Open Agenda

Audit, Governance and Standards Committee

Wednesday 14 September 2016
7.00 pm
Ground Floor Meeting Room G01A - 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

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

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Members of the committee are summoned to attend this meeting
Eleanor Kelly
Chief Executive
Date: 6 September 2016

PRINTED ON RECYCLED PAPER

Audit, Governance and Standards Committee

Wednesday 14 September 2016
7.00 pm
Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

Order of Business

ANY OTHER OPEN BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT

EXCLUSION OF PRESS AND PUBLIC

The following motion should be moved, seconded and approved if the sub-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."

Date: 6 September 2016

Audit, Governance and Standards Committee

MINUTES of the OPEN section of the Audit, Governance and Standards Committee held on Thursday 14 July 2016 at 7.00 pm at Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1 2QH

PRESENT:	Councillor Paul Fleming (Chair) Councillor James Barber Councillor Catherine Dale Councillor Nick Dolezal Councillor Dora Dixon-Fyle (Reserve)
OFFICER SUPPORT:	Jennifer Seeley, Director of Finance Mike Pinder, Head of Anti Fraud and Internal Audit Jo Anson, Head of Financial and Information Governance Dick Frak, Interim Head of Commissioning Simon Mitchell, Senior Commissioning Manager Fay Hammond, Departmental Finance Manager Norman Coombe, Head of Corporate Team Maureen McBain, Corporate Risk and Insurance Manager Laura Sandy, Insurance Manager Angela Mason-Bell, Manager, RSM Chris Harris, Partner, RSM Nick Taylor, Senior Audit Manager, Grant Thornton Victoria Foreman, Constitutional Officer

1. APOLOGIES

Apologies for absence were received from Councillors Hamish McCallum, Renata Hamvas and Andy Simmons. Councillor Dora Dixon-Fyle attended as a reserve for Councillor Simmons.

Apologies for lateness were received from Councillor James Barber.

2. CONFIRMATION OF VOTING MEMBERS

Those members listed as present were confirmed as voting members of the committee.

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:

That the minutes of the open section of the meeting held on 22 February 2016 be agreed as a correct record and signed by the chair.

6. REPORT ON RETROSPECTIVE CONTRACT-RELATED DECISION

Officers introduced the report. Members had questions of officers.

RESOLVED:

1. That the retrospective contract decision detailed in the report be noted.
2. That 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, be noted.

7. DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16

Officers introduced the report. Members had questions of officers.

RESOLVED:

That the draft annual governance statement 2015-16, as attached at Appendix 1 to the report and subject to minor amendments, be noted.

8. DRAFT STATEMENT OF ACCOUNTS 2015/16

Officers introduced the report. Members had questions of officers.

Members asked that their thanks to officers for completion of the work on the accounts be recorded.

RESOLVED:

That the draft statement of accounts for 2015/16, attached to the report at Appendix 1, be noted.

9. ANNUAL REPORT ON THE WORK OF THE CORPORATE RISK AND INSURANCE TEAM 2015-16

Officers introduced the report. Members had questions of officers.

Members requested a briefing note from officers on the insurance arrangements regarding the 2013 Walworth Town Hall fire.

RESOLVED:

That the annual report on the work of the corporate risk and insurance team in 2015-16 be noted.

10. 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

Officers introduced the report. Members had questions of officers.

Members asked that their thanks to officers for the excellent work on Operation Bronze and congratulations on the receipt of the Keith Hughes Award (also for Operation Bronze) be recorded.

RESOLVED:

1. That the annual report on the work of internal audit and anti-fraud for the year 2015-16 be noted.

2. That the progress report on the work of the internal audit and anti-fraud teams for the period 1 February 2016 to 30 June 2016 be noted.

3. That the updated internal audit charter, attached to the report at Appendix A, be approved.

4. That the proactive anti-fraud plan for 2016, attached to the report at Appendix B, be noted.

11. GRANT THORNTON AUDIT, GOVERNANCE AND STANDARDS COMMITTEE UPDATE JULY 2016 AND AUDIT FEE LETTER 2016/17

Grant Thornton introduced the report. Members had questions of Grant Thornton.

RESOLVED:

1. That Grant Thornton’s audit, governance and standards committee update, as attached to the report at Appendix 1, be noted.

2. That Grant Thornton’s audit fee letter for 2016-17 work, as attached to the report at Appendix 2, be noted.

12. ESTABLISHMENT OF STANDARDS SUB-COMMITTEES FOR 2016-17

Officers introduced the report. Members asked questions of officers.

RESOLVED:

1. That the roles and functions of the audit, governance and standards committee and its sub-committees, as attached to the report at Appendix 1 and agreed by annual council assembly on 14 May 2016, be noted.

2. That a civic awards sub-committee with three Labour and one Liberal Democrat places be established, and Councillors Catherine Dale and James Barber be appointed as chair and vice-chair of the sub-committee respectively.

3. That the number of co-opted community members on the civic awards sub-committee be increased from three to four.

4. That the civic awards sub-committee membership be gender balanced with at least two of the Southwark members and two of the community representatives serving on the sub-committee being women.

5. That a conduct sub-committee to consider complaints of misconduct against councillors (and co-opted members), as set out in paragraph 12 of the report, be established.

13. REVISED WORK PROGRAMME FOR 2016-17

Officers introduced the report. Members had questions of officers.

RESOLVED:

1. That the proposed revised work programme for 2016-17, including planned coverage of governance topics for the year as set out below, be noted:

   - School building and communications team - September 2016
   - Local government pensions and public health - November 2016
   - IT - February 2017.

2. That the work programme for 2016-17 be agreed subject to standards issues currently listed for November 2016 being amended for consideration at the meeting of the committee to be held in February 2017.

3. That informal training sessions on the council's contracts and borrowing be held before the meetings of the committee scheduled for September and November 2016 respectively.

The meeting ended at 8.44pm.

CHAIR:

DATED:

Item No. 8.	Classification: Open	Date: 14 September 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 adults' services and the director of regeneration 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 4.8 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 14 July 2016, the strategic director of children's and adults' services approved procurement strategies and the award of two contracts in respect of the supply and installation of modular classroom units at Summerhouse, to increase the capacity of the Summerhouse behavioural support provision, through a Gateway 1 and 2 report. One contract was for professional services and although both the procurement strategy and contract award approvals were retrospective, as its value is below the threshold of £100,000 (see paragraph 4 above), it has not been considered further in this report. The other contract, with a value of £154,687, was to supply and install the modular classrooms and the approval of the procurement strategy, albeit not the contract award itself, was a retrospective decision. The chair and vice-chair of the audit, governance and standards committee were made aware of this decision on 18 July 2016.

KEY ISSUES FOR CONSIDERATION

7. The Gateway report relating to the decision (attached at Appendix 1) sets out the nature of the contracts, their values and timelines.

8. Paragraph 19 of the appendix explains that the proposed procurement route was to run a competitive tender using a minimum of five contractors from the council's approved list and the procurement project plan is set out below paragraph 21 of the appendix. This shows that the tender process was carried out in spring 2016, with the tenders being returned by 18 May 2016 and the evaluation being completed by 22 June 2016.

9. The supply and installation of the modular classroom is a stand alone project and therefore not part of a wider programme of works. The regeneration department is delivering the scheme on behalf of children's and adults' services. The procurement strategy approval was not finalised before spring 2016 because the officer acting as the education client left the council and there was resultant miscommunication between the children's and adults' services and regeneration departments; each believing that the other would produce the necessary approval.

10. The lesson learned from this is that responsibility for producing all gateway reports must be clearly allocated to a named officer and this noted in the corresponding meeting note for reference.

Summary

11. Officers in the legal and procurement sections have discussed and agreed the conclusions set out above.

Policy implications

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

Community Impact Statement

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

Resource implications

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

Consultation

15. There has been no consultation on this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Constitution – Contract Standing Orders July 2016	Constitutional Team, Tooley Street, Second Floor	Constitutional Team 020 7525 7055

APPENDICES

No.	Title
Appendix 1	Gateway 1&2 - Procurement strategy approval and award of contract: Summerhouse behavioural support provision: the supply and installation of a modular classroom unit

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Jo Anson, Head of Financial and Information Governance Lee Wilson, Programme Manager, Capital Development		
Version	Final		
Dated	31 August 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			31 August 2016

APPENDIX 1

Item No.	Classification: Open	Date: 13th July 2016	Meeting Name: Strategic Director of Children's and Adults' Services
Report title:		**Gateway 1 and 2 Procurement Strategy and Contract Award Approval** Summerhouse Behavioural Support Provision: the supply and installation of a modular classroom unit	
Ward(s) or groups affected:		East Dulwich Ward	
From:		Bruce Glockling, Head of Regeneration - Capital Works	

RECOMMENDATION (S)

That the Strategic Director of Children's and Adults Services:-

1. Approve retrospectively the procurement strategies outlined in this report for contract works and services to supply and install a modular unit to provide two extra classrooms at Summerhouse.

2. Approve retrospectively the procurement of Playle and Partners for professional services to deliver a modular unit expansion on the basis of a single fee submission with due consideration given to financial capability, relevant expertise and known performance at an estimated cost of £12,000, plus surveys, investigations and statutory fees.

3. Approve the award of the contract to supply and install the modular classrooms at Summer House to Danzer Limited for the tendered sum of £154,687 under the JCT 2011 Design and Build contract amended to incorporate the Southwark amendments for a contract period of approximately 15 weeks commencing on 15 July 2016.

BACKGROUND INFORMATION

4. This report is to confirm an earlier decision to proceed with this scheme, records the process followed to date and recommends the appointment of the contractor.

5. One 1st July 2015 the Children's Services Capital Management Group approved the budget in the sum of £190,000 for the increase in capacity of the Summerhouse Behavioural Support provision by providing additional classes. See Appendix 1.

6. In order to meet the needs of children who are diagnosed with emotional and behavioural needs within the primary sector there is a need to increase the capacity of the Summerhouse Behavioural Support Provision to provide an additional class for up to 8 FTE pupils from September 2015. This expansion requires an additional classroom of a modular type within the grounds of Summerhouse.

7. An initial feasibility identified a location that, subject to the usual surveys and investigations, could accommodate the desired classrooms.

8. The site is restricted and it is not possible to complete the necessary ground works during any period other than the summer school holidays due to the lack of space whilst the school is in operation which would otherwise restrict the contractor's options to perform efficiently.

9. For speed and certainty of delivery, a single fee proposal was obtained from a consultant with a proven track record in the delivery of such schemes for the Council. This fee proposal of £11,900 for Employer's Agent, Principal Designer, and Architectural Services was assessed as being comparable to that for delivery of similar schemes and was accepted.

10. Tenders for Summerhouse would be sought from specialist suppliers of modular, pre-fabricated buildings on the Council's Approved list with due consideration given to their financial capability, relevant expertise and known performance with a minimum of five invited tenders in accordance with CSO6.

11. The estimated cost of works to supply and install the modular classroom is £150,000, with further costs in the region of £20,000 for the school to procure loose furniture and equipment, plus ICT.

Summary of the business case/justification for the procurement

12. The provision at Summerhouse is mainly preventive and demonstrates best practice in supporting children with emotional and behavioural need and preventing exclusions. The full business case is attached in Appendix 2.

13. Summerhouse's waiting list has increased significantly in recent years. In order to support other primary schools in the borough who might be excluded it has been necessary to provide one to one funding for some pupils pending the release of a place at Summerhouse. This approach is more expensive in the long run as at Summerhouse children are supported in groups, which reduces the unit cost per child.

14. The Local Authority has a statutory obligation to provide 'education other than at school' for excluded pupils.

15. The current situation is further compounded by the insufficient number of places at Beormund primary special school for children with Education, Health and Care plans for emotional needs. However, the expansion plan for Beormund School is complex and may only come to fruition 4 to 5 years from now. If Summerhouse is not expanded then there would likely be an increase in exclusions from school which will result in the Local Authority commissioning places out of borough for children with no school places.

Market considerations

16. Due to the nature of relatively minimal construction works required, specialist modular contractors are preferred. Offering the works to general contractors would increase cost and give less control on the design.

17. There are a number of suitable specialist modular contractors on the council's works approved list which is the proposed route to market.

KEY ISSUES FOR CONSIDERATION

Options for procurement route including procurement approach

By using a specialist modular contractor, the Council should be able to reduce costs whilst maintaining greater design control as they will manufacture the main product directly.

18. The following options were reviewed to determine the procurement route.

Procurement Route	Comments
Do nothing	No works would have been undertaken leaving the Local Authority in the position of having to fulfil it's statutory duties in other ways which would result in less control and more expense and is likely to be less beneficial to the end user.
Framework	A review was undertaken of the available frameworks providers which identified that there was no framework provider for small scale modular building currently available.
Approved list	This complies with the council's standard contract standing orders and contains a number of proven contractors who can demonstrate providing value for money and adequate school modular units' experience.
Open tender	This option was not sought due to the restricted time scale to deliver the project.

Proposed procurement route

19. A competitive tender run using a minimum of 5 contractors from the Council's Approved List of Contractors with due consideration given to financial capability, relevant expertise and known performance..

Identified risks for the procurement

Risk No.	Identified Risk	Likelihood	Risk Control
1.	Contractor have no availability to complete the works	Low	Contractors will be approached to gauge level of interest and availability.
2.	Unable to obtain planning approval for the scheme.	Low	Planning obtained prior to engaging contractor. This however delayed the procurement of the contractor.
3.	Works will overrun	Low	Council to ensure that the internal and external resources are in place to deliver the project in a timely manner.
4.	Viability of scheme. Tenders come back higher that anticipated and	Medium	Project scheme to be benchmarked by cost manager at each stage of the design and these costs will be tested with previous

	beyond the project budget.		schemes.
5.	Inadequate cost control.	Medium	Agree cost ceilings and require the contractor to enter into a fixed price lump sum contract. The Council will only sign the construction contract if the project is within the approved budget.

Key /Non Key decisions

20. This report deals with a non key decision

Policy implications

21. This additional provision would support the Council's commitment in achieving that more children are able to fulfil their full potential and to achieve both high academic standards and personal well being. By reducing exclusions from school family stability is also promoted and the dangers of criminal activity are reduced.

Procurement project plan (Non Key decisions)

Activity	Complete by:
Approval of Gateway 1: Procurement strategy report	14/07/2016
Planning Approval obtained	23/03/2016
Completion of tender documentation	18/04/2016
Closing date for receipt of expressions of interest	21/03/2016
Completion of short-listing of applicants	05/04/2016
Invitation to tender	18/04/2016
Closing date for return of tenders	18/05/2016
Completion of clarification meetings/presentations/evaluation interviews	08/06/2016
Completion of evaluation of tenders	22/06/2016
Approval of Gateway 2: Contract Award Report	14/07/2016
Notification of implementation of Gateway 2 decision	14/07/2016
Contract award	14/07/2016
Add to Contract Register	14/07/2016
Contract start	15/07/2016
Initial Contract completion date	31/10/2016

TUPE/Pensions implications

22. Not Applicable

Development of the tender documentation

23. The specification and tender documents were developed by the consultant Playle and Partners LLP.

24. The conditions of contract will be the Council's Standard Amendment to JCT 2011 Design and Building incorporating the Council's standard amendments, including a provision that the contractor shall (and shall procure that its employees shall) comply with the requirements of the Employment Regulations Act 1999 (Blacklisting Regulations) and shall not during the provision of the works be a party to or concur in any discriminatory practice which could be construed as blacklisting or boycotting any person who has sought employment with the contractor.

Advertising the contract

25. As this is being tendered through the Council's Approved Works List there is no requirement to further advertise the contract under the council's contract standing orders.

Tender Process

26. On 19 April 2016 five contractors were selected from the Council's Approved List of Contractors to submit a price, consideration was given to relevant expertise and past performance. These were
    - Danzer Ltd
    - [redacted]
    - [redacted]
    - [redacted]
    - [redacted]

27. On 20 April 2016 [redacted] withdrew (due to the constrained site size) and on 21 April 2016 [redacted] withdrew (due to their capacity to take on new work). A further three contractors were invited to submit a price, these were
    - [redacted]
    - [redacted]
    - [redacted]

28. On 28 April 2016 [redacted] withdrew (due to the tight timescales and their capacity to respond in time) and they were followed by [redacted] on 13 May 2016 (due to their capacity to take on new work)

29. The following tenders were received on 23 May 2016

	Tender A (17 weeks)	Tender B
Danzer Ltd	[redacted]	[redacted]
[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Tender Evaluation

30. The selection process for the contractor was carried out on the basis of the most economically advantageous tender balancing price and quality submission on a ratio of 70/30 (price /quality).

31. The consultant reviewed the price elements of each tender and the quality review was undertaken jointly by the Consultants and Regeneration Officers in Capital Works and Development team.

32. Tender submissions were evaluated their proposed programme, working in a restricted site, method statements for the control of nuisances and Health and Safety plans and method of work and external design.

33. Tenders were scored according to the tables below:

34. The tenders were revised to include provisional sums, this gave the following results

	[redacted]	[redacted]	[redacted]
Danzer Ltd	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

35. Only the two lowest priced tenders were evaluated for quality given the large variance in prices between these and the two highest

Contractor	Quality score (30%)
Danzer Ltd	[redacted]
[redacted]	[redacted]

36. The combined quality and financial scores give the following result

Contractor	Quality score (30%)	Financial score (70%)	Overall Score	Ranking
Danzer Ltd	[redacted]	[redacted]	[redacted]	1
[redacted]	[redacted]	[redacted]	[redacted]	2

Community impact statement

37. Since 2008 Summerhouse has a played a key role in ensuring zero permanent exclusion from primary schools across the borough and the provision is highly valued by primary schools and they are keen to see the supportive works of Summerhouse expand.

38. Health & safety aspects of the ground works, traffic, and noise and dust nuisances are the primary concerns but these will be mitigated with good construction practices on site and the school not being in operation over the summer holiday.

Sustainability considerations

39. The proposed refurbishment works is judged to have only a small impact on the environment.

Economic considerations

40. Not applicable due to the scale of the scheme.

Social considerations

41. This supply and installation of a modular unit containing two classrooms will accommodate additional places at Summerhouse behavioural support provision. The increase in numbers is not assessed as giving rise to adverse social impact. The provision will cater for the needs of the local resident of Southwark Council.

42. The contractor will carry out the works under the considerate contractor scheme which seeks to minimise disturbance and disruption in the locality.

43. The Council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, development partners engaged by the Council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate.

Environmental considerations

44. The contract specifies that, where practical, materials will be recycled, and the remainder of the debris will be used as back-fill or will be removed to a registered infill site or tip.

Plans for the monitoring and management of the contract

45. Playle and Partners LLP has been appointed to manage this works contract from inception thru to completion. They have been appointed to cover cost management, design and contract supervision and CDM compliance.

46. Playle and Partners report directly to a Project Manager in Regeneration Capital Works team, who monitor their progress via regular meetings.

Staffing/procurement implications

47. Once the additional class rooms have been provided, additional staffing costs will be in the region of £70,000 to Summerhouse.

48. Any staffing requirements arising from this procurement will be provided from Playle and Partners LLP or within the existing Regeneration Capital Works team structure.

Financial implications

49. The estimated cost of the scheme is £195,000. The total cost of this works contract is [redacted] inclusive of provisional sums of [redacted] for unforeseen circumstances. The breakdown of these cost is shown in the table below:-

	£
Costs of investigation and surveys	[redacted]
Fee including consultant's fees	[redacted]
School Expenditure reimbursement (FFE/ICT)	[redacted]
Cost of works (14 week programme variant)	[redacted]
Grand Total	[redacted]

50. The cost of this contract can be met from existing resources within the Children's and Adult services 2-year old underspend.

51. Revenue funding for additional staff and on going maintenance costs will be sought from the DSG via Schools' Forum.

Investment implications

52. None for this scheme

Legal implications

53. No advice sought due to value and straightforwardness of the project

Consultation

54. No Consultation required.

55. Party wall award in place for adjoining owner

Other implications or issues

56. None

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

57. Not required as value is below EU threshold

Director of Law and Democracy

58. Not required as value is below EU threshold

Strategic Director of Finance and Governance

59. Not required as value is below EU threshold

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 [redacted]…………………………… Date…14. 7. 16……

Designation …Strategic……Director…………

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Title of document(s) None	Title of department / unit Address	Name Phone number
Link: (Insert hyperlink here)		

APPENDICES

No	Title
Appendix 1	Minutes of Children's Services Capital Management Group dated 1st July 2015
Appendix 2	Business case for the expansion of Summerhouse behavioural team and provision dated 1st July 2015

AUDIT TRAIL

Lead Officer	Bruce Glockling, Head of Regeneration, Capital works and Development	
Report Authors	Lee Wilson, Programme Manager Jacqui Flynn, Project Manager	
Version	Final	
Dated	14th July 2016	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Strategic Director of Finance and Governance	No	No

Head of Procurement	No	No
Director of Law and Democracy	No	No
Director of Exchequer (for housing contracts only)	No	No
Cabinet Member	No	No
Contract Review Boards		
Departmental Contract Review Board	No	No
Corporate Contract Review Board	No	No
Cabinet Member	No	No
Date final report sent to Constitutional /Community Council/Scrutiny Team		

Agenda Item 9

Item No. 9.	Classification: Open	Date: 14 September 2016	Meeting Name: Audit, governance and standards committee
Report title:		Annual Governance Statement 2015-16	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

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

BACKGROUND INFORMATION

2. The Accounts and Audit Regulations 2015 require that the annual governance statement be presented to and approved by an appropriate committee of the council. 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. The draft annual governance statement for 2015-16 was presented to this committee on 14 July 2016 and minor amendments were requested which have been made. Formal approval is now sought.

4. Following this approval, the annual governance statement should be signed by the most senior member of the council and most senior officer, who are 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 include 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. This includes an assessment of the systems and processes

for:

- establishing the council's principal statutory obligations and organisational objectives and applying the six CIPFA/SOLACE 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. Further information about the review process was set out in the report on the draft annual governance statement to this committee in July 2016. No further significant issues have been identified since this committee's consideration of the draft statement at its July meeting and the statement has also since been reviewed by Grant Thornton, the council's external auditor.

Community Impact Statement

9. This report and the accompanying 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

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

Consultation

11. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

12. None required.

BACKGROUND DOCUMENTS

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

APPENDICES

No.	Title
Appendix 1	Annual governance statement 2015-16

AUDIT TRAIL

<table>
<tr><td>Lead Officer</td><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><td>Report Author</td><td colspan="2">Jo Anson, Head of Financial and Information Governance</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">31 August 2016</td></tr>
<tr><td>Key Decision?</td><td colspan="2">No</td></tr>
<tr><td colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</td></tr>
<tr><td>Officer Title</td><td>Comments Sought</td><td>Comments included</td></tr>
<tr><td>Director of Law and Democracy</td><td>No</td><td>No</td></tr>
<tr><td>Strategic Director of Finance and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Cabinet Member</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>31 August 2016</td></tr>
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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 him/herself), 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 (audit, governance and standards committee from May 2016) 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 and other concerned parties 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, along with a refreshed council plan, 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..

Agenda Item 10

Item No. 10.	Classification: Open	Date: 14 September 2016	Meeting Name: Audit, Governance and Standards Committee
Report title:		Audit findings report 2015-16 and pension fund audit findings report 2015-16	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee:

   i) consider the matters raised in the audit findings report for 2015/16 (Appendix A) before approval of the council's accounts

   ii) note the adjustments to the accounts as set out on page 20 of the audit findings report

   iii) approve the letter of representation set out at Appendix B

   iv) consider the matters raised in the pension fund audit findings report for 2015/16 (Appendix C) before approval of the pension fund accounts.

   v) note the action plan to address audit findings (page 24)

   vi) approve the pension fund letter of representation set out at Appendix D of this report.

BACKGROUND INFORMATION

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

3. The audit of the pension fund accounts is separate from the audit of the council's main accounts. There are separate audit findings reports from the auditor for the pension fund accounts.

4. The auditor is required by professional auditing standards to report to the committee certain matters before giving their opinion on the financial statements. There are separate sections in each report covering these matters.

5. In addition to reporting on the financial statements, the auditor reports on any circumstances where they suspect or detect fraud and on whether, in their view, the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

6. The principal purposes of the reports are to:

    - reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the audit and governance committee
    - share information to assist both the auditor and the committee to fulfil their respective responsibilities
    - provide the committee with recommendations for improvement arising from the audit process.

7. Before the auditor issues their formal opinion, they will require letters of representations to be provided by the council. The draft letters, relating to each of the main accounts and pension fund accounts, are set out in appendices B and D respectively. The final letters, once approved by this committee, will be signed by the strategic director of finance and governance on behalf of the council.

8. At the time of preparing this report, the audit of the accounts and the preparation of the audited accounts were still being finalised. The auditor will update the committee on the progress of the audits and of any new issues arising at the meeting of the committee.

KEY ISSUES FOR CONSIDERATION

Audit opinion

9. The auditor currently expects to give unqualified opinions on both council's accounts and pension fund accounts by 30 September 2016, subject to the satisfactory conclusion of matters still under audit at the time of preparing this report. The auditor is unable to issue the certificate on the accounts until they have completed their assurance work on the council's whole of government accounts return, which is expected to be by 30 September 2016.

10. All misstatements identified during the audit have been agreed and adjusted for. Where control weaknesses have been identified, responses will be prepared and brought to the next meeting.

Letters of representation

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

Community impact statement

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

Resource implications

13. There are no direct resource implications arising from the audit of the accounts.

Consultation

14. The audit findings reports are key documents in assessing the council's progress and plans for the future. The issues raised will be reflected in appropriate consultation, such as through the council's policy and resources strategy. The final report will be published on the council's website.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

15. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Statement of Accounts 2015-16	Finance and Governance, Tooley Street, Second Floor	Robert Woollatt 020 7525 7468

APPENDICES

No.	Title
Appendix A	Audit findings report 2015-16
Appendix B	Letter of representation 2015-16
Appendix C	Pension fund audit findings report 2015-16
Appendix D	Pension fund letter of representation 2015-16

AUDIT TRAIL

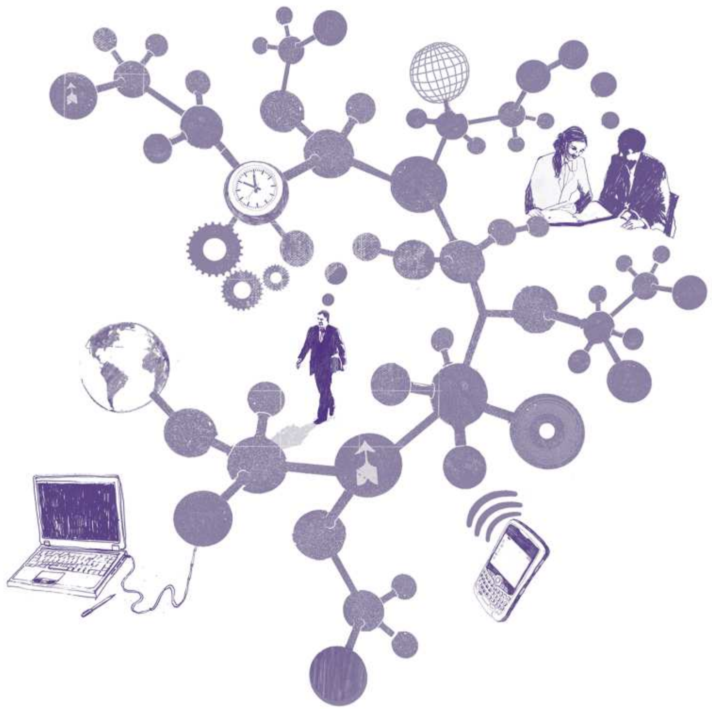
Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Robert Woollatt, Interim Chief Accountant	
Version	Final	
Dated	2 September 2016	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		2 September 2016

APPENDIX A

The Audit Findings for Southwark Council

Year ended 31 March 2016

2 September 2016



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2 September 2016

Dear Members of the Audit, Governance and Standards Committee

Audit Findings for Southwark Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Southwark Council, the Audit, Governance and Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Paul Dossett

Engagement Lead

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Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt of final sample items and completion of testing for journals, operating expenditure, grant income and equity
- completion of the revaluations testing for plant, property and equipment
- receipt of Goldman Sachs investment confirmation
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position, with the financial statements for the year ended 31 March 2016 recording net expenditure of £319,568k.

The key messages arising from our audit of the Council's financial statements are:

- The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The adjustment will have no impact on general fund balances, but the exact changes required are still being finalised by the Council. The Audit, Governance & Standards Committee will be updated at the meeting on 14 September.
- The draft financial statements were of a high quality and the only adjustments required were minor misclassification and disclosure amendments. We also recommended some enhancement to the narrative in the notes to improve the presentation of the financial statements. All amendments have been processed by management.
- Working papers submitted to us were of a high standard and the Council responded well to requests for audit evidence. The only exception to this was around the contracts of employment (see control comments opposite), where the information took a number of months to provide.

Further details are set out in section two of this report.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

No errors or issues have been identified within the Annual Governance Statement which are inconsistent or misleading from the information we are aware of.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- Contracts of employment. As part of the audit testing we picked a sample of employees which we attempted to trace back to contracts to evidence their employment at the Council. Of the sample of 40 contracts, we were unable to obtain 15, requiring alternative confirmation to be sought. In these cases, the Council was unable to access copies of the contract that had been scanned and saved by Capita. We have raised a recommendation that the Council should ensure that a system is in place to enable access to scanned copies of all employment contracts.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money is set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit, Governance and Standards Committee.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director of Finance and Governance.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Strategic Director of Finance Governance and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
August 2016

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £24,075k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,204k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents could be immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£500k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made. We will ensure that the reported figures in relation to senior manager salaries and allowances are consistent with underlying information and calculations.	£1k or rounding differences (to underlying information)
Disclosure of auditors' remuneration in notes to the statements	This is a statutory requirement and a requirement of ethical and auditing standards.	£1k or rounding differences

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Southwark Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable.	We determined that the risk of fraud arising from revenue recognition could be rebutted. Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	Work completed to address this risk includes: • review of entity level controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • performed unrecorded liabilities testing In addition, we have: • undertaken testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified • reviewed and tested a sample of items included within the year end creditors and accruals balance	Our audit work to date has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reviewed the reconciliation of the payroll subsidiary system to the general ledger • completed a trend analysis over monthly payroll payments In addition, we have: • undertaken testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment • reviewed senior management remuneration and disclosures • agreed the pensions liability to third party confirmation	Our audit work to date has not identified any significant issues in relation to the risk identified. A control issue has been highlighted on page 18 in relation to contracts of employment.

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Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare benefit expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reconciled the subsidiary system interfaces and general ledger control accounts • substantively sample tested welfare benefit cases by re-performing to ensure accuracy of computation	Our audit work to date has not identified any significant issues in relation to the risk identified.
Property, plant and equipment	Property, plant and equipment activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • substantively tested the entries in the PPE note • Reviewed the capital programme against the additions recorded in the asset register in the financial year, including testing on a sample basis	Our audit work to date has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant and equipment	Revaluation measurements not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reconciled the valuation report to the asset register and the accounts • reviewed the competence, expertise and objectivity of any management experts used • reviewed the work carried out by the valuer, including ensuring that valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards • reviewed and challenged the information used by the valuer to ensure that it is complete, robust and consistent with our understanding At the time of writing, we are still to complete: • Testing of a sample of assets to ensure that the revaluation entries and the accounting treatment are correct • Testing of a sample of dwellings to ensure that the uplifts have been correctly applied.	The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The Council is still finalising the impact of this adjustment on the financial statements and the Audit, Governance & Standards Committee will be updated at the meeting on 14 September.
Housing Revenue Account rental revenues	Revenue transactions not recorded	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reviewed the year end reconciliation between the housing rents account and the general ledger • undertaken substantive testing of housing rents income • undertaken substantive testing of service charges, other rates and major works	Our audit work to date has not identified any significant issues in relation to the risk identified.

Significant matters discussed with management

	Significant matter	Commentary
1.	Business conditions affecting the Council and business plans and strategies that may affect the risks of material misstatement	We have discussed this as part of our VFM conclusion which is detailed later in this report. The Council faces significant financial challenges as identified within its Medium Term Financial Strategy. The Council has robust overall arrangements in place to support their management of these challenges
2.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	During the course of the Audit we have discussed the accounting policies applied by the Council and identified only minor clarification and disclosure improvements within the financial statements. No issues have been identified in our work or via our discussions with management around application of auditing standards.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• We have reviewed the accounting policies in place with regard to revenue recognition • Clear accounting polies are in place for: • Revenue from the sales of goods • Revenue from the provision of services • Revenue from housing rents • Revenue relating to council tax and business rates	• The revenue recognition policies are considered to be in line with the requirements of the Code and accounting standards • Testing performed on revenue balances has confirmed that, for the sample selected, the Council has accounted for income in line with the policy	(green)
Going concern	The Strategic Director of Finance and Governance has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	(green)
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	(green)

Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	• Key estimates and judgements include: – Useful lives of plant, property and equipment – Asset revaluations – Accruals – Valuation of pension fund net liability – Provisions – PFI disclosures	Following our consideration of these judgements and estimates we are satisfied they are in line with the Code of Practice, and with the approach taken by the Council in the previous year. • We did not identify any issues with the calculation of depreciation and the asset lives applied • The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The Council is still finalising the impact of this adjustment on the financial statements and the Audit, Governance & Standards Committee will be updated at the meeting on 14 September. This error was not due to any weaknesses in the process by which the Council goes about making judgments and estimating values, rather it was a failure to execute its judgments and estimates correctly, hence we have retained an overall green rating. • We did not identify any issues from the work performed on creditors and accruals • We confirmed that the pension fund valuations were consistent with the actuarial reports. As part of our review of pensions, we used the work of an expert (PwC), commissioned by the Audit Commission, to assess the work of the Council's actuary (Hymans Robertson). No issues were noted from the work performed • We did not identify any issues from the work performed on provisions • We reviewed the PFI disclosures and ensured that information presented in the financial statements was in line with the operating model. No issues were noted from the work performed	● (green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

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Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	• We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee and have been made aware of the findings from Internal Audit counter fraud work during the year, none of which impact on our opinion. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	• From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	• A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	• We have requested direct confirmations for bank account, investment and loans. At the time of writing, we are awaiting the investment confirmation from Goldman Sachs. • We requested management to send letters to those solicitors who worked with the Council during the year. No issues have been identified from the responses provided.
6.	Disclosures	• We requested that a disclosure note for provisions be included in the financial statements as the balance for 2015/16 was in excess of materiality. No other omissions in the financial statements have been noted.
7.	Matters on which we report by exception	• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will be completed in line with the national deadline for submission.

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Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Welfare Expenditure, Property, Plant & Equipment and the Housing Revenue Account as set out on pages 11 to 13 above.

The matter that we identified during the course of our audit is set out in the table below. This recommendation, together with the management response, is included in the action plan attached at Appendix A. Our review of IT controls also identified a small number of minor control issues which have been raised with management.

	Assessment	Issue and risk	Recommendations
1.	● (deficiency)	**Contracts of employment.** • As part of the audit testing we picked a sample of employees which we attempted to trace back to contracts to evidence their employment at the Council. Of the sample of 40 contracts, we were unable to obtain 15, requiring alternative confirmation to be sought. In each of these cases, the Council was unable to access copies of the contract that had been scanned and saved by Capita.	• The Council should ensure that a system is in place to enable access to scanned copies of all employment contracts.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	**Partially complete**	**Reconciliation of asset register to the report from the valuer** • Errors were identified in the valuation of the council dwellings and land as a result of the information from the valuer being incorrectly input into the asset register. There is a risk that the balance sheet is misstated if this check is not performed. ***Recommendation raised in 2014/15:*** • The Council should perform a reconciliation of the asset register to the valuation report before producing the accounts.	• The Council has provided reconciliations for both dwellings and high value assets, but not for investment properties.

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The Council is still finalising the impact of this adjustment on the financial statements and the Audit, Governance & Standards Committee will be updated at the meeting on 14 September.	TBC (no impact expected on General Fund)	TBC (excepted increase in dwellings valuation of £45,429k)	TBC

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Unadjusted misstatements

At the time of writing, our audit work has not identified any adjustments which we requested be processed, but which have not been made within the financial statements.

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	-	Provisions	An additional disclosure note has been included within the financial statements as the provisions balance is material in the current year.
2	Disclosure	-	Assets held for sale (note 15)	Additional disclosure has been included to explain the balance of £73.5m included with assets held for sale, relating to the Potters Field development.
3	Disclosure	-	Debtors (note 13) / Creditors (note 16)	Additional disclosure has been included within the notes to explain the contents of the 'other entities and individuals' balance.
4	Disclosure	-	Private Finance Initiatives (note 31)	Amendments have been made to the note to ensure that the disclosure ties through to the PFI accounting model.
5	Disclosure	-	Financial Statements	There were a number of minor presentational issues that were identified during the course of our audit. These are to be amended in the final set of financial statements

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated February 2016:

- Arrangements around the Council's regeneration programme
- Arrangements around the Council' workforce restructuring
- Arrangements around the Council's contract monitoring

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Significant qualitative aspects

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

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

- The Council has a significant regeneration programme underway designed to reshape the Borough and improve community outcomes. We considered the Council's arrangements in place to monitor and report the outcomes resulting from these regeneration programmes
- As a result of the significant financial pressures facing local government, the Council has undertaken large scale restructuring and reduction of its workforce to meet these challenges to 2020 and beyond. We considered the Council's arrangements for reshaping its workforce to meet the financial, demographic, digital and cultural changes of enabling and providing public services to its diverse and ever changing communities.
- The Council has significant contracts in place with private sector providers to deliver a range of services taking up a growing proportion of the revenue budget. We reviewed the arrangements for monitoring these contracts and ensuring they continue to provide value for money in the context of the funding challenges facing local government.

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

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

We have discussed findings arising from our work with management.

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Key findings

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

Significant risk	Work to address	Findings and conclusions
The Council has a significant regeneration programme underway designed to reshape the Borough and improve community outcomes. We considered the Council's arrangements in place to monitor and report the outcomes resulting from these regeneration programmes	In order to understand the processes in place at the Council, we completed a high level review of two major projects: • Canada Water (£4bn project) • Elephant & Castle (£3bn project) As part of this process we attempted to understand the following: • the background to the project • how progress is monitored • who is responsible for the monitoring • the risk management of the project	**Summary findings** • No significant issues have been noted from the review of governance in place around the sampled regeneration projects. • The Elephant & Castle project has a clearly structured monitoring process in place, primarily through the monthly operational meetings and the quarterly strategic board. Both of these are attended by senior Council officers. No issues have been noted from a high level review of the items discussed at these meetings. • The Canada Water project is at a much earlier stage, but the plans in place clearly set out what the Council is trying to achieve with the project, alongside how this will be monitored. There is a clear identification of the importance of following the progress of the plan in order to ensure that the set objectives are being met and a monitoring framework has been established. **Elephant & Castle:** • The project is a significant regeneration programme designed to reshape the Borough and improve community outcomes. At the outset a regeneration agreement was put in place. As well as the technical parts of the agreement this covered items such as the Management Board, disputes, approvals and authorisations and meetings and consultations. • Lend Lease (the Councils regeneration partner) and the Council hold monthly operational meetings. These meetings are an opportunity for Lend Lease to give a report on progress and performance against the KPIs. The meetings work to a set and agreed agenda and include representatives from both sides, headed up by the Head of Regeneration for the Council and the Development Director of Lend Lease. Where a significant issue arises, the meeting will also be attended by the Director of Regeneration. The meeting notes are circulated to senior officers, including the Chief Executive of the Council. • Sitting above the operational meetings, there is a Strategic Board. This Board meets quarterly to discuss strategic issues around the project. This meeting is attended by a number of senior officers, including the Chief Executives from both organisations, along with the Director of Regeneration and the Head of Regeneration from Southwark. • Example minutes and meeting packs from these meetings have been reviewed. These covered areas including key issues, project updates, cash flow, health and safety and overall market conditions. The high level attendance at these meetings ensures that the progress with the project continues to be monitored at a high level. • Lend Lease prepare an annual business plan, including a financial plan, which sets out the work for the 12 months ahead. From an operational point of view, the dates per the plan may vary due to practical and commercial reasons. The annual business plan is approved by the Strategic Board again evidencing the high level awareness of what is happening with the regeneration project. • A monthly briefing is provided to the Cabinet member for regeneration concentrating on the 'softer' elements of the project including the community effects of the regeneration. Members are also able to consider progress through the regular reporting on the capital programme which identifies the Elephant & Castle project. • The Council use Deloitte as advisors in relation to the project. They review rates and perform bench marking exercises to assist the council in taking an informed decision, for example in approving major contracts. This advice helps the Council ensure that it is achieving value for money with regard to the work performed by Lend Lease.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions

		Canada Water:
		• The Council is currently in negotiations with British Land regarding a £4bn project proposing to transform Canada Water over the next 15 years. These negotiations are on-going and include discussion of the business plans, monitoring and rights & obligations. At the outset of the project, a set of negotiating priorities were agreed by Cabinet. In particular, these highlight:
		    • Long term income stream for the Council
		    • 35% affordable housing
		    • a new public leisure centre
		    • an education hub
		    • additional school places
		    • support for new jobs, training and business start up opportunities
		    • training and development opportunities
		• A report on the project was taken to Cabinet in November 2015. This acts as an update against the negotiating priorities agreed by the Council and shows a clear follow up to ensure that these remain included within the project.
		• Cabinet has also approved the Head of Terms document, setting out how the Council intends to achieve its aims. It covers the requirements set out in the negotiating priorities and sets out the key issues to be agreed between the Council and British Land.
		• The Council has also prepared an Area Action Plan, which very clearly sets out what the Council is trying to achieve with the project. In addition, it also identified the importance of following the progress of the plan in order to ensure that the set objectives are being met. The AAP includes an appendix setting out the monitoring framework that is in place. This breaks down the individual objectives of the project and then links these to the policies, targets and indicators in place to monitor and achieve these objectives.
		• The AAP states that this established framework will be used to monitor progress and this will be reported annually within an Authority Monitoring Report. Per discussions with senior officers at the Council, the overall governance of the project will be set up as per the Elephant & Castle project. With this process in place, the Council will clearly be able to monitor and report on the outcomes from the major regeneration programme.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
As a result of the significant financial pressures facing local government, the Council has undertaken large scale restructuring and reduction of its workforce to meet these challenges to 2020 and beyond. We considered the Councils arrangements for reshaping its workforce to meet the financial, demographic, digital and cultural changes of enabling and providing public services to its diverse and ever changing communities.	Through discussions with senior officers, we completed a review of the processes in place at the Council in order to understand the arrangements in place for reshaping the Council's workforce and arrangements that are in place to support and monitor this.	**Summary findings** • No significant issues have been identified from consideration of the restructuring process in place at the Council. • The current process in place appear to be fundamentally sound, with strong HR processes in place around recruitment and retention. • Going forward, the Council is looking to take a more strategic focus over how it restructures in order to ensure that it is going to be fit for the 21st century. • The current restructuring process is run through the individual Council departments. Each department will have a savings requirement that they need to fill. As part of this, they may undertake some restructuring within the team. • Following the decision to restructure, there is a set process that is to be followed. Included as part of this, the department is required to set out the expected savings, the current team structure and the proposed team structure. This plan is then required to be signed off by the responsible strategic director. In addition to this, an HR sign off is required to confirm that the potential impact has been assessed and a further finance sign off is required to confirm that the savings are achievable. • This is a regulated process and there are templates in place that are required to be used. A flow chart highlighting the reorganisation process is maintained by HR and this is supported by a detailed Gantt chart. • As soon as this is signed off, the Council is able to begin consultation with the staff and unions. A change management communication planner template is in place and required to be followed. This covers items including consultation, job matching, further consultation, assessment and selection and redeployment and redundancy. • Once the plan is finalised, the Council is able to work through the restructuring process. This starts with an in-house evaluation of jobs, followed by a matching exercise to check the impact on the workforce. Job matching guidance is provided by HR. • An issues log is established to record any significant items. The Council is then able to consider the comments raised • A review process is required to be undertaken six months after the process has been completed. This should cover what success looks like and how it is measured. The Council officer who led on the restructuring is required to prepare this report and it should show what the impacts have been and whether the savings identified have been achieved. • In terms of reporting this around the organisation, this will depend on the scale of the project. Detailed monitoring is also completed through the on-going budget monitoring. Where restructurings have not succeeded, this would be highlighted through financial performance issues. All departments also have performance KPIs in place, so major issues would be highlighted through this. • The biggest driver in relation to restructuring has been the financial pressures and this has led to significant voluntary redundancy schemes. A further requirement of these schemes should be to ensure that the organisation is able to reshape and reorganise from an efficiency point of view.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
		• Per the discussions with senior officers, the process in place is considered to be fundamentally sound, with strong HR processes in place around recruitment and retention. Going forward however, there needs to be a more strategic focus taken over the Council to ensure that changes are not happening in individual silos and there is a clear oversight of the changes being made and their potential wider implications. This needs to be supported by a strategic overview around how changes to the component parts are impacting on the Council's overall ability to deliver a service. • The intention is for a new priority to be included within the Corporate Plan - 'Fit for the Future'. Part of this will be a workforce strategy, a workplace strategy and an IT strategy. This strategy will ensure a focus on the broader picture as well as meeting individual KPIs. This new strategy will look to focus on how Southwark is going to be fit for the 21st century. Given the rapid rate of change across society and technology, there is a need to consider the changes the Council requires in order to keep pace and provide a robust and efficient service. It is partly the recognition of this that has led to the introduction of the Director of Modernise role. • The approach should be to look at what is right for the provision of the service and then shape the workforce around this. The Council is looking to do this by reviewing what is required for a modern approach to service delivery. • There appears to be a commitment within the organisation to ensure that things are shaped differently going forward and that there is a wider strategic delivery review in place over restructuring. With the rapid pace of change, there must be resilience within the services for future delivery.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
The Council has significant contracts in place with private sector providers to deliver a range of services taking up a growing proportion of the revenue budget. We reviewed the arrangements for monitoring these contracts and ensuring they continue to provide value for money in the context of the funding challenges facing local government.	In order to understand the processes in place at the Council, we completed a high level review of two major contracts: • Capita IT contract • Keep Moat Homes contract	**Summary findings** • At the time of writing, our review of a sample of significant contracts is on-going. We have not identified any issues that would impact on our Value for Money conclusion and we will report separately to the Audit, Governance and Standards Committee on completion of the review.

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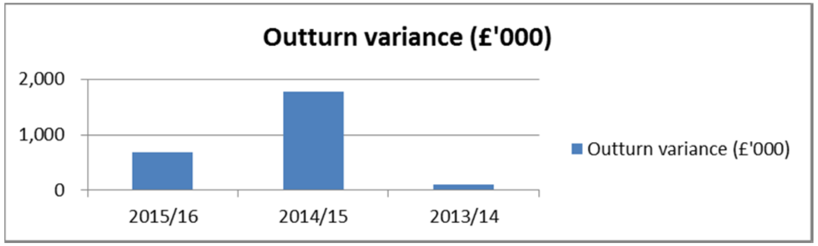
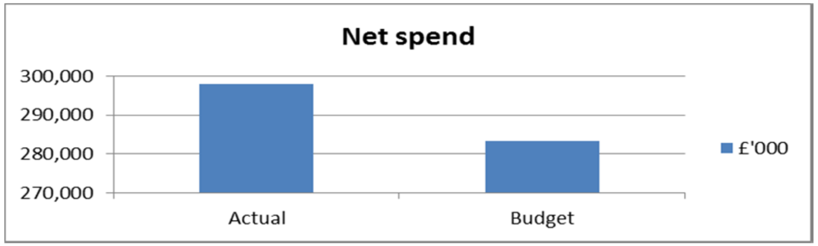
Financial performance

In addition, although not considered to be a significant risk, we have completed a review of the Council's financial performance. This review has been summarised below.

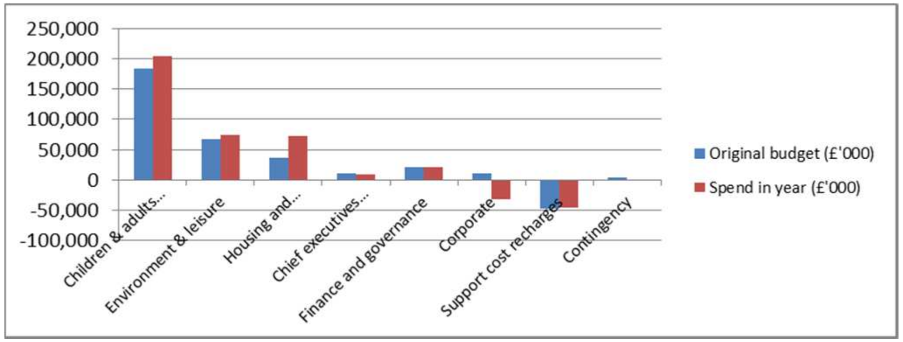
The Council has continued to maintain strong financial performance, including the delivery of £156m in savings over the last five years. For 2015/16 the year end position reports a favourable general fund outturn position of £679k. This has been compared to previous years below, showing a track record for the Council in delivering favourably against budget.



There have, however, been significant spend pressures across the organisation, with a net spend in year of £297,889k compared to a budget of £283,225k:



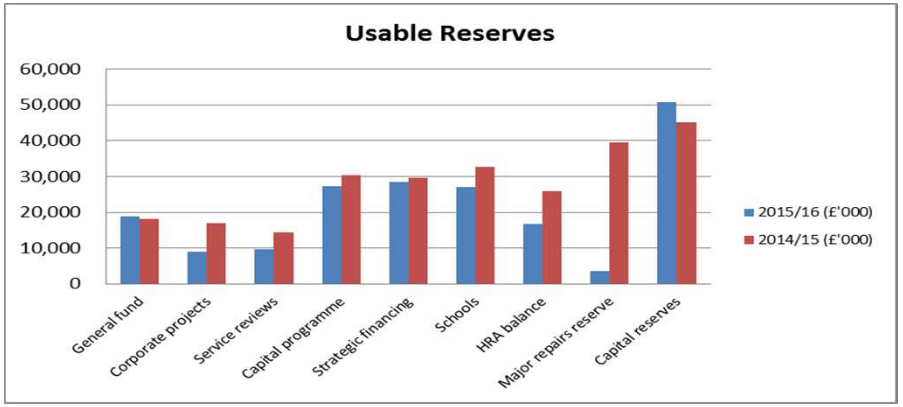
This spend vs budget is broken down by service area below:



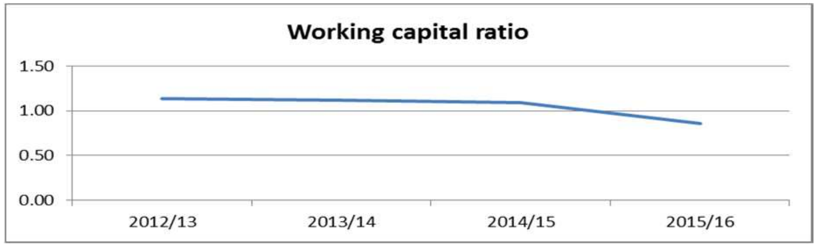
In order to achieve the year end position, the Council has been forced to use the contingency built into to budget alongside significant reserve movements. These are broken down at a high level into:

- use of £4,000k contingency
- utilisation of £6,163k reserve movement
- use of £15,443k departmental and corporate reserves

This has contributed to a significant reduction in usable reserves year on year, with the total balance dropping from £252,783 to £191,294. The split of usable reserves is shown year on year below:

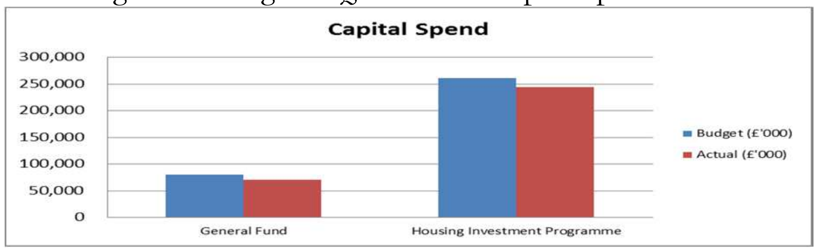


The working capital ratio indicates whether an authority has enough current assets, or resources, to cover its immediate liabilities - i.e those over the next twelve month period. The calculation has been performed below using the balances stated within the annual Statement of Accounts.

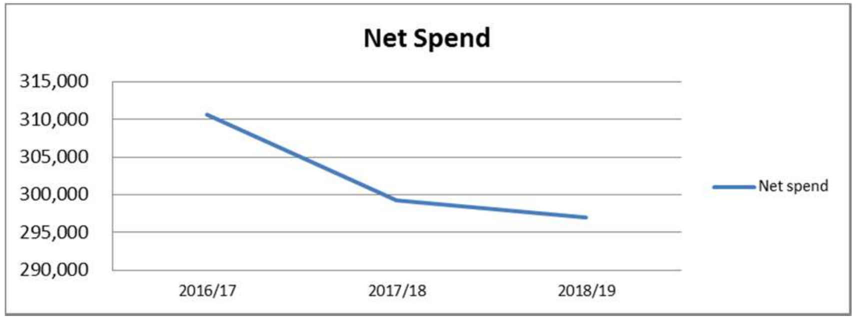


This shows a fairly stable working capital ratio up until the current year where it has dropped below 1.00, meaning that current liabilities exceed current assets. This will have been impacted by the Thames Water repayments which are included within year end liabilities.

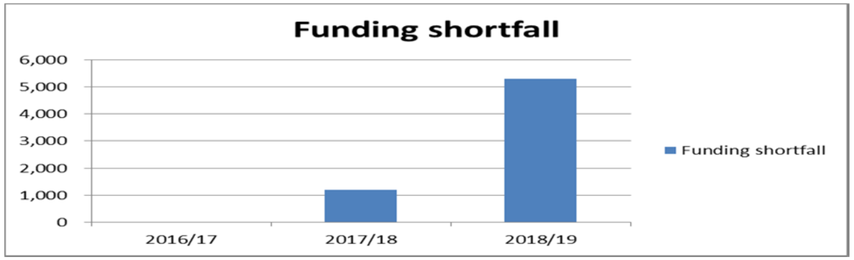
Turning to the to the capital programme, the Council has invested £314m in 15/16. This was against a budget of £341m. The capital spend is shown below:



The Council approved the revenue budget for 2016/17 at its February meeting. This shows a total net spend of £310.7m which would be supported by £6.2m from reserves. The planned net spend over the next three years is shown below:



In order to balance the budget across the three year period there are the following funding shortfalls:



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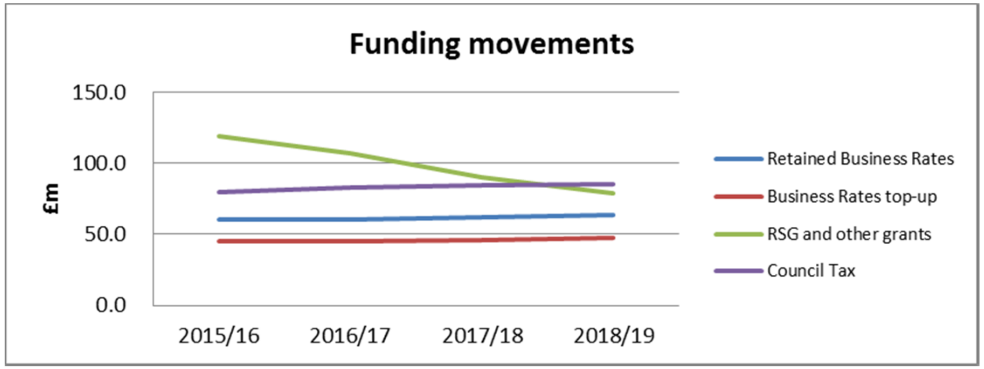
The movements in the main sources of funding over the period are shown below:



This highlights the continued sharp fall in the RSG and other grant funding and how difficult it is to replace this funding through increases in other funding streams.

The Council clearly recognises the pressures it is facing, particularly around areas such as Children's and Adults' Service and No Recourse to Public Funds. These pressures, alongside the declining funding highlighted above can mean an increased need of support from reserves. The Council has noted the relatively low levels of balances and reserves when compared to similar councils in London and this has been reported to cabinet. This position has been planned to help sustain services in the short term and transform the council through the austerity period, but cannot be seen as a permanent source of funding.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

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

Fees

	Proposed fee £	Final fee £
Council audit	237,296	237,296
Grant certification (i)	17,717	TBC
Total audit fees (excluding VAT)	**255,013**	**TBC**

(i) certification of the Housing Benefits claim is not due until later in the year so this remains a work in progress at the date of this report. Confirmation of the final fee will be included within the separate Certification Report later in the year.

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pensions (15/16 claim)	TBC
• Pooling of Housing Capital Receipts (15/16 claim)	TBC
Non-audit services:	
• Investors in People accreditation	28,660
• Analysis of accounts of comparable authorities to provide benchmark data	10,000
• CFO Insights	10,000
• Financial Resilience – Capacity Building Programme	8,750

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

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Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should ensure that a system is in place to enable access to scanned copies of all employment contracts.	Medium		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the financial statements of Southwark Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Strategic Director of Finance and Governance and auditor

As explained more fully in the Statement of the Strategic Director of Finance and Governance Responsibilities, the Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance and Governance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

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

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

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

Also, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Date:

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APPENDIX B

Southwark Council
southwark.gov.uk

Grant Thornton
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

Date: 14 September 2016

Dear Sirs

Southwark Council Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of Southwark Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Southwark Council, PO BOX 64529, London SE1P 5LX • **southwark.gov.uk** • facebook.com/southwarkcouncil • twitter.com/lb_southwark

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:
- a there are no unrecorded liabilities, actual or contingent
- b none of the assets of the Council has been assigned, pledged or mortgaged
- c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv We have provided you with:
- a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b additional information that you have requested from us for the purpose of your audit; and
- c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi We have communicated to you all deficiencies in internal control of which management is aware.

xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 a management;
 b employees who have significant roles in internal control; or
 c others where the fraud could have a material effect on the financial statements.

xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Statement

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

Approval

The approval of this letter of representation was minuted by the Audit, Governance and Standards Committee at its meeting on 14 September 2016.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position…………………………

Date…………………………….

Signed on behalf of the Council

APPENDIX C

The Audit Findings for the London Borough of Southwark Pension Fund

Year ended 31 March 2016

14 September 2016

Elizabeth Jackson
Engagement Lead
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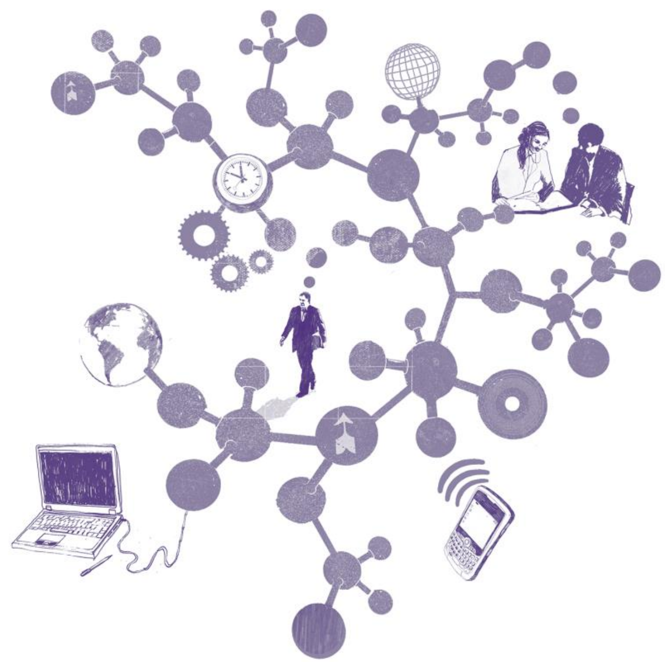

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London Borough of Southwark
160 Tooley Street
London
SE1 2TZ

14 September 2016

Dear Sirs'

Audit Findings for London Borough of Southwark Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of London Borough of Southwark Pension Fund, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Elizabeth Jackson
Engagement Lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of the London Borough of Southwark Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 22 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- provision of the working paper to support the current assets and liabilities figures in the Net Asset Statement
- awaiting receipt of external confirmation from the fund managers of Brockston and Frogmore
- review of the final version of the financial statements and Pension Fund Annual Report
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements. We have identified no adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £1,257m; the audited financial statements show the same figure.

The key messages arising from our audit of the Fund's financial statements are:

- the quality of the working papers and documents supporting the balances within the financial statements were of a reasonable standard. We have identified areas for improvement in the working papers and discussed these with management
- we received a good level of co-operation and support during the course of our audit
- we have recommended minor adjustments to improve the presentation of the financial statements that the Council has corrected in the revised set of financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

We draw your attention in particular to a control issue identified in relation to:

- foreign domiciled pensioners not being circularised to confirm that they are entitled to their pensions
- as part of our member data sample testing we identified a small number of errors in the information within the membership active status. Although these errors are highly unlikely to lead to a material misstatement in the accounts they will have a significant impact on the triennial valuation results.

Further details are provided within section two of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit have been discussed with the finance team.

We have made recommendations, which are set out in the action plan at Appendix A. The recommendations has been discussed and agreed with the finance team.

Acknowledgement

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

Grant Thornton UK LLP
August 2016

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Section 2: Audit findings

Audit Findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan presented to the Audit Committee. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £8.734 million (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £624,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items where we decided that separate materiality levels were appropriate.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including this Council as the administering authority, mean that all forms of fraud are seen as unacceptable.	Although we rebutted the risk of revenue recognition error, we still undertook audit testing of the material revenue streams. Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk: • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising

3.	**Investments portfolio**
	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 2 indirect property investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.
		We have undertaken the following work in relation to this risk:
		• walkthrough tests of controls on investments
		• for Brockton and Frogmore indirect properties:
		  • we have tested valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date
		  • we have reviewed the reconciliation of those values to the values at 31^{st} March with reference to known movements in the intervening period.
			Subject to completion of our procedures as detailed on page 5, our audit work has not identified any issues in respect of the indirect properties valuation.
			We will update the committee with the outcome of our procedures in this area on 14 September.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate (Accuracy)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, • Completed a predictive analytical review for different types of investments	Our audit work has not identified any significant issues in relation to the risk identified.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances,	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. . • Tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices • We have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. • Received direct confirmation from the custodian including obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date. • Received direct confirmation from all non-segregated investment managers and reviewed the reconciliation of the units of unitised pooled investment vehicles.	Our audit work has not identified any significant issues in relation to the risk identified
Contributions	Recorded contributions not correct (Occurrence)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified except that the contributions from all scheduled and admitted bodies are not always paid into the Fund's bank account by the 19th of each month during 2015/16. The delays are due in part to contributions being paid into the councils bank account and then transferred to the funds bank account. Our testing has confirmed that all the contributions due to the Fund have been received in 2015/16. However, this method of receiving the contributions in to the Council's bank account before transfer to the Fund's bank account is not in line with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and remains an area of non-compliance. This arrangement has been in place for a number of years and the Council has stated that they are satisfied that a material misstatement could not occur by using the Council's own bank account to collect contributions. Our testing has not identified any misstatement in the amounts collected in 2015/16.

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Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over, completeness, accuracy and occurrence of benefit payments, • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified except that the fund has not circulated pensioners domiciled abroad to confirm that they are still eligible. This finding could not lead to a material misstatement in the 2015/16 accounts.
Member Data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data made during the year to source documentation.	A number of issues have been identified in the member data testing completed during the audit: • 8 cases were identified where the admitted bodies had not provided starters information, in these cases, the pensions team have estimated starting date from the schedule of contributions received. The risk is that actual start date has not been accurately recorded on Altair pension system. Also there was also no evidence to show if the statutory notification was sent to these individuals. • 3 cases were identified where a statutory notice was not issued due to it being overlooked on the Altair workflow system. This outlines a process weakness. • 1 case was identified where the individual opted-out, but they were still recorded as an active member on Altair system. The risk is that the "Number of Active contributors" to the fund is overstated. We have obtained assurance that the financial statements are materially fairly stated and have made a recommendation to management that membership data needs to be reviewed before the next triennial valuation is due to ensure the information provided to the actuary is complete and accurate. We made the same recommendation in 2014/15 and this had not been implemented for the 2015/16 financial year.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy for Contribution and Investment income is set out in Note 3 a-c Fund Account – Revenue Recognition.	The revenue recognition policy appears to be consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements .	● Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: - pension fund liability	We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	● Green

Assessment
● Red Marginal accounting policy which could potentially attract attention from regulators ● Amber Accounting policy appropriate but scope for improved disclosure ● Green Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested for the Fund.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to fund managers, custodian and the bank. This permission was granted and the requests were sent and were returned with positive confirmation. • The only non-confirmation to date is from Brockston and Frogmore for the indirect property valuation.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to report by exception where the draft Pension Fund Annual Report is inconsistent with the financial statements. We will review the draft Pension Fund Annual Report when it is ready.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on page 11 to 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1	● Amber	Pensioners domiciled abroad have not been circularized for over two years to confirm that they are still eligible for their pensions.	All pensioners should be circularized on an annual basis to confirm continued eligibility of pensions.
2	● Red	Errors identified in our testing of membership data presents the risk that data used in Actuary's valuation report is not accurate or complete. Our sample testing of member data identified a number of inaccuracies in the information in the Altair system. A backlog in processing information in Altair system was reported in the 2014/15 Audit Findings Report. A recommendation was made but has not been implemented by management for 2015/16.	The current review of membership data in Altair needs to be complete and accurate for the next triennial valuation.

Assessment
- ● Red Significant deficiency – risk of significant misstatement
- ● Amber Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

There are no adjustments to the draft accounts identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Presentation and disclosure	N/a	N/a	We have made a small number of suggested presentational and disclosure changes to aid users' understanding of the financial statements.

Section 3: Fees, non-audit services and independence

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

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	21,000	21,000
Agreed fee variation – IAS 19	-	TBC
Total audit fees (excluding VAT)	**21,000**	**TBC**

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

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Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	All pensioners should be circularized on an annual basis to confirm continued eligibility of pensions.	Medium	There is a contract with Faraday Tracing Bureau who provide a monthly report of recent deaths within our pensioner data set. Each month it does throw up a few death cases that we have not been informed about, this is a much more efficient system than an annual life-certificate sent out to over 7,000 pensioners that would need to be manually checked. We agree, however, that we should send life-certificates to overseas pensioners that are not covered by Faraday.	31/12/2016 M Laird, SAP Payroll and Pensions Manager
2	The current review of membership data in Altair needs to be complete and accurate for the next triennial valuation.	High	The Aon Hewitt data cleansing exercise was completed to the point that they said that data could be submitted on the 17th August, the data was submitted to the actuary on the 18th.	Complete M Laird, SAP Payroll and Pensions Manager
3	Continue to explore opportunities to address the issue regarding contribution payments being made directly into the Council's bank account, then subsequently transferred to the Pension Fund's bank account.	Medium	Whilst we are satisfied that the arrangements for receiving contributions does not create any material risks, we will continue to explore options for payments to be made direct to the Pension Fund's bank account, including introducing a 'no cheque' policy in the Administration Strategy currently being written.	31/03/2017 F Hammond, Departmental Finance Manager

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Appendix B: Audit opinion

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

DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the pension fund financial statements of Southwark Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Strategic Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Strategic Director of Finance and Corporate Services' Responsibilities, the Strategic Director of Finance and Corporate Services' is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance and Corporate Services; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:
- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

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

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

XX September 2016

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Appendix C: Proposed audit opinion on the annual report

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

DRAFT - Independent auditor's report to the members of Southwark Council on the consistency of the pension fund financial statements included in the pension fund annual report

The accompanying pension fund financial statements of Southwark Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 15 September 2016 The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Strategic Director of Finance and Corporate Services responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.
In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Elizabeth L Jackson

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

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

XX September 2016

APPENDIX D

Southwark Council
southwark.gov.uk

Grant Thornton
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

Date: 14 September 2016

Dear Sirs

Southwark Pension Fund Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of Southwark Pension Fund ('the Fund') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

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

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

7. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

8. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Fund have been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

10. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

11. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

12. The financial statements are free of material misstatements, including omissions.

13. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

14. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

15. We have provided you with:
    a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    b. additional information that you have requested from us for the purpose of your audit; and
    c. unrestricted access to persons from whom you determined it necessary to obtain audit evidence.

16. We have communicated to you all deficiencies in internal control of which management is aware.

17. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

18. All transactions have been recorded in the accounting records and are reflected in the financial statements.

19. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
    a. management;
    b. employees who have significant roles in internal control; or
    c. others where the fraud could have a material effect on the financial statements.

20. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

21. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

22. We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.

23. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 14 September 2016.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

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

Agenda Item 11

Item No. 11.	Classification: Open	Date: 14 September 2016	Meeting Name: Audit, governance and standards committee
Report title:		Statement of Accounts 2015-16	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee (the committee) approves the statement of accounts for 2015-16 (Appendix 1).

2. That the chair signs and dates the accounts as being approved by the committee.

3. That should any further significant changes to the statement of accounts be required, the committee authorises the chair to approve the revised statement of accounts on its behalf.

BACKGROUND INFORMATION

4. The Accounts and Audit Regulations 2015 require the statement of accounts for 2015-16 to be presented to and approved by an appropriate committee of the body to which the accounts relate. Under the council's constitution, the audit, governance and standards committee is the body that formally receives the statement of accounts. The accounts must be approved no later than 30 September immediately after the year to which the accounts relate.

KEY ISSUES FOR CONSIDERATION

5. In accordance with the 2015 Regulations, and so that the committee is able to approve the accounts, the strategic director of finance and governance has re-certified the statement of accounts.

6. As the council's appointed external auditor, Grant Thornton is required under the statutory Code of Audit Practice for Local Government Bodies to issue reports to those charged with governance summarising the conclusions of their audit work. The committee is the council's constitutional body for receiving these reports and needs to consider them before approving the accounts. The auditor's reports have been presented elsewhere on this agenda.

7. At the time of preparing this report, the auditors had not concluded their testing. Should any further adjustments to the statement of accounts be required, the committee is asked to delegate to the chair the approval of any significant changes to the statement of accounts.

8. Following approval, the statement of accounts will be published together with the auditor's opinion on the council's website, and additional copies will be provided to interested parties on request.

Community impact statement

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

Resource implications

10. The narrative statement to the statement of accounts provides a commentary on the outturn for the year ending March 2016.

Consultation

11. Consultation on the accounts is carried out through the public inspection period and by access to the auditor thereafter until the conclusion of the audit process.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

12. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Financial Accounting closing files 2015-16	Finance and Governance, Tooley Street, Second Floor	Robert Woollatt 020 7525 7468

APPENDICES

No.	Title
Appendix 1	Statement of accounts 2015-16

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="3">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="3">Robert Woollatt, Interim Chief Accountant</td></tr>
<tr><th>Version</th><td colspan="3">Final</td></tr>
<tr><th>Dated</th><td colspan="3">2 September 2016</td></tr>
<tr><th>Key Decision?</th><td colspan="3">No</td></tr>
<tr><th colspan="4">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th colspan="2">Officer Title</th><th>Comments Sought</th><th>Comments included</th></tr>
<tr><td colspan="2">Director of Law and Democracy</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">Strategic Director of Finance and Governance</td><td>No</td><td>No</td></tr>
<tr><th colspan="2">Cabinet Member</th><td>No</td><td>No</td></tr>
<tr><th colspan="3">Date final report sent to Constitutional Team</th><td>2 September 2016</td></tr>
</table>

APPENDIX 1

DRAFT
STATEMENT OF ACCOUNTS

2015-16

TABLE OF CONTENTS

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, 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 boroughs 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 strategically important 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. The Shard being delivered and bringing thousands of new homes and jobs. Some £4bn 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 within 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 such as 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 and Dulwich Picture Gallery. Looking to the future, 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 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 Estate, 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.

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;
- Investement of 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;
- Having 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;
- Improvements in educational performance. 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;
- Being the first borough in London to be officially recognised by the World Health Organisation (WHO) as part of its Global Network of Age-friendly Cities and Communities.

The council's annual performance report can be found here:
http://moderngov.southwark.gov.uk/mgIssueHistoryHome.aspx?IId=50010111&Opt=0

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 that reserves are retained at appropriate and adequate levels to safeguard service provision and to support modernisation of the organisation and challenging regeneration projects across the borough.

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 the '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
STATEMENT OF ACCOUNTS 2015-16

Revenue outturn - General Fund

In February 2015, Council Assembly set a net budget for the year 2015-16 of £283.2 m. 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**	**289,388**	**304,152**	**14,764**	**(678)**
Use of reserves	(6,163)	(6,163)	0	6,163	0
Net revenue budget	**283,225**	**283,225**	**304,152**	**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, expenditure, and movement on balances for 2015-16:

	2015-16 £000	2014-15 £000
Income	(298,205)	(290,231)
Expenditure	327,017	267,738
Net cost of services	28,812	(22,493)
Non operating costs	(88,331)	(46,861)
Net statutory accounting adjustments	68,851	66,877
(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 £1.9bn by 2023-24. Capital spending and financing in 2015-16 is indicated in the table below:

	2015-16	2014-15
	£000	**£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**

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 £20m. 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	9,572	16,866	11,219
Service reviews and improvements	9,355	14,495	14,387
Capital programme and other capital investment	26,822	30,345	31,898
Strategic financing, technical liabilities and future risks	28,777	29,645	37,785
Sub total – earmarked reserves	**74,526**	**91,351**	**95,289**
Schools (including DSG)	**27,024**	**32,719**	**32,719**
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	**191,293**	**252,783**	**253,073**

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

- *Borrowing and Lending*

The council borrows money to support its capital financing requirement. The borrowing outstanding as at 31 March 2016 is £463m (£469m 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 £144m (£166m 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 must be re-valued every three years to set future contribution rates. The last valuation was in 2013 which reported that the Fund's 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.

Principal Risks and Uncertainties

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

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

- 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

Brexit

In June 2016 the United Kingdom voted to leave the European Union. This initiated an immediate period of market volatility and political turbulence. Whilst the market volatility has dissipated to some degree, there remains considerable uncertainty about the longer-term economic impact. Most experts agree that there will be a weakening of the UK economy in the short term but there is less consensus about longer-term prospects. The national and local economic conditions and outlook will be taken into account in reviewing and revising our financial plans and resilience.

With regard to the annual accounts, there is no evidence that the value of the council's assets and liabilities, as recorded within the accounts, have moved materially.

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.

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
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
STATEMENT OF ACCOUNTS 2015-16

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**

INDEPENDENT AUDITORS REPORT

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
14 September 2016

Council approval

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

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

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 18)	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	-	-	59,519	-	-	-	**85,907**	-	**85,907**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	**-**	542,834	**542,834**
Total Comprehensive Income & Expenditure	**26,388**	**-**	**-**	**59,519**	**-**	**-**	**-**	**85,907**	**542,834**	**628,741**
Adjustments between accounting basis & funding basis under regulations (Note 5)	(48,230)	-	-	(68,851)	(35,964)	7,960	(2,312)	**(147,397)**	147,397	**-**
Net Increase or (Decrease) before Transfers to Earmarked Reserves	**(21,842)**	**-**	**-**	**(9,332)**	**(35,964)**	**7,960**	**(2,312)**	**(61,490)**	**690,231**	**628,741**
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)**	**690,231**	**628,741**
Balance as at 31 March 2016	**18,803**	**74,526**	**27,024**	**16,613**	**3,577**	**50,750**	**-**	**191,293**	**3,509,880**	**3,701,173**

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

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 18)	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)	99,489	-	-	(66,877)	29,272	(28,520)	419	**33,783**	(33,783)	**-**
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**

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 Gross Expend £000	2015-16 Gross Income £000	2015-16 Net Expend £000	2014-15 Gross Expend £000	2014-15 Gross Income £000	2014-15 Net Expend £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)	331,442	(291,391)	40,051	273,084	(283,463)	(10,379)
Other housing services	251,809	(234,257)	17,552	261,148	(241,226)	19,922
Adult social care	133,085	(37,424)	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	**1,265,530**	**(882,927)**	**382,603**	**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			**(85,907)**			**34,073**
(Surplus)/deficit on revaluation of non current assets			(486,599)			(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			**(542,834)**			**(528,120)**
Total Comprehensive Income and Expenditure			**(628,741)**			**(494,047)**

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	31/03/2015
		£000	£000
Property, Plant & Equipment	10	4,472,315	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		**4,783,320**	**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	17	3,003	6,113
Grants receipts in advance	28	127,649	125,218
Current Liabilities		**298,785**	**267,080**
Long-term Creditors	16	9,931	7,505
Provisions	17	16,058	12,492
Long-term Borrowing	12	457,851	462,851
Pension Liabilities	35	450,096	491,286
Other Long-term Liabilities	36	104,950	110,452
Long Term Liabilities		**1,038,886**	**1,084,586**
Net Assets		**3,701,173**	**3,072,432**
Usable reserves	6	191,293	252,783
Unusable reserves	18	3,509,880	2,819,649
Total Reserves		**3,701,173**	**3,072,432**

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	2014-15
		£000	£000
Net surplus/(deficit) on the provision of services		85,907	(34,073)
Adjust net surplus/(deficit) on the provision of services for non-cash movements	19	201,800	276,177
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	19	(201,391)	(182,479)
Net cash flows from operating activities		**86,316**	**59,625**
Net cash flows from investing activities	20	(53,492)	(39,566)
Net cash flows from financing activities	21	(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**

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:

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.

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 35 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 pension 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.

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 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 de-recognition 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 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.

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, if 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 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 re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end:

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

- 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 re-valued 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 based on land value plus the construction costs incurred to date, however the asset is retained in Surplus Assets until 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
- 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.

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 borough. 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 details of the financial arrangements for the school PFI contracts, and the obligations outstanding, can be found in Note 32.

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 32.

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 32.

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 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 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 pension costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2016 the outstanding liability was assessed at £450 m (£491 m 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 35.

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 35.

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.

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.

Charges for depreciation and impairment of non-current assets	27,458	68,796	-	-	-	(96,254)
Revaluation losses on Property, Plant and Equipment	(1,629)	67,088	-	-	-	(65,459)
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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015-16

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 35)	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)**	**(68,851)**	**(35,964)**	**7,960**	**(2,312)**	**147,397**

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015-16

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)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015-16

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 35)	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)**

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	(3,793)	(9,572)
Service Improvement Reserves	(14,387)	3,957	(4,065)	(14,495)	7,672	(2,532)	(9,355)
Capital Investment Reserves	(31,898)	7,964	(6,411)	(30,345)	11,094	(7,571)	(26,822)
Strategic Financing, Technical and Risk reserves	(37,785)	15,643	(7,503)	(29,645)	17,777	(16,909)	(28,777)
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.

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)**

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	332,546	51,515	-	-	-	65,175	-	**449,236**	3,042
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(72,909)	104	-	-	-	-	-	**(72,805)**	-
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	**3,125,482**	**875,032**	**82,092**	**333,939**	**11,219**	**168,196**	**65,529**	**4,661,489**	**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	**3,095,841**	**840,097**	**40,796**	**254,346**	**10,317**	**165,389**	**65,529**	**4,472,315**	**67,930**

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**

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 £215.2m. Similar commitments at 31 March 2015 were £215.2m. The projects with major commitments are:

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

Infrastructure Assets contains a balance of £78.3m 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**

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 and 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	Long Term	Short Term	Short Term
	31/03/16	31/03/15	31/03/16	31/03/15
	£000	£000	£000	£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	Long Term	Short Term	Short Term
	2015-16	2014-15	2015-16	2014-15
	£000	£000	£000	£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)**

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 £105m as at 31/03/2016 (£109 m 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:

- 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 m 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 31/03/16 £'000	Fair Value 31/03/16 £'000	Balance Sheet 31/03/15 £'000	Fair Value 31/03/15 £'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)	(113,868)	(113,868)
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)**		**(691,034)**	

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.

	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	Long Term Debtors	Short Term Debtors	Long Term Debtors
	£000	£000	£000	£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**

Debtor balances reflect money owed to the council and payments made in advance. Other entities and individuals includes local businesses, local taxpayers, housing tenants and housing benefit recipients.

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**

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**

Non-current Assets Held for Sale includes a balance of £73.5m as at 31 March 2016, comprising two assets that constitute the council's interest in the Potters Field development, a mix of residential, commercial and cultural use property overlooking Tower Bridge. The council's interest has been valued by the council's valuer and constitutes the value of the land the council has contributed to the development plus its share of the net receipt of the scheme. The council's share of the net receipt will be used toward funding the council's long-term social housing and regeneration programme.

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**

Creditor balances reflect money owed by the council and payments received in advance. Other entities and individuals include suppliers of goods and service, local businesses, local taxpayers, housing tenants and employees. Creditor balance includes £17.1m in respect of Thames Water overpayment.

17. PROVISIONS

	Short Term Provisions		Long Term Provisions	
	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000
Insurance Provision	-	-	9,509	8,365
Business Rates Appeals	2,678	5,140	3,100	4,127
Provision for refunds – Thames Water (former tenants)	-	-	3,449	-
Education high needs povision	325	325	-	-
Other miscellaneous provisions	-	648	-	-
Total	**3,003**	**6,113**	**16,058**	**12,492**

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

The amount provided for business rate appeals (council share) has reduced from £9.267m at 31 March 2015 to £5.778m at 31 March 2016. The provision is now based on data and trends that more accurately reflect local circumstances, rather than the national indicators that previously underpinned the estimate.

18. 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	2,404,631	2,210,565
Financial Instruments Adjustment Account	(24,848)	(24,954)
Revaluation Reserve	1,545,246	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	**3,509,880**	**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.

	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	(65,459)		(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)	
		(171,664)		**(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		**2,404,631**		**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 m premiums (£21.016 m 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)**

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	519,892		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		486,599		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		**1,545,246**		**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)**

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**

19. 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	31,258	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
	201,800	**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**

20. 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.

21. 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)**

22. 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**

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015-16

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	(397,286)	(253,656)
Cost of Services in the Comprehensive Income and Expenditure Statement	**382,603**	**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 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	-	(83,166)	83,166	-	-	(83,166)	(83,166)
Income from business rates	-	(70,364)	70,364	-	-	(70,364)	(70,364)
Government grants and conts.	(531,598)	(135,008)	160,141	-	(506,465)	(160,116)	(666,581)
		(70,364)	70,364	-	-	(70,364)	(70,364)
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	30,999	34,201	-	161,889	(34,201)	127,688
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**	**(397,286)**	**475,067**	**-**	**382,603**	**(468,510)**	**(85,907)**

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**	**152,190**	**(151,225)**	**(46,508)**	**1,203,727**	**124,643**	**1,328,370**
(Surplus) or deficit on the provision of services	**314,170**	**(253,656)**	**285,719**	**-**	**346,233**	**(312,160)**	**34,073**

23. 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		-		-

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 (£2m in 14-15).

24. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2015-16 was £1,264, 075 (£1,244,863 in 2014-15).

25. 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.

	2015-16		2014-15	
Post holder	**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	191,658	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 post holders 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 post holder before those 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 post holders

- 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 reflects this. The adjustments are included in the total remuneration above.

During 2015-16 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 2015-16	Number of employees 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**

26. 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 restated
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	255	306
Fees payable in respect of other services provided by the appointed auditor during the year	58	54
Total	**313**	**360**

Other services provided by the auditor during 2015-16 included a review of financial resilience, a review of Investor in People and provision of benchmarking data.

27. 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
			2015-16	**2014-15**
	£000	**£000**	**£000**	**£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)**

28. GRANT INCOME

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

	2015-16	2014-15
	£000	**£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)	(1,916)
Other grants individually less than £1 m	(1,317)	(1,215)
Capital grants and contributions	(112,239)	(94,797)
Sub total	**(265,197)**	**(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	(20,478)	(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)

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 m	(11,349)	(9,326)
Sub total	**(514,704)**	**(503,740)**
Total	**(779,901)**	**(781,262)**

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	(121,939)	(112,200)
Lottery Funds	(1,039)	(1,039)
Education	(3,524)	(10,787)
Other grants individually less than £1 m	(1,147)	(1,192)
Balance as at 31 March	**(127,649)**	**(125,218)**

29. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. 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 £0.5m (£2.2m in 2014-15)
- with businesses or other organisations that have contracted for goods and services with the council to the value of £3.0m (£3.0m 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 28 to the accounts.

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

30. 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
Revenue expenditure funded from capital under statute (REFCUS)	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)**

31. 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	1,465	1,540
Less sub-lease payments	(309)	(341)
Total	**1,156**	**1,199**

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

	2015-16	2014-15
	£000	£000
Within 1 year	1,449	1,437
Within 2 to 5 years	5,082	4,978
After 5 years	22,603	23,704
Total	**29,134**	**30,119**

The council as Lessor – operating leases

The council has industrial and commercial units that 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	9,426	9,960
Within 2 to 5 years	26,063	27,391
After 5 years	106,989	111,242
Total due	**142,478**	**148,593**

32. 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:

- 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 m contract will enable the council to deliver government targets for waste minimisation, landfill diversion and recycling. Veolia are to provide high specification facilities to receive transfer and treat waste under the PFI contract for a period of 25 years from the date of completion of a new facility at Old Kent Road, a site the council has leased to the company with effect from 9 September 2008

- In July 2013 the council entered into the Heat Supply PFI Arrangement, which will involve the contractor putting in place piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public.

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	(163)	(348)	(317)	(3,359)	(175)	**(4,362)**
Value at 31 March 2016	**14,836**	**19,390**	**18,624**	**51,633**	**4,760**	**109,243**

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 31 March 2015	**44,388**	**18,418**	**4,764**	**67,570**
Additions	-	137	85	**222**
Depreciation & Impairment	(798)	(796)	(295)	**(1,889)**
Net Book Value 31 March 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	252	1,293	2,068	4,429	6,794	-	**14,836**
Interest	1,892	7,208	7,880	6,051	2,549	-	**25,580**
Service Charges	543	2,387	3,789	4,056	4,903	-	**15,678**
St Thomas the Apostle College							
Liability	373	1,871	3,178	4,994	8,239	735	**19,390**
Interest	2,049	7,751	8,359	6,353	2,953	45	**27,510**
Service Charges	302	1,194	1,582	1,827	2,160	(237)	**6,828**
Lifecycle Payments	(1)	258	670	928	1,380	(34)	**3,201**
Sacred Heart Catholic School							
Liability	361	1,780	2,975	4,463	6,692	2,353	**18,624**
Interest	1,879	7,106	7,706	5,996	3,166	165	**26,018**
Service Charges	450	1,862	2,494	2,892	3,371	1,259	**12,328**
Lifecycle Payments	34	326	614	750	1,504	439	**3,667**
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**

33. 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.

34. 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 m to Teachers' Pensions in respect of teachers' retirement benefits, representing 15.5% of pensionable pay, (£7.9 m and 14.1% respectively in 2014-15). It also paid £0.3 m to the NHS Pension Scheme representing 14.2% of pensionable pay (£0.3 m 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 35 below.

35. 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	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£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:

	2015-16			2014-15		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£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	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£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	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£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	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Quoted						
- Equities	643,784	23,289	**667,073**	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**

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%)	1,662,700	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 m (£1,747 m 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 m (£491 m 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 re-valued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2015-16 is £35.3 m for the council scheme and £0.3 m for the LPFA scheme (£36.2 m 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.

36. 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	19,017	19,437
Sacred Heart Catholic school	18,263	18,636
St Michaels Catholic college	14,584	14,850
Heat Supply Arrangement	4,646	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**

37. 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 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:

	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 m and a 1% fall would raise it by £114 m. 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 the Balance Sheet date would change the fair value by £0.6 m 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 m, but as these are held at amortised cost there would be is 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.

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	128,796	84,862
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		**325,911**	**267,738**
Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement		**27,706**	**(22,493)**
HRA share of CDC costs		1,106	1,106
Net Cost of HRA Services		**28,812**	**(21,387)**
Gains and losses on the sales of HRA non-current assets		(38,599)	(17,138)
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	2,895
Capital grants and contributions receivable		(73,939)	(56,040)
Total (surplus)/deficit for the year		**(59,519)**	**(69,354)**

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	2014-15
		£000	£000
(Surplus)/deficit for the year on HRA services		(59,519)	(69,354)
Net additional amounts required by statute	5	68,851	66,877
(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)**

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 £12.4bn (£11.2bn 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/-5 £000
Dwellings depreciation	65,705	55,915
Other property depreciation	3,091	2,633
Revaluation losses on non-current assets	(3,035)	26,314
Total	**65,761**	**84,862**

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.

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 m was incurred in the HRA as REFCUS (£7.1 m 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	(51,206	(20,851)
Net additional amount required by statute to be charged to the HRA	**68,851**	**66,877**

6. HRA BALANCE

HRA reserves at 31 March 2016 are £16.6 m (£25.9 m 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 m relates in part to the redevelopment of the Aylesbury Estate (£2.6 m) and also to the direct delivery of new council homes (£1.9 m).

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

The Financial Risk reserve, £9.6 m, includes £4.5 m 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 m Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, and £0.5 m for estate parking.

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	6,857
Gross arrears as at 31 March	**17,380**	**17,089**

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.

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	Business Rates	Business Rates Supplement	2015-16	2014-15
		£000	**£000**	**£000**	**£000**	**£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)	3					
Payment to GLA's BRS Revenue Account		-	-	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

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 m 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	4,325.63	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 m (£526.2 m 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.

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	Business Rates	Total
	£000	£000	£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	1,670	**1,670**
Estimated surplus for 2013-14, redistributed in 2014-15		**(5,184)**		**3,339**	**(1,845**

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).

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	7	(5,702)		(1,891)	
Sub total			**(61,181)**		**(54,569)**
Benefits	8	56,850		48,844	
Payments to and on account of leavers	9	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	10		4,549		4,503
Returns on investments					
Investment income	11	(12,717)		(12,903)	
Taxes on income	11	155		105	
Profit and losses on disposal of investments and changes in market value of investments	12	(1,212)		(187,967)	
Net return on investments			(13,774)		(200,765)
Net (increase)/decrease in the net assets available for benefits during the year			**(8,651)**		**(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			**(1,256,382)**		**(1,247,731)**

NET ASSETS STATEMENT

	Note		2015-16 £000		2014-15 £000
Investment assets	12		1,245,439		1,239,275
Current assets	13		16,079		12,426
Current liabilities	13		(5,136)		(3,970)
Net assets of the scheme available to fund benefits at 31 March			**1,256,382**		**1,247,731**

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:

	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 uprated 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 SGNIFICANT 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.

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 is 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 based on unrealised gains and losses.
- Property unit trusts have been included at net asset price.

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 17. 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 17.

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)**

Contributions receivable from employers are shown below:

	2015-16 £000	2014-15 £000
Normal	(23,919)	(23,444)
Early retirement strain	(4,795)	(2,916)
Deficit funding	(14,224)	(14,087)
Total contributions from employers	**(42,938)**	**(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 m (£2.685 m at 31 March 2015).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2015-16 £000	2014-15 £000
Individual transfers	5,702	1,891
Total transfers in from other pension funds	**5,702**	**1,891**

8. 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**

9. 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**

10. 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.

11. INVESTMENT INCOME

	2015-16 £000	2014-15 £000
Dividends from equities	(2,601)	(2,200)
Income from pooled investment vehicles	(1,813)	(2,122)
Net rent from properties	(8,207)	(8,555)
Interest on cash deposits	(75)	(21)
Other income	(21)	(5)
Total investment income before taxes	**(12,717)**	**(12,903)**
Taxes on income	155	105
Total investment income after taxes	**(12,562)**	**(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.

12. INVESTMENT ASSETS

2015-16	**Total**	**Analysed by:**		
	31/03/2016	**Quoted UK**	**Quoted overseas**	**Unquoted**
	£000	**£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
Cash Deposits	100	-	-	100
London Collective Investment Vehicle (CIV)	150	-	-	150
Total investment assets	**1,245,439**	**324,547**	**744,888**	**176,004**

2014-15	**Total**	**Analysed by:**		
	31/03/2015	**Quoted UK**	**Quoted overseas**	**Unquoted**
	£000	**£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	-	-	-	-
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:

	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	(6,398)	3,767	-	119,853
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	(681)	215	-	55
Cash instruments	4,428	-	-	-	(4,328)	100
London CIV	-	-	-	-	150	150
Total Net Investment Assets	**1,239,275**	**380,260**	**(371,130)**	**1,212**	**(4,178)**	**1,245,439**
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**	**(371,130)**	**1,212**	**(162)**	**1,254,131**

	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**

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015-16

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.

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%
		88,725	59%	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 Wharehouse 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%
		43,988	100%	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	% of net assets	Value at 31/3/15	% of net assets
		£000		£000	
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		**568,003**	**45%**	**525,673**	**42%**

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	-	-	-
London CIV	150	-	-	-
Total	**1,254,131**	**100**	**1,243,951**	**100**

13. 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	2,917	3,392
Cash at managers	8,210	4,362
Cash and bank	1,828	2,712
Total	**16,079**	**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	1,915	1,534
Taxes	1,131	607
Other	1,261	985
Total	**5,136**	**3,970**

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as where the related party has, or is perceived to have, real influence over any transaction between the parties.

Through its administration of the Fund, the council has a related party interest with the Pension Fund, and the costs charged by the council are disclosed in Note 29.

Management of the Pension Fund is the responsibility of the council's strategic director of finance and governance. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 10. The Strategic Director of Finance and Governance remuneration is disclosed in Note 25 of the council's Statement of Accounts. The Pension Advisory Panel (PAP) offers advice to the strategic director of finance and governance. Councillor members of the Panel make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the pension fund and contributed £39.9 m to the fund in 2015-16 (£37.7 m in 2014/15).

15. 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	16,079	12,426
Financial assets at fair value through profit or loss	1,069,590	1,102,420
Financial liabilities		
Financial liabilities at amortised cost	(5,136)	(3,970)
Financial liabilities at fair value through profit or loss	-	-
Total	**1,080,533**	**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	16,079	-	16,079
Financial assets at fair value through profit or loss	1,025,601	43,989	1,069,590
Financial liabilities			
Financial liabilities at amortised cost	(5,136)	-	(5,136)
Total	**1,036,544**	**43,989**	**1,080,533**

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**

16. 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 with markets. 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	8,514	0.0	8,516	8,512
Debtors	482	0.0	482	482
Total Assets	**1,254,131**		**1,350,835**	**1,157,426**

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.

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.

17. ACTUARIAL POSITION OF THE FUND

The Scheme Regulations require that a full actuarial valuation be carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension 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*

- 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)**

18. POST BALANCE SHEET EVENTS

In June 2016 the United Kingdom voted to exit the European Union. The long-term economic effects of Brexit remain uncertain and the situation in the markets will evolve over time. At this stage it is not possible to reliably assess the impact on the value of the Funds assets and liabilities.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2015-16

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.

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 SHEME
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 taxpayers and government grants.

HOUSING REVENUE ACCOUNT (HRA)
This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the council's housing stock. Under the Local Government and Housing Act 1989, this account is kept separate from the General Fund and the account must balance. The council is not allowed to make up any deficit in the HRA from the General Fund.

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.

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 TRANSATION
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.

Agenda Item 12

Item No. 12.	Classification: Open	Date: 14 September 2016	Meeting Name: Audit, governance and standards committee
Report title:		Member training summary 2015-16	
Ward(s) or groups affected:		All	
From:		Claire Stanhope, Learning and Development Manager, Transformation Team	

RECOMMENDATION

1. That the report be noted and members invited to comment.

BACKGROUND INFORMATION

2. In 2009 the council was awarded charter status for elected members (the first London authority to do so), and has committed to a process of continuous development for elected members.

3. The charter and its underpinning good practice guidelines required the council to put in place an action plan based on the following principles:

   - Being fully committed to developing elected members in order to achieve the council's aims and objectives
   - Adopting a member-led strategic approach to elected member development
   - Having a member development learning and development plan in place that clearly identifies the difference that development activities will make
   - Seeing that learning and development is effective in building capacity
   - Addressing wider development matters to promote work-life balance and citizenship.

4. Training needs should support members achieve the six core competencies in the political skills framework of local leadership as identified by the Local Government Improvement and Development body (LGID). These are:

   - Local leadership
   - Partnership working
   - Communication skills
   - Political understanding
   - Scrutiny and challenge

- Regulation and monitoring.

5. Specific member training needs are identified and met in a number of ways:

   - Through newly elected members and those who have new roles

   - Members undertaking 1-2-1 meetings with their respective party group whip to identify training needs and develop a personal development plan (PDP); the group whip approves training, which helps manage training budgets, controls quality and value for money

   - Members that take on a new role are invited to attend a meeting with officers to identify other training needs associated with their new role

   - Officers identify important legislative and service changes or issues; where possible, training on these changes or issue is delivered as a workshop by specialist officers

   - Members seek approval from party group whips to attend specific conferences

   - Officers sometimes circulate external training opportunities and Members respond if they are interested

   - Wherever possible, identified training is delivered by officers with specialist knowledge or expertise, such as in licensing or planning matters.

KEY ISSUES FOR CONSIDERATION

6. The role of party group whips has been essential in controlling and shaping member development. It is highly recommended that this continues.

7. Learning and development needs in the council are changing rapidly and it is important that member training is modern too. There are specific areas that will require reviewing, so that member development has maximum effect and relevance to a new landscape:

   - What are the future training needs likely to be?

   - Digital skills: Considering how residents and officers will be communicating more digitally, what will be the digital training needs? How could members be supported in helping residents to access council services?

   - Social media is becoming increasingly common and there are pitfalls to this if not properly understood. Should this become a core component of member training?

   - Does the wider political landscape impact on the learning and development needs of Southwark members?

   - E-learning is becoming a much more convenient, cheap and effective means to learn. The council is adopting more e-courses for officers and there is a wealth of free resources available online externally to gain new skills and knowledge. What should be most suitable for e-learning and what skills will be needed for individuals to maximise e-learning?

- The impact of member development on the work of the local authority and the wider community

- The need to promote local democracy and make better links between the tiers of local government.

Summary of 2015-16

8. A number of themes were identified, developed and delivered:

    - Universal credit (UC) training was considered mandatory, and any members who hadn't yet attended UC training were required to do so; these briefing sessions were delivered by officers in exchequer services

    - To check that all members have a PDP

    - That all members have a My Learning Source account; this is required to access e-learning courses such as safeguarding, freedom of information, disabilities awareness and data protection awareness

    - Newly elected members would receive comprehensive inductions, customised for each newly elected member; standard modules would be code of conduct, finance and members casework

    - New portfolio holders would receive training on chairing skills

    - Dementia Friends Champions training; these were bespoke workshops run by the Alzheimer's society to help members understand what it is like to live with dementia and the actions that they can take in their community

    - Understanding domestic violence; Solace women's aid delivered a number of workshops specifically tailored for members to share good practice in working with victims and survivor relationships

    - Regulatory panel training; this is for members on planning and licensing panels, and is statutory and all new members on regulatory panels are trained.

Analysis and findings

9. A total of 29 training events took place in 2015-16. The average attendance at each was 9 members.

10. Positive member feedback indicated that training delivered was well received.

11. The total spend on the member training budget was £14,131. Of this £3,120 was spent on conferences.

12. Several free sessions were conducted by charities and officers.

Member induction 2018

13. A working group of senior officers are planning for the induction of members following the local election in May 2018. The group is working to develop a detailed training and development strategy for members which links to the council plan's 'Fit for the Future' agenda and digital strategy.

14. The move towards a digital council and more digital engagement with our communities will bring with it different training and development needs for our members. A revised training and induction plan for members will include the following elements:

    - An up to date IT offer to correspond with the council's digital way of working and members' varied work styles

    - The networked councillor, helping members engage with their constituents on-line

    - The digital cities agenda, considering how the council ensures the entire borough is connected to superfast broadband.

15. To deliver this ambitious and innovative training programme for members in the future and to ensure the council achieves best value and efficiencies in the delivery of member training a review of the administration of the member training budget is required.

16. There will be a further, more detailed report to audit, governance and standards committee in November 2016 detailing the work streams contained within the digital governance and engagement project.

Policy implications

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

Community impact statement

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

Resource implications

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

Consultation

20. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

21. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None.		

APPENDICES

No.	Title
None.	

AUDIT TRAIL

Lead Officer	Claire Stanhope, Learning and Development Manager	
Report Author	Claire Stanhope, Learning and Development Manager	
Version	Final	
Dated	5 September 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	**No**	**No**
Date final report sent to Constitutional Team		5 September 2016

Item No. 13.	Classification: Open	Date: 14 September 2016	Meeting Name: Audit, governance and standards committee
Report title:		Grant Thornton – Audit, Governance and Standards Committee Update August 2016	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note Grant Thornton's audit, governance and standards committee update, as attached (Appendix 1).

BACKGROUND INFORMATION

2. 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.

KEY ISSUES FOR CONSIDERATION

3. The attached report at appendix 1 provides an update on 2015-16 audit work and also draws members' attention to a number of key local government accounting and other issues and highlights publications from Grant Thornton, CIPFA and the National Audit Office.

Policy implications

4. This report and the accompanying update report are not considered to have direct policy implications.

Community Impact Statement

5. This report and the accompanying update report are not considered to have direct impact on local people and communities.

Resource implications

6. This report and the accompanying update report are not considered to have direct impact on resource implications.

Consultation

7. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

8. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None.		

APPENDICES

No.	Title
Appendix 1	Grant Thornton audit, governance and standards committee update August 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	31 August 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			31 August 2016

Grant Thornton

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

August 2016

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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.

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:

- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/
- Reforging local government: Summary findings of financial health checks and governance reviews (December 2015) http://www.grantthornton.co.uk/en/insights/reforging-local-government/,

Members and officers may also be interested in out recent webinars:

Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/

Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/

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.

Progress at August 2016

2015/16 work	Planned Date	Complete?	Comments
Fee Letter We issued the 'Planned fee letter for 2016/17' in of April 2016	April 2016	Yes	We issued the fee letter for 2016/17 in April 2016, with no change to the fee proposed.
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.	February 2016	Yes	The was presented to the Audit and Governance Committee in February 2016.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	December 2015 to April 2016	Yes	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.
Final accounts audit Including: • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	July to September 2016	In progress	We have included our Audit Findings Report for the 2015/16 audit within the papers for this meeting of the Audit, Governance and Standards Committee. The audit is nearly complete with the main outstanding item being the finalisation of the dwellings valuation.

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Grant Thornton Sector Issues

Brexit: What happens next and what does it mean for you?

Emerging issues

How is the Council responding to the outcome of the EU referendum?

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website (http://www.grantthornton.co.uk/en/insights/brexit--a-public-sector-perspective/).

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In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: http://vibranteconomy.co.uk/

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/

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The changing face of Corporate Reporting

<Integrated Reporting>

Further information is available on the IIRC's website

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles- based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

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Grant Thornton Technical update

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the new measurement requirements at depreciated replacement cost for the Highways Network Asset (HNA) and
- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

In respect of HNA, the Accounting Code requires local authorities to comply with the CIPFA Code of Practice on Transport Infrastructure Assets issued in 2013. The Transport Infrastructure Code is currently being revised and will be reissued as the Highways Network Asset Code (HNA Code) over the summer of 2016. Whilst no major changes are expected to the basis of the accounting set out in the previous Code of Practice on Transport Infrastructure Assets, the detailed accounting requirements will not be finalised until the updated HNA Code is formally issued.

The key challenge for local authorities is around the accuracy and completeness of supporting records for HNA inventory and condition at 1 April 2016 and effective arrangements for recording expenditure and other movements on HNA from that date.

Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a Direction and Statutory Guidance on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Grant Thornton Publications and events

Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – http://www.grantthornton.co.uk/industries/public-sector/

Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
- Efficient and effective systems and processes are essential
- Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports

http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/

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MUNICIPAL YEAR 2016/17

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

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