | (680) | 1,103 |
| Tate Modern commitment | - | 1,000 | 1,000 |
| Schools capital programme contribution | 2,193 | (1,383) | 810 |
| Schools sprinkler systems | 750 | - | 750 |
| New homes bonus grant capital allocation | 704 | - | 704 |
| Exchequer services development | 550 | - | 550 |
| Legal case management system | 300 | - | 300 |
| Canada Water | 75 | 139 | 214 |
| Total | 30,345 | (3,523) | 26,822 |

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

| SERVICE REVIEWS AND IMPROVEMENTS RESERVES | Balances as at 31 March 2015 £000 | Net movement £000 | Balances as at 31 March 2016 £000 |
|--|--|----------------------------------|--|
| Dedicated schools grant reserve | 13,427 | (4,781) | 8,646 |
| BCF Risk Reserve | - | 2,388 | 2,388 |
| Childcare Provision for under 2 year olds | 1,526 | - | 1,526 |
| Organisational development | 1,152 | (41) | 1,111 |
| Cycling Safety | 1,000 | - | 1,000 |
| Special Education Needs & Disabilities grants | 739 | 66 | 805 |
| Highways | 746 | - | 746 |
| Local flood risk | 628 | - | 628 |
| Highways winter maintenance | 576 | - | 576 |
| Temporary Accommodation Strategy | - | 300 | 300 |
| Workforce development (adults services) | 222 | - | 222 |
| Member development | 182 | - | 182 |
| Blackfriars trust allocation | 138 | - | 138 |
| HR transformation | 394 | (300) | 94 |
| Prevention of illegal tobacco distribution | 91 | - | 91 |
| Youth service | 70 | - | 70 |
| Street trading account | (522) | - | (522) |
| Learning disability & social care reform | 2,950 | (2,950) | - |
| Public Health | 1,741 | (1,741) | - |
| OT clients adaptations | 886 | (886) | - |
| Children's Services restructure | 440 | (440) | - |
| Managed accounts | 351 | (351) | - |
| Children's & Families Bill | 300 | (300) | - |
| School improvement | 200 | (200) | - |
| General litigation costs | 172 | (172) | - |
| Environmental health & community safety | 142 | (142) | - |
| SSF PFI equalisation St Michael's | 120 | (120) | - |
| Education Standards | 76 | (76) | - |
| Early Years Review | 60 | (60) | - |
| Ofsted inspection | 50 | (50) | - |
| Interserve employment project | 50 | (50) | - |
| Other reserves individually less than £100k | 15 | (15) | - |
| Total | 27,922 | (9,921) | 18,001 |

**SOUTHWARK COUNCIL
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| STRATEGIC FINANCING, TECHNICAL LIABILITIES AND FUTURE FINANCIAL RISKS RESERVES | | | |
|---|--|----------------------------------|--|
| | Balances as at 31 March 2015 £000 | Net movement £000 | Balances as at 31 March 2016 £000 |
| Planned contribution to support General Fund budget 2016/17 | - | 6,283 | 6,283 |
| Insurance | 6,449 | (1,073) | 5,376 |
| Interest and debt equalisation | 4,000 | - | 4,000 |
| New Homes Bonus funded LEP Programme | - | 3,685 | 3,685 |
| Waste PFI equalisation reserve | 3,892 | (971) | 2,921 |
| Financial risk & future liabilities | 1,076 | 1,616 | 2,692 |
| Business rate retention risk | 2,500 | - | 2,500 |
| Council tax and housing benefits subsidy equalisation | 1,000 | - | 1,000 |
| Schools in financial difficulties, schools closures and academies | 332 | - | 332 |
| Legal and contractual risks | 713 | (541) | 172 |
| Queens Road lease smoothing | (184) | - | (184) |
| Planned contribution to support General Fund budget 2015/16 | 6,163 | (6,163) | - |
| Future Government funding risk reserve | 1,900 | (1,900) | - |
| Social care demand pressures | 1,804 | (1,804) | - |
| Total | 29,645 | (868) | 28,777 |

Total

| | | |
|----------------|-----------------|---------------|
| 104,778 | (21,606) | 83,172 |
|----------------|-----------------|---------------|

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

INDEPENDENT AUDITORS REPORT

**SOUTHWARK COUNCIL
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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.

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 2016 and its income and expenditure for the financial year ended 31 March 2016.

Duncan Whitfield
Strategic Director of Finance and Governance
30 June 2016

Council approval

This Statement of Accounts was approved at a meeting of the Audit and Governance Committee on 14 September 2016

Councillor Paul Fleming
Chair of the Audit and Governance Committee
14 September 2016

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

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 2015/16

| | General Fund Balance | General Fund Earmarked Reserves | School Balances and DSG reserve | HRA Balance | HRA Major Repairs Reserve | Capital Receipts Reserve * | Capital Grants Unapplied | Total Usable Reserves | Total Unusable Reserves (Note 17) | Total Reserves of the council |
|---|----------------------|---------------------------------|---------------------------------|----------------|---------------------------|----------------------------|--------------------------|-----------------------|-----------------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance as at 1 April 2015 | 18,125 | 91,351 | 32,719 | 25,945 | 39,541 | 42,790 | 2,312 | 252,783 | 2,819,649 | 3,072,432 |
| Movement in reserves during 2015/16 | | | | | | | | | | |
| Surplus on the provision of services | 26,388 | - | - | 122,554 | - | - | - | 148,942 | - | 148,942 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | - | - | 434,370 | 434,370 |
| Total Comprehensive Income & Expenditure | 26,388 | - | - | 122,554 | - | - | - | 148,942 | 434,370 | 583,312 |
| Adjustments between accounting basis & funding basis under regulations (Note 5) | (48,230) | - | - | (131,886) | (35,964) | 7,960 | (2,312) | (210,432) | 210,432 | - |
| Net Increase or (Decrease) before Transfers to Earmarked Reserves | (21,842) | - | - | (9,332) | (35,964) | 7,960 | (2,312) | (61,490) | 644,802 | 583,312 |
| Transfers to/(from) earmarked reserves (Note 6) | 22,520 | (16,825) | (5,695) | - | - | - | - | - | - | - |
| Increase or (decrease) in 2015/16 | 678 | (16,825) | (5,695) | (9,332) | (35,964) | 7,960 | (2,312) | (61,490) | 644,802 | 583,312 |
| Balance as at 31 March 2016 | 18,803 | 74,526 | 27,024 | 16,613 | 3,577 | 50,750 | - | 191,293 | 3,464,451 | 3,655,744 |

* the balance on the capital receipts reserve at 31 March 2016 is split between the HRA (£48.75m) and General Fund (£2.0m).

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

MOVEMENT IN RESERVES 2014/15

| | General Fund Balance | Earmarked General Fund Reserves | School Balances and DSG reserve | HRA Balance | HRA Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Total Unusable Reserves (Note 17) | Total Reserves of the council |
|---|----------------------|---------------------------------|---------------------------------|---------------|---------------------------|--------------------------|--------------------------|-----------------------|-----------------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance as at 1 April 2014 | 18,125 | 95,370 | 32,638 | 23,468 | 10,269 | 71,310 | 1,893 | 253,073 | 2,325,312 | 2,578,385 |
| Movement in reserves during 2014/15 | | | | | | | | | | |
| Deficit on the provision of services | (103,427) | - | - | 69,354 | - | - | - | (34,073) | - | (34,073) |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | - | - | 528,120 | 528,120 |
| Total Comprehensive Income and Expenditure | (103,427) | - | - | 69,354 | - | - | - | (34,073) | 528,120 | 494,047 |
| Adjustments between accounting basis & funding basis under regulations (Note 5) | 104,555 | - | - | (67,747) | 29,272 | (28,520) | 419 | 37,979 | (37,979) | - |
| Net Increase or (Decrease) before Transfers to Earmarked Reserves | (3,938) | - | - | 2,477 | 29,272 | (28,520) | 419 | (290) | 494,337 | 494,047 |
| Transfers to/(from) earmarked reserves (Note 6) | 3,938 | (4,019) | 81 | - | - | - | - | - | - | - |
| Increase or (Decrease) in 2014/15 | - | (4,019) | 81 | 2,477 | 29,272 | (28,520) | 419 | (290) | 494,337 | 494,047 |
| Balance as at 31 March 2015 | 18,125 | 91,351 | 32,719 | 25,945 | 39,541 | 42,790 | 2,312 | 252,783 | 2,819,649 | 3,072,432 |

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

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. The council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| | 2015/16 | 2015/16 | 2015/16 | 2014/15 | 2014/15 | 2014/15 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | Gross Expend | Gross Income | Net Expend | Gross Expend | Gross Income | Net Expend |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Central services | 31,310 | (18,954) | 12,356 | 22,738 | (13,914) | 8,824 |
| Cultural and related services | 26,528 | (3,199) | 23,329 | 28,808 | (3,205) | 25,603 |
| Environmental and regulatory services | 47,416 | (10,580) | 36,836 | 45,370 | (10,808) | 34,562 |
| Planning services | 16,395 | (4,835) | 11,560 | 17,877 | (4,639) | 13,238 |
| Children's and education services | 342,613 | (233,645) | 108,968 | 361,626 | (232,800) | 128,826 |
| Highways and transport services | 42,298 | (16,765) | 25,533 | 40,100 | (15,286) | 24,814 |
| Local authority housing (HRA) | 268,407 | (291,391) | (22,984) | 273,084 | (283,463) | (10,379) |
| Other housing services | 251,809 | (234,257) | 17,552 | 261,148 | (241,226) | 19,922 |
| Adult social care | 131,762 | (36,101) | 95,661 | 116,197 | (21,169) | 95,028 |
| Public health | 29,368 | (28,011) | 1,357 | 25,767 | (26,100) | (333) |
| Corporate and democratic core | 8,226 | (3,866) | 4,360 | 7,943 | (4,884) | 3,059 |
| Non distributed costs | 5,040 | - | 5,040 | 3,069 | - | 3,069 |
| (Surplus)/Deficit on Continuing Operations | 1,201,172 | (881,604) | 319,568 | 1,203,727 | (857,494) | 346,233 |
| Other Operating Expenditure (Note 7) | | | (48,606) | | | 15,466 |
| Financing and Investment Income and Expenditure (Note 8) | | | (1,177) | | | 92,605 |
| Taxation and Non-Specific Grant Income (Note 9) | | | (418,727) | | | (420,231) |
| (Surplus)/Deficit on Provision of Services | | | (148,942) | | | 34,073 |
| (Surplus)/deficit on revaluation of non current assets | | | (378,135) | | | (516,860) |
| (Surplus)/deficit on revaluation of available for sale financial assets | | | 164 | | | (141) |
| Remeasurement of the net defined benefit liability | | | (56,399) | | | (11,119) |
| Other Comprehensive Income and Expenditure | | | (434,370) | | | (528,120) |
| Total Comprehensive Income and Expenditure | | | (583,312) | | | (494,047) |

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

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 of reserves is 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), 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 | 31/03/2016 £000 | 31/03/2015 £000 |
|------------------------------|-------|--------------------|--------------------|
| Property, Plant & Equipment | 10 | 4,426,886 | 3,869,339 |
| Heritage Assets | | 1,223 | 1,187 |
| Investment Property | 11 | 152,267 | 126,400 |
| Assets held for sale | 15 | 79,500 | 73,500 |
| Long term Investments | 12 | 27,756 | 9,942 |
| Long term Debtors | 13 | 50,259 | 51,354 |
| Long Term Assets | | 4,737,891 | 4,131,722 |
| Current intangible assets | | 167 | 400 |
| Short-term Investments | 12 | 64,075 | 130,784 |
| Inventories | | 709 | 684 |
| Short-term Debtors | 13 | 129,064 | 118,738 |
| Cash and Cash Equivalents | 14 | 41,442 | 18,955 |
| Assets held for sale | 15 | 20,067 | 22,815 |
| Current Assets | | 255,524 | 292,376 |
| Short-term Borrowing | 12 | 10,339 | 11,763 |
| Short-term Creditors | 16 | 157,794 | 123,986 |
| Provisions | | 3,003 | 6,113 |
| Grants receipts in advance | 27 | 127,649 | 125,218 |
| Current Liabilities | | 298,785 | 267,080 |
| Long-term Creditors | 16 | 9,931 | 7,505 |
| Provisions | | 16,058 | 12,492 |
| Long-term Borrowing | 12 | 457,851 | 462,851 |
| Pension Liabilities | 34 | 450,096 | 491,286 |
| Other Long-term Liabilities | 35 | 104,950 | 110,452 |
| Long Term Liabilities | | 1,038,886 | 1,084,586 |
| Net Assets | | 3,655,744 | 3,072,432 |
| Usable reserves | 6 | 191,293 | 252,783 |
| Unusable reserves | 17 | 3,464,451 | 2,819,649 |
| Total Reserves | | 3,655,744 | 3,072,432 |

**SOUTHWARK COUNCIL
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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. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

| | Notes | 2015/16 £000 | 2014/15 £000 |
|---|-------|-----------------|-----------------|
| Net surplus/(deficit) on the provision of services | | 148,942 | (34,073) |
| Adjust net surplus/(deficit) on the provision of services for non-cash movements | 18 | 138,765 | 276,177 |
| Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities | 18 | (201,391) | (182,479) |
| Net cash flows from operating activities | | 89,316 | 59,625 |
| Net cash flows from investing activities | 19 | (53,492) | (39,566) |
| Net cash flows from financing activities | 20 | (10,337) | (8,887) |
| Net increase/(decrease) in cash and cash equivalents | | 22,487 | 11,172 |
| Cash and cash equivalents at the beginning of the reporting period | | 18,955 | 7,783 |
| Cash and cash equivalents at the end of the reporting period | | 41,442 | 18,955 |

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i. GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. 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 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice (SeRCOP) for Local Authorities 2015/16, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Accounts have been prepared on a 'going concern' basis.

ii. 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.

iii. ADJUSTMENT 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 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:

**SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16**

| Expense | Accounting Basis in CIES | Funding Basis in MiRS | Adjustment Account |
|---|---|---|---|
| Property, Plant and Equipment | Depreciation & 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 carrying amount of asset (net of costs of disposal) | No charge or credit | Capital Adjustment Account (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 2015/16 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 | 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 2015/16 bills | Demand on the Collection Fund for the year plus estimated surplus/ deficit from previous year | Collection Fund Adjustment Account |
| Business Rates | Accrued income from 2015/16 bills | Budgeted income receivable from the Collection Fund for the year plus estimated surplus/ deficit from previous year | Collection Fund Adjustment Account |
| Holiday Pay | Projected cost of untaken leave entitlements at 31 March | No charge | |

iv. 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.

v. 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 Non Distributed Costs 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.

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DRAFT STATEMENT OF ACCOUNTS 2015/16**

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 Education Services and Public Health 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 34 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 Non Distributed Costs
 - 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
- 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.

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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.

vi. *EVENTS AFTER THE REPORTING PERIOD*

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

vii. *FAIR VALUE*

The council holds some of its assets, such as surplus property and assets held for sale, at fair value in accordance with IFRS 13 Fair Value Measurement, and the requirements of the Code. Fair value is the highest or best price that can be obtained in the principal or most advantageous market, in an orderly transaction between knowledgeable participants acting in their economic best interest at the measurement date. When measuring fair value the characteristics of the asset or liability are taken into account such as the location or any restriction on use. The council uses appropriate valuation techniques for each asset, maximising the use of relevant known data and minimising the use of estimates or unknowns. Valuation techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices that are observable for the asset, either directly or indirectly (for example an independent valuation based on the prices of similar but not identical assets);
- Level 3 inputs – unobservable inputs for the asset (for example discounted cash flow estimation).

Where the fair value cannot be measured reliably, the instrument is carried at cost less impairment losses.

viii. *FINANCIAL INSTRUMENTS*

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of

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the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Financial assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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.

ix. 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 not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor

x. INVESTMENT PROPERTY

Investment properties are those that are used 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.

xi. 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

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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 Other Operating Expenditure 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.

xii. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

xiii. PRIVATE FINANCE INITIATIVE 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.

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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 the Financing and Investment Income and Expenditure line 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

xiv. PROPERTY PLANT AND EQUIPMENT

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

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets 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.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end:

- HRA Dwellings are revalued on an annual basis using the Beacon method

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- All other fair value assets are valued at least once every 5 years as part of a rolling cycle
- Individual assets or classes of assets may be revalued outside the 5 year cycle, for reasons of significant capital expenditure incurred, physical impairment, or material changes in the value of assets in a sector.

The effective date of annual revaluations and of the rolling cycle of revaluations is 1 April of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as an impairment.

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

Impairment

Impairments to property plant and equipment occur where there is a significant decline in an asset's carrying amount during the period that is specific to the asset (i.e. not as the result of a general revaluation downwards). Such a decline may be caused, for example, by substantial physical damage to the asset or by major change in the asset's use. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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 is substantially complete, at which time the Valuer is asked to value the site as a completed development, including the construction costs incurred to date, and the asset is transferred to operational assets. Where construction work is due to complete within 12 months of the balance sheet date the Valuer is asked to value the site on the basis of land value plus the construction costs incurred to date, however the asset is retained in Surplus Assets until such time as the construction work has substantially completed. Where construction work is due to take longer than 12 months at the balance sheet date to complete the Valuer is asked to value the site based on land value only and the asset is retained in Surplus Assets until the construction work has substantially completed.

Depreciation

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

Depreciation is calculated on the following bases:

- Council dwellings, 15-40 years
- Other operational buildings, 10-60 years
- Surplus assets, 9-40 years
- Vehicles, furniture & IT hardware, 5-8 years
- Plant, fittings & play equipment, 7-15 years
- Infrastructure assets, 5 - 50 years

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- Community assets, 100 years
- Intangible assets, 3 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 considered for componentisation.

Depreciation is not provided for on newly acquired assets, 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.

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.

xv. ***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 Liability

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.

xvi. 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.

xvii. SCHOOLS

The council follows the accounting treatment established by CIPFA in LAAP Bulletin 101: Accounting for Non-current assets used by local authority maintained schools. The bulletin confirms that although local authority maintained schools are capable of being treated as separate entities, where the balance of control lies with the local authority, those schools' assets, liabilities, reserves and cash flows are recognised in the Councils financial statements.

xviii. VALUE ADDED TAX

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.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, 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 within the City. 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.

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 majority shareholder of which is Balfour Beatty Education 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 incurred, the council does not have an interest in the assets. Further

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details of the financial arrangements for the school PFI contracts, and the obligations outstanding, can be found in Note 31.

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. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 31.

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 and related services in order to fulfil the council's mandate of delivering services to the public. 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 waste management contract, and the obligations outstanding, can be found in Note 31.

Fair value of PFI liabilities

The council has assessed the fair value of its PFI liabilities to be a close approximate of their carrying value. The council has used present value techniques in its assessment, the details of which are disclosed in more detail at Note 12.

HRA depreciation, impairment & valuation losses

Since 1 April 2012, the HRA has operated on a self-financing basis, with transitional arrangements in place for five years. Following this change, no provision exists at present to reverse out charges made to the HRA for impairment and valuation losses relating to non-dwelling assets. This is a change from previous accounting arrangements and has an impact on HRA usable reserves. There is uncertainty as to whether this is an intended consequence of the implementation of self-financing, but until clarification is provided, the council will continue to follow CIPFA advice and guidance.

During the transitional period, where the depreciation charge for dwellings is greater than the Notional Major Repairs Allowance, authorities are permitted to make an adjustment for the difference so that there is no impact on HRA usable reserves. In 2015/16, the council chose this option and made an adjustment of £19.9m million for excess dwellings depreciation over the Notional Major Repairs Allowance.

Review of Minimum Revenue Provision Policy

The council is required to make a minimum revenue provision (MRP) towards the repayment of debt in each financial year. During 2015/16 an MRP review was undertaken by the council which resulted in a revision to the 2015/16 MRP policy which was approved at Council Assembly on 20 February 2016. The change in policy resulted in a change in the council's estimation technique for the provision against the borrowing element, supported and unsupported, element of the capital financing requirement. The impact in the 2015/16 financial statements was a revenue provision of £14.655m charged to the CIES under the revised policy as opposed to £20.841m that would have been charged under the original policy.

3. 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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Valuation of property, plant and equipment

A full valuation of the council's housing stock using the Beacon method is undertaken as at 1 April each year. In 2015/16 the council's internal valuation service has assessed that significant capital growth in the value of

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housing stock has taken place during the year. This is attributable to the continued improving London residential market that has been widely reported in the media. A desktop valuation was undertaken with an effective revaluation date of 31 March 2016, using indices comprised of figures underpinned by a range of data from actual property sales, which were used to determine uplift factors to be applied to assets within the individual beacon groups. A full revaluation of the stock on a beacon basis will be undertaken effective 1 April 2016.

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).

Defined benefit pension amounts and disclosures

The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2016 the outstanding liability was assessed at £452 million (£491 million 2014/15). 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. These assessments require significant estimation, and the estimates and assumptions are set out in detail in Note 34.

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 liability of changes in individual assumptions can be measured. A sensitivity analysis to changes in assumptions is provided at Note 34.

4. EVENTS AFTER THE BALANCE SHEET DATE

This note considers events that arise after the balance sheet date, which concerns conditions that did not exist at that time and are of such materiality that their disclosure is required for the fair presentation of the final statements. Events after the balance sheet date are reflected up to the date when the Statement of Accounts was authorised for issue by the Strategic Director of Finance and Governance as Section 151 Officer on 30 June 2016.

5. 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. However, 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.

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.

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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.

| 2015/16 | 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 |
| Adjustments primarily involving the capital adjustment account: | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Charges for depreciation and impairment of non-current assets | 27,458 | 68,796 | - | - | - | (96,254) |
| Revaluation losses on Property, Plant and Equipment | (1,629) | 4,053 | - | - | - | (2,424) |
| Movements in the fair value of Investment Properties | (26,938) | (7,263) | - | - | - | 34,201 |
| Capital grants and contributions applied | (38,300) | (73,939) | - | - | - | 112,239 |
| Revenue expenditure funded from capital under statute | 9,344 | 1,871 | - | - | - | (11,215) |
| Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement | 8,535 | 24,402 | - | - | - | (32,937) |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Provision to reduce the capital financing requirement | (2,689) | (5,163) | - | - | - | 7,852 |
| Lease & PFI repayment | (3,952) | (184) | - | - | - | 4,136 |
| Repayment of premiums | (244) | (824) | - | - | - | 1,068 |
| Capital expenditure charged against the General Fund and HRA balances | (6,782) | (35,763) | - | - | - | 42,545 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | | | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | (2,312) | 2,312 |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (25,078) | (64,074) | - | 89,152 | - | - |
| Transfer from deferred debtors to usable capital receipts | - | - | - | 326 | - | (326) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | (75,302) | - | 75,302 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 324 | 1,073 | - | (1,397) | - | - |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 4,581 | - | - | (4,581) | - | - |
| Provision to reduce the capital financing | - | - | - | (2,667) | - | 2,667 |

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| 2015/16 | 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 |
| requirement | | | | | | |
| Adjustments primarily involving the deferred capital receipts reserve | | | | | | |
| Transfer to the Capital Receipts Reserve upon receipt of cash | - | - | - | 2,429 | - | (2,429) |
| Adjustments primarily involving the Major Repairs Reserve: | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | - | (48,919) | 48,919 | - | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | (84,883) | - | - | 84,883 |
| Adjustments primarily involving the Financial Instruments Adjustment Account: | | | | | | |
| 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 | (42) | 1,001 | - | - | - | (959) |
| Adjustments primarily involving the Pensions Reserve: | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34) | 47,630 | 7,939 | - | - | - | (55,569) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (35,465) | (4,895) | - | - | - | 40,360 |
| Adjustments primarily involving the Collection Fund Adjustment Account: | | | | | | |
| 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 | 758 | - | - | - | - | (758) |
| 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 | (5,722) | - | - | - | - | 5,722 |
| Adjustment primarily involving the Accumulated Absences Account: | | | | | | |
| 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 | (19) | 3 | - | - | - | 16 |
| Total adjustments | (48,230) | (131,886) | (35,964) | 7,960 | (2,312) | 210,432 |

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| 2014/15 | 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 |
| Adjustments primarily involving the capital adjustment account: | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Charges for depreciation and impairment of non-current assets | 24,236 | 58,549 | - | - | - | (82,785) |
| Revaluation losses on Property, Plant and Equipment | (5,235) | 33,022 | | | | (27,787) |
| Movements in the fair value of Investment Properties | (3,603) | (6,842) | - | - | - | 10,445 |
| Amortisation of intangible assets | - | - | - | - | - | - |
| Capital grants and contributions applied | (38,338) | (56,040) | - | - | - | 94,378 |
| Revenue expenditure funded from capital under statute | 59,803 | 7,125 | - | - | - | (66,928) |
| Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement | 102,169 | 78,439 | - | - | - | (180,608) |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Provision to reduce the capital financing requirement | (9,059) | (15,438) | - | - | - | 24,497 |
| Lease & PFI repayment | (4,619) | 475 | - | - | - | 4,144 |
| Repayment of premiums | (241) | (7,003) | - | - | - | 7,244 |
| Capital expenditure charged against the General Fund and HRA balances | (6,217) | (18,672) | - | - | - | 24,889 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | | | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | - | - |
| Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement | (419) | - | - | - | 419 | - |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (33,328) | (54,354) | - | 87,682 | - | - |
| Transfer from deferred debtors to usable capital receipts | - | - | - | 66 | - | (66) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | (111,525) | - | 111,525 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 600 | 1,189 | - | (1,789) | - | - |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 3,982 | - | - | (3,982) | - | - |
| Provision to reduce the capital financing requirement | - | - | - | (3,885) | - | 3,885 |
| Adjustments primarily involving the deferred capital receipts reserve: | | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (110) | (42,412) | - | - | - | 42,522 |
| Transfer to the Capital Receipts Reserve upon receipt of cash | - | - | - | 4,913 | - | (4,913) |

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| 2014/15 | 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 |
| Adjustments primarily involving the Major Repairs Reserve: | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | - | (47,842) | 47,842 | - | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | (18,570) | - | - | 18,570 |
| Adjustments primarily involving the Financial Instruments Adjustment Account: | | | | | | |
| 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 | (22) | (210) | - | - | - | 232 |
| Adjustments primarily involving the Pensions Reserve: | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34) | 46,351 | 7,262 | - | - | - | (53,613) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (34,066) | (4,204) | - | - | - | 38,270 |
| Adjustments primarily involving the Collection Fund Adjustment Account: | | | | | | |
| 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 | (1,810) | - | - | - | - | 1,810 |
| 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 | (1,071) | - | - | - | - | 1,071 |
| Adjustment primarily involving the Accumulated Absences Account: | | | | | | |
| 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 | 486 | 79 | - | - | - | (565) |
| Total adjustments | 99,489 | (66,877) | 29,272 | (28,520) | 419 | (33,783) |

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6. 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 2015/16, 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/DSG – 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 2014 | Transfer out 2014 | Transfer in 2014 | 31 March 2015 | Transfer out 2015 | Transfer in 2015 | 31 March 2016 |
|--|------------------|----------------------|---------------------|------------------|----------------------|---------------------|------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| General Fund Reserve | (18,125) | - | - | (18,125) | - | (678) | (18,803) |
| Earmarked Reserves: | | | | | | | |
| Corporate Projects and Priorities | (11,219) | 9,824 | (15,471) | (16,866) | 11,087 | (3,276) | (9,055) |
| Service Improvement Reserves | (14,387) | 3,957 | (4,065) | (14,495) | 7,672 | (2,834) | (9,657) |
| Capital Investment Reserves | (31,898) | 7,964 | (6,409) | (30,343) | 11,094 | (8,012) | (27,261) |
| Strategic Financing, Technical and Risk reserves | (37,785) | 15,643 | (7,505) | (29,647) | 17,777 | (16,683) | (28,553) |
| Total | (95,289) | 37,388 | (33,450) | (91,351) | 47,630 | (30,805) | (74,526) |
| Schools Reserves | | | | | | | |
| Schools – DSG | (15,429) | 4,400 | (2,398) | (13,427) | 4,781 | - | (8,646) |
| Schools - Balances | (17,290) | 2,567 | (4,569) | (19,292) | 3,969 | (3,055) | (18,378) |
| Total Schools | (32,719) | 6,967 | (6,967) | (32,719) | 8,750 | (3,055) | (27,024) |
| HRA Reserves | | | | | | | |
| HRA General Reserve | (23,468) | 2,102 | (4,579) | (25,945) | 10,820 | (1,488) | (16,613) |
| Major Repairs Reserve | (10,269) | 30,351 | (59,623) | (39,541) | 105,835 | (69,871) | (3,577) |
| Total HRA Reserves | (33,737) | 32,453 | (64,202) | (65,486) | 116,655 | (71,359) | (20,190) |
| Capital Reserves | | | | | | | |
| Capital Receipts | (71,310) | 171,908 | (143,388) | (42,790) | 121,524 | (129,484) | (50,750) |
| Capital Grants Unapplied | (1,893) | - | (419) | (2,312) | 2,312 | - | - |
| Total Usable Capital Reserves | (73,203) | 171,908 | (143,807) | (45,102) | 123,836 | (129,484) | (50,750) |
| Total Usable Reserves | (253,073) | 248,716 | (248,426) | (252,783) | 296,871 | (235,381) | (191,293) |

Modernisation, service and operational improvement reserve. This reserve is for one-off expenditure that may be incurred over more than one year on projects that are designed to modernise and improve service levels and operational efficiency of the council's activities. By its nature it is not appropriate for the costs of these projects to be included within annual revenue budgets. Schemes will range across all council services but will be especially relevant for transformational priorities such as information technology, customer services and accommodation strategies. Schemes funded by this reserve may be of either a capital or a revenue nature.

Regeneration and development reserve. This reserve is to fund one-off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects. Schemes funded by this reserve are predominantly of a capital nature.

Financial risk and future liabilities reserve. This reserve is set aside against future financial risks that may arise. For example, taxation risks, legislative and funding changes including actions involving the Greater London Authority and other government bodies, risks as a result of unavoidable changes in accounting practice, and circumstances in so much as they represent uninsured risks.

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7. OTHER OPERATING EXPENDITURE

| | 2015/16 | 2014/15 |
|---|-----------------|----------------|
| | £000 | £000 |
| Levies | 1,631 | 1,612 |
| Payment to the government's housing capital receipts pool | 4,581 | 3,982 |
| (Gain)/loss on the disposal of non-current assets | (54,818) | 9,872 |
| Total Other Operating Expenditure | (48,606) | 15,466 |

8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| | 2015/16 | 2014/15 |
|--|----------------|----------------|
| | £000 | £000 |
| Interest payable and similar charges | 34,711 | 35,244 |
| Grant contributions towards interest costs on PFI schemes | (7,159) | (4,464) |
| Net interest on the net defined benefit liability | 15,120 | 20,104 |
| Interest receivable and similar income | (2,778) | (2,100) |
| Income, expenditure and changes in the fair value of investment properties | (41,071) | (17,674) |
| Loss on disposal of academies | - | 61,495 |
| Total Financing and Investment Income and Expenditure | (1,177) | 92,605 |

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.

9. TAXATION AND NON-SPECIFIC GRANT INCOME

| | 2015/16 | 2014/15 |
|---|------------------|------------------|
| | £000 | £000 |
| Council Tax Income | (83,166) | (80,055) |
| Non-domestic rates income and expenditure | (70,364) | (62,654) |
| Un-ringfenced government grants | (152,958) | (182,725) |
| Capital Grants and contributions | (112,239) | (94,797) |
| Total Taxation and Non-Specific Grant Income | (418,727) | (420,231) |

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10. 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 property, plant and equipment.

| 2015/16 | 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 |
| Gross Book Value | | | | | | | | | |
| Opening balance | 2,699,929 | 780,745 | 77,490 | 304,688 | 10,689 | 109,795 | 26,477 | 4,009,813 | 70,419 |
| Additions | 201,866 | 23,420 | 4,602 | 29,251 | 530 | 260 | 45,544 | 305,473 | - |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 224,082 | 51,515 | - | - | - | 65,175 | - | 340,772 | 3,042 |
| Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (9,874) | 104 | - | - | - | - | - | (9,770) | - |
| Derecognition – Disposals | (20,229) | - | - | - | - | (510) | - | (20,739) | - |
| Derecognition – Other | (3,873) | (10) | - | - | - | (249) | - | (4,132) | - |
| Assets reclassified (to)/from Held for Sale | (13,018) | - | - | - | - | - | - | (13,018) | - |
| Other movements in Cost or Valuation | 1,170 | 19,258 | - | - | - | (6,275) | (6,492) | 7,661 | - |
| Balance as at 31 March 2016 | 3,080,053 | 875,032 | 82,092 | 333,939 | 11,219 | 168,196 | 65,529 | 4,616,060 | 73,461 |
| Depreciation and Impairment | | | | | | | | | |
| Opening balance | 213 | 32,252 | 35,799 | 68,746 | 902 | 2,562 | - | 140,474 | 2,849 |
| Depreciation charge | 65,705 | 12,753 | 5,497 | 10,847 | - | 1,452 | - | 96,254 | 1,884 |
| Depreciation written out on revaluations recognised in the Revaluation Reserve | (28,680) | (8,683) | - | - | - | - | - | (37,363) | 798 |
| Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services | (7,137) | (1,253) | - | - | - | (112) | - | (8,502) | - |
| Derecognition – Disposals | (441) | - | - | - | - | (18) | - | (459) | - |
| Derecognition – Other | (93) | (7) | - | - | - | (19) | - | (119) | - |
| Other movements in Depreciation and Impairment | 74 | (127) | - | - | - | (1,058) | - | (1,111) | - |
| Balance as at 31 March 2016 | 29,641 | 34,935 | 41,296 | 79,593 | 902 | 2,807 | - | 189,174 | 5,531 |
| Net Book Value At 31 March 2016 | 3,050,412 | 840,097 | 40,796 | 254,346 | 10,317 | 165,389 | 65,529 | 4,426,886 | 67,930 |

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| 2014/15 | 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 |
| Gross Book Value | | | | | | | | | |
| Opening balance | 2,294,208 | 747,820 | 69,365 | 265,622 | 9,506 | 123,165 | 84,752 | 3,594,438 | 69,977 |
| Additions | 134,567 | 24,439 | 8,125 | 31,124 | 355 | 7,858 | 23,448 | 229,916 | 906 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 330,527 | 41,656 | - | - | - | 84,709 | - | 456,892 | (241) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (42,952) | 3,046 | - | - | - | 354 | - | (39,552) | (223) |
| Derecognition – Disposals | (18,896) | (1,836) | - | - | - | (15,391) | - | (36,123) | - |
| Derecognition – Other | - | (48,930) | - | (112) | - | (10,150) | (50,797) | (109,989) | - |
| Assets reclassified (to)/from Held for Sale | - | - | - | - | - | (85,745) | - | (85,745) | - |
| Other movements in Cost or Valuation | 2,475 | 14,550 | - | 8,054 | 828 | 4,995 | (30,926) | (24) | - |
| Balance as at 31 March 2015 | 2,699,929 | 780,745 | 77,490 | 304,688 | 10,689 | 109,795 | 26,477 | 4,009,813 | 70,419 |
| Depreciation and Impairment | | | | | | | | | |
| Opening balance | - | 46,259 | 30,599 | 59,726 | 902 | 699 | - | 138,185 | 1,871 |
| Depreciation charge | 55,915 | 11,702 | 5,200 | 9,020 | - | 948 | - | 82,785 | 1,764 |
| Depreciation written out on revaluations recognised in the Revaluation Reserve | (44,823) | (14,813) | - | - | - | (332) | - | (59,968) | (405) |
| Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services | (10,458) | (3,327) | - | - | - | (17) | - | (13,802) | (381) |
| Derecognition – Disposals | (417) | (75) | - | - | - | - | - | (492) | - |
| Derecognition – Other | - | (5,854) | - | - | - | (380) | - | (6,234) | - |
| Other movements in Depreciation and Impairment | (4) | (1,640) | - | - | - | 1,644 | - | - | - |
| Balance as at 31 March 2015 | 213 | 32,252 | 35,799 | 68,746 | 902 | 2,562 | - | 140,474 | 2,849 |
| Net Book Value At 31 March 2015 | 2,699,716 | 748,493 | 41,691 | 235,942 | 9,787 | 107,233 | 26,477 | 3,869,339 | 67,570 |

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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 revaluations and of the rolling cycle of revaluations is 1 April of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.

The entire housing stock is valued on an annual basis, with estates under development and other potential impairments reviewed during the year. Impairments have been charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account.

The council's internal valuation service has assessed that significant capital growth in the value of housing stock has taken place during the year. This is attributable to the continued improving London residential market that has been widely reported in the media. A desktop valuation was undertaken with an effective revaluation date of 31 March 2016, using indices comprised of figures underpinned by a range of data from actual property sales, which were used to determine uplift factors to be applied to assets within the individual beacon groups. A full revaluation of the stock on a beacon basis will be undertaken effective 1 April 2016.

At 31 March 2016, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £215.2 million. Similar commitments at 31 March 2015 were £215.2 million. The projects with major commitments are:

- Making all council dwellings warm, dry and safe - £130 million
- Four Squares Estate improvements - £28.5 million
- Housing Direct Delivery scheme - £12.2 million

Infrastructure Assets contains a balance of £78.3 million that represents the current depreciated historic cost value of capital expenditure on infrastructure up to 31 March 2007. This balance is effectively treated as a single 'consolidated' asset as we do not currently have sufficient information to disclose at the level of individual assets and obtaining such information would be impracticable. The balance is depreciated on a straight-line basis over 40 years.

11. INCOME, EXPENDITURE AND CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES

The income and expenditure on investment assets was as follows:

| | 2015/16 | 2014/15 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Rental income from investment property | (10,381) | (10,346) |
| Fair value adjustments | (34,201) | (10,445) |
| Direct operating expenses arising from investment property | 3,511 | 3,117 |
| Net (gain)/loss included in Financing & Investment Income in CIES | (41,071) | (17,674) |

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

| | 2015/16 | 2014/15 |
|--|----------------|----------------|
| | £000 | £000 |
| Balance as at 1 April | 126,400 | 121,472 |
| Additions: | | |
| Subsequent expenditure | 650 | 829 |
| Disposals | (209) | (6,318) |
| Net gains/(losses) from fair value adjustments | 34,201 | 10,445 |
| Transfers: | | |
| To/From Property, Plant and Equipment | (8,775) | (28) |
| Balance as at 31 March | 152,267 | 126,400 |

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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 properties held under operating leases are the industrial estates at Sandgate Street and Dockley Road, and workshops on Riley Road. The council also rents out property for shops, community, and commercial use, including the Surrey Quays Shopping Centre on Redriff Road.

12. 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.

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:

| | Long Term 31/03/16 £000 | Long Term 31/03/15 £000 | Short Term 31/03/16 £000 | Short Term 31/03/15 £000 |
|--|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| Investments | | | | |
| Available for Sale | 27,756 | 9,942 | 65,099 | 91,414 |
| Loans & Receivables | - | - | 459 | 40,860 |
| Less Trust Funds | - | - | (1,483) | (1,490) |
| Total Investments | 27,756 | 9,942 | 64,075 | 130,784 |
| Debtors | | | | |
| Loans and receivables | 50,058 | 51,204 | 123,575 | 114,598 |
| Total Debtors | 50,058 | 51,204 | 123,575 | 114,598 |
| Cash and Cash Equivalents | | | | |
| Cash and bank | - | - | (9,241) | (6,107) |
| Short term deposits | - | - | 50,682 | 25,062 |
| Total Cash and Cash Equivalents | - | - | 41,441 | 18,955 |

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:

| | Long Term 2015/16 £000 | Long Term 2014/15 £000 | Short Term 2015/16 £000 | Short Term 2014/15 £000 |
|--|------------------------------|------------------------------|-------------------------------|-------------------------------|
| Borrowings | | | | |
| Financial Liabilities at Amortised Cost | (457,851) | (462,851) | (10,339) | (11,763) |
| Total Borrowings | (457,851) | (462,851) | (10,339) | (11,763) |
| Other Long Term Liabilities | | | | |
| PFI and Finance Lease Liabilities | (104,950) | (109,315) | | |
| Total Other Long Term Liabilities | (104,950) | (109,315) | | |
| Creditors | | | | |
| Financial Liabilities at Amortised Cost | (9,931) | (7,505) | (127,717) | (99,600) |
| Total Creditors | (9,931) | (7,505) | (127,717) | (99,600) |

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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:

| | 2015/16 | | | | 2014/15 | | | |
|---|--|--|--|----------------|--|--|--|----------------|
| | 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 | 25,521 | - | - | 25,521 | 25,745 | - | - | 25,745 |
| Other Charges | 330 | - | - | 330 | 134 | - | - | 134 |
| Total Expenses in Surplus or Deficit on the Provision of Services | 25,851 | - | - | 25,851 | 25,879 | - | - | 25,879 |
| Interest Income | - | (520) | (1,303) | (1,823) | - | (613) | (781) | (1,394) |
| Less Allocated to Other Funds | - | - | - | - | - | 8 | - | 8 |
| Total Income in Surplus or Deficit on the Provision of Services | - | (520) | (1,303) | (1,823) | - | (605) | (781) | (1,386) |
| Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure | - | - | 164 | 164 | - | - | (141) | (141) |
| Net Gain/(Loss) for Year | 25,851 | (520) | (1,139) | 24,192 | 25,879 | (605) | (922) | 24,352 |

Financial Instruments - Fair values

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

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 2016. 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 31st March 2016, 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
- 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 31st 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.

Other long-term liabilities include PFI liabilities at a carrying amount of £105 million as at 31/03/2016 (£109 million at 31/03/2015). These liabilities are notional and need not reflect the actual liability carried by the PFI provider. The council considers the carrying amount of PFI liabilities to be a close approximation to their fair value. In arriving at its assessment, the council has considered the following:

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- The PFI liability is a division of the unitary payments which are payable over the life of the PFI schemes. At inception, the unitary payments are assessed and separated for the accounting purposes between the service element and financing element, but are not separable contractually. The financing element includes a credit spread over the risk free rate to take account of the uncertainty inherent in these projects over the project lifetime.
- The council has used present value techniques in accordance with accounting standards to confirm its assessment that the carrying amount of PFI liabilities is a close estimate of fair value. As this technique is applied under condition of uncertainty (the unitary payments are for example subject to non-performance risk), it recognises that market participants generally seek compensation (i.e. a risk premium) for bearing the uncertainty inherent in the cash flows.
- In applying the technique and in the interest of consistency, the council ensured that the technique was calibrated to the fair value assessed at initial recognition. The council considered no material changes were needed for example from any:
 - new market developments
 - new information
 - improvements in valuation technique, or
 - market condition changes
- Given the complex nature of PFI arrangements, there are different ways to consider fair value of the liability. An alternative way to consider fair value might be to discount the liability at an entirely "risk free" rate without a credit spread. For example, this could be the rate that the council might be able to borrow at from the Public Works Loan Board. If this were used, the fair value of the PFI liability at balance sheet date would be £199m at 31/03/16 (£200 million at 31/03/15).

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 21/03/16 £'000 | Fair Value 21/03/16 £'000 | Balance Sheet 21/03/15 £'000 | Fair Value 21/03/15 £'000 |
|---|------------------|------------------------------|---------------------------|------------------------------|---------------------------|
| Financial liabilities held at amortised cost: | | | | | |
| Long-term loans from PWLB | 2 | (462,851) | (627,806) | (467,851) | (708,629) |
| Lease payable and PFI liabilities | 3 | (104,950) | (104,950) | (109,315) | (109,315) |
| Sub total | | (567,801) | (732,756) | (577,166) | (817,944) |
| Liabilities for which fair value is not disclosed | | (142,987) | (142,987) | (99,600) | (99,600) |
| TOTAL FINANCIAL LIABILITIES | | (710,788) | (875,743) | (691,034) | (931,812) |
| Recorded on the balance sheets as: | | | | | |
| Long-term creditors | | (9,931) | | (7,505) | |
| Long-term borrowing | | (457,851) | | (462,851) | |
| Short-term creditors | | (127,717) | | (99,600) | |
| Short-term borrowing | | (10,339) | | (11,763) | |
| Other long-term liabilities | | (104,950) | | (109,315) | |
| TOTAL FINANCIAL LIABILITIES | | (710,788) | | (691,304) | |

The fair value of short-term financial liabilities including trade payables 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.

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| | Fair value level | Balance Sheet 21/03/16 £'000 | Fair Value 21/03/16 £'000 | Balance Sheet 21/03/15 £'000 | Fair Value 21/03/15 £'000 |
|--|------------------|------------------------------|---------------------------|------------------------------|---------------------------|
| Financial assets held at fair value: | | | | | |
| Money Market Funds | 1 | 50,681 | 50,681 | 25,061 | 25,061 |
| Bond, Equity and property funds | 1 | 36,846 | 36,846 | 77,102 | 77,102 |
| Corporate, covered and government bonds | 2 | 56,009 | 56,009 | 24,254 | 24,254 |
| Sub total | | 143,536 | 143,536 | 126,417 | 126,417 |
| Assets for which fair value is not disclosed | | 166,335 | 166,335 | 199,066 | 199,066 |
| TOTAL FINANCIAL ASSETS | | 309,871 | 309,871 | 325,483 | 325,483 |
| Recorded on the balance sheets as: | | | | | |
| Long-term debtors | | 50,058 | | 51,204 | |
| Long-term investments | | 27,756 | | 9,942 | |
| Short-term debtors | | 123,575 | | 114,598 | |
| Short-term investments | | 67,041 | | 130,784 | |
| Cash and cash equivalents | | 41,441 | | 18,955 | |
| TOTAL FINANCIAL ASSETS | | 309,871 | | 325,483 | |

The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

13. DEBTORS

| | 2015/16 | | 2014/15 | |
|---------------------------------------|-------------------------|------------------------|-------------------------|------------------------|
| | Short Term Debtors £000 | Long Term Debtors £000 | Short Term Debtors £000 | Long Term Debtors £000 |
| Central government bodies | 19,230 | - | 33,794 | - |
| Other local authorities | 44,889 | - | 29,895 | - |
| NHS bodies | 3,953 | - | 3,312 | - |
| Public corporations and trading funds | 7 | - | 330 | - |
| Other entities and individuals | 109,485 | 50,259 | 98,711 | 51,354 |
| Total before impairment | 177,564 | 50,259 | 166,042 | 51,354 |
| Impairment | 48,500 | - | (47,304) | - |
| Total net of impairment | 129,064 | 50,259 | 118,738 | 51,354 |

14. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the elements set out below. Bank overdrafts are included in cash and cash equivalents as they are an integral part of the day-to-day cash management of the council.

| | As at 31/03/16 £000 | As at 31/03/15 £000 |
|--|---------------------|---------------------|
| Cash held by the council | 8 | 10 |
| Bank current accounts | (9,248) | (6,117) |
| Short-term funds in money markets | 50,682 | 25,062 |
| Total cash and cash equivalents | 41,442 | 18,955 |

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15. ASSETS HELD FOR SALE

| | Current | | Non-Current | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2015/16 £000 | 2014/15 £000 | 2015/16 £000 | 2014/15 £000 |
| Balance at 1 April | 22,815 | 75,996 | 73,500 | 294 |
| Additions | - | 1,455 | - | - |
| Transfers from Property, Plant & Equipment | 7,018 | 10,745 | 6,000 | 75,000 |
| Revaluation gains/(losses) taken to Surplus or Deficit on the Provision of Services | (1,330) | (670) | - | (1,500) |
| Assets sold | (8,436) | (64,711) | - | (294) |
| Balance at 31 March | 20,067 | 22,815 | 79,500 | 73,500 |

16. CREDITORS

| | Short Term Creditors | | Long Term Creditors | |
|---------------------------------------|----------------------|-----------------|---------------------|-----------------|
| | 2015/16 £000 | 2014/15 £000 | 2015/16 £000 | 2014/15 £000 |
| Central government bodies | 7,166 | 12,988 | - | - |
| Other local authorities | 10,066 | 18,725 | - | - |
| NHS bodies | 8,531 | 6,287 | - | - |
| Public corporations and trading funds | - | 83 | - | - |
| Other entities and individuals | 132,031 | 85,903 | 9,931 | 7,505 |
| Total | 157,794 | 123,986 | 9,931 | 7,505 |

17. 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), 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'. The Unusable Reserves comprise:

| | 2015/16 £000 | 2014/15 £000 |
|--|------------------|------------------|
| Capital Adjustment Account | 2,467,666 | 2,210,565 |
| Financial Instruments Adjustment Account | (24,848) | (24,954) |
| Revaluation Reserve | 1,436,782 | 1,092,764 |
| Available for Sale Financial Instruments Reserve | (31) | 133 |
| Pensions Reserve | (450,096) | (491,286) |
| Deferred Capital Receipts | 42,400 | 44,829 |
| Collection Fund Adjustment Account | (377) | (5,341) |
| Accumulating Compensated Absences Adjustment Account | (7,045) | (7,061) |
| Total unusable reserves | 3,464,451 | 2,819,649 |

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 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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| | 2015/16 | | 2014/15 | |
|--|----------|------------------|-----------|------------------|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April | | 2,210,565 | | 2,164,130 |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Charges for depreciation and impairment of non current assets | (96,254) | | (82,785) | |
| Revaluation Losses on Property Plant & Equipment | (2,424) | | (27,787) | |
| Revenue expenditure funded from capital under statute | (11,215) | | (66,928) | |
| Movements in the market value of Investment Properties | 34,201 | | 10,445 | |
| 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 | (32,937) | | (180,608) | |
| | | (108,629) | | (347,663) |
| Adjusting amounts written out of the Revaluation Reserve re disposals | 9,918 | | 97,661 | |
| Adjusting amounts written out of the Revaluation Reserve re the difference between fair value depreciation and historical cost depreciation | 24,199 | | 14,616 | |
| Transfer from deferred debtors | (323) | | (67) | |
| Net written out amount of the cost of non current assets consumed in the year | | 33,794 | | 112,210 |
| Capital financing applied in the year: | | | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 75,302 | | 111,525 | |
| Provision to reduce the capital financing requirement | 7,509 | | 19,323 | |
| Use of the Major Repairs Reserve to finance new capital expenditure | 84,883 | | 18,570 | |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 112,239 | | 94,378 | |
| Application of grants to capital financing from the Capital Grants Unapplied Account | 2,312 | | - | |
| Provision for the financing of capital investment charged against the General Fund and HRA balances | 7,146 | | 13,203 | |
| Capital expenditure charged against the General Fund and HRA balances | 42,545 | | 24,889 | |
| | | 331,936 | | 281,888 |
| Balance at 31 March | | 2,467,666 | | 2,210,565 |

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 31/03/16 includes £19.951 million premiums (£21.016 million at 31/03/15) to be discharged in future.

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Balance at 1 April | (24,954) | (32,430) |
| New premiums incurred in the year | - | - |
| Proportion of premiums to be charged against the General Fund Balance in accordance with statutory requirements | 1,065 | 7,245 |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | (959) | 231 |
| Balance at 31 March | (24,848) | (24,954) |

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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.

| | 2015/16 | | 2014/15 | |
|---|----------|------------------|----------|------------------|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April | | 1,092,764 | | 688,181 |
| Upward revaluation of assets | 411,428 | | 555,467 | |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | (33,293) | | (38,607) | |
| Total of Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services | | 378,135 | | 516,860 |
| Adjusting amounts written to the Capital Adjustment Account re disposals and restatements | | (9,918) | | (97,661) |
| Difference between fair value depreciation and historical cost depreciation | | (24,199) | | (14,616) |
| Balance at 31 March | | 1,436,782 | | 1,092,764 |

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.

| | 2015/16 £000 | 2014/15 £000 |
|--|------------------|------------------|
| Balance at 1 April | (491,286) | (487,062) |
| Remeasurements of the net defined benefit liability | 56,399 | 11,119 |
| 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 | (55,569) | (53,613) |
| Employer's pension contributions and direct payments payable to pensioners in the year | 40,360 | 38,270 |
| Balance at 31 March | (450,096) | (491,286) |

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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.

| | 2015/16 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Balance at 1 April | 44,829 | 7,219 |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | 42,522 |
| Transfer to the Capital Receipts Reserve upon receipt of cash | (2,429) | (4,912) |
| Balance at 31 March | 42,400 | 44,829 |

18. CASH FLOW FROM OPERATING ACTIVITIES

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Adjustment to surplus or deficit on the provision of services for non cash movement: | | |
| Depreciation | 96,254 | 82,765 |
| Impairment & downward valuation | (31,777) | 66,618 |
| Increase/(decrease) in impairment for bad debts | 1,197 | 3,128 |
| Increase/(decrease) in creditors | 34,965 | (10,678) |
| (Increase)/decrease in debtors | (10,703) | (58,019) |
| (Increase)/decrease in inventories | (26) | 206 |
| Movement in pension liability | 15,209 | 15,343 |
| Movement in provisions | 456 | (4,083) |
| Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | 32,937 | 180,608 |
| Other non-cash items charged to the net surplus or deficit on the provision of services | 253 | 289 |
| | 138,765 | 276,177 |

| | 2015/16 £000 | 2014/15 £000 |
|---|------------------|------------------|
| Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities : | | |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (89,152) | (87,682) |
| Capital grants included in "Taxation & non-specific grant income" | (112,239) | (94,797) |
| Total | (201,391) | (182,479) |

The cash flows from operating activities include the following amounts:

| | 2015/16 £000 | 2014/15 £000 |
|---------------------|-----------------|-----------------|
| Interest received | (1,752) | (1,658) |
| Interest paid | 34,934 | 35,183 |
| Net interest | 33,182 | 33,525 |

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19. CASH FLOW FROM INVESTING ACTIVITIES

| | 2015/16 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Purchase of PP&E, investment property and intangible assets | (306,209) | (233,014) |
| Proceeds from the sale of Property, Plant and equipment, investment property and intangible assets | 89,152 | 87,682 |
| Proceeds from sale of short-term investments (not considered to be cash equivalents) | 48,895 | (873) |
| Capital grants and contributions received | 114,670 | 106,639 |
| Net cash flows from Investing Activities | (53,492) | (39,566) |

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.

20. CASH FLOWS FROM FINANCING ACTIVITIES

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts | (3,913) | (3,153) |
| Repayments of short and long term borrowing | (6,424) | (5,734) |
| Net Cash flows from Financing Activities | (10,337) | (8,887) |

21. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the council's Cabinet based on budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- charges for depreciation and defined benefit schemes (IAS19) are reported on an estimated rather than actual basis
- charges for revaluation and impairment losses, gains and losses on disposal of assets and accumulated absences are not reported.

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

| 2015/16 | Children & Adults | Environment & Leisure Services | Housing and Modernisation | Public Health | Chief Executive's | Finance & Governance | HRA | Support cost recharges | Total |
|--|-------------------|--------------------------------|---------------------------|-----------------|-------------------|----------------------|------------------|------------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, charges and other service income | (22,727) | (25,673) | (12,046) | (46) | (8,367) | (19,590) | (298,613) | (46,076) | (433,138) |
| Government grants | (244,957) | (3,900) | (1,021) | (27,968) | (534) | (253,387) | 169 | - | (531,598) |
| Total income | 267,684 | (29,573) | (13,067) | (28,014) | (8,901) | (272,977) | (298,444) | (46,076) | 964,736 |
| Employee expenses | 218,047 | 45,612 | 27,685 | 3,249 | 11,407 | 35,524 | 30,581 | - | 372,105 |
| Other service expenses | 238,481 | 47,301 | 55,960 | 26,848 | 5,390 | 225,470 | 253,133 | - | 852,583 |
| Support service recharges | 12,639 | 10,073 | 2,412 | 298 | 1,297 | 3,421 | 14,730 | - | 44,870 |
| Total expenditure | 469,167 | 102,986 | 86,057 | 30,395 | 18,094 | 264,415 | 298,444 | - | 1,269,558 |
| Net expenditure | 201,483 | 73,413 | 72,990 | 2,381 | 9,193 | (8,562) | - | (46,076) | 304,822 |

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| 2014/15 | Children & Adults | Environment & Leisure Services | Housing and Modernisation | Public Health | Chief Executive's | Finance & Governance | HRA | Support cost recharges | Total |
|--|-------------------|--------------------------------|---------------------------|-----------------|-------------------|----------------------|------------------|------------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, charges and other service income | (20,487) | (24,918) | (10,140) | (1,826) | (8,675) | (14,023) | (290,600) | (46,508) | (417,177) |
| Government grants | (234,289) | (7,418) | (217) | (24,481) | (106) | (251,312) | (100) | - | (517,923) |
| Total income | (254,776) | (32,336) | (10,357) | (26,307) | (8,781) | (265,335) | (290,700) | (46,508) | (935,100) |
| Employee expenses | 207,629 | 46,224 | 17,076 | 3,407 | 16,993 | 38,473 | 31,097 | - | 360,899 |
| Other service expenses | 233,262 | 49,702 | 30,531 | 22,374 | 8,371 | 254,311 | 244,440 | - | 842,991 |
| Support service recharges | 12,639 | 10,287 | 2,411 | 298 | 1,297 | 3,285 | 15,163 | - | 45,380 |
| Total expenditure | 453,530 | 106,213 | 50,018 | 26,079 | 26,661 | 296,069 | 290,700 | - | 1,249,270 |
| Net expenditure | 198,754 | 73,877 | 39,661 | (228) | 17,880 | 30,734 | - | (46,508) | 314,170 |

The reconciliation below shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the CIES.

| | 2015/16 | 2014/15 |
|---|----------------|----------------|
| | £000 | £000 |
| Net expenditure in the service analysis | 304,822 | 314,170 |
| Amounts included in the service analysis not included in Cost of Services within the Comprehensive Income and Expenditure Statement | 475,067 | 285,719 |
| Amounts not reported to management for decision making | (460,321) | (253,656) |
| Cost of Services in the Comprehensive Income and Expenditure Statement | 319,568 | 346,233 |

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the CIES.

| 2015/16 | Service analysis | Amounts not reported to management | Amounts not included in the Cost of the Services | Allocation of recharges | Cost of services | Corporate Amounts | Total |
|--|------------------|------------------------------------|--|-------------------------|------------------|-------------------|--------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, charges and other income | (421,051) | (112,240) | 112,076 | 46,076 | (375,139) | (112,239) | (487,378) |
| Interest and investment income | (12,087) | (1,073) | 13,160 | - | - | (13,160) | (13,160) |
| Income from council tax | - | (70,364) | 70,364 | - | - | (70,364) | (70,364) |
| Income from business rates | - | (83,166) | 83,166 | - | - | (83,166) | (83,166) |
| Government grants and conts. | (531,598) | (135,008) | 160,141 | - | (506,465) | (160,116) | (666,581) |
| Total income | (964,736) | (401,851) | 438,907 | 46,076 | (881,604) | (439,045) | (1,320,649) |
| Employee expenses | 372,105 | (31) | - | - | 372,074 | - | 372,074 |
| Other service expenses | 728,742 | (340) | 4,482 | (1,206) | 731,678 | 3,510 | 735,188 |
| Support service recharges | 44,870 | - | (1,434) | (44,870) | (1,434) | 137 | (1,297) |
| Depreciation, amortisation impairment and revaluations | 96,689 | (32,036) | 34,201 | - | 98,854 | (34,201) | 64,653 |
| Interest payments | 25,521 | 9,054 | (34,575) | - | - | 34,575 | 34,575 |
| Net interest on the pensions liability | - | 15,120 | (15,120) | - | - | 15,120 | 15,120 |
| Precepts and levies | 1,631 | - | (1,631) | - | - | 1,631 | 1,631 |
| Payments to the Housing Capital Receipts Pool | - | 4,581 | (4,581) | - | - | 4,581 | 4,581 |
| Gain or loss on disposals | - | (54,818) | 54,818 | - | - | (54,818) | (54,818) |
| Total expenditure | 1,269,558 | (58,470) | 36,160 | (46,076) | 1,201,172 | (29,465) | 1,171,707 |
| (Surplus) or deficit on the provision of services | 304,822 | (460,321) | 475,067 | - | 319,568 | (468,510) | (148,942) |

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| 2014/15 | Service analysis | Amounts not reported to management | Amounts not included in the Cost of Services | Allocation of recharges | Cost of services | Corporate Amounts | Total |
|--|------------------|------------------------------------|--|-------------------------|------------------|-------------------|--------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, charges and other service income | (405,764) | 1,096 | 141 | 46,508 | (358,019) | - | (358,019) |
| Interest and investment income | (11,413) | (1,033) | 12,446 | - | - | (12,446) | (12,446) |
| Income from council tax | - | (80,055) | 80,055 | - | - | (80,055) | (80,055) |
| Income from business rates | - | (62,654) | 62,654 | - | - | (62,654) | (62,654) |
| Government grants and contributions | (517,923) | (263,200) | 281,648 | - | (499,475) | (281,648) | (781,123) |
| Total income | (935,100) | (405,846) | 436,944 | 46,508 | (857,494) | (436,803) | (1,294,297) |
| Employee expenses | 360,897 | (4,269) | - | - | 356,628 | - | 356,628 |
| Other service expenses | 732,853 | 95,525 | (90,856) | (1,128) | 736,394 | 64,274 | 800,668 |
| Support service recharges | 45,380 | - | - | (45,380) | - | - | - |
| Depreciation, amortisation impairment and revaluations | 82,645 | 17,615 | 10,445 | - | 110,705 | (10,445) | 100,260 |
| Interest payments | 25,882 | 9,362 | (35,244) | - | - | 35,244 | 35,244 |
| Net interest on the pensions liability | - | 20,104 | (20,104) | - | - | 20,104 | 20,104 |
| Precepts and levies | 1,613 | - | (1,613) | - | - | 1,613 | 1,613 |
| Payments to the Housing Capital Receipts Pool | - | 3,982 | (3,982) | - | - | 3,982 | 3,982 |
| Gain or loss on disposal of fixed assets | - | 9,871 | (9,871) | - | - | 9,871 | 9,871 |
| Total expenditure | 1,249,270 | 156,386 | (151,225) | (46,508) | 1,203,727 | 124,643 | 1,328,370 |
| (Surplus) or deficit on the provision of services | 314,170 | (249,460) | 285,719 | - | 350,429 | (312,160) | 34,073 |

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.

| | 2015/16 | | 2014/15 | |
|---|---------|---------------|---------|------|
| | £000 | £000 | £000 | £000 |
| Funding Provided to the Pooled Budget: | | | | |
| • Council | 1,489 | | - | |
| • CCG | 20,478 | | - | |
| | | 21,967 | | - |
| Expenditure met from the pooled budget: | | | | |
| • Council | 16,218 | | - | |
| • CCG | 5,749 | | - | |
| | | 21,967 | | - |
| Net surplus arising on the pooled budget in the year | | - | | - |

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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 £2.088m in 2015/16 (£2.m in 14/15).

23. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2015/16 was £1,246,075 (£1,244,863 in 2014/15).

24. OFFICERS' REMUNERATION

In accordance with regulation, 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.

The following table sets out this information for both 2015/16 and 2014/15 and provides a number of notes in support.

| Postholder | 2015/16 | | 2014/15 | |
|---|--------------------|---|--------------------|---|
| | Total remuneration | Council's contributions to the Pension Fund | Total remuneration | Council's contributions to the Pension Fund |
| | £ | £ | £ | £ |
| Chief Executive - E Kelly | 216,236 | 30,465 | 214,304 | 30,194 |
| Strategic Director of Environment & Leisure - D Collins | 191,658 | 0 | 189,335 | 266 |
| Strategic Director of Housing & Community Services – G Scott | 191,568 | 0 | 180,335 | 532 |
| Strategic Director of Finance & Governance - D Whitfield | 185,490 | 26,064 | 174,548 | 24,485 |
| Strategic Director of Children's & Adult Services - D Quirke-Thornton | 147,116 | 20,500 | 55,738 | 7,721 |
| Director of Public Health - Dr R Wallis | 150,577 | 20,431 | 150,577 | 19,329 |

Notes to the above table:

- The Strategic Director of Children's and Adults' Services joined the council in October 2014 and the 2014/15 figures for this post therefore cover the period from October 2014 onwards
- The post of Director of Public Health is shared equally with the London Borough of Lambeth. Southwark Council's share of the total remuneration and contribution to the pension fund are £75,289 and £10,216 respectively for 2015/16
- In 2015/16, the Strategic Director of Environment and Leisure and the Strategic Director of Finance and Governance received payments in respect of their additional role as Southwark Council's Returning Officer. These payments are set by the Electoral Commission and are not included in the table above
- 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. For 2015/16, this includes performance related pay for the previous year (2014/15)
- The total remuneration figures for 2014/15 included performance related pay (PRP) for three prior years during which time no PRP had been awarded to postholders

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- As part of Southwark Council's pay policy approved by Council Assembly in March 2015, PRP was consolidated into salaries at all levels with effect from 1 April 2014 and total remuneration for 2015/16 reflect this. The adjustments are included in the total remuneration above.

During 2014/15 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:

| Band (£) | Schools | Non schools | Number of employees | Number of employees |
|-------------------|------------|-------------|---------------------|---------------------|
| | | | 2015/16 | 2014/15 |
| 50,000 - 54,999 | 106 | 125 | 231 | 206 |
| 55,000 - 59,999 | 66 | 80 | 146 | 125 |
| 60,000 - 64,999 | 52 | 66 | 118 | 79 |
| 65,000 - 69,999 | 26 | 32 | 58 | 60 |
| 70,000 - 74,999 | 25 | 41 | 66 | 55 |
| 75,000 - 79,999 | 15 | 21 | 36 | 22 |
| 80,000 - 84,999 | 11 | 10 | 21 | 15 |
| 85,000 - 89,999 | 10 | 9 | 19 | 20 |
| 90,000 - 94,999 | 4 | 9 | 13 | 13 |
| 95,000 - 99,999 | 2 | 10 | 12 | 16 |
| 100,000 - 104,999 | 2 | 6 | 8 | 5 |
| 105,000 - 109,999 | 1 | 3 | 4 | 3 |
| 110,000 - 114,999 | - | 5 | 5 | 8 |
| 115,000 - 119,999 | 3 | 3 | 6 | - |
| 120,000 - 124,999 | - | 2 | 2 | - |
| 125,000 - 129,999 | - | 4 | 4 | - |
| 130,000 - 134,999 | - | 5 | 5 | - |
| 135,000 - 139,999 | 1 | 1 | 2 | - |
| 140,000 - 144,999 | - | - | - | - |
| 145,000 - 149,999 | - | 1 | 1 | - |
| 150,000 - 154,999 | - | 2 | 2 | - |
| 155,000 - 159,999 | - | 1 | 1 | - |
| 160,000 - 164,999 | - | - | - | - |
| 165,000 - 169,999 | - | 1 | 1 | - |
| 170,000 - 174,999 | - | 2 | 2 | - |
| 175,000 - 179,999 | - | 1 | 1 | - |
| 180,000 - 184,999 | - | 1 | 1 | - |
| 185,000 - 189,999 | - | 1 | 1 | - |
| Total | 324 | 442 | 766 | 627 |

25. EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections, and for non-audit services provided by the council's external auditors, Grant Thornton UK LLP:

| | 2015/16 | 2014/15 |
|---|------------|------------|
| | £000 | £000 |
| Fees payable with regard to external audit services carried out by the appointed auditor for the year | 237 | 282 |
| Fees payable in respect of other services provided by the appointed auditor during the year | 18 | 24 |
| Fees payable in respect of other services provided by the appointed auditor during the year | 58 | 55 |
| Total | 313 | 361 |

Other services provided by the auditor included a financial resilience review, an assessment of the proposed Canada Water development, Investor in People review as well as provision of benchmarking data.

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26. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant moneys provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department 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 2015/16 are as follows:

| | Central Expenditure | Individual Schools Budgets | Total | Total |
|--|------------------------|----------------------------------|------------------|-----------------|
| | £000 | £000 | 2015/16 £000 | 2014/15 £000 |
| Final DSG before academy recoupment | (31,926) | (262,841) | (294,767) | (241,663) |
| Academy figure recouped | - | 103,963 | 103,963 | 47,741 |
| Total DSG after academy recoupment | (31,926) | (158,878) | (190,804) | (193,922) |
| Brought forward from previous year | (10,788) | (4,165) | (14,953) | (12,903) |
| Carry forward agreed in advance | 3,900 | 6,272 | 10,172 | 6,291 |
| Agreed budgeted distribution | (38,814) | (156,771) | (195,585) | (200,534) |
| Actual central expenditure | 38,814 | - | 38,814 | 36,520 |
| Actual ISB deployed to schools | - | 156,771 | 156,771 | 155,352 |
| Carry-forward | - | - | - | (8,662) |
| Total carry forward including agreed in advance | (3,900) | (6,272) | (10,172) | (14,953) |

27. GRANT INCOME

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

| | 2015/16 £000 | 2014/15 £000 |
|--|------------------|------------------|
| Credited to Taxation and Non Specific Grant Income | | |
| Revenue support grant | (90,044) | (124,281) |
| Business rates top up | (44,965) | (44,122) |
| New homes bonus | (13,449) | (11,191) |
| Autumn statement compensation grant | (3,183) | (1,918) |
| Other grants individually less than £1 million | (1,135) | (1,213) |
| Capital grants and contributions | (112,239) | (94,797) |
| Sub total | (265,015) | (277,522) |
| Credited to Provision of Services | | |
| Dedicated Schools Grant | (195,067) | (193,572) |
| Housing Benefits Subsidy - rent rebates granted to HRA tenants | (108,868) | (109,423) |
| Housing benefits subsidy - rent allowances | (103,439) | (110,976) |
| Housing benefits subsidy - non HRA rent rebates | (6,373) | (6,387) |
| Housing benefit administration | (3,469) | (3,751) |
| Public health | (25,090) | (22,946) |
| Better Care Fund | (19,413) | (8,053) |
| Pupil premium grant | (12,145) | (14,901) |
| The private finance initiative (PFI) | (9,935) | (8,678) |
| Reablement grant | (4,908) | (8,053) |
| Universal infant free school meals | (3,211) | (1,607) |
| Education services grant | (2,632) | (3,558) |
| Tackling troubled families | (2,109) | (998) |
| School sixth form funding | (1,838) | (1,675) |
| Community learning grant | (1,433) | (1,412) |
| Southwark CCG contribution to public health | (1,337) | (1,337) |

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| | | |
|--|------------------|------------------|
| Discretionary housing payment | (1,023) | (1,223) |
| Local welfare provision | - | (1,627) |
| Youth Justice good practice | - | (1,103) |
| Adoption reform grant | - | (413) |
| Other grants individually less than £1 million | (11,273) | (8,084) |
| Sub total | (513,563) | (503,601) |
| Total | (778,578) | (781,123) |

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

| | 2015/16 | 2014/15 |
|---|------------------|------------------|
| | £000 | £000 |
| Balance as at 1 April | (125,218) | (113,376) |
| New capital grants received in advance | (114,670) | (106,639) |
| Amounts released to the CIES (conditions met) | 112,239 | 94,797 |
| Balance as at 31 March | (127,649) | (125,218) |

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

| | 2015/16 | 2014/15 |
|--|------------------|------------------|
| | £000 | £000 |
| Planning Gains | (121,938) | (112,200) |
| Lottery Funds | (1,039) | (1,039) |
| Education | (3,524) | (10,787) |
| Other grants individually less than £1 million | (1,147) | (1,192) |
| Balance as at 31 March | (127,648) | (125,218) |

28. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. In identifying potential related party interests for councillors, the register of Members' interests has been viewed, and for chief officers, direct confirmation has been sought and obtained. Related party interests for which transactions exist in 2015/16 were declared by 19 councillors and no chief officers (23 and nil respectively in 2015/16):

- with voluntary bodies or charitable organisations that received funding totalling £0.5 million (£2.2 million in 2014/15)
- with businesses or other organisations that have contracted for goods and services with the council to the value of £3.0 million (£3.0 million in 2014/15).

The Government is a related party for the council, by virtue of the influence it can exert through the level of grant funding it provides. Grants received from government departments during the year and receipts outstanding at 31 March 2015 are set out in Note 27 to the accounts.

The Pension Fund is also a related party and the council charged the fund £0.8 million (£0.9 million in 2014/15) for expenses incurred in administering the Pension Fund.

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29. 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.

| | 2015/16 | 2014/15 |
|--|------------------|------------------|
| | £000 | £000 |
| Opening Capital Financing Requirement | 791,634 | 803,997 |
| Capital Investment | | |
| Property, Plant & Equipment | 305,473 | 232,549 |
| Assets Held for Sale | 11,215 | 36,826 |
| Investment Property | 650 | - |
| Municipal bonds purchase | 50 | 150 |
| Total capital investment | 317,388 | 269,525 |
| Sources of capital finance | | |
| Capital receipts | (75,302) | (111,525) |
| Government grants and other contributions | (114,551) | (94,378) |
| Direct revenue contributions | (42,545) | (24,889) |
| Major Repairs Reserve | (84,883) | (18,570) |
| MRP/Loans fund principal | (14,655) | (32,526) |
| Total capital investment financed | (331,936) | (281,888) |
| Closing Capital Financing Requirement | 777,086 | 791,634 |
| Explanation of movement | | |
| Reduction in underlying need to borrow | (14,685) | (32,526) |
| Assets acquired under PFI contracts | 137 | 906 |
| New liabilities under PFI contracts | - | 19,257 |
| Net movement in year | (14,548) | (12,363) |

30. 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:

| | 2015/16 | 2014/15 |
|-------------------------|--------------|--------------|
| | £000 | £000 |
| Minimum lease payments | 1,449 | 1,540 |
| Less sub-lease payments | (274) | (341) |
| Total | 1,175 | 1,199 |

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

| | 2015/16 | 2014/15 |
|---------------------|---------------|---------------|
| | £000 | £000 |
| Within 1 year | 1,390 | 1,437 |
| Within 2 to 5 years | 4,878 | 4,978 |
| After 5 years | 21,417 | 23,704 |
| Total | 27,685 | 30,119 |

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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:

| | 31/03/2016 | 31/03/2015 |
|---------------------|-------------------|-------------------|
| Period due | £000 | £000 |
| Within 1 year | 7,634 | 9,960 |
| Within 2 to 5 years | 23,388 | 27,391 |
| After 5 years | 102,029 | 111,242 |
| Total due | 133,051 | 148,593 |

31. 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 council has identified five schemes to be accounted for as PFI or similar contracts and one future scheme:

- 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 will enable the council to

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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.

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 |
| Value at 1 April 2014 | 15,135 | 19,615 | - | 57,994 | 4,279 | 97,023 |
| New liability incurred | - | 123 | 19,173 | 906 | 571 | 20,773 |
| Repayments made in year | (136) | - | (232) | (4,045) | - | (4,413) |
| Value at 31 March 2015 | 14,999 | 19,738 | 18,941 | 54,855 | 4,850 | 113,383 |
| New liability incurred | - | - | - | 137 | 85 | 222 |
| Repayments made in year | (149) | (301) | (305) | (3,359) | (175) | (4,289) |
| Value at 31 March 2016 | 14,850 | 19,437 | 18,636 | 51,633 | 4,760 | 109,316 |

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 |
| Net Book Value at 1 April 2014 | 44,864 | 18,308 | 4,934 | 68,106 |
| Additions | - | 906 | - | 906 |
| Depreciation & Impairment | (798) | (796) | (170) | (1,764) |
| Revaluation | 322 | - | - | 322 |
| Net Book Value at 1 April 2015 | 44,388 | 18,418 | 4,764 | 67,570 |
| Additions | - | 137 | 85 | 222 |
| Depreciation & Impairment | (798) | (796) | (295) | (1,889) |
| Net Book Value at 1 April 2016 | 43,590 | 17,759 | 4,554 | 65,903 |

The projected payments under the agreements are as follows:

| | 1 year | 2-5 years | 5-10 years | 10-15 years | 15-20 years | 20+ years | Total |
|--------------------------------------|--------|--------------|---------------|----------------|----------------|--------------|--------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| St Michael's Catholic College | | | | | | | |
| Liability | 253 | 1,297 | 2,066 | 4,437 | 6,797 | - | 14,850 |
| Interest | 1,896 | 7,222 | 7,894 | 6,064 | 2,555 | - | 25,631 |
| Service Charges | 551 | 2,421 | 3,844 | 4,115 | 4,974 | - | 15,905 |
| St Thomas the Apostle College | | | | | | | |
| Liability | 370 | 1,862 | 3,170 | 5,001 | 8,291 | 743 | 19,437 |
| Interest | 2,066 | 9,886 | 8,441 | 6,425 | 2,993 | 46 | 29,857 |
| Service Charges | 301 | 1,188 | 1,573 | 1,817 | 2,149 | (242) | 6,786 |
| Lifecycle Payments | (2) | 258 | 670 | 928 | 1,379 | (36) | 3,197 |

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| | | | | | | | |
|---|--------|--------|---------|---------|--------|-------|----------------|
| Sacred Heart Catholic School | | | | | | | |
| Liability | 357 | 1,767 | 2,961 | 4,460 | 6,721 | 2,370 | 18,636 |
| Interest | 1,894 | 7,167 | 7,781 | 6,066 | 3,208 | 167 | 26,283 |
| Service Charges | 451 | 1,866 | 2,499 | 2,897 | 3,378 | 1,264 | 12,355 |
| Lifecycle Payments | 34 | 327 | 613 | 748 | 1,504 | 440 | 3,666 |
| Integrated Waste Management Facility | | | | | | | |
| Liability | 3,255 | 13,298 | 15,993 | 13,754 | 5,333 | - | 51,633 |
| Interest | 2,680 | 9,022 | 7,964 | 4,342 | 781 | - | 24,789 |
| Service Charges | 18,241 | 81,211 | 111,136 | 129,935 | 53,660 | - | 394,183 |
| Lifecycle Payments | 307 | 1,236 | 11,460 | 17,501 | 7,076 | - | 37,580 |
| Heat Supply Arrangement | | | | | | | |
| Liability | 99 | 529 | 1,096 | 1,915 | 1,121 | - | 4,760 |
| Interest | 579 | 2,184 | 2,296 | 1,477 | 235 | - | 6,771 |
| Service Charges | 1,169 | 4,976 | 6,952 | 7,866 | 3,429 | - | 24,392 |
| Lifecycle Payments | 90 | 377 | 527 | 595 | 260 | - | 1,849 |

32. TERMINATION BENEFITS

| Exit package cost band | Number of exit packages Schools | | Number of exit packages Non-schools | | Total number of exit packages | | Total cost of exit packages by band | |
|------------------------|---------------------------------|-----------|-------------------------------------|-----------|-------------------------------|-----------|-------------------------------------|--------------|
| | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 |
| | No. staff | No. staff | No. staff | No. staff | No. staff | No. staff | £000 | £000 |
| £0 - £20,000 | 19 | 11 | 156 | 67 | 175 | 78 | 1,590 | 723 |
| £20,001 - £40,000 | 4 | 2 | 151 | 11 | 155 | 13 | 4,348 | 364 |
| £40,001 - £60,000 | - | - | 63 | 3 | 63 | 3 | 3,020 | 134 |
| £60,001 - £80,000 | - | - | 11 | - | 11 | - | 722 | - |
| £80,001 - £100,000 | - | - | 9 | - | 9 | - | 767 | - |
| £100,001 - £120,000 | - | - | 4 | - | 4 | - | 430 | - |
| £120,001 - £140,000 | - | - | 2 | - | 2 | - | 245 | - |
| Total | 23 | 13 | 396 | 81 | 419 | 94 | 11,222 | 1,221 |

The council did not offer a voluntary severance scheme to its staff. Where staff left on redundancy the post that they occupied was subject to deletion or reduction; as such the council does not classify individuals' decisions to leave as either voluntary or compulsory redundancy, and there are no differences in payments.

33. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Department for Education. 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 2015/16 the council paid £9.0 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 15.5% of pensionable pay, (£7.9 million and 14.1% respectively in 2014/15). It also paid £0.3 million to the NHS Pension Scheme representing 14.2% of pensionable pay (£0.3 million in 2014/15, representing 14% of pensionable pay).

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 34 below.

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34. 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.

| | 2015/16 | | | 2014/15 | | |
|---|-----------------|----------------|-----------------|-----------------|--------------|------------------|
| | Council £000 | LPFA £000 | Total £000 | Council £000 | LPFA £000 | Total £000 |
| Cost of services: | | | | | | |
| - current service cost | 35,200 | 449 | 35,649 | 30,100 | 382 | 30,482 |
| - past service costs | 4,800 | - | 4,800 | 3,000 | - | 3,000 |
| Financing and investment income and expenditure | | | | | | |
| - net interest expense | 14,900 | 220 | 15,120 | 20,000 | 104 | 20,104 |
| Total post employment benefit charged to the surplus or deficit on the provision of services | 54,900 | 669 | 55,569 | 53,100 | 486 | 53,586 |
| Other post employment benefit charged to the comprehensive income and expenditure statement | | | | | | |
| Remeasurement of the net defined benefit liability comprising | | | | | | |
| - Return on plan assets (excluding amount included in the net interest expense) | 24,700 | 1,949 | 26,649 | (146,600) | (1,273) | (147,873) |
| - Actuarial gains and losses arising on changes in demographic assumptions | - | - | - | 141,200 | - | 141,200 |
| - Actuarial gains and losses arising on changes in financial assumptions | (61,400) | (3,948) | (65,348) | - | 6,154 | 6,154 |
| - Actuarial gains and losses arising on changes in liability experience | (17,700) | - | (17,700) | (10,600) | - | (10,600) |
| Total post employment benefit charged to the comprehensive income and expenditure statement | 500 | (1,330) | (830) | 37,100 | 5,367 | 42,467 |
| Movement in reserves statement | | | | | | |
| - reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code | 54,900 | 669 | 55,569 | 53,100 | 486 | 53,586 |
| Actual amount charged against the General Fund Balance for pensions in the year | | | | | | |
| - employers' contributions payable to the scheme | 39,800 | 560 | 40,360 | 37,726 | 543 | 38,269 |

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:

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:

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| | 2015/16 | | | 2014/15 | | |
|--|------------------|----------------|------------------|------------------|----------------|------------------|
| | Council £000 | LPFA £000 | Total £000 | Council £000 | LPFA £000 | Total £000 |
| Present value of defined benefit obligation | 1,656,800 | 55,830 | 1,712,630 | 1,686,900 | 60,244 | 1,747,144 |
| Fair value of plan assets | 1,212,400 | 50,134 | 1,262,534 | 1,203,200 | 52,658 | 1,255,858 |
| Net (liability) arising from defined benefit obligation | (444,400) | (5,696) | (450,096) | (483,700) | (7,586) | (491,286) |

Reconciliation of present value of the scheme assets:

| | 2015/16 | | | 2014/15 | | |
|--|------------------|---------------|------------------|------------------|---------------|------------------|
| | Council £000 | LPFA £000 | Total £000 | Council £000 | LPFA £000 | Total £000 |
| Opening balance at 1 April | 1,203,200 | 52,658 | 1,255,858 | 1,013,300 | 51,431 | 1,064,731 |
| Interest income on assets | 38,400 | 1,549 | 39,949 | 43,600 | 2,117 | 45,717 |
| Remeasurement gains/(losses) on assets | (24,700) | (1,949) | (26,649) | 146,600 | 1,273 | 147,873 |
| Administration expenses | - | (79) | (79) | - | (77) | (77) |
| Employer contributions | 40,900 | 560 | 41,460 | 38,900 | 543 | 39,443 |
| Contribution by participants | 11,600 | 71 | 11,671 | 11,400 | 71 | 11,471 |
| Net benefits paid out | (57,000) | (2,676) | (59,676) | (50,600) | (2,700) | (53,300) |
| Closing balance at 31 March | 1,212,400 | 50,134 | 1,262,534 | 1,203,200 | 52,658 | 1,255,858 |

Reconciliation of present value of the scheme liabilities:

| | 2015/16 | | | 2014/15 | | |
|--------------------------------------|------------------|---------------|------------------|------------------|---------------|------------------|
| | Council £000 | LPFA £000 | Total £000 | Council £000 | LPFA £000 | Total £000 |
| Opening balance at 1 April | 1,686,900 | 60,244 | 1,747,144 | 1,497,600 | 54,193 | 1,551,793 |
| Current service cost | 35,200 | 370 | 35,570 | 30,100 | 305 | 30,405 |
| Interest cost | 53,300 | 1,769 | 55,069 | 63,600 | 2,221 | 65,821 |
| Contributions by scheme participants | 12,700 | 71 | 12,771 | 12,600 | 71 | 12,671 |
| Actuarial gains and losses | (79,100) | (3,948) | (83,048) | 130,600 | 6,154 | 136,754 |
| Benefits paid | (57,000) | (2,676) | (59,676) | (50,600) | (2,700) | (53,300) |
| Past service costs | 4,800 | - | 4,800 | 3,000 | - | 3,000 |
| Closing balance at 31 March | 1,656,800 | 55,830 | 1,712,630 | 1,686,900 | 60,244 | 1,747,144 |

Scheme assets comprised:

| | 2015/16 | | | 2014/15 | | |
|---------------------------|------------------|---------------|------------------|------------------|---------------|------------------|
| | Council £000 | LPFA £000 | Total £000 | Council £000 | LPFA £000 | Total £000 |
| Quoted | | | | | | |
| - Equities | 643,784 | 22,289 | 666,073 | 777,267 | 22,846 | 800,113 |
| - Property | - | - | - | 36,096 | - | 36,096 |
| - Government bonds | 123,665 | - | 123,665 | 131,149 | - | 131,149 |
| - Corporate bonds | 115,178 | - | 115,178 | 117,914 | - | 117,914 |
| - LDI/Cashflow matching | - | 5,082 | 5,082 | - | 3,952 | 3,952 |
| - Target return portfolio | - | 10,664 | 10,664 | - | 15,223 | 15,223 |
| - Commodities | - | 224 | 224 | - | 490 | 490 |
| - Other | 117,603 | - | 117,603 | - | - | - |
| | 1,000,230 | 39,259 | 1,039,489 | 1,062,426 | 42,511 | 1,104,937 |
| Unquoted | | | | | | |
| - Infrastructure | - | 2,747 | 2,747 | - | 2,609 | 2,609 |
| - Property | 201,258 | 1,789 | 203,047 | 132,352 | 1,492 | 133,844 |
| - Cash | 10,912 | 6,339 | 17,251 | 8,422 | 6,046 | 14,468 |
| | 212,170 | 10,875 | 223,045 | 140,774 | 10,147 | 150,921 |
| | 1,212,400 | 50,134 | 1,262,534 | 1,203,200 | 52,658 | 1,255,858 |

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Basis for estimating assets and liabilities

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 2013 and rolled forward.

The principal assumptions used by the actuaries have been:

| | Council | | LPFA | |
|---|---------|---------|---------|---------|
| | 2015/16 | 2014/15 | 2015/16 | 2014/15 |
| Mortality assumptions | | | | |
| Longevity at 65 for current pensioners | | | | |
| - Men (years) | 21.9 | 21.9 | 21.0 | 20.9 |
| - Women (years) | 26.5 | 26.4 | 24.3 | 24.2 |
| Longevity at 65 for future pensioners | | | | |
| - Men (years) | 24.1 | 24.0 | 23.4 | 23.3 |
| - Women (years) | 28.8 | 28.7 | 26.6 | 26.5 |
| Principal financial assumptions | | | | |
| - rate of inflation - RPI | 2.9% | 2.9% | 2.9% | 3.0% |
| - rate of inflation - CPI | 1.8% | 1.8% | 2.0% | 2.2% |
| - rate of increase in salaries | 3.3% | 3.3% | 3.8% | 4.0% |
| - rate of increase in pensions | 1.8% | 1.8% | 2.0% | 2.2% |
| - rate of pension accounts revaluation | 1.8% | 1.8% | - | - |
| - rate for discounting scheme liabilities | 3.4% | 3.2% | 3.3% | 3.0% |

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 |
| Present value of total obligation | | | | | | |
| Longevity (+/- 1 Year) | 1,699,000 | 57,651 | 1,756,651 | 1,614,500 | 54,068 | 1,668,569 |
| Rate of increase in salaries (+/- 0.1%) | 1,682,700 | 55,873 | 1,718,573 | 1,651,000 | 55,787 | 1,706,787 |
| Rate of increase in pensions (+/- 0.1%) | 1,681,400 | 56,566 | 1,737,966 | 1,632,500 | 55,104 | 1,687,604 |
| Rate for discounting scheme liabilities (+/- 0.1%) | 1,626,800 | 55,071 | 1,681,871 | 1,687,400 | 56,600 | 1,744,000 |
| Projected service cost | | | | | | |
| Longevity (+/- 1 Year) | 36,500 | 337 | 36,837 | 34,100 | 321 | 34,421 |
| Rate of increase in salaries (+/- 0.1%) | 35,300 | 329 | 35,629 | 35,300 | 329 | 35,629 |
| Rate of increase in pensions (+/- 0.1%) | 36,500 | 335 | 36,835 | 34,100 | 323 | 34,423 |
| Rate for discounting scheme liabilities (+/- 0.1%) | 34,100 | 323 | 34,423 | 36,500 | 336 | 36,836 |

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 2016. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £1,713 million (£1,747 million 2014/15) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £450 million (£491 million 2014/15). However statutory arrangements for funding the deficit mean that the council remains healthy. The deficit on both schemes 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 2015/16 is £35.3 million for the council scheme and £0.3 million for the LPFA

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scheme (£36.2 million and £0.4m respectively in 2014/15). The weighted average duration of the defined benefit obligation for the council scheme members is 18.3 years and 14 years for LPFA scheme members, unchanged from 2014/15.

35. OTHER LONG-TERM LIABILITIES

| | As at 31/03/16 £000 | As at 31/03/15 £000 |
|--|---------------------------|---------------------------|
| Payments due under PFI schemes and similar arrangements: | | |
| Integrated waste Management Facility | 48,378 | 51,496 |
| St Thomas the Apostle College | 19,064 | 19,437 |
| Sacred Heart Catholic school | 18,275 | 18,636 |
| St Michaels Catholic college | 14,598 | 14,850 |
| Heat Supply Arrangement | 4,573 | 4,674 |
| Payments due under finance leases | 62 | 222 |
| Deferred rental due on leasing of building assets | - | 1,137 |
| Total cash and cash equivalents | 104,950 | 110,452 |

36. 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 (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the council approves a Treasury Management Strategy before the commencement of each 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 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 cash available to make contracted payments on time
- Market Risk: the possibility that an unplanned financial loss will materialize because of changes in market variables such as interest rates or equity 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. 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.

Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and limits are also set on the amounts that can be invested in specific sectors. No more than 50% in total can be invested 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 2016 that this was likely to crystallise.

The council's maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2016 is set out below:

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| | A | AA | AAA | Total |
|--------------------------|------------|------------|------------|--------------|
| Upto 1 year | 27% | 13% | 41% | 81% |
| 1 – 2 years | 3% | 4% | 2% | 9% |
| 2- 5 years | 1% | 4% | 5% | 10% |
| Total investments | 31% | 21% | 48% | 100% |

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 maturity analysis of principal sums borrowed is as follows:

| | 2015/16 £000 | 2014/15 £000 |
|-------------------------|-------------------------|-------------------------|
| Less than 1 year | 5,000 | 6,384 |
| Between 1 and 5 years | 38,171 | 27,688 |
| Between 5 and 10 years | 97,145 | 91,554 |
| Between 10 and 20 years | 129,644 | 133,247 |
| Over 20 years | 192,891 | 210,363 |
| Total | 462,851 | 469,236 |

Market risk

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

All council borrowing outstanding at 31 March 2016 are from the Public Works Loans Board (PWLB). The debt is at fixed rates, with an average maturity of 21 years and a modified duration of 14 years. The council may draw loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £90 million and a 1% fall would raise it by £114 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such changes, 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 0.5 years and the modified duration is 0.4. Within that, the available-for-sale investments have an average life of 0.6 years and a modified duration of 0.6. 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. A 1% change in discount rates on loans and receivable investments at the Balance Sheet date would change the fair value by £0.1 million, but as these are held at amortised cost there would be no impact on the comprehensive income and expenditure statement unless the investments were extinguished.

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. Investments are managed by two fund managers and an in-house operation.

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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.

| | Note | 2015/16 £000 | 2014/15 £000 |
|--|------|------------------|------------------|
| Income | | | |
| Dwelling rents | | (200,368) | (195,594) |
| Non dwelling rents | | (11,449) | (11,373) |
| Charges for services and facilities | | (81,641) | (78,289) |
| Contributions towards expenditure | | (4,747) | (4,975) |
| Total income | | (298,205) | (290,231) |
| Expenditure | | | |
| Repairs and maintenance | | 55,397 | 55,670 |
| Supervision and management | | 125,892 | 110,461 |
| Rents, rates, taxes and other charges | | 9,579 | 8,009 |
| Depreciation and impairment of non-current assets | 3 | 65,761 | 83,992 |
| Debt management costs | | 193 | 193 |
| Increase in provisions for bad debts | | 4,183 | 1,418 |
| Revenue expenditure funded from capital under statute | 4 | 1,871 | 7,125 |
| Total expenditure | | 262,876 | 266,868 |
| Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement | | (35,329) | (23,363) |
| HRA share of CDC costs | | 1,106 | 1,106 |
| Net Cost of HRA Services | | (34,223) | (22,257) |
| Gains and losses on the sales of HRA non-current assets | | (38,599) | (16,575) |
| Interest payable and similar charges | | 22,982 | 23,234 |
| Premiums arising from debt refinancing | | - | - |
| Interest and investment income | | (1,131) | (918) |
| Pensions interest cost and expected return on pensions assets | | 2,356 | 3,679 |
| Capital grants and contributions receivable | | (73,939) | (33,174) |
| Total (surplus)/deficit for the year | | (122,554) | (70,224) |

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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 | 2015/16 £000 | 2014/15 £000 |
|--|----------|-----------------|-----------------|
| (Surplus)/deficit for the year on HRA services | | (122,554) | (70,224) |
| Net additional amounts required by statute | 5 | 131,886 | 67,747 |
| (Increase)/decrease in the HRA Balance | | 9,332 | (2,477) |
| HRA Balance brought forward | | (25,945) | (23,468) |
| Balance carried forward | 6 | (16,613) | (25,945) |

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DRAFT STATEMENT OF ACCOUNTS 2015/16**

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 | |
|----------------------|----------|--------------------|--------|--------|-------|---------|---------|
| | | 1 | 2 | 3+ | Other | 31/3/16 | 31/3/15 |
| Houses and bungalows | 31/03/16 | 402 | 730 | 2,866 | - | 3,998 | |
| | 31/03/15 | 406 | 734 | 2,878 | - | | 4,018 |
| Low rise flats | 31/03/16 | 2,865 | 629 | 345 | - | 3,839 | |
| | 31/03/15 | 2,893 | 631 | 360 | - | | 3,884 |
| Medium rise flats | 31/03/16 | 6,685 | 7,195 | 6,144 | - | 20,024 | |
| | 31/03/15 | 6,768 | 7,234 | 6,195 | - | | 20,197 |
| High rise flats | 31/03/16 | 2,962 | 4,753 | 1,820 | - | 9,535 | |
| | 31/03/15 | 2,979 | 4,785 | 1,821 | - | | 9,585 |
| Non permanent | 31/03/16 | - | - | - | 2 | 2 | |
| | 31/03/15 | - | - | - | 3 | | 3 |
| Multi occupied | 31/03/16 | - | - | - | 327 | 327 | |
| | 31/03/15 | - | - | - | 235 | | 235 |
| TOTALS | 31/03/16 | 12,914 | 13,307 | 11,175 | 329 | 37,725 | |
| | 31/03/15 | 13,046 | 13,384 | 11,254 | 238 | | 37,922 |

In addition to the numbers shown in the table above, as at 31 March 2016 there were also 676 void properties (613 at 31 March 2015). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.

The vacant possession value of dwellings as at 1 April 2016 was £12.4 billion (£11.2 billion as at 1 April 2015). 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.

3. DEPRECIATION AND REVALUATION CHARGES

| | 2015/16 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Dwellings depreciation | 65,705 | 55,915 |
| Other property depreciation | 3,091 | 2,633 |
| Revaluation losses on non-current assets | (3,035) | 25,444 |
| Total | 65,761 | 83,992 |

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 revaluation charges in respect of dwellings 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.

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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 2015/16 £1.9 million was incurred in the HRA as REFCUS (£7.1 million in 2014/15).

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:

| | 2015/16 £000 | 2014/15 £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 | (178) | 7,213 |
| Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | (3) | (79) |
| Gain or loss on sale of HRA non current assets | 38,599 | 17,138 |
| HRA share of contributions to or from the Pensions Reserve | (3,044) | (3,058) |
| Capital expenditure funded by the HRA | 35,763 | 18,672 |
| Transfer to/from the Major Repairs Reserve | 48,920 | 47,842 |
| Transfer to/from the Capital Adjustment Account | 11,829 | (19,981) |
| Net additional amount required by statute to be charged to the HRA | 131,886 | 67,747 |

6. HRA BALANCE

HRA reserves at 31 March 2016 are £16.6 million (£25.9 million at 31 March 2015) and are allocated as follows:

| | 2015/16 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Regeneration and Development Reserve | 4.5 | 10.0 |
| Modernisation, Service and Operational Improvement Reserve | 2.5 | 3.0 |
| Financial Risk Reserve | 9.6 | 9.4 |
| Other earmarked reserves | - | 3.5 |
| Total | 16.6 | 25.9 |

The Regeneration and Development reserve of £4.5 million relates in part to the redevelopment of the Aylesbury Estate (£2.6 million) and also to the direct delivery of new council homes (£1.9 million).

The Modernisation, Service and Operational Improvement reserve of £2.5 million comprises £0.6 million for IT modernisation and £1.9 million for investment in heating efficiency measures.

The Financial Risk reserve, £9.6 million, includes £4.5 million contingency reserve, broadly representing 0.9% of gross HRA revenue spend and Housing Investment Programme spend. The Reserve also provides £1.3 million to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £3.3 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, and £0.5 million for estate parking.

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7. MAJOR REPAIRS RESERVE

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Balance 1 April | 39,541 | 10,269 |
| Transfers from the Capital Adjustment Account | 68,796 | 58,548 |
| Transfer to the HRA | (19,877) | (10,706) |
| Financing of capital expenditure | (84,883) | (18,570) |
| Balance 31 March | 3,577 | 39,541 |

8. CAPITAL EXPENDITURE AND FINANCING

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Capital Investment | | |
| Non current assets | 241,711 | 161,472 |
| REFCUS | 1,871 | 7,125 |
| Total | 243,582 | 168,597 |
| Funding Source: | | |
| Revenue contributions | 35,763 | 18,672 |
| Capital receipts from the sales of assets | 48,997 | 75,315 |
| Grants and other contributions | 73,939 | 56,040 |
| Major Repairs Reserve | 84,883 | 18,570 |
| Total | 243,582 | 168,597 |

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

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Council dwellings | | |
| Right to Buy | (31,870) | (30,864) |
| Discounts repaid | (429) | (231) |
| Non Right to Buy | (12,584) | (4,512) |
| Other receipts | | |
| Land sales | (18,349) | (59,946) |
| Mortgages | (19) | (24) |
| Sub total | (63,251) | (95,577) |
| Less: Pooled (paid to central Government) | 4,581 | 3,982 |
| Total | (58,670) | (91,595) |

10. HOUSING TENANTS ACCOUNTS

| | 2015/16 £000 | 2014/15 £000 |
|-------------------------------------|-----------------|-----------------|
| Gross arrears as at 1 April | 19,767 | 17,827 |
| Prior year payments | (9,539) | (7,140) |
| Arrears as at 1 April | 10,228 | 10,687 |
| Charges due in the year | 241,676 | 236,491 |
| Rent rebates | (109,587) | (110,667) |
| Write-offs | (1,276) | (1,212) |
| Adjustments | (7,282) | (5,292) |
| Cash collected | (125,456) | (119,775) |
| Net arrears as at 31 March | 8,303 | 10,232 |
| Payments in advance | 9,077 | 7,140 |
| Gross arrears as at 31 March | 17,380 | 17,372 |

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

11. IMPAIRMENT OF DEBTORS

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Rents | 10,699 | 10,745 |
| Income from hostels | 793 | 691 |
| Court costs | 786 | 764 |
| Commercial rents | 617 | 657 |
| Penalty Charge Notices and parking warrants | 1,582 | 926 |
| Total | 14,477 | 13,783 |

From 2013/14 the HRA became responsible for parking income derived through Penalty Charge Notices (the level of which is set nationally), and parking warrants. This income is ring-fenced to fund expenditure directly related to the provision of appropriate services.

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.

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Current service cost | 5,583 | 4,367 |
| Interest on pension scheme liabilities | 2,356 | 2,895 |
| Actuarial (gains)/losses | (8,636) | (2,192) |
| Total IAS 19 charges | (697) | 5,070 |
| Less Pensions costs attributable to the HRA | (4,895) | (4,203) |
| Movement on the Pensions Reserve | (5,592) | 867 |

13. WATER CHARGES

In March 2016 the High Court found that the council had been overcharging tenants for water supplies via Thames Water, contrary to the Water Resale Order 2006. Refunds to current and former tenants will commence in the early part of 2016/17. The council has made appropriate provision in the Accounts for this purpose.

Under the terms of the Water Resale Order 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 statement 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 | 2015/16 £000 | 2014/15 £000 |
|---|-------|---------------------|------------------------|--------------------------------------|------------------|------------------|
| Income | | | | | | |
| Income from Council Tax | 1 | (112,409) | - | - | (112,409) | (108,221) |
| Income from Non Domestic Rates | 2 | - | (224,414) | - | (224,414) | (203,234) |
| Income collectable in respect of Business Rate Supplements | 3 | - | - | (7,071) | (7,071) | (6,171) |
| Contribution from preceptors towards previous years Collection Fund deficit | 4 | - | (13,147) | - | (13,147) | - |
| Total Income | | (112,409) | (237,561) | (7,071) | (357,041) | (317,626) |
| Expenditure | | | | | | |
| Precepts and Demands | | | | | | |
| Greater London Authority (GLA) | | 25,880 | - | - | 25,880 | 25,217 |
| London Borough of Southwark | | 80,002 | - | - | 80,002 | 76,928 |
| Share of Non Domestic Rates | | | | | | |
| Greater London Authority | | - | 45,725 | - | 45,725 | 41,049 |
| London Borough of Southwark | | - | 68,587 | - | 68,587 | 61,573 |
| Communities and Local Government | | - | 114,311 | - | 114,311 | 102,621 |
| Transitional protection payments to CLG | | - | 60 | - | 60 | 536 |
| Cost of collection allowance (NNDR) | | - | 652 | - | 652 | 655 |
| Business Rate Supplements (BRS) | | | | | | |
| Payment to GLA's BRS Revenue Account | 3 | - | - | 7,054 | 7,054 | 6,151 |
| Administrative costs | | - | - | 17 | 17 | 20 |
| Council Tax Impairment of debts | | | | | | |
| Allowance for impairment | | (174) | - | - | (174) | 733 |
| Council Tax write offs | | 2,574 | - | - | 2,574 | 1,193 |
| Non Domestic Rates Impairment of debts & Appeals | | | | | | |
| Allowance for impairment & write offs | | - | 783 | - | 783 | 1,247 |
| Provision for appeals | 5 | - | (11,630) | - | (11,630) | (8,051) |
| Contribution to preceptors from previous year's Collection Fund surplus | | | | | | |
| Council Tax/Non Domestic Rates | 4 | 5,184 | - | - | 5,184 | 1,789 |
| Total Expenditure | | 113,466 | 218,488 | 7,071 | 339,025 | 311,661 |
| Net deficit/(surplus) for the year | | 1,057 | (19,073) | - | (18,016) | (5,965) |
| Deficit/(surplus) at 1 April | | (5,943) | 32,727 | - | 26,784 | 32,749 |
| Deficit/(surplus) at 31 March | | (4,886) | 13,654 | - | 8,768 | 26,784 |

**SOUTHWARK COUNCIL
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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 total number of properties liable to tax, expressed as a band D equivalent.

In 2015/16 the estimated income required from the Collection Fund for all preceptors was £105.9m (£102.1 million in 2014/15). The amount of council tax for a band D property (£1,207.14 in 2015/16 and £1,211.14 in 2014/15) is multiplied by the "ratio" specified for the particular band to give the council tax due from properties in other bands. 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 | |
|--|---|------------------|-------|---|------------------|
| | 2015/16 | 2014/15 | | 2015/16 | 2014/15 |
| A | 6,482.00 | 6,353.25 | 6/9 | 4,235.63 | 4,234.92 |
| B | 22,617.75 | 21,533.00 | 7/9 | 17,591.58 | 16,747.89 |
| C | 23,840.00 | 23,003.25 | 8/9 | 21,191.11 | 20,447.33 |
| D | 17,275.00 | 16,533.50 | 1 | 17,275.00 | 16,533.50 |
| E | 12,390.50 | 11,807.25 | 11/9 | 15,143.94 | 14,431.08 |
| F | 5,309.25 | 5,295.25 | 13/9 | 7,668.92 | 7,648.69 |
| G | 3,817.50 | 3,768.75 | 15/9 | 6,362.50 | 6,281.25 |
| H | 557.75 | 536.25 | 18/9 | 1,115.50 | 1,072.50 |
| Total | 92,289.75 | 88,830.50 | | 90,674.18 | 87,397.16 |
| Less adjustment for collection rate | | | | (2,946.91) | (3,058.90) |
| Council Tax Base for year | | | | 87,727.28 | 84,338.26 |
| Estimated Income Required from Collection Fund | | | | £105,899,109 | £102,145,440 |
| Band D Council Tax | | | | £1,207.14 | £1,211.14 |

2. NATIONAL NON DOMESTIC RATES

National Non-Domestic Rates (NNDR) or business rates are collected from local businesses by the council. Previously, the rates collected were paid into a national pool administered by central government, which were then redistributed back to local authorities on a formula basis. However, from 1 April 2013 the Business Rates Retention scheme was introduced. Now the council keeps 30% of the business rates income, with the remainder being paid to the Greater London Authority (20%) and the Department for Communities and Local Government (DCLG) (50%).

The business rates are based on local rateable values set by the Valuation Office Agency and a multiplier set by the DCLG. The non-domestic rating multiplier for 2015/16 was 49.3p with a lower rate of 48.0p for small businesses (48.2p and 47.1p respectively for 2014/15). Local businesses pay NNDR calculated by multiplying their rateable value by the appropriate multiplier and subtracting any relevant reliefs.

The total rateable value in Southwark at 31 March 2016 was £549.2 million (£526.2 million at 31 March 2015).

3. BUSINESS RATE SUPPLEMENT

The Business Rate Supplements (BRS) is collected from local businesses by the council, on behalf of the Greater London Authority. The levy set for 2015/16 was 2p per pound of rateable value (RV) on non-domestic properties with a rateable value of over £55,000. The rate has remained unchanged since its inception in 2010.

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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 the year, by the 15 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 the council tax if there is a deficit. In January 2015, the council estimated an accumulated collection fund surplus balance of £1.845m for 2014/15 as follows:

| | Council Tax £000 | Business Rates £000 | Total £000 |
|--|---------------------------------|------------------------------------|-----------------------|
| (Surplus)/deficit as at 31 March 2014 | (3,545) | 36,295 | 32,750 |
| Less estimated deficit/(surplus) for 2014/15 | (1,639) | (14,106) | (15,745) |
| Less spreading adjustment (see below) | - | (18,850) | (18,850) |
| Estimated surplus as at 31 March 2014 | (5,184) | 3,339 | (1,845) |

The requirement to create a provision for appeals resulted in a significant collection fund deficit in 2013. To smooth the budgetary impact of having to reduce this deficit in a single financial year, the DCLG permitted authorities to spread the deficit over five years.

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 deficit for business rates was apportioned between the council, the GLA and DCLG as follows:

| Authority | Council Tax | | Business Rates | | Total £000 |
|--|------------------------|----------------|---------------------------|--------------|-----------------------|
| | % | £000 | % | £000 | |
| Southwark Council | 75 | (3,904) | 30 | 1,001 | (2,903) |
| Greater London Authority | 25 | (1,280) | 20 | 668 | (612) |
| Central Government | | - | 50 | 1,669 | 1,669 |
| Estimated surplus for 2013/14, redistributed in 2014/15 | | (5,184) | | 3,338 | (1,846) |

5. PROVISION FOR BUSINESS RATES APPEALS

Historically, the balance on the NNDR element of the Collection Fund has always been nil, reflecting the council's agency status in collecting the tax. However, the introduction of the Business Rates Retention scheme passed some risks and rewards to the local authority. This allows the council to retain a share of any growth in NNDR income, but also transfers some of the risk of non-collection. Accordingly the council must now provide for potential losses on appeal. The provision as at 31 March 2016 is £19.3m (£17.5m at 31 March 2015).

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PENSION FUND ACCOUNTS

FUND ACCOUNT

| | Note | 2015/16 | | 2014/15 | |
|---|------|----------|--------------------|-----------|--------------------|
| | | £000 | £000 | £000 | £000 |
| Dealings with members, employers and others directly involved in the fund | | | | | |
| Contributions | 6 | (55,479) | | (52,677) | |
| Transfers in from other pension funds | | (5,702) | | (1,891) | |
| Sub total | | | (61,181) | | (54,569) |
| Benefits | 7 | 56,850 | | 48,844 | |
| Payments to and on account of leavers | 8 | 4,905 | | 2,908 | |
| Sub total | | | 61,755 | | 51,801 |
| Net reduction/(addition) from dealing with members of the fund | | | 574 | | (2,768) |
| Management expenses | 9 | | 4,549 | | 4,503 |
| Returns on investments | | | | | |
| Investment income | 10 | (13,897) | | (12,903) | |
| Taxes on income | 10 | 155 | | 105 | |
| Profit and losses on disposal of investments and changes in market value of investments | 11 | (1,212) | | (187,967) | |
| Net return on investments | | | (14,954) | | (200,765) |
| Net (increase)/decrease in the net assets available for benefits during the year | | | (9,831) | | (199,030) |
| Opening net assets of the scheme | | | (1,247,731) | | (1,048,701) |
| Net assets of the scheme available to fund benefits at 31 March | | | (1,257,562) | | (1,247,731) |

NET ASSETS STATEMENT

| | Note | 2015/16 £000 | 2014/15 £000 |
|--|------|------------------|------------------|
| Investment assets | 11 | 1,245,422 | 1,239,275 |
| Current assets | 12 | 17,031 | 12,426 |
| Current liabilities | 12 | (4,891) | (3,970) |
| Net assets of the scheme available to fund benefits at 31 March | | 1,257,562 | 1,247,731 |

**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 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the Local Government Pension Scheme (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 2009 (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 Administering Authority in its role as scheme manager of the Pension Fund. The Board will meet regularly 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 organization. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

| | 2015/16 | 2014/15 |
|--|----------------|----------------|
| Number of contributors to the Fund | 7,117 | 7,210 |
| Number of contributors and dependants receiving allowances | 7,212 | 6,913 |
| Number of contributors who have deferred their pensions | 7,858 | 7,705 |

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 2016. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2013. Currently, employer rates range from 7.2% to 27.6% of pensionable pay, plus additional deficit payments where appropriate.

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:

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| | 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 1/49th. Accrued pension is updated annually in line with Consumer Prices Index.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16*, 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.

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 financial 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 financial 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.

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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 the pensions administration team 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.

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.
- Property assets have been included in the accounts at market value as at 31 March each year. The valuation of direct property managed by Henderson Global Investors is carried out each year by an independent valuer.
- Investment assets have been valued and included in the accounts at bid price, except for direct property (freehold and leasehold) which have been valued at market value and derivative contracts which are valued on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

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h) 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.

i) 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.

j) 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.

k) 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.

l) 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 16. This estimate is subject to significant variances based on changes to underlying assumptions.

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. This applies particularly 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. The council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied. The actuarial position is set out in Note 16.

6. CONTRIBUTIONS RECEIVABLE

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

| | 2015/16 | | | 2014/15 | | |
|----------------------------|-------------------|-------------------|-----------------|-------------------|-------------------|-----------------|
| | Employees £000 | Employers £000 | Total £000 | Employees £000 | Employers £000 | Total £000 |
| Southwark Council | (11,295) | (39,881) | (51,176) | (11,061) | (37,540) | (48,601) |
| Admitted bodies | (346) | (1,145) | (1,491) | (365) | (1,161) | (1,526) |
| Scheduled bodies | (900) | (1,912) | (2,812) | (803) | (1,747) | (2,550) |
| Total Contributions | (12,541) | (42,938) | (55,479) | (12,229) | (40,448) | (52,677) |

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Contributions receivable from employers are shown below:

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Normal | (23,919) | (23,444) |
| Early retirement strain | (4,794) | (2,916) |
| Deficit funding | (14,224) | (14,087) |
| Total contributions from employers | (42,937) | (40,447) |
| Contributions from employees | (12,541) | (12,229) |
| Total Contributions | (55,479) | (52,676) |

During 2015/16 employees made Additional Voluntary Contributions (AVCs) of £468k (£466k in 2014/15). The value of the AVCs at 31 March 2016 was £2.744 million (£2.685 million at 31 March 2015).

7. BENEFITS PAYABLE

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

| | 2015/16 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Pensions | 43,630 | 41,123 |
| Commutation of pensions and lump sum retirement benefits | 11,923 | 6,254 |
| Lump sums – death benefits | 1,297 | 1,467 |
| Total benefits payable | 56,850 | 48,844 |

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

| | 2015/16 £000 | 2014/15 £000 |
|-------------------------------|-----------------|-----------------|
| Southwark Council | 54,929 | 47,287 |
| Admitted bodies | 1,582 | 1,259 |
| Scheduled bodies | 339 | 298 |
| Total benefits payable | 56,850 | 48,844 |

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2015/16 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Refund of contributions | 90 | 75 |
| State Scheme Premiums | 114 | 65 |
| Individual transfers out to other schemes | 4,701 | 2,768 |
| Total payments | 4,905 | 2,908 |

9. MANAGEMENT EXPENSES

| | 2015/16 £000 | 2014/15 £000 |
|------------------------------------|-----------------|-----------------|
| Administrative costs | 881 | 842 |
| Investment and management expenses | 3,656 | 3,661 |
| Oversight and governance costs | 12 | - |
| Total management expenses | 4,549 | 4,503 |

There are no performance related fees.

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10. INVESTMENT INCOME

| | 2015/16 | 2014/15 |
|---|-----------------|-----------------|
| | £000 | £000 |
| Dividends from equities | (2,601) | (2,200) |
| Income from pooled investment vehicles | (1,813) | (2,122) |
| Net rent from properties | (8,896) | (8,555) |
| Interest on cash deposits | (75) | (21) |
| Other income | (33) | (5) |
| Total investment income before taxes | (13,418) | (12,903) |
| Taxes on income | 155 | 105 |
| Total investment income after taxes | (13,263) | (12,798) |

The pension fund invests in a number of pooled funds which do not break down the income and expenditure incurred. Instead these are adjusted through the units held and are therefore reflected in change in market value. Where detailed information is available this is reflected in the accounts.

11. INVESTMENT ASSETS

| 2015/16 | Total | Analysed by: | | |
|---|-------------------|---------------------|------------------------|-----------------|
| | | Quoted UK | Quoted overseas | Unquoted |
| | 31/03/2016 | £000 | £000 | £000 |
| Fixed Interest Securities – Public Sector | 5,793 | - | 5,793 | - |
| Fixed Interest Securities – Other | 117,561 | 117,561 | - | - |
| Equities | 235,158 | 12,651 | 222,507 | - |
| Index linked securities | 119,853 | 119,853 | - | - |
| Managed Funds – Property (Freehold) | 151,775 | - | - | 151,775 |
| Managed Funds – Property (Leasehold) | 15,225 | - | - | 15,225 |
| Unit Trusts – Property | 43,989 | 35,290 | - | 8,699 |
| Unitised insurance policies | 555,780 | 39,192 | 516,588 | - |
| Derivatives Forward Currency | 55 | - | - | 55 |
| Options | - | - | - | - |
| Cash Deposits | 100 | - | - | 100 |
| Total investment assets | 1,245,289 | 324,547 | 744,888 | 175,854 |

| 2014/15 | Total | Analysed by: | | |
|---|-------------------|---------------------|------------------------|-----------------|
| | | Quoted UK | Quoted overseas | Unquoted |
| | 31/03/2015 | £000 | £000 | £000 |
| Fixed Interest Securities – Public Sector | 40,569 | 32,419 | 8,150 | - |
| Fixed Interest Securities – Other | - | - | - | - |
| Equities | 107,586 | 9,352 | 98,234 | - |
| Index linked securities | 94,741 | 94,741 | - | - |
| Managed Funds – Property (Freehold) | 125,180 | - | - | 125,180 |
| Managed Funds – Property (Leasehold) | 11,675 | - | - | 11,675 |
| Unit Trusts – Property | 37,262 | 37,262 | - | - |
| Unitised insurance policies | 817,835 | 174,287 | 643,548 | - |
| Derivatives Forward Currency | - | - | - | - |
| Options | - | - | - | - |
| Cash Deposits | 4,428 | - | - | 4,428 |
| Total investment assets | 1,239,276 | 348,061 | 749,932 | 141,283 |

Reconciliation of movements in investments

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:

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| | Value at 31/03/2015 £000 | Purchase £000 | Sales £000 | Change in market value £000 | Cash movement £000 | Value at 31/03/2016 £000 |
|------------------------------------|--------------------------------|------------------|------------------|--------------------------------------|--------------------------|--------------------------------|
| Fixed Interest: | | | | | | |
| UK public sector | 32,419 | - | (29,766) | (2,653) | - | - |
| UK quoted | - | 118,100 | - | (539) | - | 117,561 |
| Overseas public sector | 8,150 | 22,335 | (24,855) | 163 | - | 5,793 |
| UK Equities | 9,352 | 6,758 | (4,020) | 561 | - | 12,651 |
| Overseas Equities | 98,234 | 168,807 | (48,138) | 3,604 | - | 222,507 |
| Index linked Securities | 94,740 | 27,744 | (6,399) | 3,767 | - | 119,852 |
| Managed Funds: | | | | | | |
| Property (freehold) | 125,180 | 14,955 | - | 11,640 | - | 151,775 |
| Property (leasehold) | 11,675 | 9,019 | (4,364) | (1,105) | - | 15,225 |
| Unit Trusts - Property | 37,262 | 10,049 | (2,938) | (384) | - | 43,989 |
| Unitised insurance policies | 817,835 | 1,972 | (249,970) | (14,057) | - | 555,780 |
| Forward currency | - | 521 | (682) | 215 | - | 54 |
| Cash instruments | 4,428 | - | - | - | (4,328) | 100 |
| Total Net Investment Assets | 1,239,275 | 380,260 | (371,132) | 1,212 | (4,328) | 1,245,289 |
| Cash held at managers | 4,362 | - | - | - | 3,848 | 8,210 |
| Outstanding trades | 314 | - | - | - | 162 | 476 |
| Investment trade debtors | - | - | - | - | 6 | 6 |
| Total Net Investments | 1,243,951 | 380,260 | (371,132) | 1,212 | (312) | 1,253,980 |

| | Value at 31/03/2014 £000 | Purchase £000 | Sales £000 | Change in market value £000 | Cash movement £000 | Value at 31/03/2015 £000 |
|------------------------------------|--------------------------------|------------------|------------------|--------------------------------------|--------------------------|--------------------------------|
| Fixed Interest: | | | | | | |
| UK public sector | 25,522 | - | - | 6,897 | - | 32,419 |
| UK quoted | - | - | - | - | - | - |
| UK Equities | 12,486 | 2,372 | (4,478) | (1,028) | - | 9,352 |
| Overseas public sector | 6,778 | 25,963 | (25,459) | 868 | - | 8,150 |
| Overseas Equities | 76,828 | 40,621 | (38,048) | 18,833 | - | 98,234 |
| Index linked Securities | 79,319 | - | (1,400) | 16,821 | - | 94,740 |
| Managed Funds: | | | | | | |
| Property (freehold) | 95,500 | 13,968 | (6,004) | 21,716 | - | 125,180 |
| Property (leasehold) | 11,650 | 3,025 | - | (3,000) | - | 11,675 |
| Unit Trusts - Property | 36,183 | - | (3,500) | 4,579 | - | 37,262 |
| Unitised insurance policies | 693,007 | 23,586 | (21,193) | 122,435 | - | 817,835 |
| Forward currency | (19) | 312 | (282) | (11) | - | - |
| Options | 16 | 276 | (149) | (143) | - | - |
| Cash Deposits | - | - | - | - | 4,428 | 4,428 |
| Total Net Investment Assets | 1,037,270 | 110,123 | (100,513) | 187,967 | 4,428 | 1,239,275 |
| Cash held at managers | 10,186 | - | - | - | (5,824) | 4,362 |
| Outstanding trades | (333) | - | - | - | 647 | 314 |
| Investment trade debtors | 498 | - | - | - | (498) | - |
| Total Net Investments | 1,047,621 | 110,123 | (100,513) | 187,967 | (1,247) | 1,243,951 |

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 TIAA Henderson Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2016. All properties have been valued at market value.

The Statement of Investment Principles can be found in appendix 6 of the pension fund annual report. This can be accessed on the council's website via the following link https://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report 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.

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Investments exceeding 5% within each class of security are as follows:

| Asset Class | Fund Manager | Value at 31/03/16 £000 | % within asset class | Value at 31/03/15 £000 | % within asset class |
|---|-----------------|------------------------|----------------------|------------------------|----------------------|
| Fixed interest securities – UK Public Sector | | | | | |
| Over 15 Year Gilts Index | Legal & General | - | - | 15,773 | 49% |
| Aquila Life Over 15 Years UK Gilt Index S1 | BlackRock | - | - | 16,646 | 51% |
| | | - | - | 32,419 | 100% |
| Fixed Interest securities - Overseas Public Sector | | | | | |
| United States Government Gilts | Newton | 5,793 | 100% | - | - |
| Fixed Interest Securities – Corporate | | | | | |
| Absolute Return Bond | BlackRock | 117,561 | 100% | - | - |
| Index linked Securities | | | | | |
| Over 5 Year Index Linked Gilts | Legal & General | 63,053 | 53% | 46,590 | 49% |
| Aquila Life Over 5 Years UK Gilt Index S1 | BlackRock | 56,800 | 47% | 48,151 | 51% |
| | | 119,853 | 100% | 94,741 | 100% |
| Equities | | | | | |
| BlackRock Institutional Jersey Dynamic | BlackRock | 118,475 | 50% | - | - |
| Managed Funds (Property) | | | | | |
| The Bridge, Clerkenwell | TIAA Henderson | 16,850 | 11% | 12,800 | 9% |
| Hope House, 45 Great Peter Street, London | TIAA Henderson | 13,125 | 9% | 13,100 | 10% |
| 264-276 Walworth Road | TIAA Henderson | 13,050 | 9% | - | - |
| 140-142 St John Street, London | TIAA Henderson | 10,300 | 7% | 6,850 | 5% |
| 190-208 Ingram Street, Glasgow | TIAA Henderson | 10,300 | 7% | 10,050 | 7% |
| 18-30 Clerkenwell Road, London | TIAA Henderson | 9,450 | 6% | 8,400 | 6% |
| 15-17 Northgate Street | TIAA Henderson | 8,000 | 5% | - | - |
| Rushy Platt Industrial Estate | TIAA Henderson | 7,650 | 5% | 6,850 | 5% |
| | | | | 58,050 | 42% |
| Unit Trusts - Property | | | | | |
| Henderson UK Shopping Centre Fund | TIAA Henderson | 13,814 | 31% | 14,265 | 38% |
| Henderson Central London Office Fund | TIAA Henderson | 13,700 | 31% | 12,597 | 34% |
| Henderson UK Retail Warehouse Fund | TIAA Henderson | 7,775 | 18% | 7,590 | 20% |
| LBOS Brockton Capital | Brockton | 5,148 | 12% | - | - |
| LBOS Frogmore | Frogmore | 3,551 | 8% | - | - |
| BlackRock UK Property Fund | TIAA Henderson | - | - | 2,811 | 8% |
| | | | | 37,263 | 100% |
| Unitised Insurance Policies | | | | | |
| Blackrock Asset | BlackRock | 266,902 | 47% | - | - |
| North America Equity Index | Legal & General | 152,946 | 28% | 149,032 | 18% |
| BlackRock Emerging Markets GBP FLX AC | BlackRock | 41,978 | 8% | 45,407 | 6% |
| Europe (ex UK) Equity Index | Legal & General | 41,755 | 7% | 42,482 | 5% |
| Investment Grade Bonds (All Stocks) | Legal & General | - | - | 63,126 | 8% |
| Aquila Life Corp BD Index All STX S1 | BlackRock | - | - | 59,203 | 7% |
| Aquila Life European EQ IDX FD S1 | BlackRock | - | - | 69,638 | 9% |
| Aquila Life US EQ Index Fund S1 | BlackRock | - | - | 184,674 | 23% |
| | | 503,581 | 90% | 613,562 | 75% |
| Cash Deposits | | | | | |
| Deutsche Global Liquidity Fund | TIAA Henderson | 100 | 100% | 4,428 | 100% |

Investments representing more than 5% of the net assets of the scheme:

| Name of Investment | Fund Manager | Value at 31/3/16 £000 | % of net assets | Value at 31/3/15 £000 | % of net assets |
|--|-----------------|-----------------------|-----------------|-----------------------|-----------------|
| North America Equity Index | Legal & General | 152,946 | 12% | 149,032 | 12% |
| Blackrock Asset | BlackRock | 115,968 | 10% | - | - |
| Absolute Return Bond | BlackRock | 117,561 | 9% | - | - |
| BlackRock Institutional Jersey Dynamic | BlackRock | 118,475 | 9% | - | - |
| Over 5 Year Index Linked Gilts | Legal & General | 63,053 | 5% | - | - |
| Aquila Life US EQ Index Fund S1 | BlackRock | - | - | 184,674 | 15% |
| Aquila Life European EQ IDX FD S1 | BlackRock | - | - | 69,638 | 6% |
| Investment Grade Bonds (All Stocks) | Legal & General | - | - | 63,126 | 5% |
| Aquila Life Corp BD Index All STX S1 | BlackRock | - | - | 59,203 | 5% |
| Total | | | | 525,673 | 42% |

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The market value of assets (including cash and accruals) managed by the investment managers at the balance sheet date has been set out in the table below.

| Fund Manager | Market value of fund at 31/3/16 | | Market value of fund at 31/3/15 | |
|--|---------------------------------|------------|---------------------------------|------------|
| | £000 | % | £000 | % |
| BlackRock | 359,782 | 29 | 442,278 | 36 |
| Blackrock (self-directed) | 236,036 | 19 | - | - |
| BlackRock (warehouse) | 21 | - | 125,541 | 10 |
| Legal & General Investment Managers | 315,953 | 25 | 377,204 | 30 |
| TH Real Estate (formerly Henderson Global Investors) | 204,027 | 16 | 179,950 | 14 |
| Newton Investment Management | 129,463 | 11 | 118,978 | 10 |
| Brockton Capital LLP | 5,148 | - | - | - |
| LBOS Frogmore | 3,551 | - | - | - |
| Total | 1,253,981 | 100 | 1,243,951 | 100 |

12. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

| | 2015/16 £000 | 2014/15 £000 |
|---------------------------------|-----------------|-----------------|
| Contribution due from employers | 3,124 | 1,960 |
| Other current assets | 3,826 | 3,392 |
| Cash at managers | 8,253 | 4,362 |
| Cash and bank | 1,828 | 2,712 |
| Total | 17,031 | 12,426 |

The current liabilities of the fund are analysed as follows:

| | 2015/16 £000 | 2014/15 £000 |
|-------------------|-----------------|-----------------|
| Support services | 33 | 33 |
| Benefits | 323 | 264 |
| Professional fees | 473 | 547 |
| Investment | 1915 | 1,534 |
| Taxes | 1,131 | 607 |
| Other | 1,016 | 985 |
| Total | 4,891 | 3,970 |

13. 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 28.

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 9. The Strategic Director of Finance and Governance remuneration is disclosed in Note 24 of the council's Statement of Accounts.

The council is also the single largest employer of members of the pension fund and contributed £39.8 million to the fund in 2015/16 (£37.7 million in 2014/15).

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14. FINANCIAL INSTRUMENTS

The following table shows the classification of the Fund's financial instruments:

| | 2015/16 £000 | 2014/15 £000 |
|--|------------------|------------------|
| Financial assets | | |
| Loans and receivables | 17,031 | 12,426 |
| Financial assets at fair value through profit or loss | 1,078,292 | 1,102,420 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | (4,891) | (3,970) |
| Financial liabilities at fair value through profit or loss | - | - |
| Total | 1,090,432 | 1,110,876 |

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

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable:

| 2015/16 | Quoted market price | Using observable inputs | Total |
|---|---------------------|-------------------------|------------------|
| | Level 1 | Level 2 | |
| | £ | £ | £ |
| Financial assets | | | |
| Loans and receivables | 17,031 | - | 17,031 |
| Financial assets at fair value through profit or loss | 1,034,303 | 43,989 | 1,078,292 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost | (4,891) | - | (4,891) |
| Total | 1,046,443 | 43,989 | 1,090,432 |

| 2014/15 | Quoted market price | Using observable inputs | Total |
|---|---------------------|-------------------------|------------------|
| | Level 1 | Level 2 | |
| | £ | £ | £ |
| Financial assets | | | |
| Loans and receivables | 12,426 | - | 12,426 |
| Financial assets at fair value through profit or loss | 1,065,158 | 37,262 | 1,102,420 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost | (3,970) | - | (3,970) |
| Total | 1,073,614 | 37,262 | 1,110,876 |

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15. 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 pension fund committee. 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 securities 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 and 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 line. 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 2015/16 reporting period:

| 2015/16 - Asset Type | Value £000 | Change % | Value on Increase £000 | Value on Decrease £000 |
|------------------------------|------------------|-------------|------------------------------|------------------------------|
| Total Equities | 672,463 | 9.7 | 737,692 | 607,234 |
| Total Bonds & Indexed linked | 243,208 | 7.3 | 260,986 | 225,429 |
| Multi-Asset | 118,475 | 5.0 | 124,363 | 112,586 |
| Property | 210,989 | 3.7 | 218,796 | 203,183 |
| Cash | 8,365 | 0.0 | 8,366 | 8,364 |
| Debtors | 482 | 0.0 | 482 | 482 |
| Total Assets | 1,253,982 | | 1,350,685 | 1,157,278 |

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| 2014/15 - Asset Type | Value £000 | Change % | Value on Increase £000 | Value on Decrease £000 |
|------------------------------|------------------|-------------|------------------------------|------------------------------|
| Total Equities | 803,092 | 8.92% | 874,728 | 731,456 |
| Total Bonds & Indexed linked | 249,488 | 8.7% | 271,115 | 227,861 |
| Multi-Asset | - | - | - | - |
| Property | 174,117 | 4.53% | 182,005 | 166,229 |
| Cash | 16,940 | 0.01% | 16,942 | 16,938 |
| Debtors | 314 | 0.00% | 314 | 314 |
| Total Assets | 1,243,951 | | 1,345,104 | 1,142,798 |

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.

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 | Value £000 | Value on 1% rate increase £000 | Value on 1% rate decrease £000 |
|---------------------------------------|----------------|---|---|
| As at 31 March 2016 | 133,757 | 135,095 | 132,419 |
| As at 31 March 2015 | 144,099 | 145,540 | 142,658 |

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.

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| Assets exposed to currency risk | Value £000 | Value on 10% foreign exchange rate increase £000 | Value on 10% foreign exchange rate decrease £000 |
|---------------------------------|----------------|---|---|
| As at 31 March 2016 | 740,403 | 814,443 | 666,363 |
| As at 31 March 2015 | 749,932 | 824,925 | 674,939 |

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 this trend has begun to change. 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 ensure that if the Fund found itself in a position where it did not have the funds available to meet its commitments, alternative moneys could be drawn down. Funds could be called back from investment managers within a short period of time. Periodic cash flow forecasts are prepared to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

16. ACTUARIAL POSITION OF THE FUND

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 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

The following section on the Actuarial Position of the fund has been prepared by the actuary for the sole use of the council, and should not be relied upon by any other party. The statements should not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Actuarial Position

The valuation as at 31 March 2013 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 £994.7M) covering 83% of the liabilities allowing, in the case of 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 2014 is:

- 13.3% 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; *plus*

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- 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 20 years from 1 April 2014, amounting to £12.4m in 2014/15, and increasing by 3.9% p.a. thereafter.

In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (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 is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

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:

| | |
|---|------|
| Rate of inflation – RPI | 3.4% |
| Rate of inflation – CPI | 2.4% |
| Rate of increase in salaries | 3.9% |
| Rate of increase in pensions | 2.4% |
| Rate for discounting scheme liabilities | 4.3% |

The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.

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 2013.

| | Value as at 31 March 2013 £m | Value as at 31 March 2010 £m |
|--|---------------------------------------|---------------------------------------|
| Fair value of net assets | 995 | 787 |
| Actuarial present value of promised retirement benefits | (1,451) | (1,399) |
| Surplus/(deficit) in the fund as measured for IAS26 | (456) | (612) |

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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.

CAPITAL EXPENDITURE

Expenditure on assets that has a lasting value, generating benefits for many years. For example land, buildings and large items of equipment such as computers or vehicles.

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.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

This is the main professional body for local government accountants and produces standards and codes of practice that must be followed in preparing the council's financial statements.

COLLECTION FUND

This is a statutory account, which records income and expenditure on Council Tax, National Non Domestic Rates and the sums paid to the national NNDR pool and to the 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 accounts.

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.

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CURRENT SERVICE COST

An estimate of the true cost 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.

FINANCE LEASES

These are financing arrangements with a third party. A finance lease transfers substantially all of the risks and rewards of ownership to the lessee. It is often a lease of land or buildings and is treated under the government's capital control system as a credit arrangement as if it were similar to borrowing (see operating leases).

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 tax payers 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.

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 include in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

**SOUTHWARK COUNCIL
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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 DISTRIBUTED COSTS

These include overheads from which no user now benefits and which should not be apportioned to services. Examples include spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

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

A type of lease often of office or computer equipment which is similar to renting and which does not come within the government's capital control system. Ownership of the asset must remain with the lessor.

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.

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.

| | | | |
|------------------------------------|--------------------------------|--|---|
| Item No. 9. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Annual report on the work of the corporate risk and insurance team 2015-16 | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATION

1. That the audit, governance and standards committee note the annual report on the work of the corporate risk and insurance team in 2015-16.

BACKGROUND INFORMATION

2. This report provides an annual report for 2015-16 of the work of the corporate risk and insurance team (the team).
3. Specifically, the report provides an overview of the key risk management and insurance activities and progress with objectives for the year 2015-16 and an overview of the team's objectives for 2016-17.

KEY ISSUES FOR CONSIDERATION

Overview

4. In 2015-16, the team continued to progress the implementation of both the risk management and insurance objectives.

Risk management

5. The risk management objectives for 2015-16 as with the previous year focused on:
 - Further promoting risk management as an effective decision making tool
 - Promotion of the principles of good risk management and its use in decision making via enhanced support, communication and training
 - Reviewing the effectiveness of risk management support provided to departments.
6. In order to achieve these objectives the team has completed the following activities:
 - Completed a review of the risk management strategy to be taken through decision making process in 2016-17

- Enhanced risk management and insurance training rolled out to council officers, four sessions have been completed with more sessions booked in 2016-17
- Began an internal review of the risk management support requirements in advance of any future procurement of risk management administration support in 2016-17.

7. The team's objectives for 2016-17 are:

- Finalise the review begun in 2015-16, a review of the risk management support requirements across the council and its implementation
- Enhanced use of the risk management information tool, JCAD, to create a clearer platform for management, monitoring and reporting on key risk, especially corporate risks.

Insurance

8. Insurance objectives for 2015-16 continued to focus on:

- Supporting the client departments' insurance needs as well as the core council wide insurance needs
- Investigating alternative approaches to insurance risk financing for the council
- Improving the understanding of insurance across the council.

9. In order to achieve these objectives the team has completed the following activities:

- Following a detailed claims analysis, identified key areas for targeted risk management activities to help manage housing public liability claims
- Supported a number of property risk management initiatives, especially those arising from the primary school expansion planning and property insurers inspections
- Reviewed alternative risk financing solutions for future insurance cover
- Built internal expertise on major contract project's insurance advice, in order to support the Regeneration Divisions
- Achieved success on various subrogation actions to recover money for the council where third parties have caused the council to incur losses.

10. The team's insurance objectives for 2016-17 whilst still aligned to the general team objectives, are specifically to:

- Develop a new insurance risk financing strategy for the council aligned to the council's needs and external insurance market conditions

- Develop a suite of guidance documentation (and support training as required) for key council functions to improve the management of insurance risk
- Continue to work with housing department to implement risk management activities to improve the public liability claims experience
- Continue to seek opportunities to reduce the overall cost and to recover costs related to insured losses
- Identifying further opportunities for integrating insurance services across the council
- Transferring the compliance based engineering inspection contract to Corporate Facilities Management in the Housing and Modernisation Department
- Training for Tenant Management Organisations
- Review the interaction between Arbitration and Insurance to seek efficiency improvements
- Continued efforts with subrogation action to recover funds for the council.

Policy implications

11. This report is not considered to have direct policy implications.

Community impact statement

12. This report is not considered to have direct impact on local people and communities.

Resource implications

13. This report is not considered to have direct impact on resource implications.

Consultation

14. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

15. None required.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None | | |

APPENDICES

| No. | Title |
|------|-------|
| None | |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Maureen McBain, Corporate Risk and Insurance Manager | |
| Version | Final | |
| Dated | 27 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Director of Law and Democracy | No | No |
| Strategic Director of Finance and Governance | N/A | N/A |
| Cabinet Member | No | No |
| Date final report sent to Constitutional Team | 27 June 2016 | |

| | | | |
|------------------------------------|--------------------------------|---|---|
| Item No. 10. | Classification: Open | Date: 16 May 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Annual report to the audit, governance and standards committee on the work of internal audit and anti-fraud for the year 2015-16, progress report on the work of the internal audit and anti-fraud teams for the period 1 February 2016 to 30 June 2016 | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATIONS

1. That the audit, governance and standards committee note the annual report on the work of internal audit and anti-fraud for the year 2015-16.
2. That the audit, governance and standards committee note the progress report on the work of the internal audit and anti-fraud teams for the period 1 February 2016 to 30 June 2016.
3. That the audit, governance and standards committee approve the updated internal audit charter (Appendix A).
4. That the audit, governance and standards committee note the proactive anti-fraud plan for 2016 (Appendix B).

BACKGROUND INFORMATION

5. The annual report summarises the work of internal audit and anti-fraud for the financial year 2015-16 and includes the head of anti-fraud and audit's opinion regarding the adequacy and effectiveness of Southwark's arrangements for governance, risk management and control for the year.
6. The progress reports summarise the work undertaken by the anti-fraud and internal audit teams to date relating to on-going anti-fraud initiatives and investigations and the results of internal audit work where final reports have been issued.

Member Questions

7. None arising from the previous meeting of 22 February 2016.

Internal audit

8. This section sets out the findings from recent audit work as part of our usual progress report and includes an updated internal audit charter.
9. The internal audit charter explains the purpose, authority and responsibility of the council's internal audit service. Attached is the internal audit charter that has been updated to bring it in line with the recent updates to the UK Public Sector Internal Audit Standards (PSIAS) made in March 2016. See Appendix A.

Internal audit and anti-fraud – annual report

Introduction

10. This section of the report summarises the work of internal audit for the financial year 2015-16.
11. The council's internal audit contractor, RSM Risk Assurance Services LLP (RSM, formerly Baker Tilly), has undertaken all audit work for the year.
12. The Public Sector Internal Audit Standards (PSIAS) require that the head of internal audit provides an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. As such, this report also presents the annual opinion in respect of the adequacy and effectiveness of the organisation's system of internal control. The opinions provided within the report are based upon work completed by RSM.
13. In giving this opinion it should be noted that assurance can never be absolute. The most that an internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

Provision of non internal audit work

13. During 2015-16 RSM has provided a number of non internal audit services which are not considered to have caused any conflicts of interests:
 - Provision of risk management support to the council's corporate risk management team
 - Provision of contract related support to the housing department
 - Advisory review to the chief executive on the council's non-residential property portfolio, reported to the oversight and scrutiny committee
 - Provision of staff, support and advice under contract to the anti-fraud team
 - A secondment of a member of staff to the no recourse to public funds team.
14. Measures are in place to ensure internal audit work remains independent.

Review of the effectiveness of internal audit

15. The internal audit service operates in line with the PSIAS, which was confirmed in the Quality Assurance and Improvement Programme (QAIP) review carried out in December 2014, which found the internal audit service to fully conform to the PSIAS requirements with only minor findings to help enhance the service. An action plan was developed and implemented by the head of anti-fraud and audit and RSM to further enhance the service. The service is also measured against a number of key performance indicators which are reported at section 34 of this report.
16. An updated internal audit charter is attached for approval. There were only minor changes to reflect an update to the PSIAS earlier this year. These have been highlighted for your ease of reference (see Appendix B).

The mission, purpose and role of internal audit

17. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

18. Good controls, risk management and fraud prevention are the responsibility of management. Internal audit is a statutory function, which provides assurance and at times advisory work to the council. The work of internal audit can complement and support management control.
19. The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is just one of the sources of assurance available to the council and audit, governance and standards committee.

Internal audit opinion

20. The head of anti-fraud and internal audit is of the view that sufficient internal audit work has been undertaken during 2015-16 to enable him to draw a reasonable conclusion on adequacy and effectiveness of the council's risk, control and governance arrangements for the year.
21. For the year ended 31 March 2016, based on the work undertaken, the head of anti-fraud and internal audit's opinion regarding the adequacy and effectiveness of the council's arrangements for governance, risk management and control is as follows:

| | |
|------------------------|---|
| Overall Opinion | Amber/Green Overall the council's systems for governance, risk management and control are considered to be largely adequate and effective, with areas for improvement. |
| Governance | Within the council this is adequate and effective. This opinion is informed by the work carried out during the year and by our existing knowledge of the council's governance arrangements and attendance at audit, governance and standards committee. |
| Risk Management | The risk management framework is well established within the council, and the corporate risk management team continue to provide risk workshops to departments and review and offer advice upon the departmental and corporate risk registers. The risk management framework continues to evolve and is subject to regular review by officers and enhancements made as necessary. Management's response to follows ups continues to be good on the whole and recommendations are generally being implemented within agreed timescales. |
| Control | Overall the council has sound systems of control in place and 94 per cent of audit opinions issued during the year were positive. Our reviews have, however, identified room for improvement in the adequacy of the control framework and compliance with and application of existing controls. Management have accepted recommendations in these areas and are working to rectify issues where they have been identified. We would draw the committee's attention to the following two key themes identified through the work of internal audit: |

| | |
|--|---|
| | <ul style="list-style-type: none"> • Our thematic review of contract management and individual audits has highlighted again that the monitoring of contractors and services across the council is variable and there is opportunity to obtain better value for money through the monitoring of delivery and appropriate procurement and supplier relationship management, particularly where more than one team or department are using a supplier. • Our thematic review of access to services and individual audits has identified the need for a principles based framework and risk based approach to the verification of initial eligibility for the council's services to ensure that they are only provided to people who need them; we found variable approaches and a lack of documentation in some cases to support the decisions made by management. <p>Other themes identified for consideration were:</p> <ul style="list-style-type: none"> • Our IT related audits have identified control weaknesses in the framework of control that could leave the council vulnerable to data loss or unauthorised access to its systems. • Our audits of the review and approval of invoices prior to payment identified an absence of effective verification checks in some cases or lack of clarity of responsibility. • Audits that included a review of fees and charges and income collection identified a need to improve controls to ensure that all income due to the council was being collected. <p>Running across a number of audits was also the issue of non-retention of documentation to support decisions made; in such cases internal audit cannot provide assurance over the compliance with policy and procedures, and the council may not be able to provide evidenced support for its decisions in the event of query or challenge.</p> |
|--|---|

Summary of risk management, governance and control within the council

22. Risk management, governance and control activities are intrinsically linked; overall arrangements are considered to be adequate. Of the 32 assurance reports issued during the year, 30 (94 per cent) received a positive assurance opinion; five opinions were green, 13 were amber green and 12 were amber red. Of the 31 schools audited during the year, 29 (94 per cent) were provided with a positive assurance opinion. A total of four assurance reports were rated as red, two of which related to school audits.
23. Recommendations have been agreed with management and action is on-going to address control issues in red reports, details of which will have been contained in our progress reports throughout the year. The key points arising in the red reports, which have previously been reported to the committee or form part of the progress report, are summarised below:

Special guardianship orders

24. As reported in more detail in the progress report below, one of the main weaknesses was the lack of either prescriptive procedural documentation accepted and used by all three teams involved in the process, or a structured and supported communication system between teams. Recommendations were raised around the need for a complete review of caseload and procedures and controls with cross teams along with the need to obtain and keep on file documentation to support SGO claims. Management took immediate action to address some of the issues raised in the report.

Queens Road safes

25. As reported in the February 2016 progress report, the safes at Queens Road were found to be inadequately controlled, undermining the effective control over clients' property and monies. The key issues identified were inconsistent and incomplete recording of items received and taken out of the safes, and a lack of routine reconciliation and checking to confirm the completeness and accuracy of items held and to identify in a timely basis whether items might have gone missing. Whilst logs were maintained for each safe, entries often lack the required information and in some cases forms were being used that did not provide a sufficient audit trail. Our follow up confirmed that good progress was made in the implementation of recommendations.

Schools

26. The issues raised in the two schools where a red opinion was provided related to weaknesses in the control over the schools' budgets and general finances. Common issues identified related to: a lack of separation of duties for payroll and purchasing; lack of routine payroll and bank reconciliations; purchase orders not being raised or appropriate quotations obtained to demonstrate value for money; and control over the use of the schools' credit cards. In one instance the school had become overdrawn.

Follow up and implementation

27. Senior management has been responsive to audit recommendations and have shown a positive attitude to addressing control issues. Recommendation implementation rates remain good, and we continue to work with management to enhance this key responsibility.

Basis for opinion

28. The head of anti-fraud and internal audit has based his opinion upon the following areas of work and the assurance levels achieved which have been completed during 2015-16. This is based upon the regular progress reports already presented to the committee, along with the progress report for work completed since the last committee meeting.

| Audit area | Red | Amber / Red | Amber / Green | Green | Totals |
|---------------------|-----|-------------|---------------|-------|--------|
| Corporate audits | 0 | 1 | 0 | 0 | 1 |
| Departmental audits | 2 | 7 | 8 | 4 | 21 |
| IT audits | 0 | 1 | 1 | 0 | 2 |

| | | | | | |
|-------------------------|----------|-----------|-----------|----------|-----------|
| Key financial systems | 0 | 2 | 3 | 1 | 6 |
| Thematic reviews | 0 | 1 | 1 | 0 | 2 |
| Totals – Council | 2 | 12 | 13 | 5 | 32 |
| Schools | 2 | 3 | 24 | 2 | 31 |

29. The majority of reports received a positive assurance level, although recommendations have been made to further enhance control, risk management and governance, where appropriate. Management have accepted the overwhelming majority of recommendations made during the year (99 per cent) and action plans are in place for their implementation. The progress made in the implementation of the recommendations will be monitored through the internal audit follow-up process and will be reported to each audit, governance and standards committee meeting.

Cancellations and additions

30. The following table highlights changes to the plan during the year.

| Audit area | Additions | Cancellations | Comments |
|------------------------------|--|---|---|
| Corporate audits | - | - | - |
| Departmental audits | Queens road safes Special guardianship orders | Commercial waste management Funding panels No recourse to public funds Public health | Review following a theft Review following a fraud allegation Management request Management request Management request Management request |
| IT audits | - | IT network security | Management request |
| Key financial systems | - | - | - |
| Thematic reviews | - | - | - |
| Schools | Camelot school | | Governor request following changes in management |

31. In line with the internal audit charter there have been no significant additional advisory projects that required committee approval however, during the year we have worked with management to provide advice on control issues in the following areas: repairs and maintenance and iWorld systems; learning disability services invoice approvals; and the troubled families service. Any findings from advisory work are considered and in the event of significant issues they would be reported via the annual opinion.

Scope of the internal audit opinion

32. In arriving at the opinion, the head of anti-fraud and internal audit has taken into account:
- The results of all internal audits undertaken by RSM for the year to 31 March 2016
 - The results of follow-up action taken in respect of audits from previous years
 - Whether “high” or “medium” recommendations have been accepted by management and, if not, the consequent risks
 - The effects of any material changes in the organisation’s objectives or activities
 - Matters arising from previous reports or other assurance providers to the audit, governance and standards committee and/or corporate management team.

Follow-up of recommendations

33. All recommendations are followed up on a regular basis. During 2015-16, 185 recommendations were followed up. We found that 91% (168) of the recommendations had been fully implemented and 9% (17) were found to be outstanding. This shows continuing improvement compared to the implementation rate of 74% in 2013-14 and 79% in 2014-15. During 2015-16, 56% of high rated recommendations had not been implemented by the due date and one remained outstanding at the end of the year; this has since been implemented.

Key performance indicators

34. The following table identifies performance against key performance indicators during the 2015-16 year.

| KPI | Target | Actual performance |
|---|--------|--------------------|
| % of audits from the plan completed to draft report stage | 100% | 100% |
| % of returned audit satisfaction survey forms achieving an overall score of ‘adequate’ or above | 75% | 94% |
| % of high rated recommendations implemented by agreed implementation date | 85% | 56% |

35. The RSM internal audit team is working with the head of anti-fraud and internal audit to try and increase implementation rates on high rated recommendations. Many of these do not meet the agreed implementation dates, but are subsequently addressed. Internal audit will continue to provide challenge to suggested dates to ensure that they are realistic. Any high rated recommendations that remain outstanding have been reported to the committee as part of our regular progress reports.
36. In addition to the core key performance indicators reported to the committee as part of our regular progress reports, we also have an annual performance indicator.

| KPI | Target | Actual performance |
|--|------------|--------------------|
| Annual Chief Officer and Audit & Governance satisfaction surveys achieving an overall average score of 85% or above | 85% | 77% |

37. The target was increased from 80 to 85% for 2016 as part of our continuous improvement aims. The number of responses was slightly lower this year; if any members do have feedback on our work we are obviously happy to receive it at any point.

Anti-fraud

Introduction

38. This section of the report provides an annual review of the anti-fraud work conducted between 1 April 2015 and 31 March 2016.
39. The anti-fraud team work is split in to two categories:
- Reactive work, which is broadly investigations in response to reports of fraud
 - Proactive work, which includes initiatives to prevent and identify fraud, and includes using technology and data matching to identify fraud risks
40. The two anti-fraud teams are:
- Anti-fraud services, which investigates all cases involving the council's employees, agents, contractors, anyone else conducting business for or with the council, and members of the public. There are multiple types of fraud this could include, some of which are theft, council tax fraud, significant financial fraud, procurement fraud, grant fraud, national non-domestic rates fraud or evasion, false documents, identities and applications, and immigration offences
 - The special investigation team, which investigates housing tenancy fraud in respect of the housing stock owned and managed by the council and other social housing where legislation directs that a local authority has specific responsibility. This includes cases of unlawful subletting, non-occupation, succession, assignment, mutual exchange, and right to buy.

Reactive anti-fraud work

41. The number of referrals received through the council's website, fraud email, fraud hotline and by letter for the fraud teams between 1 April 2015 and 31 March 2016 has been 1,197.

42. The number of cases that have resulted in a successful sanction for each of the two anti-fraud teams from 1 April 2015 to 31 March 2016 was as follows:

| Anti-Fraud Team | Number of Sanctions 2015-16 | Number of Sanctions 2014-15 |
|-----------------------------|-----------------------------|-----------------------------|
| Anti-fraud services | 18 | 85# |
| Special investigations team | 68* | 70 |
| Total | 86 | 155# |

Sanctions for period 1 April 2015 to 31 March 2016

** Housing Management has recovered an additional 122 properties, and the special investigations team have undertaken an additional 35 preventative actions and a further 7 properties recovered on behalf of registered providers.*

As previously reported to committee, it should be noted that since 1 April 2015, the Department for Work and Pensions have taken responsibility for the investigation of housing benefit fraud which will account for the variance of the sanctions for anti-fraud services compared to the previous year. The figures of 85 included 58 housing benefit sanctions. The comparable number for 2014-15 would be 17 sanctions and 87 in total.

Proceeds of Crime Act

43. The Proceeds of Crime Act 2002 (POCA) provides for the confiscation or civil recovery of the proceeds from crime and contains the principal money laundering legislation in the UK. This work acts as an important deterrent to show that crime against the council does not pay.
44. Within 2015-16, successful work in this area for those we have prosecuted has seen £117,154 in judgments awarded to the council from those who benefited from their criminal conduct. Payments received in 2015/16 were £47,520. We continue to pursue judgments and recoveries in this area to promote the message that fraud against Southwark Council does not pay.

Proactive anti-fraud work

Operation Bronze

45. Trudy Ali-Balogun, 55, a former council homeless caseworker from September 2003 to April 2005, was found guilty of misconduct in a public office at the Inner London Crown Court in May 2016 and sentenced to five years imprisonment.
46. Four homeless applicants, also on trial, were found guilty of obtaining services by deception. Biayo Awotiwon and Adeyemi Olalekan Oyedele were sentenced to five months in prison. Whilst Kudiartu Falana and Joseph Akin Olaiya received suspended sentences for five months and six months, respectively.
47. All four had made fraudulent applications which lead to three of them being granted a secure tenancy in Southwark having made fraudulent applications to the council for homeless housing, all assisted by Trudy Ali-Balogun.

48. As previously reported to committee, in 2014, Ibrahim Bundu was sentenced to four years for abusing his position of trust as a homelessness worker. He was then ordered to pay back his gain of £100,000 to the council following a Proceeds of Crime investigation led by the council's fraud team.
49. Mr Bundu had made minimal effort to repay the confiscation amount, paying only £1,600 towards the order and refusing to relinquish a property to cover the debt. A default sentence of two years was therefore handed to Mr Bundu, in addition to the four years he was already serving.
50. The council is seeking an enforcement receiver to force the sale of the property that Mr. Bundu owns, which the council has had under restraint.
51. Through Operation Bronze, and working closely with legal services and the special investigations team, a majority of the properties have been recovered and work continues to recover the last few.
52. Anti-fraud services have also been working closely with housing allocations and together have brought about significant change, through additional reviews and enhanced systems, controls and processes, which includes the use of identity document scanners and credit checks.

National Fraud Initiative (NFI)

53. The 2014-15 NFI cycle matches were released in February 2015 and the council received 25,079 matches, of which 4,543 were deemed of good quality.
54. 7,324 matches relate to housing benefits, which is now investigated by the DWP.
55. The council adopted a risk based approach and identified 43 cases classed as fraud and 133 cases classed as an error. The NFI has identified £228,388 in notional and recoverable outcomes.
56. The data for the next 2016-17 NFI cycle will be collected in October 2016 for release in early 2017.

Sub-letting prevention

57. 2014-15 saw the successful implementation of iLatch, a tool designed to help prevent tenancy fraud. To date there has been 144 positive matches and 13 unique referrals leading to ongoing investigations.

Transparency

58. In February 2015, the Local Government Transparency Code was revised and published. This now includes a requirement to publish the following information about counter fraud work annually:
 - The number of occasions the powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used
 - The total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
 - The total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

- The total amount spent by the authority on the investigation and prosecution of fraud, and
- The total number of fraud cases investigated.

59. The table below shows the information required between 1 April 2015 and 31 March 2016.

| | 2015-16 | 2014-15 |
|--|------------|--------------|
| Number of occasions used Prevention of Social Housing Fraud powers | 38 | 40 |
| Number of FTE Investigators/Prosecutors | 13 | 23 |
| Number of FTE accredited counter fraud officers | 12 | 20 |
| Total spend | £617,915 | £873,000 |
| Total number of cases investigated | 491 | 1,751 |

Transparency information for period 1 April 2015 to 31 March 2016

As set out earlier, a number of the anti-fraud team were transferred to the DWP, which represents the reason for the change to these figures between 2014-15 and this year.

Progress report on the work of internal audit and anti-fraud for the period 1 February 2015 to 30 June 2015

Internal audit progress

60. The following section sets out the internal audit assurance for the reports finalised in the period 1 February 2016 to 30 June 2016. The definitions of the assurance levels that have been awarded depending on the audit findings, associated risk and consequently the number of high, medium and low recommendations are as follows:

| Assurance level | Opinion |
|----------------------|--|
| Red | Taking account of the issues identified, the council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed. (This is a negative opinion) |
| Amber / Red | Taking account of the issues identified, whilst the council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed. (This is a positive opinion) |
| Amber / Green | Taking account of the issues identified, the council can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably |

| Assurance level | Opinion |
|-----------------|---|
| | designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising. (This is a positive opinion) |
| Green | Taking account of the issues identified, the council can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. (This is a positive opinion) |

61. The priorities of the recommendations made are:

| Priority | Description |
|-------------------|--|
| High | Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses. |
| Medium | |
| Low | |
| Suggestion | These are not formal recommendations that affect our overall opinion, but used to highlight a suggestion or idea that management may want to consider. |

Summary

62. The following table sets out the areas of work where reports have been finalised and the assurance levels achieved for the period:

| Audit area | Red | Amber / Red | Amber / Green | Green | Totals |
|------------------------------|-----|-------------|---------------|-------|--------|
| Corporate audits | 0 | 1 | 0 | 0 | 1 |
| Departmental audits | 1 | 3 | 4 | 3 | 11 |
| IT audits | 0 | 1 | 1 | 0 | 2 |
| Key financial systems | 0 | 1 | 1 | 1 | 3 |
| Thematic reviews | 0 | 1 | 1 | 0 | 2 |
| Totals | 1 | 7 | 7 | 4 | 19 |

63. The progress made in the implementation of the recommendations is monitored through the internal audit follow-up process and will be reported to the audit, governance and standards committee.

Individual reports completed from 1 February 2016 to 30 June 2016

Corporate audits

Payments to individuals outside of PAYE

64. A self-employment process is in place, through which vendors can be assessed on whether the council should treat them as employed (and paid via the payroll system) or as self-employed (and paid as a creditor via the accounts payable system). However, the audit highlighted that those individuals used by the council prior to the introduction of this self-employment process have never been subject to such a check. One high recommendation was made to address this issue. In addition, managers are not routinely complying with the status check procedures before commissioning work through this route, in particular with the requirement to seek agreement from the human resources team that the proposed status of the individual assessed is correct. In all cases where human resources approval was not evidenced, the individual had been set up as a vendor on the accounts payable system. One medium recommendation has been made to address this issue. The issues identified could leave the council at risk of financial penalties for non-compliance with HMRC guidelines on the assessment of the employment status of consultants. Low recommendations have been made to further strengthen the existing control framework. Management has agreed actions to address all of the recommendations made by the end of October 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 9 June 2016 | High: 1 | Medium: 1 | Low: 4 | Amber/Red |

Departmental audits

Payments to foster carers and adopters

65. The control framework was found overall to be sound from registration and approval by an independent reviewer, progression through the various levels of foster carer and processing and approval of payments. However, key controls and checks were not being consistently applied, evidence to support the continued registration of foster carers, the completion of necessary training, and consequently payment of the correct fees, was not available in all cases. Four medium recommendations were made to address the continuing appropriateness of enhanced payments being made and to introduce controls to ensure that payments are supported by appropriate and up to date evidence, including attendance on training courses, household income and incremental annual charges, and to mitigate the risk of duplicate payments being made to foster carers. Five low recommendations were made to address minor non-compliance and administrative issues. Management agreed to implement all of the recommendations by the end of April 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 10 March 2016 | High: 0 | Medium: 4 | Low: 5 | Amber/Green |

Home to school transport

66. The service had procured the taxi and bus contracts in accordance with the council's contract standing orders; a detailed specification was used as part of the invitation to tender and adequate controls were evident for the opening and evaluation of the tenders submitted. The service has adequate controls in place for monitoring the performance of providers to identify areas of non-compliance and

ensuring any necessary remedial actions are undertaken. No recommendations resulted from our work.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 6 May 2016 | High: 0 | Medium: 0 | Low: 0 | Green |

Safeguarding - adults

67. A clear control framework is in place to support the safeguarding decisions made by the council with regards to adults. However, the evidence to support decisions made was not available in a number of cases reviewed, including the extent to which required timeframes for the progression of the cases had been met. Two medium recommendations were made to address these issues. Management agreed to implement all of the recommendations by the end of July 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 10 March 2016 | High: 0 | Medium: 2 | Low: 2 | Amber/Green |

Safeguarding (administration) – children

68. The roles and responsibilities for progressing safeguarding referrals and undertaking assessments, including level of risk, were clearly defined and found to be operating in practice. Meetings and key events were scheduled appropriately to underpin timely decision-making. However, there was a lack of evidence to support the trail of all key decisions, and to show that continued and appropriate support was provided. There was also an issue with staff not recording the actual date of actions and therefore the system automatically entered a system date which had no relation to the actual dates. Completeness of documentation needs to be managed as a priority, which will then provide detail as to whether cases are being dealt with or not progressed as required by statute, and the reasons for those delays. Management have agreed to implement all recommendations by the end of September 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 23 June 2016 | High: 0 | Medium: 3 | Low: 2 | Amber/Green |

Special guardianship orders

69. Special guardianship orders (SGOs) are dealt with by three separate teams. One of the main weaknesses identified was the lack of either prescriptive procedural documentation accepted and used by all teams or a structured and supported communication system between teams. Supporting documentation for the existing caseload was found to be variable, and in some instances absent, which may reflect the split of duties. Recommendations were raised around the need for a complete review of caseload and procedures and controls with cross teams along with the need to obtain and keep on file documentation to support SGO claims. It is acknowledged that management took prompt action to address some of the issues subsequently raised in the report and agreed to implement all of the recommendations by the end of June 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 4 April 2016 | High: 2 | Medium: 4 | Low: 0 | Red |

Section 106 agreements

70. The council has in place a control framework that supports the establishment and approval of section 106 agreements and appropriate monitoring in place with

regards to financial obligations that developers have with the council. However, there is a lack of monitoring in respect of the non-financial obligations; hence the amber / red assurance opinion. A high recommendation was raised around the need for a monitoring mechanism to be installed to ensure non-financial S106 obligations are fulfilled during and after completion of each project. Two medium recommendations were raised around the need for an annual, appropriately ratified review of procedural documents, as well as for the need to have a consultation with legal to ensure clarity in the wording of the S106 contracts. Management agreed to implement all of the recommendations by the end of October 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 18 April 2016 | High: 1 | Medium: 2 | Low: 0 | Amber/Red |

Major regeneration projects

71. Overall, we were able to confirm that key elements of the programme and project management were being routinely applied across the council's regeneration schemes. A recurring issue identified across all projects was that project risk registers were not designed and maintained adequately. Other issues identified were specific to the individual projects reviewed. Six medium recommendations were raised in relation to: a lack of formal action plans to address delays in amber and red rated schools, plan B for schools did not contain sufficient details, there was a lack of evidence to demonstrate feasibility studies have been carried out, action plans to be developed for community meeting suggestions, and two issues pertaining project risk registers being inconsistent and incomplete. Seven low recommendations were raised with regards to administrative issues, of which three relating to project risk logs being updated. We also carried out a second follow up of the recommendations made in last year's regeneration major projects review; we found that all seven recommendations have now been implemented. Management agreed to implement all of the new recommendations by the end of July 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 16 May 2016 | High: 0 | Medium: 6 | Low: 7 | Amber/Green |

Pension administration

72. The controls in respect of the council's administration of local government pensions were found to be reasonably well designed and applied. However areas of weakness have been identified from sample testing undertaken and from discussions with relevant management, which could impact upon the accuracy of the pensions data held the council. Five medium recommendations were raised in respect of an absence of controls or control weaknesses in the following areas: lack of agreement in place with admitted and scheduled bodies for providing up to date member records and accuracy of contribution rates applied; the need for additional reconciliations in respect of pension data and updates to record, including voluntary contributions and in ensuring the accuracy of annual benefit calculations. Seven low recommendations were made to further improve the design of existing controls and address minor lapses in compliance with existing controls. In light of the control framework issues relating to additional voluntary contributions and annual benefits statements identified in this audit, further substantive testing has been incorporated into the audit of pensions administration due to be undertaken as part of the 2016-17 internal audit plan, as well as follow up of the recommendations made. Management agreed to implement all of the recommendations by the end of September 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 29 June 2016 | High: 0 | Medium: 5 | Low: 6 | Amber/Red |

Enforcement

73. A sound control framework is in place with regards to the enforcement service, which was found to be operating as intended in practice. One medium recommendation was raised in respect of a lack of clear evidence of income reconciliation for the electronic data management system used by the enforcement teams and one low recommendation relating to the regular review and updating of the enforcement policy. Management agreed to implement all of the recommendations by the end of September 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 8 April 2016 | High: 0 | Medium: 1 | Low: 1 | Green |

Income management – libraries

74. In the main adequate controls were in place and being complied with at Canada Water. The majority of the recommendations related to Kingswood House where the audit identified several risks in the income collection processes and procedures adopted over time, and the control framework. One high recommendation was raised in relation to Kingswood house, which addressed the lack of income collection from long term tenants for over eight months (amounting to £25k), in conjunction with the lack of knowledge to generate invoices for sums owed. One medium recommendation was raised in respect of expired tenancy agreements. Five low recommendations were raised around minor non-compliance and control issues. Management agreed to implement all of the recommendations by the end of June 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 13 June 2016 | High: 1 | Medium: 1 | Low: 5 | Amber/Red |

Major works (including housing investment programme)

75. Overall we found a strong framework of control in place to monitor the delivery of the major works programme and housing investment, including adequate governance and oversight, procurement with regards to contractors delivering the programme on behalf of the council and performance monitoring. We raised two low recommendations to strengthen the budgetary monitoring and performance reporting arrangements relating to a lack of explanation and challenge of adverse variances in capital cost forecasts. Management agreed to implement both recommendations by the end of July 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 15 March 2016 | High: 0 | Medium: 0 | Low: 2 | Green |

IT audits

Change control

76. A formal change management framework is operated which in the main was found to be well-designed and operating as intended. However, current arrangements require further improvement to ensure the confidentiality, availability and integrity of the council's IT systems. We raised three recommendations relating to: explicit consideration of the potential impact of the change on the council's compliance with legal and regulatory requirements; routine updating of operational system documentation and manuals as part of the change management process; and the preparation of regular reports on the status of requests for change, to facilitate the

prompt identification of any delays in implementation by the council's IT management. Management have agreed to implement all of the recommendations by the end of September 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 23 June 2016 | High: 0 | Medium: 3 | Low: 1 | Amber/Green |

Mobile communications contract

77. Whilst a range of key controls have been designed to manage mobile communication, a number of improvements are required to the management and reuse of phone contracts and the maintenance of a complete and up to date inventory of the council's mobile device assets. We have raised one high recommendation due to the lack of consistent processes for recovering devices from staff leavers. We raised four medium recommendations relating to: the absence of a central mobile devices asset register and periodic checks that mobile assets are being appropriately managed and controlled; the lack of central pooling of devices or SIM cards/contracts for re-use; the absence of available documented guidelines to Council staff on the processes for mobile communication requests and clarity of roles and responsibilities on who is allowed to approve the issuing of new devices or which members of staff/job roles are eligible to request a mobile phone. Management have agreed to implement all of the recommendations by the end of January 2017.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 23 June 2016 | High: 1 | Medium: 4 | Low: 0 | Amber/Red |

Key financial systems

Treasury management

78. Overall, controls in place were found to be suitably designed and consistently applied. A medium recommendation has been made in relation to the timeliness of treasury management reconciliations. The low recommendation related to a minor administrative issue. Management have agreed to implement all of the recommendations by the end of September 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 16 March 2016 | High: 0 | Medium: 1 | Low: 1 | Green |

Payroll

79. Whilst in the main the control framework in place is adequate, we found non-compliance with those controls in a number of areas. Eight medium recommendations were raised with regards to: starter and leaver data being input on the relevant systems; management informing HR of leavers promptly in order to manage the risk of overpayments; evidencing receipt of documentation to change employee bank account details; monthly review of changes in salary payments to payroll team members; communicating to line managers how to monitor staff overtime; completion of redundancy applications and retention of approval documentation plus approval of the redundancy calculators prior to use; SAP access levels and system functionality; and approval of season ticket loans. Our audit highlighted that overpayments to leavers have been made as a result of payroll, however the reporting mechanisms in place enable the timely recovery of overpayments. We also raised four low recommendations concerning minor compliance and administrative issues. Management agreed to implement all of the recommendations by the end of October 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 20 June 2016 | High: 0 | Medium: 7 | Low: 4 | Amber/Red |

Creditor payments and CareFirst payments

80. Our audit identified that whilst in the main there is an adequate control framework, there are areas where improvements are required in the application of controls in the system, to ensure that the council is protected from the risk of error, omission or fraud. This particularly applies to the processing of payments via Carefirst, and it is recommended that the issues raised in this report are considered in the implementation of the new mosaic system. In respect of creditors, three medium recommendations were raised in respect of purchasing groups not reflecting departmental schemes of management; non-compliance with council financial procedures and protocol in respect of vendor creation and payments; and the lack of evidence to support confirmation that invoices and care plan values have been reconciled prior to payment. Two low recommendations were raised for minor lapses in compliance with existing controls. In respect of Carefirst, two medium recommendations have been raised with regards to the reconciliations undertaken between SAP and feeder systems, one medium recommendation was raised in respect of the authentication checks being undertaken for new vendors. One low recommendation has been raised to address the lack of approval of current variance thresholds in respect of costs of care packages within the carefirst system. Management agreed to implement all of the recommendations by the end of August 2016.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 15 June 2016 | High: 0 | Medium: 6 | Low: 3 | Amber/Green |

Thematic reviews

Access to services

81. This was a thematic review looking at practices across the council in regards to the verification of information relating to applicants prior to the granting of access to the council's services. The aim of the audit was to consider how the council ensures that services are provided only to those individuals that should receive them. The audit specifically considered the following services: free swim and gym, parking permits, blue badges and freedom passes, library cards, planning applications, personal alcohol licences, marriage registrations, and right to buy. In addition, this report draws upon our wider knowledge and the results of audit work on verification performed as part of our other audits within the 2015-16 plan: payments to foster carers and adopters; special guardianship orders; no recourse to public funds; housing benefits and council tax refunds; and housing allocations. Areas of good practice were identified across a number of services reviewed as part of this audit and in planned audits undertaken during 2015-16. However officers are not adequately considering the type of verification checks that manage the risks specific to their service or the implications associated with the documentation provided. There is scope for the council to put in place a framework to assist officers in identifying the sources of evidence that are appropriate for verification checks and what should or can be retained on the council's systems and files under law and for how long. The verification checks and associated documentation requirements to confirm eligibility will necessarily differ across services provided by the council; therefore we have recommended a risk-based approach centred on principles to assist officers in determining the most appropriate checks to put in place for their particular service. The recommendations and suggestions made in this report are directed at improving the control framework across the council. The council's

corporate governance panel has taken an overview role in respect of the issues identified in the report, and internal audit is working alongside management to support the introduction of a framework.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 22 June 2016 | High: 0 | Medium: 5 | Low: 0 | Amber/Green |

Contract management

82. This was a thematic review looking at current practices across the council in regards to contract management, and the extent to which officers were complying with contract standing orders (CSOs). Whilst we found some areas of good practice and routine compliance across the council, we also found inconsistent approaches and areas of inadequate control in the managing and monitoring of contracts after award and the review of the council's relationship and levels of expenditure with suppliers. In particular, routine checks were not being undertaken by lead contract officers on cumulative spend by individual contract or suppliers used by more than one department. We found that required six-monthly and annual reporting to the departmental contract review boards (or equivalent forum) and the corporate contract review board by lead contract officers was not always taking place. The CSOs set out key principles and activities required around procurement; however, the council does not have a risk-based best practice contract management approach in place, or accompanying guidance and training programme to underpin that approach and equip officers in undertaking effective contract management. The council's corporate governance panel has taken an overview role in respect of the issues identified in the report; the findings are to be presented to the directors' forum to help determine how compliance can be improved. The introduction of the new e-procurement system should also assist in addressing some of the areas of non-compliance.

| | | | | |
|----------------|------------------|-----------|--------|------------------|
| Report issued: | Recommendations: | | | Assurance level: |
| 22 June 2016 | High: 2 | Medium: 4 | Low: 3 | Amber/Red |

Follow up work

Summary

83. Since our last report to committee we have followed up 55 recommendations. Of these: 45 (82%) have been addressed and 10 (18%) were in progress.
84. Where recommendations have not been implemented at the time of the initial follow-up review revised implementation dates are agreed with management and a further follow up review is scheduled. Since the last committee meeting we have not formally reported on any audits where there are high recommendations due that have not been implemented within three months of the agreed deadline.
85. We will continue to report all instances where high level recommendations have not been implemented by their due dates. If the implementation date is exceeded by more than three months, this will be reported to the committee.

Key performance indicators

86. The following table identifies the key performance indicators which are used to monitor the contractor and the service's performance:

| | Annual target | Quarter 4 target | Quarter 4 performance |
|--|----------------------|-------------------------|------------------------------|
| % of audits from the plan completed to draft report stage | 100% | 100% | 100% |

87. Internal audit completed the plan by 31 March 2016:

| Area | Original audit plan | Added | Cancelled |
|------------------------------|----------------------------|--------------|------------------|
| Corporate audits | 2 | 0 | 0 |
| Departmental audits | 29 | 2 | 4 |
| Key financial systems | 6 | 0 | 0 |
| IT audits | 4 | 0 | 1 |
| Thematic reviews | 2 | 0 | 0 |
| Schools | 30 | 1 | 0 |
| Totals | 73 | 3 | 5 |

88. As reported to the committee in the last report, three audits have been added to the plan this year: special guardianship orders, Queen's Road safes and Camelot school. The timing of four audits have been deferred at management's request to 2016-17: funding panels, no recourse to public funds, waste management contract, public health and IT network security, for the reasons set out in paragraph 30.

| | Target performance | Actual performance |
|--|---------------------------|---------------------------|
| % of returned audit satisfaction survey forms achieving an overall score of 'adequate' or above. A minimum of 15% returns is required | 75% | 94% |
| % of recommendations in draft report accepted by audit sponsor / owner | 90% | 98% |
| % of high rated recommendations implemented by agreed implementation date | 85% | 56% |

89. The level of response to satisfaction surveys has improved during 2015-16, due to incorporation of feedback at draft reporting stage and more active follow up where responses are not received. Implementation of high recommendations is below target at 56%; as reported at the meeting in February 2016, this represents four recommendations that were not implemented by the due date. These have since been implemented.

Reactive anti-fraud work

90. The number of referrals received through the Southwark website, fraud email, fraud hotline and by letter for the fraud teams between 1 April 2016 and 31 May 2016 has

been 144. The table below shows the number of cases that have resulted in a successful sanction for each of the anti-fraud teams from 1 April 2016 to 31 May 2016.

| Anti-Fraud Team | Number of Sanctions 2016-17 | Number of Sanctions 2015-16 |
|-----------------------------|--------------------------------|--------------------------------|
| Anti-fraud services | 2 | 3 |
| Special investigations team | 5* | 11 |
| Total | 7 | 12 |

Sanctions for period 1 April 2016 to 31 May 2016

* In addition, housing management has recovered an additional 15 properties.

Proceeds of Crime Act

91. The senior investigator in anti-fraud services received a highly commended award at the 2016 Keith Hughes award for excellence in financial investigation. This was in recognition of her works in respect of Operation Bronze, in developing a methodology for identifying the financial gain as well as the sanctions achieved.
92. The Keith Hughes Award is for all financial investigators in the UK. The award is sponsored by Altia Solutions with a judging panel made up of senior law enforcement professionals. This is thought to be the first time that a local authority officer has been shortlisted, therefore representing a significant achievement to be highly commended.
93. The award was set up in memory of Detective Constable Keith Hughes, a financial investigator with the former National Crime Squad who died from cancer in July 2003. It promotes the values Keith's work and life inspired, through recognising the achievements of those who have made an outstanding contribution within UK financial investigation and law enforcement.
94. These prestigious awards are now in their 12th year and the award was presented at the gala dinner at the NPCC (National Police Chief's Council) SOCEX'16 conference in May 2016.

Proactive anti-fraud work

95. Attached is the proactive fraud plan for 2016 to note, which is developed in line with the anti-fraud strategy. (See Appendix B)

POLICY IMPLICATIONS

96. This report is not considered to have direct policy implications.

COMMUNITY IMPACT STATEMENT

97. This report is not considered to have direct impact on local people and communities.

RESOURCE IMPLICATIONS

98. This report is not considered to have direct impact on resource implications.

CONSULTATION

99. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

100. None required

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None. | | |

APPENDICES

| No. | Title |
|------------|--|
| Appendix A | Draft internal audit charter July 2016 |
| Appendix B | Draft pro-active fraud plan 2016 |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Mike Pinder, Head of Anti-Fraud and Internal Audit | |
| Version | Final | |
| Dated | 1 July 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Strategic Director of Finance and Governance | N/A | N/A |
| Director of Law and Democracy | N/A | N/A |
| Cabinet Member | No | No |
| Date final report sent to Constitutional Team | | 1 July 2016 |

Internal Audit Charter

Internal Audit and Anti-Fraud Services

July 2016

Version 3.0

Agreed by Audit, Governance and Standards Committee [tbc].

1. Introduction

This document explains the purpose, authority and responsibility of the council's internal audit service. The Charter updates the previous charter to bring it in to line with recent updates to the UK Public Sector Internal Audit Standards (PSIAS) made in March 2016.

2. Mission of Internal Audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3. Purpose

Good controls, risk management and fraud prevention are the responsibility of management. Internal audit is a statutory functions, which provides assurance and at times advisory work to the council. The work of internal audit can complement and support management control.

Definition of Internal Audit

The Public Sector Internal Audit Standards (PSIAS) defines internal auditing as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

The Statutory Framework

The Accounts and Audit Regulations 2015 require the provision of an internal audit service (IAS). The IAS will also comply with the PSIAS.

The Internal Audit Plan

The head of anti-fraud and internal audit must establish a risk based plan to determine the priorities of internal audit activity, consistent with the organisational goals. The internal audit plan is reviewed annually and forms a one year operational plan and five year strategic plan. The plan is agreed by the audit, governance and standards committee.

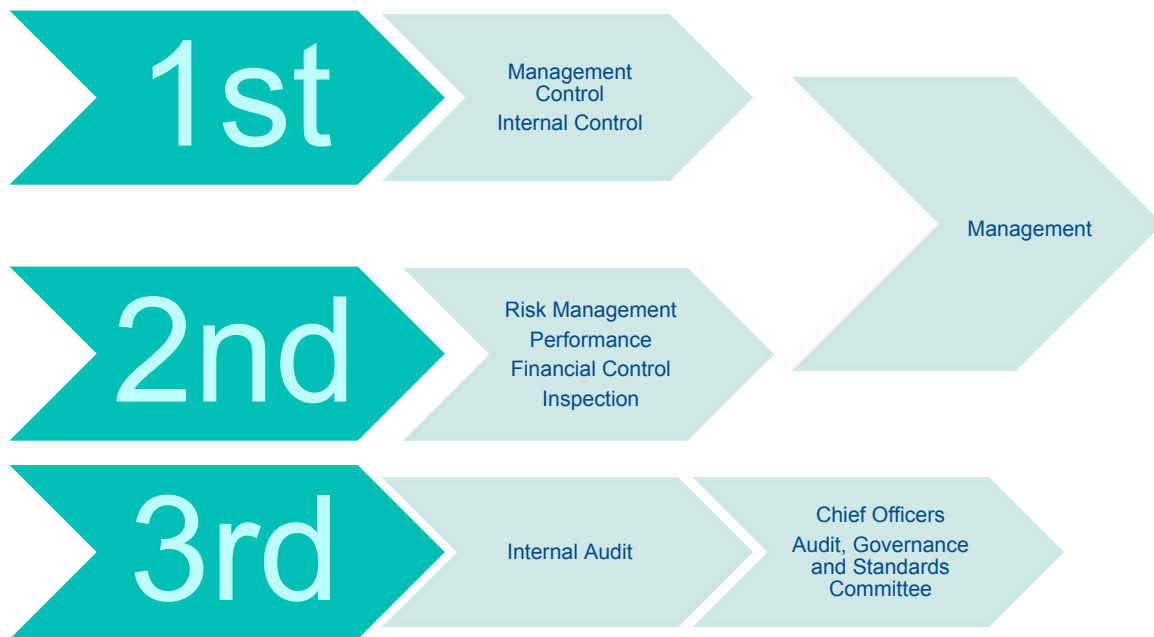
The Assurance Role

Internal audit's primary role is to provide assurance to the organisation. The internal audit function is the third line of defence in the council's "three lines of defence" approach to risk and assurance– the first line is made up by the council's core operational services and the second line by the oversight functions. For example the risk management service.

The third line of defence is internal and external auditors, which regularly review both the business frontlines and the oversight functions to ensure the council has adequate risk controls in place. The corporate management team and members also make up the third line of defence in that they receive and act on reports from audit, oversight and the operational services, to ensure that the three lines of defence are operating effectively.

The three lines of defence model is summarised in the following diagram:

Three Lines of Defence: Assurance



Assurance feeds from the risk based internal audit plan to individual audit projects. Internal audit employs a risk-based, systematic and disciplined approach to audit. The risk-based approach focuses on the materiality of transactions. As a result, it utilises risk to identify material or key transactions and tests a sample to ensure that the system works, thus providing assurance to management. It is management's responsibility to maintain a system of internal control.

Advisory Role

As well as assurance, internal audit may also undertake advisory (consulting) services. The head of anti-fraud and internal audit may be approached to undertake advisory work (classified in the code as 'consultancy' work). This will be provided without prejudice to the right of internal audit to review the relevant policies and procedures and operations at a later date.

All significant additional advisory projects not already included in the internal audit plan, will be reported to the audit, governance and standards committee prior to acceptance. Significant for this purpose is defined as any project that will represent a change to the plan of in excess of 5% of the total days.

Significant projects must be agreed with audit, governance and standards committee, prior to acceptance. In the event that these projects are urgent it will be emailed to the chair of the audit, governance and standards committee for interim approval and reported to the next meeting of the committee.

The head of anti-fraud and internal audit must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Internal auditors may provide advisory services relating to operations for which they had previous responsibilities.

Internal Audit's Role in Fraud, Bribery and Corruption

Management, not internal auditors are responsible for the prevention and detection of fraud, bribery and corruption. Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption as well as seeking to identify indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. In the event that the IAS suspect a fraud, this will be referred to the anti-fraud service.

4. Authority

Access to Records

There are no limitations to internal audit's right of access to the council's officers, records, information, premises, or meetings which it considers necessary to fulfil its responsibilities.

Where key services are to be provided to the council by other contractors or through a partnership, the contract or agreement need to provide a clause to facilitate a right of access for internal audit. This is essential in order for internal audit to form an opinion on the controls operating by the client and how these may impact upon the council. In order to obtain assurance, the head of anti-fraud and internal audit in consultation with all relevant parties, will decide whether internal audit staff conduct work or if any reliance can be placed on the work of other auditors.

When the auditors (including RSM) receive confidential information about your affairs it shall at all times be kept confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable. All information will be maintained in line with appropriate regulations, for example the Data Protection Act 1998.

5. Responsibility

The management and reporting lines for IAS and the head of internal audit and anti-fraud.

Lines of Responsibility

The head of anti-fraud and internal audit is line managed by the director of finance, however, will also report functionally to the audit, governance and standards committee.

Decisions on the appointment, removal and changes to the head of anti-fraud and internal audit will be the decision of officers, but will be received by the audit, governance and standards committee. Either the chief officer team or audit, governance and standards committee may request a private meeting with the head of internal audit and anti-fraud on these matters. Reporting of the IAS is therefore summarised in the table below:

| | Director of Finance | Chief Officer Team | Audit, governance and standards Committee |
|--|---------------------|--------------------|---|
| Approving the internal audit charter | | | X |
| Approving the risk based internal audit plan | | | X |
| Approving the internal audit budget and resource plan | | | X |
| Receiving communications from the chief audit executive on the internal audit activity's | | | X |
| Monitoring performance relative to its plan and other matters; | | | X |
| Making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations. | | | X |
| Approving decisions regarding the appointment and removal of the chief audit executive. | X | See note A | See note A |

Note A - The director of finance will take decisions in relation to the appointment, remuneration and removal of the head of anti-fraud and internal audit. These will, however, be reported to the corporate management team and audit, governance and standards committee, who may request a direct consultation with the head of anti-fraud and internal audit or director of finance.

External Audit and other regulators and inspectors

The head of anti-fraud and internal audit meets regularly with the council's external auditors to discuss links between internal and external audit.

All internal audit final reports are sent to the council's external auditors to build into their planning; they may also request to review certain internal audit files.

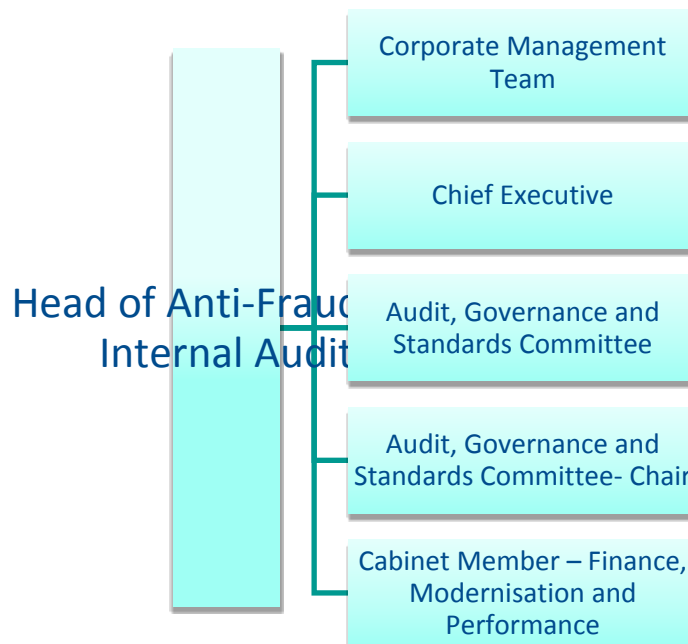
The head of anti-fraud and internal audit will liaise with third parties who either require assurance from the council, or vice versa, as and when required.

6. Independence

Professional internal auditors are mandated by the standards to be independent of the business activities they audit. Internal auditors are required to be impartial unbiased attitude and avoid any conflict of interest.

Reporting

The head of anti-fraud and internal audit has free and unfettered access to the following:



In addition fraud or corruption may be reported directly to the police or third party where appropriate.

The strategic director of finance and governance, chief executive and chair of the audit, governance and standards committee will also be asked for feedback as part of the head of anti-fraud and internal audit's appraisal.

All Southwark and RSM staff within anti-fraud and internal audit are required to complete an annual declaration of interest.

Any internal audit staff involved in significant advisory projects will not be involved in the audit of that area for at least 12 months.

7. Due Professional Care

Internal Audit staff are bound by the ethics requirements of the act as well as the Council's policies and procedures, relevant legislation. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

Ethics

All members of the anti-fraud and internal audit team are provided with the internal audit code of ethics and sign to agree compliance with, notwithstanding their obligation to comply with the code of ethics for their own professional bodies. This also extends to the line management for the service.

Quality Assurance

In line with the PSIAS a quality assurance and continuing improvement programme covering all internal audit work, has been established. An annual self-assessment is undertaken against the PSIAS as well as ongoing monitoring. In addition, an external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor.

8. Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all of these principles should be present and operating effectively for both internal auditors and the audit service as a whole:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

These attributes should be demonstrated by audit staff and the service as all times, through their work, reporting and culture.

9. Terminology

The Public Sector Internal Audit Standard utilises the following terms. The council has not adopted the terminology, however, the roles and responsibilities are fully adopted. The following sets out how the council meets the requirements of the standard:

Senior Management Team

The Senior Management Team's responsibilities are covered by the corporate management team.

The Board

The board responsibilities are covered by the council's audit, governance and standards committee, as detailed in section 4.

Chief Audit Executive

The chief audit executive for the council is the head of anti-fraud and internal audit.

Anti-fraud and internal audit

Draft Anti-fraud proactive plan
2016

V2.0 1 April 2016

Anti-fraud proactive plan 2016

Introduction

1. The anti-fraud proactive plan is developed in line with the anti-fraud strategy (the strategy). One of the primary objectives of the strategy was to expand proactive work to increase prevention and detection of fraud. This plan is developed annually based upon key fraud risks. Through necessity it remains fluid to reflect changes derived from e.g. reactive work.

Summary of workplan areas and resources allocation

2. The plan is set up in two key areas. Soft measures are related to strategy and policy, to help 'set the tone' of the organisational culture in relation to the prevention and detection of fraud. Hard measures are designed initially to identify fraud and develop prevention measures for services going forward.

| | Number of Days |
|---------------|----------------|
| Soft measures | 76 |
| Hard measures | 424 |
| Total | 500 |

Soft Measures

| Project Description | Tasks | Days |
|--|---|------|
| CIPFA Managing the Risk of Fraud and Corruption | Review compliance with new guidance and confirm action in respect of cyber policy. | 5 |
| Anti-Fraud strategy | <p>To review 2012-2016 strategy. Engagement with key stakeholders across Southwark Council.</p> <p>To include updates for:</p> <ul style="list-style-type: none"> • proposed new fighting fraud locally strategy • and changes from the CIPFA managing the risk of fraud. • links to internal audit. • To look to embed processes in the Council to ensure consultation with the anti-fraud service where key | 15 |
| Anti-fraud e-learning | <p>To promote and increase uptake for e-learning.</p> <p>Review the Source and refresh training module content</p> | 5 |
| Southwark Anti-fraud story | To develop a set of slides running through the last 8 years, explaining how the team has developed to its present form. Indications as to the future direction, size and remit of the team | 5 |

| | | |
|--------------------------------------|---|----|
| Bespoke Anti-fraud training | To provide on going anti-fraud training; develop & run a bespoke programme of training for social workers Social workers – understanding specific fraud risks affecting service | 10 |
| Prosecution policy | Annual review and update of the anti-fraud prosecution policy. Including liaison with housing on tenancy prosecutions. | 1 |
| Other policies and procedures | To review other policies linked to anti-fraud and corruption e.g. money laundering. | 5 |
| Transparency | To review transparency requirements and report accordingly. | 5 |
| Procurement | To develop an anti-fraud advice document around procurement. Looking at risks around (for examples): <ul style="list-style-type: none"> • Cartels • Contract monitoring • Changes in scope | 15 |

| | | |
|-------------------------|---|-----------|
| Corporate policy | To review organisation policies to help identify changes in circumstances which may increase fraud risks with a view to embedding requests for anti-fraud input. | 5 |
| | To respond to requests for advice following implementation or processes for embedding anti-fraud input. | 5 |
| | <p>Increase in joint working initiatives including</p> <ul style="list-style-type: none"> • Home Office enquiries with Council Tax • DWP <p>*This may also lead requests for other projects, which will be considered separately.</p> | |
| Total Days | | 76 |

Hard Measures

| Project Description | Tasks | Days |
|----------------------------------|--|------|
| Advanced verification | Oversee and monitor the use of ID Scanners | 10 |
| | Support and advice to internal audit project(s) | 15 |
| | HR review | 50 |
| | To review additional areas for possible credit check/passport vetting | 10 |
| | Review of digital verification options with MySouthwark portal | 4 |
| National Fraud Initiative | To oversee NFI programme | 20 |
| | To co-ordinate submission of data, including a review of fair-process notices etc. | 15 |
| | To complete work relating to anti-fraud | 20 |

| | | |
|---------------------------------|---|---------|
| iLatch | To continue to develop iLatch functionality to add with investigation work. | 15 |
| | To continue media with estate agents/software developer to optimise usage for potential rental market | 20 |
| Right to buy | To develop money laundering checks to help prevent and detect right to buy fraud. | 20 |
| | To review right to buy applications for potential fraudulent applications, money laundering. | 25 |
| Council Tax | To support revenues on: | |
| | <ul style="list-style-type: none"> • Annual single person discounts review • Developing a review of student discounts with the service. | 5 30 |
| Data matching | To identify an appropriate tool to assist with ad-hoc data matching. | 10 |
| | To undertake two data matching projects, including initial analysis: Tbd | 30 |
| Housing Allocations | To continue to liaise with the service to provide advice, support on developing fraud prevention.. | 15 |
| | Housing investigation on matches | 100 |
| London Counter Fraud Hub | To support requests for information/updates and analyse proposals for the LCFH. | 10 |
| | Total days | 424 |

| | | | |
|--|--------------------------------|--|--|
| Item No. 11. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Grant Thornton – audit, governance and standards committee update July 2016 and audit fee letter 2016-17 | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATIONS

1. That the audit, governance and standards committee note Grant Thornton's audit, governance and standards committee update, as attached (Appendix 1).
2. That the audit and governance committee note Grant Thornton's audit fee letter for 2016-17 work, as attached (Appendix 2)

BACKGROUND INFORMATION

3. The purpose of the audit update report is to brief the audit, governance and standards committee on work currently being planned or undertaken by Grant Thornton and to highlight emerging national issues and developments which may be of interest to members of the committee.
4. The audit fee letter sets out the planned audit fees for both the council and the pension fund for 2016-17.

KEY ISSUES FOR CONSIDERATION

5. The attached report at Appendix 1 provides an update on 2015-16 audit work, including the 2015-16 accounts audit plan, work on the interim and final accounts audit, and the Value for Money conclusion. It also draws members' attention to a number of key local government accounting and other issues and highlights publications from Grant Thornton and CIPFA.
6. Grant Thornton has confirmed its planned fees levels in a letter, as attached at Appendix 2. The scale fee letter for 2016-17 has been set by the Public Sector Audit Appointments Ltd (PSAA), the organisation responsible for managing the current external audit contracts until they expire, at the same level as the 2015-16 fees. Planned fees are therefore £237,296 for the council and £21,000 for the pension fund, and the indicative grant certification fee is £23,018. However, the letter notes that the adoption of new measurement requirements for the Highways Network Asset will require additional work and result in additional fees. Where authorities can provide the information required, fees are expected to increase by £5,000 to £10,000. The letter also sets out the scope and timing of work for 2016-17.

Policy implications

7. This report and the accompanying update report and audit fee letter are not considered to have direct policy implications.

Community impact statement

8. This report and the accompanying update report and audit fee letter are not considered to have direct impact on local people and communities.

Resource implications

9. This report and the accompanying update report and audit fee letter are not considered to have direct impact on resource implications.

Consultation

10. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

11. None required.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None | | |

APPENDICES

| No. | Title |
|------------|---|
| Appendix 1 | Grant Thornton Audit, Governance and Standards Committee Update July 2016 |
| Appendix 2 | Grant Thornton audit fee letter 13 April 2016 |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Jo Anson, Head of Financial and Information Governance | |
| Version | Final | |
| Dated | 24 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Director of Law and Democracy | No | N/A |
| Strategic Director of Finance and Governance | N/A | N/A |
| Cabinet Member | No | No |
| Date final report sent to Constitutional Team | 24 June 2016 | |

Audit, Governance and Standards Committee
Southwark Council
Progress Report and Update
Year ended 31 March 2016

July 2016

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Stacy Lang

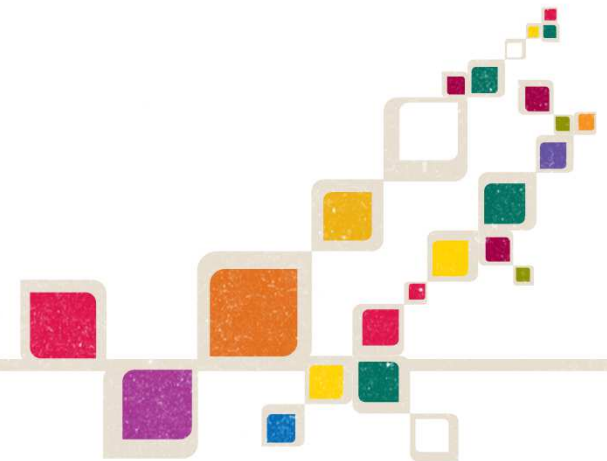
Audit In- Charge

T 020 7728 3293

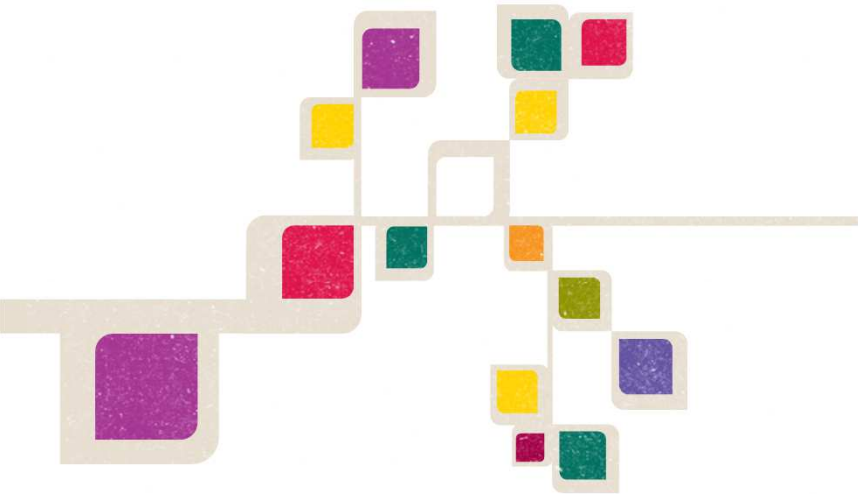
E stacy.c.lang@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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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| Grant Thornton and CIPFA reports | 12 |

Introduction

This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit, Governance and Standards Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Reforging local government: Summary findings of financial health checks and governance reviews:
<http://www.grantthornton.co.uk/en/insights/reforging-local-government/>
- Partnership working in Mental health:
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/partnership-working-in-mental-health.pdf>
- Innovation in public financial management:
www.grantthornton.co.uk/en/insights/making-devolution-work/
- 2016 Transparency Report:
www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf
- Better Together: Building a successful joint venture company:
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

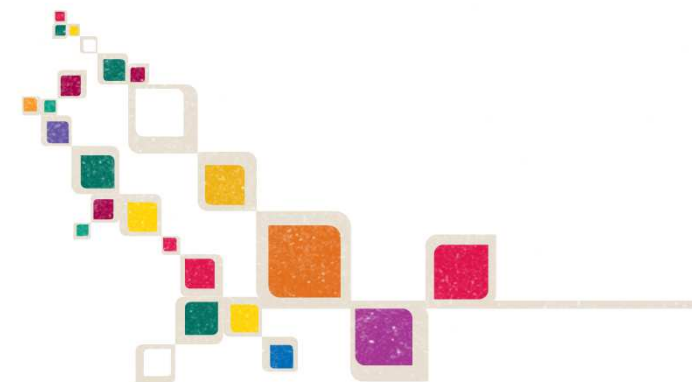
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



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Progress at July 2016



 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to complete our work by the end of August 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

2015/16 work

Fee Letter

We issued the 'Planned fee letter for 2016/17 in April 2016.

Completed

Yes (April 2016)

Comments

We issued the fee letter for 2016/17 in April 2016, with no change to the fee proposed. A copy of the fee letter is included on the agenda for the July 2016 Audit, Governance and Standards Committee.

Accounts Audit Plan

We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.

Yes (February 2016)

This was presented to the Audit and Governance Committee in February 2016.

We also inform you of any subsequent changes to our audit approach.

Interim accounts audit

Our interim fieldwork visit includes:

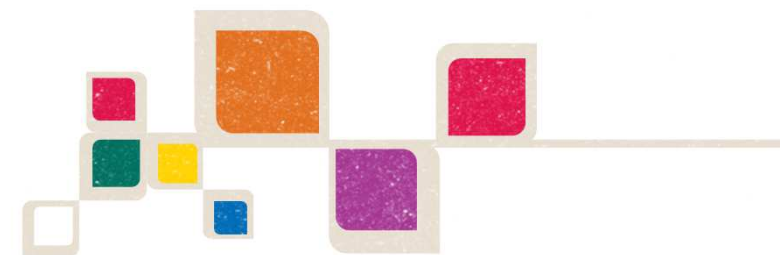
- updating our review of the Council's control environment
- updating our understanding of financial systems
- review of Internal Audit reports on core financial systems
- early work on emerging accounting issues
- early substantive testing

Yes (December 2015 to April 2016)

No issues were identified during our work that require reporting to the Audit, Governance and Standards Committee.

As part of our formal communication between auditors and the Council's Audit, Governance and Standards Committee, as 'those charged with governance' we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit, Governance and Standards Committee under auditing standards. This was presented to the Audit and Governance Committee in February 2016.

Progress at 21 June 2016



| 2015/16 work | Completed | Comments |
|---|---|--|
| <p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts | <p>No (July to September 2016)</p> | <p>We are planning to complete our audit by the end of August 2016.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect and discussed the implications of emerging accounting matters with finance staff.</p> <p>We intend to commence the audit on 4 July 2016.</p> |
| <p>Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "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". The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties | <p>On-going (March to September 2016)</p> | <p>We set out the results of our risk assessment and the proposed focus of our work within the Audit Plan reported to the February 2016 meeting of the Audit and Governance Committee.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements which we will give in September 2016.</p> |

Local Government Accounting and other issues



IFRS 13 'Fair value measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.



Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available requirements.

Better Care Fund

The Better Care Fund was launched on 1 April 2015 to ‘...drive closer integration and improve outcomes for patients and service users and carers’. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

Although the local government timetable is moving forward, the NHS timetable is still significantly earlier so local authorities will need to include dates in their closedown plan to give NHS colleagues the information they need to prepare their accounts in good time for these deadlines.

Un-lodged non-domestic rate appeals

Last year, there were primarily no provisions for un-lodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any un-lodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for un-lodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Grant Thornton and CIPFA Publications



Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk

- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

The report can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/reforging-local-government/>

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports



Partnership working in Mental health

We have recently published a report on Partnership working within mental health based on our experience of working with a number of NHS Bodies, Local Authorities and the wider public sector.

This report was drawn together to examine the challenges faced by Mental Health providers, but further, how these challenges have effects which span the whole NHS, both Local and Central Government, Fire and Rescue Authorities and the Police Service.

Highlighting Collaboration and Partnership as the most effective tool in an industry with ever decreasing demand for services, the report shows through the use of interviews, case studies and roundtables how incremental and targeted initiatives have cross-industry benefits, not only from a cost consideration, but increasing quality of service and alleviation of future need.

Almost all collaboration cases in this report occurred where traditional organisational boundaries were put to one side and the focus was on the best interests of the patient; they were not achieved with large investments of cash or resources.

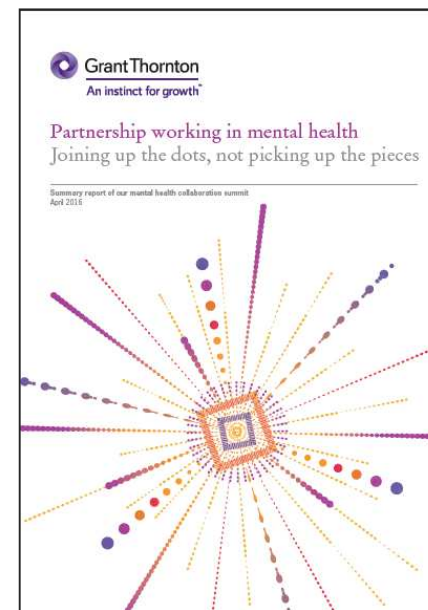
Appreciating the constraints to collaboration on Mental Health, the report provides practical recommendations to facilitate the successful continuation or introduction of such initiatives and innovation.

The report can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/partnership-working-in-mental-health.pdf>

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports



Innovation in public financial management

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of

their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website:
<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

Grant Thornton reports



2016 Transparency Report

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets our most recent financial information.

The report can be downloaded from our website:

www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports



Transparency report 2016
Our commitment to brighter futures



Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from <http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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13 April 2016

Dear Eleanor

Planned audit fee for 2016/17

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. 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](#).

Scale fee

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 timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

CIPFA/LASAAC is expected to confirm, subject to consultation, that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Highways Network Asset.

PSAA have determined that there is no reliable and equitable way of establishing the volume of additional audit work, and therefore fees required, at each applicable local authority to gain assurance over the new financial reporting requirements. Therefore, fees for the additional work identified by auditors in 2016/17 will be subject to approval by PSAA under the normal fee variations process. PSAA expect that 'the additional fees for a highway authority will be in the range of £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use.

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £237,296.

The audit planning process for 2016/17, 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

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 from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). 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)
- our work on your whole of government accounts return (if applicable).

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

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 guidance for auditors on value for money work in November 2015. 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 takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Certification of grant claims and returns [if applicable]

The Council's indicative grant certification fee has been set by PSAA at £23,018. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves

Pension Fund audit

PSAA has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £21,000. Our work on the pension fund will be undertaken between June and July 2016 by our specialist pension fund audit team, led by Elizabeth Olive.

Billing schedule

Fees will be billed as follows:

| Main Audit fee | £ |
|----------------------------|----------------|
| September 2016 | 59,324 |
| December 2016 | 59,324 |
| March 2017 | 59,324 |
| June 2017 | 59,324 |
| Total | 237,296 |
| <hr/> | |
| Grant Certification | |
| March 2017 | 23,018 |
| <hr/> | |
| Pension Fund audit | |
| March 2017 | 21,000 |

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2016 to March 2017. 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 2017 alongside work on the whole of government accounts return.

| Phase of work | Timing | Outputs | Comments |
|----------------------------------|-----------------------------|--|--|
| Audit planning and interim audit | November 2016 to March 2017 | 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 2017 | Audit Findings (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 July 2017 | Audit Findings (Report to those charged with governance) | As above |
| Whole of government accounts | July 2017 | Opinion on the WGA return | This work will be completed alongside the accounts audit. |
| Annual audit letter | August 2017 | Annual audit letter to the Council | The letter will summarise the findings of all aspects of our work. |
| Grant certification | June to November 2017 | Grant certification report | A report summarising the findings of our grant certification work |

Our team

The key members of the audit team for 2016/17 are:

| | Name | Phone Number | E-mail |
|----------------------------|-----------------|---------------------|--|
| Engagement Lead (Council) | Paul Dossett | 0207 728 3180 | Paul.dossett@uk.gt.com |
| Engagement Lead (Pensions) | Elizabeth Olive | 0207 728 3329 | Elizabeth.l.olive@uk.gt.com |
| Engagement Manager | Nick Taylor | 01223 225514 | Nick.taylor@uk.gt.com |
| Pensions Audit Manager | Richard Lawson | 0207 728 2084 | Richard.Lawson@uk.gt.com |
| In Charge Auditor | Stacy Lang | 0207 728 2328 | Stacy.c.lang@uk.gt.com |

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. Alternatively you may wish to contact Sarah Howard, our Public Sector Assurance lead partner, via sarah.howard@uk.gt.com.

Yours sincerely

Paul Dossett

Engagement Lead

For Grant Thornton UK LLP

| | | | |
|------------------------------------|--------------------------------|---|---|
| Item No. 12. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Establishment of sub-committees for 2016/17 | |
| Ward(s) or groups affected: | | All | |
| From: | | Proper Constitutional Officer | |

RECOMMENDATIONS

1. To note the roles and functions of the audit, governance and standards committee and its sub-committees (see Appendix 1) as agreed by annual council assembly on 14 May 2016.
2. To establish a civic awards sub-committee with the size and composition to be determined having regard to the guidance set out in paragraphs 6 to 10 of this report, and to appoint a chair and vice-chair.
3. To establish a conduct sub-committee to consider complaints of misconduct against councillors (and co-opted members) as set out in paragraph 12 of this report.

BACKGROUND INFORMATION

4. This report is presented to the audit, governance and standards committee in accordance with Part 3K, paragraph 37 of the constitution, which requires the audit, governance and standards committee to establish the following sub-committees:
 - to consider complaints of misconduct against elected councillors and co-opted members
 - to consider civic awards.
5. Council assembly on 16 March 2016 resolved that following the amalgamation of the roles and functions of the former standards committee into the new audit, governance and standards committee, to retain the existing two standards sub-committees - civic awards sub-committee and conduct sub-committee (considering any complaints against members. The audit, governance and standards committee was established by the annual meeting on 14 May 2016.

KEY ISSUES FOR CONSIDERATION

Proportionality

6. Seats on committees and sub-committees must be allocated in accordance with the four principles of proportionality contained in sections 15, 16 and 17 of the Local Government and Housing Act 1989. When making appointments, committees (in appointing sub-committees) have a duty to give effect to the following principles, as far as is reasonably practicable:

- (i) That not all the seats on a committee or sub-committee are allocated to the same political group.
- (ii) That the majority group must have the majority of seats on each committee or sub-committee.
- (iii) Subject to (i) and (ii) above, it must be ensured that the proportion of each political group's seats of the total number of seats on 'ordinary committees' reflects as closely as possible their proportion of seats on full council.
- (iv) Subject to (i) to (iii) above, the proportion of each political group's seats on each committee and sub-committee reflects as closely as possible their proportion of seats on full council.

Note: This rule applies to all committees, sub-committees and joint committees, except for licensing committee and community councils.

- 7. Sub-committees are not 'ordinary' committees and are each considered individually for the purposes of proportionality. So far as it is reasonably practicable to do so, the allocation of seats a sub-committee should bear the same proportion to the number of the seats held by that group on the council. The audit, governance and standards committee can agree an allocation that is disproportionate, provided no member votes against this.
- 8. The most proportionate allocation will depend on the number of members of the sub-committee. The following sub-committee sizes would provide the following allocation of places:

| Size of sub-committee | Labour | Liberal Democrats | Conservative |
|-----------------------|--------|-------------------|--------------|
| Seven seats | 5 | 2 | 0 |
| Six seats | 5 | 1 | 0 |
| Five seats | 4 | 1 | 0 |
| Four seats | 3 | 1 | 0 |
| Three seats | 2 | 1 | 0 |

Membership of the civic awards sub-committee

- 9. In 2015/16, the membership of the civic awards sub-committee included the following:
 - (1) Three Labour and one Liberal Democrat members.
 - (2) Mr Gordon McCullough - non-voting representative from Community Action Southwark, as the council's key strategic partner working with the voluntary and community sector.
 - (3) Mr Gary Magold and Mr Emmanuel Kwakye - two non-voting co-opted members to represent the local community.
- 10. Subject to consideration by this committee, it is proposed that the councillor membership of the civic awards sub-committee should be established in

accordance with proportionality rules – see options set out in paragraph 8 above. It is recommended that the non-voting co-opted members set out in paragraph 9(2) and 9(3) above continue to serve on the sub-committee in 2016/17.

11. The committee is invited to appoint a chair and vice-chair.

Membership of the conduct sub-committee

12. The membership for each sub-committee will be drawn from the pool of councillors on the committee, including reserve members. Sub-committees to consider complaints of misconduct shall be composed of three members. It is recommended that normally sub-committees are comprised of two Labour and one Liberal Democrat members (and two reserve members). Conduct sub-committees have a quorum of three members. An allocation process similar to that used in previous years would be used:

- (1) The allocation system has two objectives, firstly to ensure quorate meetings and second, to ensure all members have an equal opportunity to serve on sub-committees.
- (2) The constitutional officer will send out an email to the whips of the political groups informing them of when a meeting is due to take place. The whips then arrange for their group members who sit on the audit, governance and standards committee to volunteer for the sub-committee. This means that confidentiality is more likely to be maintained.

Each conduct sub-committee shall appoint a chair as its first item of business.

Appointments to sub-committees

13. Section 16 (1) of the Local Government and Housing Act 1989 provides that it is the duty of the authority or committee to exercise their power to make appointments to a body as to give effect 'to such wishes about who is to be appointed to the seats on that body which are allocated to a particular political group as are expressed by that group'.
14. There is no requirement that a seat allocated to a particular group can only be filled by a member of that group. Therefore groups have the discretion to allocate seats as they wish, including to a member of another group.

Community impact statement

15. The constitution enables people, including the local community where relevant, to understand the role that they can play in the decision making of the council and how the council will safeguard high standards of conduct amongst members and officers.
16. The civic awards sub-committee is intended to have a positive community impact by improving the administration and in particular the equalities monitoring of the civic awards scheme.

Resource implications

17. There are no specific budget implications.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|---|---|---|
| Council assembly agenda dated 16 March 2016 http://moderngov.southwark.gov.uk/ie/ListDocuments.aspx?CId=132&MId=5068&Ver=4 | Constitutional Team 160 Tooley Street London SE1 2QH | Chidilim Agada Principal Constitutional Officer 020 7525 3310 |
| Annual council assembly agenda dated 14 May 2016 http://moderngov.southwark.gov.uk/ie/ListDocuments.aspx?CId=132&MId=5069&Ver=4 | | |

APPENDICES

| No. | Title |
|------------|--|
| Appendix 1 | Audit, governance and standards committee and sub-committees - Roles and functions |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Ian Millichap, Constitutional Manager | |
| Report Author | Chidilim Agada, Principal Constitutional Officer | |
| Version | Final | |
| Dated | 16 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments Included |
| Director of Law and Democracy | No | No |
| Strategic Director of Finance and Governance | No | No |
| Cabinet Member | Not applicable | Not applicable |
| Date final report sent to Constitutional Team | | 16 June 2016 |

PART 3K: AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

ROLE AND FUNCTIONS**Introduction**

The purpose of the audit, governance and standards committee is to provide:

1. Independent assurance of the adequacy of the council's governance arrangements, including its standards regime, the risk management framework and the associated control environment.
2. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
3. Oversight of the financial reporting process.
4. Scrutiny of the treasury management strategy and policies.
5. A framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.

Audit activity

6. To approve the internal audit charter
7. To approve the risk based internal audit plan, including resource requirements.
8. To approve any significant proposed advisory services, additional to those included in the audit plan.
9. To receive information on the appointment, departure, resignation or change in chief audit executive.
10. To receive in-year summaries of internal audit and anti-fraud activity and the internal audit annual report and opinion and to consider the level of assurance it can give over the council's corporate governance arrangements.
11. To receive reports dealing with the management and performance of the provider of internal audit services, including the performance of the chief audit executive.
12. To receive reports from internal audit on agreed recommendations not implemented within a reasonable timescale.
13. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

14. To consider specific reports as agreed with the external auditor.
15. To comment on the scope and depth of external audit work and to ensure it gives value for money.
16. To have oversight over the appointment of the external auditor.
17. To commission work from internal and external audit.

Accounts

18. To review and approve the annual statement of accounts and specifically to consider compliance with appropriate accounting policies and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
19. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury management

20. To review and scrutinise the treasury management strategy and policies.

Governance activity

21. To review any issue referred to it by the chief executive or a strategic director, or any council body.
22. To monitor the effective development and operation of risk management in the council.
23. To monitor the effective development and operation of corporate governance in the council and to agree actions necessary to ensure compliance with best practice.
24. To monitor council policies on 'whistle-blowing', the 'corporate anti-fraud strategy' and the council's complaints processes.
25. To receive reports from the statutory officers under the council's whistle blowing policy.
26. To provide strategic oversight on the use of the powers regulated by the Regulation of Investigatory Powers Act 2000 and to receive in-year reports on operational use.
27. To oversee the production of and agree the council's annual governance statement.
28. To review the council's compliance with its own and other published standards and controls.

29. To receive reports on retrospective contract related decisions as set out in contract standing orders.
30. To receive reports from the monitoring officer on any serious breach of the contract standing orders or procurement guidelines.

Standards activity

31. To advise the council on the adoption or revision of the members' code of conduct, the member and officer protocol and the communication protocol.
32. To monitor the operation of the members' code of conduct, the member and officer protocol and the communication protocol.
33. To monitor and advise on training provided for councillors, co-opted members and church and parent governor representatives.
34. To deal with any standards related complaints referred to it and any report from the monitoring officer on any matter which is referred to him or her.
35. To receive reports from the monitoring officer on unlawful expenditure and probity issues.
36. To consider the withholding of allowances from individual members (including elected members and co-opted members) in whole or in part for non-attendance at meetings, or, for elected members only, for failure to attend required training.
37. To establish the following sub-committees:
 - to consider complaints of misconduct against elected councillors and co-opted members
 - to consider civic awards.

Annual report

38. To report annually to all councillors on its work and performance during the year.

MATTERS RESERVED FOR DECISION

Matters reserved for decision by the main committee

39. The matters reserved for decision to the committee are as set out in the role and functions, other than those functions delegated to the relevant sub-committee.

Matters reserved for decision by the conduct sub-committee

40. To consider complaints of misconduct against elected councillors and co-opted members.

Matters reserved for decision by the civic awards sub-committee

41. To grant civic awards.

42. To consider the process by which the decisions with respect to civic awards applications are to be taken and to make recommendations to the standards committee.
43. To appoint non-voting co-opted members.

| | | | |
|------------------------------------|--------------------------------|--|---|
| Item No. 13. | Classification: Open | Date: 14 July 2016 | Meeting Name: Audit, governance and standards committee |
| Report title: | | Revised work programme for 2016-17 | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Finance and Governance | |

RECOMMENDATIONS

1. That the audit, governance and standards committee consider the proposed revised work programme for 2016-17 including planned coverage of governance topics for the year and also whether they would wish to make any other amendments.
2. That the audit, governance and standards committee, subject to any requested changes, agree the work programme set out in Appendix 1 for 2016-17.

BACKGROUND INFORMATION

3. At their meeting on 22 February 2016, the committee considered and agreed a work programme for 2016-17. Since then, council assembly has agreed a revised role for the committee which includes functions formerly carried out by the standards committee and it is therefore now appropriate to reconsider the programme for the coming year.
4. The revised terms of reference, as approved by council assembly, now cover functions relating to audit activity, accounts, treasury management, governance activity and standards activity. They are attached at Appendix 2 for information.
5. The purpose of this report is to set out a revised 2016-17 programme which takes account of the committee's additional role for the committee's agreement.

KEY ISSUES FOR CONSIDERATION

6. The revised draft programme includes items which were previously considered by the standards committee.
7. At their February meeting, the committee considered the proposed draft work programme for 2016-17. Members agreed that, rather than select a single governance theme, they would identify a number of areas for consideration at future meetings.
8. As part of this, they agreed that they would invite members of the local pensions board and of the pensions advisory panel to the November meeting to discuss governance arrangements and issues in respect of the pension fund. The work programme has been updated to take account of this.

9. They also suggested that a further update on the implementation of public health impact assessment into the decision making process could be included on the July agenda. Given the ongoing changes in the public health service, this item has been deferred and it is proposed that the director of public health be invited to attend committee in November to outline changes to governance arrangements and the work being done on the health of the borough.
10. As in previous years, there remains a need to ensure flexibility in terms of emerging issues which come to light through items already on the committee's agenda. For example, a review of audit recommendations and progress on their implementation may highlight a need to request the attendance of individuals at a future meeting to help explain action taken. The draft programme therefore still includes a standing item relating to review of the committee's work plan. There may also be a need to review the work programme to take account of any changes which may be agreed to the council's constitution during the year.
11. Training will continue to be provided for members on the role of the committee, and development needs will continue to be monitored to enable appropriate training to be provided as opportunities arise.
12. The committee is asked to consider whether the attached revised work programme reflects its priorities for the next year or whether there are other amendments which it would wish to see included.

Policy implications

13. This report is not considered to have direct policy implications.

Community impact statement

14. The decision to agree a work programme for next year is considered not to have a significant impact on any particular community or group.

Resource implications

15. There are no direct resource implications in this report.

Consultation

16. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

17. None required.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None | | |

APPENDICES

| No. | Title |
|------------|---|
| Appendix 1 | Revised work programme 2016-17 |
| Appendix 2 | Extract from the constitution – Part 3K: Audit and governance committee |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Jo Anson, Head of Financial and Information Governance | |
| Version | Final | |
| Dated | 24 June 2016 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Director of Law and Democracy | No | No |
| Strategic Director of Finance and Governance | N/A | N/A |
| Cabinet Member | No | No |
| Date final report sent to Constitutional Team | 24 June 2016 | |

APPENDIX 1

Revised work programme 2016-17

Items shown in brackets (✓) are standing items which will be brought forward as they arise

| Item | Meeting date | | | | | Commentary |
|---|--------------|----------------|---------------|---------------|----------|---|
| | July 2016 | September 2016 | November 2016 | February 2017 | May 2017 | |
| General | | | | | | |
| Annual work programme for following year | | | | ✓ | | Draft work programme for the committee – Head of Financial and Information Governance |
| In-year review of work programme | (✓) | (✓) | (✓) | (✓) | (✓) | Standing item – to pick up emerging issues |
| Annual report of audit and governance committee | | | | ✓ | | Report on committee's work and performance to be submitted to council assembly each year – Head of Financial and Information Governance |
| Internal Audit activity | | | | | | |
| Internal audit charter | ✓ | | | | | To review and approve changes, if needed, to the internal audit charter – Head of Anti-Fraud and Internal Audit |
| Internal audit plan and strategy for internal audit | | | | ✓ | | Proposed internal audit programme for future years – Head of Anti-Fraud and Internal Audit |
| Annual report and opinion on internal audit and fraud | ✓ | | | | | Including review of effectiveness of system of internal audit and Head of Anti-Fraud and Internal Audit's opinion on system of internal control and report on internal audit contractor and Head of Anti-fraud and Internal Audit (chief audit executive) performance – Head of Anti-Fraud and Internal Audit |
| Progress report on the work of internal audit and fraud | ✓ | | ✓ | ✓ | ✓ | Issues raised and progress on implementation of recommendations, including approval of any significant additional advisory services – Head of Anti-Fraud and Internal Audit |

| Item | Meeting date | | | | | Commentary |
|--|--------------|----------------|---------------|---------------|----------|---|
| | July 2016 | September 2016 | November 2016 | February 2017 | May 2017 | |
| Chief audit executive information | (✓) | (✓) | (✓) | (✓) | (✓) | Report on appointment, departure, resignation or change in chief audit executive – Director of Finance |
| External Audit activity | | | | | | |
| Audit fee letters (including pension fund) | ✓ | | | ✓ | | Annual fee letters setting out indicative fees and planned work/outputs for 2016-17 in July 2016 and for 2017-18 in February 2017 for the council and pension fund – Grant Thornton |
| Audit plans (including pension fund) | | | | | ✓ | Audit plans setting out audit work to be undertaken for audit of financial statements 2016-17 for the council and pension fund, including approval of any significant additional advisory services – Grant Thornton |
| Annual Audit letter (Grant Thornton) | | | ✓ | | | Annual audit letter (AAL) providing a summary of Grant Thornton's assessment of the council for 2015-16, drawing from audit of financial statements and work undertaken to assess VfM – Grant Thornton |
| Audit findings reports (ISA 260) – including pension fund) | | ✓ | | | | Annual governance report (AGR) summarising findings from 2015-16 audit of financial statements and work to assess VfM arrangements – Grant Thornton |
| Informing the audit risk assessment for the council (including pension fund) | | | | | ✓ | Item on oversight of management's processes in relation to risks of fraud/error, compliance with relevant laws and regulations and gong concern – Grant Thornton |
| Certification of claims and returns annual report | | | | ✓ | | Annual report summarising findings from the certification of 2015-16 grant claims – Grant Thornton |
| Audit update report | (✓) | (✓) | (✓) | (✓) | (✓) | Standing item – Grant Thornton update on work being planned or undertaken – Grant Thornton |
| Governance and standards activity | | | | | | |
| Annual governance statement | ✓ | ✓ | | | | Annual governance statement (AGS) is a mandatory statement setting out the council's governance arrangements – Head of Financial and Information Governance |
| Retrospective approvals to | (✓) | (✓) | (✓) | (✓) | (✓) | Standing item – contract standing orders require retrospective contract decisions over £100k to be |

| Item | Meeting date | | | | | Commentary |
|--|--------------|----------------|---------------|---------------|----------|--|
| | July 2016 | September 2016 | November 2016 | February 2017 | May 2017 | |
| contract decisions | | | | | | reported for the purpose of obtaining guidance to inform future decision making – Head of Financial and Information Governance |
| Risk management and insurance | ✓ | | ✓ | | | Annual report on risk management and insurance in July; report on key risks in November – Corporate Risk and Insurance Manager |
| Progress report on implementation of external audit recommendations | (✓) | (✓) | (✓) | (✓) | (✓) | Standing item – progress made in implementing external audit recommendations (Including audit findings) – Head of Financial and Information Governance/Director of Finance |
| Outcomes of the whistleblowing policy | | | ✓ | | | Annual report to consider outcomes of the whistleblowing policy – Director of Law and Democracy |
| Review of complaints made under Code of Conduct | | | ✓ | | | Annual report on complaints made under Code of Conduct – Head of Corporate Team |
| Report on operational use of Regulation of Investigatory Powers Act 2000 | | | ✓ | | | Annual report on use of powers under RIPA – Head of Corporate Team |
| Review of member and officer protocol and communications protocol | | | ✓ | | | Annual review of protocols, with recommendations for changes as needed – Head of Corporate Team |
| Establishment of Sub-committees for 2016-17 | ✓ | | | | | Report to establish sub-committees in line with committee's role and functions – Principal Constitutional Officer |
| Member induction and training | | ✓ | | | | Report on member induction and training |
| Areas of governance for review during year | (✓) | (✓) | (✓) | (✓) | | September 2016 – to be identified by committee November 2016 – local pensions board and pensions advisory panel; director of public health February 2017 – to be identified by committee |
| Corporate governance framework | (✓) | (✓) | (✓) | (✓) | (✓) | Standing item – to include e.g. council policies within remit of audit, governance and standards committee; other areas as identified: pensions governance; code of governance |

| Item | Meeting date | | | | | Commentary |
|-----------------------------------|--------------|----------------|---------------|---------------|----------|--|
| | July 2016 | September 2016 | November 2016 | February 2017 | May 2017 | |
| Accounts | | | | | | |
| Statement of accounts | ✓ | ✓ | | | | 2015-16 statement of accounts for consideration and approval – Director of Finance |
| Treasury Management | | | | | | |
| Review of the policy and strategy | | | ✓ | | | Review of treasury management policy and strategy – Director of Finance |

APPENDIX 2

Extract from the constitution – Part 3K Audit, governance and standards committee

ROLE AND FUNCTIONS

Introduction

The purpose of the audit and governance committee is to provide:

1. Independent assurance of the adequacy of the council's governance arrangements, including the risk management framework and the associated control environment.
2. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
3. Oversight of the financial reporting process.
4. Scrutiny of the treasury management strategy and policies
5. A framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.

Audit activity

6. To approve the internal audit charter.
7. To approve the risk based internal audit plan, including resource requirements.
8. To approve any significant proposed advisory services, additional to those included in the audit plan.
9. To receive information on the appointment, departure, resignation or change in chief audit executive.
10. To receive in-year summaries of internal audit and anti-fraud activity and the internal audit annual report and opinion and to consider the level of assurance it can give over the council's corporate governance arrangements.
11. To receive reports dealing with the management and performance of the provider of internal audit services, including the performance of the chief audit executive.
12. To receive reports from internal audit on agreed recommendations not implemented within a reasonable timescale.
13. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
14. To consider specific reports as agreed with the external auditor.
15. To comment on the scope and depth of external audit work and to ensure it gives value for money.
16. To have oversight over the appointment of the external auditor.
17. To commission work from internal and external audit.

Accounts

18. To review and approve the annual statement of accounts and specifically to consider compliance with appropriate accounting policies and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
19. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury management

20. To review and scrutinise the treasury management strategy and policies.

Governance activity

21. To review any issue referred to it by the chief executive or a strategic director, or any council body.
22. To monitor the effective development and operation of risk management in the council.
23. To monitor the effective development and operation of corporate governance in the council and to agree actions necessary to ensure compliance with best practice.
24. To monitor council policies on 'whistle-blowing', the 'corporate anti fraud strategy' and the council's complaints processes.
25. To receive reports from the statutory officers under the council's whistleblowing policy.
26. To provide strategic oversight on the use of the powers regulated by the Regulation of Investigatory Powers Act 2000 and to receive in-year reports on operational use.
27. To oversee the production of and agree the council's annual governance statement.
28. To review the council's compliance with its own and other published standards and controls.
29. To receive reports on retrospective contract related decisions as set out in contract standing orders.
30. To receive reports from the monitoring officer on any serious breach of the contract standing orders or procurement guidelines.

Standards activity

31. To advise the council on the adoption or revision of the members' code of conduct, the member and officer protocol and the communication protocol.
32. To monitor the operation of the members' code of conduct, the member and officer protocol and the communication protocol.
33. To monitor and advise on training provided for councillors, co-opted members and church and parent governor representatives.
34. To deal with any standards related complaints referred to it and any report from the monitoring officer on any matter which is referred to him or her.
35. To receive reports from the monitoring officer on unlawful expenditure and probity issues.
36. To consider the withholding of allowances from individual members (including elected members and co-opted members) in whole or in part for non-attendance at meetings, or, for elected members only, for failure to attend required training.
37. To establish the following sub-committees:
 - To consider complaints of misconduct against elected councillors and co-opted members
 - To consider civic awards.

Annual report

38. To report annually to all councillors on its work and performance during the year.

MATTERS RESERVED FOR DECISION**Matters reserved for decision by the main committee**

39. The matters reserved for decision to the committee are as set out in the roles and functions, other than those functions delegated to the relevant sub-committee.

Matters reserved for decision by the conduct sub-committee

40. To consider complaints of misconduct against elected councillors and co-opted members.

Matters reserved for decision by the civic awards sub-committee

41. To grant civic awards.
42. To consider the process by which the decisions with respect to civic awards applications are to be taken and to make recommendations to the standards committee.
43. To appoint non-voting co-opted members.

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COMMITTEE: AUDIT AND GOVERNANCE COMMITTEE (OPEN AGENDA)

NOTE: Original held in Constitutional Team; all amendments/queries to Victoria Foreman, Constitutional Team on 0207 525 5485 or victoria.foreman@southwark.gov.uk

COPIES**COUNCILLORS**

| | |
|--------------------------------------|---|
| Councillor Paul Fleming (Chair) | 1 |
| Councillor James Barber (Vice Chair) | 1 |
| Councillor Catherine Dale | 1 |
| Councillor Nick Dolezal | 1 |
| Councillor Renata Hamvas | 1 |
| Councillor Hamish McCallum | 1 |
| Councillor Andy Simmons | 1 |

RESERVES

| | |
|--------------------------------|----------|
| Councillor Evelyn Akoto | By email |
| Councillor Dora Dixon-Fyle MBE | By email |
| Councillor Karl Eastham | By email |
| Councillor David Hubber | By email |
| Councillor Sarah King | By email |
| Councillor Rosie Shimell | By email |
| Councillor Cleo Soanes | By email |

OTHER COUNCILLORS

| | |
|-------------------------|----------|
| Councillor Fiona Colley | By email |
|-------------------------|----------|

LEGAL SERVICES

| | |
|---------------|---|
| Norman Coombe | 1 |
|---------------|---|

COMMUNICATIONS

| | |
|-----------------------------|----------|
| Wendy Foreman/Louise Neilan | By email |
|-----------------------------|----------|

CONSTITUTIONAL TEAM

| | |
|---------------|---|
| Vicky Foreman | 8 |
|---------------|---|

FINANCE AND CORPORATE SERVICES

| | |
|------------------|---|
| Duncan Whitfield | 1 |
| Michael Pinder | 1 |
| Jo Anson | 1 |
| Jennifer Seeley | 1 |
| Chris O'Brien | 1 |

RSM – Internal Auditors (Constitutional Team to post out – send up with spares to Vicky Foreman)

| | |
|--------------------|---|
| Chris Harris (RSM) | 2 |
|--------------------|---|

GRANT THORNTON

| | |
|---|---|
| Paul Dossett | 1 |
| Grant Thornton 5th Floor, Grant Thornton House Melton Street Euston Square London NW1 2EP | |

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|---|---|
| Liz Olive | 1 |
| Audit Office Ground floor, 160 Tooley Street London SE1 2QH | |

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