Open Agenda

Southwark Council
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Audit, Governance and Standards Committee

Monday 18 September 2017
6.30 pm
Ground Floor Meeting Room G10 - 160 Tooley Street, London SE1 2QH

Reconvened from 13 September 2017

Membership	**Reserves**
Councillor Paul Fleming (Chair)	Councillor Hamish McCallum
Councillor James Barber (Vice-Chair)	Councillor Nick Dolezal
Councillor Catherine Dale	Councillor Evelyn Akoto
Councillor Dora Dixon-Fyle MBE	Councillor Karl Eastham
Councillor Renata Hamvas	Councillor Sarah King
Councillor David Hubber	Councillor Rosie Shimell
Councillor Andy Simmons	Councillor Cleo Soanes

INFORMATION FOR MEMBERS OF THE PUBLIC

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Contact

Virginia Wynn-Jones on 020 7525 7055 or email: virginia.wynn-jones@southwark.gov.uk

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Members of the committee are summoned to attend this meeting
Eleanor Kelly
Chief Executive
Date: 15 September 2017

PRINTED ON RECYCLED PAPER

Audit, Governance and Standards Committee

Monday 18 September 2017
6.30 pm
Ground Floor Meeting Room G10 - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.

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: 15 September 2017

Agenda Item 5

Item No.	Classification:	Date:	Meeting Name:
5 (was 12 on 13 Sept)	Open	18 September 2017 Reconvened from 13 September 2017	Audit, Governance and Standards Committee
Report title:		Southwark Council Audit Findings Report 2016/17 and Pension Fund Audit Findings Report 2016/17	
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 council's audit findings report for 2016/17 (Appendix A) before approval of the council's accounts

   ii) note the adjustments to the accounts as set out on page 18 of the council's audit findings report 2016/17

   iii) approves the council's letter of representation set out at Appendix B

   iv) consider the matters raised in the pension fund audit findings report 2016/17 (Appendix D) prior to approval of the pension fund statement of accounts (Appendix G)

   v) note the adjustments to the pension fund statement of accounts as set out in page 20 of the audit findings report

   vi) note the action plan to address audit findings within the pension fund audit report on page 26

   vii) approves the pension fund letter of representation set out at Appendix E 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 E respectively. The final letters, once approved by this committee, will be signed by the strategic director of finance and governance on behalf of the council.

KEY ISSUES FOR CONSIDERATION

Audit opinion

8. The auditor expects to give unqualified opinions on both council's accounts and pension fund accounts prior to the statutory deadline of 30 September 2017.

9. The unadjusted misstatement included in the council's audit findings report 2016/17 and Appendix C has been agreed with the external auditor not to be adjusted for in 2016/17 financial statements as they are immaterial to the results of the council and its financial position at the year-end. The adjustment will be accounted for in the 2017/18 financial year.

Letters of representation

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

Community impact statement

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

Resource implications

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

Consultation

13. 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

14. None required.

Reasons for lateness

15. The final statement of accounts were not available until 11 September 2017 due to a small number of ongoing audit queries.

Reasons for urgency

16. It is necessary for the audit, governance and standards committee to approve the final accounts before the statutory deadline of 30 September 2017.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Statement of Accounts 2016/17	Finance and Governance, Tooley Street, Second Floor	Ahsan Khan 020 7525 4349

APPENDICES

No.	Title
Appendix A	Council Audit Findings Report 2016/17
Appendix B	Council Letter of Representation 2016/17
Appendix C	Schedule of Unadjusted Misstatements
Appendix D	Pension Fund Audit Findings Report 2016/17
Appendix E	Pension Fund Letter of Representation 2016/17
Appendix F	Southwark Council Statement of Accounts 2016/17
Appendix G	Southwark Pension Fund Accounts 2016/17

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Ahsan Khan, Senior Finance Manager	
Version	Final	
Dated	11 September 2017	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments sought**	**Comments included**
Director of Legal Services	No	No
Strategic Director of Finance and Governance	No	No

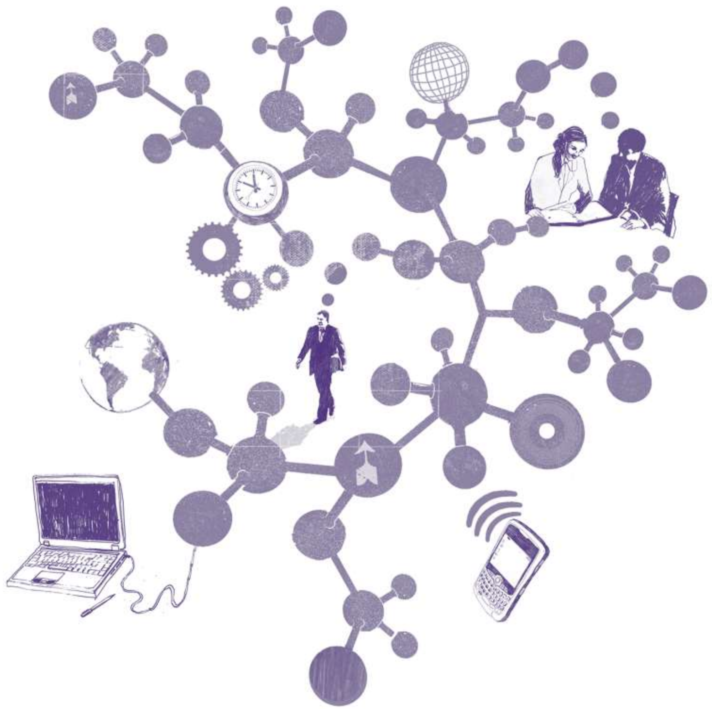
Cabinet Member	No	No
Date final report sent to Constitutional Team		11 September 2017

Grant Thornton

The Audit Findings Report for Southwark Council

Year ended 31 March 2017

13 September 2017



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13 September 2017

Dear Members of the Audit, Governance and Standards Committee

Audit Findings Report for Southwark Council for the year ending 31 March 2017

This Audit Findings Report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Southwark Council, the Audit, Governance and Standards Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Contents

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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 2017.

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

- our final internal reviews
- 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 have received one objection from a member of the public in respect of the Accounts which we are currently considering and we will keep the Council updated with our progress on this.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £397,144k, which will be the figure disclosed in the audited financial statements. We have recommended a number of adjustments to improve the presentation of the financial statements.

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

- The draft statements presented for audit were of a good standard and the only adjustments required were minor classification and disclosure amendments.
- On the whole the working papers submitted to audit were of a good standard and the Council were responsive to the requests for audit evidence. However some of the detailed samples took longer to be collated than expected, and there were particular challenges in obtaining audit evidence from HR, as covered by the control point in the following column. We recognise a new Head of HR has been in post since October and we look forward to working with them to resolve these issues ahead of next year's move in the deadline to 31 July 2018.

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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 the following control issues identified:

- As in the previous year, we encountered a challenge in obtaining copies of employee's contracts to confirm their existence and employment status with the Council. After some initial delays, the Council were able to provide all of these which shows some improvement from the position in the previous year.
- The Council were unable to locate a letter of engagement for a casual worker who formed part of our sample. Whilst we were able to obtain alternative audit evidence to confirm the existence of this individual, we have raised a recommendation to ensure formal documentation for casual workers is in place to confirm their employment status with the Council.
- We also identified minor issues with the termination benefit packages paid during the course of the year.

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 are 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.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Early close

From 2017/18, the statutory deadlines for preparation and audit of the financial statements will be brought forward and the Council will be required to produce draft statements by 31 May 2018, and secure an audit opinion by 31 July 2018. We had a successful interim audit, with a substantial amount of early audit testing completed during March. This has helped drive efficiencies within the year end audit process and as a result we were able to complete the majority of our substantive testing within six weeks.

The Council provided us with a good set of financial statements and a large number of the working papers by the end of June 2017. Moving towards an earlier deadline, the Council will need to ensure that its internal processes are streamlined to ensure, in particular, sample documentation is received back from the relevant Departments in a timely manner. This has been recognised by the finance team, and a full debrief will be held between the audit and finance team over the coming weeks to identify solutions to these challenges.

We have worked with many large clients to successfully implement faster close and will continue to work with you during the coming year to support you in achieving the earlier deadlines. This will include the audit team holding a session with the Heads of Departments ahead of the 2017-18 audit to explain the audit process and the role they and their Departments play in ensuring the end of July 2018 statutory deadline is met.

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 2017. We will report the outcome of this certification work through a separate report to the Audit, Governance and Standards Committee due to be issued in early 2018.

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 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 and 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
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £25,023k (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 £1,260k, which 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. 13

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is 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.	£1k
Disclosure of auditor’s remuneration	This is a statutory requirement and a requirement of ethical and auditing standards.	£1k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
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 the London Borough of Southwark, mean that all forms of fraud are seen as unacceptable. Therefore we have determined that this is not a significant risk for Southwark Council.	Our audit work has not identified any issues in respect of revenue recognition.
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 completed the following work in respect of this risk: • reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation • reviewed the accounting estimates, judgements and decisions made by management • reviewed any unusual significant transaction recorded within the Accounts	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 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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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
Employee remuneration	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals 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 the whether those controls were in line with our documented understanding • tested a sample of revenue expenditure items across the whole financial year back to supporting documentation • tested unrecorded liabilities to confirm the completeness and cut off of transactions included within the Accounts	Our audit work has not identified any significant issues in relation to the risk identified. As mentioned in the Executive Summary, a recommendation has been raised around ensuring sufficient documentation is in place for casual workers employed by the Council.
Operating expenses	Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • 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 the whether those controls were in line with our documented understanding • performed substantive sampling of the employee remuneration costs included within the Accounts, testing back to supporting documentation • reviewed the reconciliation between the subsidiary system interfaces and the general ledger control accounts • completed a monthly trend analysis of the payments recognised by the Council	Our audit work has not identified any significant issues in relation to the risk identified.

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Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, Plant and Equipment (PPE)	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 the whether those controls were in line with our documented understanding • completed substantive testing of the entries included within the PPE notes • reviewed the capital programme against the additions recorded in the asset register in the financial year, including testing on a sample basis	During our testing we identified one property, with a value of £1.96m, which had been disposed in-year but remained in the Asset Register and the Accounts at year end. We have performed further work to confirm that this issue is isolated. Due to the fact that this item is immaterial, the Council are not proposing to amend, and thus this has been reported as an unadjusted misstatement later in this Report. No other issues were identified from the work performed in respect of the risk identified.
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 the 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 management's experts • reviewed the work performed by the valuer, including ensuring that any valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards • reviewed and challenged the data used by the valuer to ensure that it is complete, robust and consistent with our understanding	No significant issues were identified from the work performed in respect of the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that we concur with management's assessment that the Council remains a going concern for the foreseeable future.

Changes to the presentation of local authority financial statements

CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.

We have completed the following work in respect of this area:

- We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements.
- We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.
- We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).
- We have tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.
- We have tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.
- We have tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.
- We have reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Assurance gained and issues arising:

- we identified that the Council had not included a new segmental reporting note, which they have added to the revised Accounts
- no other significant issues were identified from the work performed in respect of the risk identified

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	The Council's revenue recognition policy is disclosed within Note 1(ii) of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.	Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code. Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.	● Green
Judgements and estimates	Key estimates and judgements include: – Useful life of Property, plant and equipment – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for Business Rate appeals – Other provisions	Following our consideration of these judgements we are satisfied they are in line with the Code of Practice, and with the approach taken by the Council in the previous year. • We did not identify any issues with the items relating to property, plant and equipment, such as the calculation of depreciation, the asset lives applied, or the revaluations applied by the Council during the course of the year. • We confirmed the pension fund valuations were consistent with the reports received from the Fund's Actuary, Hymans Robertson. Our use of an expert, PwC, to assess the work performed by the Actuary did not identify any issues either. • Our work on the Business Rate Provision identified a considerable increase in provision from the previous year, which was largely due to the outcome of a recent court case in respect of tenants who occupy multiple floors in the same building. We reviewed the Council's approach and assumptions around this area and are comfortable with the revised provision included in this year's Accounts.	● Green

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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

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Strategic Director of Finance and Governance, who is the s151 officer, 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 2016/17 financial statements.	● Green
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	● Green

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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, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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, which is included in the Audit, Governance and Standards Committee papers for this meeting.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. • We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
6.	**Disclosures**	• Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.
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 Group/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 examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed, and will be completed towards the end of September 2017, which is in line with the deadline for this work.

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Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	In 2014/15, we raised a recommendation for the Council to ensure that it performs a reconciliation of the asset register to the valuation reports before producing the accounts. Our review of progress made in 2015/16 identified that reconciliations had been performed for both dwellings and high value assets, but no reconciliation had been performed for investment properties, and thus this recommendation was carried forward to 2016/17.	Our work in this area has identified has confirmed that the Council has provided reconciliations for all of the relevant areas, including Investment Properties, and therefore we are satisfied this issue has been resolved.
2.	✓	As part of our audit testing in 2015/16 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 14, requiring alternative confirmation to be sought. In each of these cases, the Council was unable to access copies of these contracts that had been scanned and saved by Capita. Thus we recommended that the Council should ensure that a system is in place to enable access to scanned copies of all contracts.	It is clear that progress has been made in this area, with HR able to provide contracts for all permanent members of staff selected for testing. However they were unable to provide a letter of engagement for one casual member of staff, as per the previous page, for which we have raised a separate recommendation. However we are satisfied that the issue around contracts for permanent members of staff has been resolved.

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Assessment
✓ Action completed
X Not yet addressed

"The purpose of an audit is for the auditor to express an opinion on the financial statements.
Our audit included consideration of internal control 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.
The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

No adjusted misstatements have been identified from the work performed to date.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

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

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	Misclassification	Various	Note 17 – Provisions (Long Term)	We identified that the values for the Thames Water and Business Rate Appeals had been entered the wrong way round within the Note, and have now been amended to show the correct values, which is £3,449k for Thames Water and £1,436k for Business Rate Appeals.
2	Disclosure	Various	Notes 20 and 21 – Cash Flow Statement	We identified that the amounts shown in respect of the Purchase of PPE, Investment Property and Intangibles, and Cash Payments in respect of PFI Liabilities were incorrect. These have been subsequently amended in the revised Cash Flow Statement.
3	Disclosure	Various	Note 22 – Note to the Expenditure and Funding Analysis	We identified that the draft Accounts did not include a disclosure meeting the requirements under IFRS8 in respect of Segmental Reporting, which the Council has now added to the Accounts.
4	Disclosure	Various	Note 26 – Audit Fees	Our work identified that the Council had omitted the £23k fee in relation to our work on the Housing Benefit Certification, which has now been included within the revised note.
5	Disclosure	Various	Note 29 – Related Party Transactions	We identified a discrepancy in the prior year comparators for Voluntary or Charitable Bodies, along with expenses incurred in administering the Pension Fund. Both of these have been amended within the revised Accounts.
6	Disclosure	Various	Various Notes	Various minor disclosure amendments were made to improve the transparency of the disclosures in the Accounts.

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 January 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated February 2017.

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 faced considerable financial challenges during the course of 2016-17, having to use **£26.7m** of Reserves to achieve a balanced position at year end. A considerable proportion of these Reserves were used to offset overspends in Children's and Adult Social Care, where the Council overspent its original budget by **£25.5m**, which equates to 14.9% of its budget of **£171.5m**.
- A balanced budget has been set for 2017-18, which includes a considerable allowance for growth in the spend on Social Care, as the Council looks to get the spending in this area under control. The requirement for further savings and income generation schemes in year is **£26.4m**, which was fully identified at the start of the year.
- Longer term, the Council's current Medium Term Financial Plan covers the period up to 2018-19. This is due to the uncertainty around the revised Local Government Funding Settlement, which is due to be implemented in 2020.

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

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.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed one recommendation for improvement as follows.

- There is a need for the Council to continue to work to understand the causes of the overspends in Social Care to ensure the Council in a sustainable position ahead of the revised Local Government Funding Settlement in 2020.

Management's response to this can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
Financial Performance The Council is facing significant financial pressures, particularly in relation to Social Care Budgets. We will consider the arrangements that are being put in place to secure a sustainable financial future for the Council. .	We performed the following work in this area: • review the 2016-17 Outturn, including details of performance against both the Revenue and Capital Budgets; • review progress against the 2017-18 financial plan up to the completion of our audit; and • obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.	The key points from our work in this area are as follows: • The Council delivered a balanced General Fund position at the end of 2016-17, however this relied on the use of **£27.4m** of Reserves, which the Council is clear is not going to be sustainable given their current position and the pressures on Local Government financing going forward. • In terms of the reasons behind this large demand on Reserves during 2016-17, the main area of concern was Children's and Adult Social Care, which overspent its budget by **£14.887m**, which was after the use of **£11.45m** of Reserves, which in effect means these services were overspent by **£26.3m**, which equates to **15.36%** of the original budget of **£171.5m**. This is on top of the **£18.7m** budget pressure which the Council had to manage in 2015-16, so it is clear this service is generating a significant pressure on the overall financial position of the Council. • Given the challenges which have been faced in this area over recent years, the Council has taken action by engaging RSM Tenon to undertake a review of the arrangements in place. They have also set up a Budget Recovery Board, which meets on a fortnightly basis to monitor the progress against budget in this area closely to ensure in-year overspends are identified and dealt with in a timely manner. • Other areas which were a challenge for the Council during the course of 2016-17 include the number of cases picked up under the Nil Recourse to Public Funds, which has come in over **£3.7m** above Budget. ICT Modernisation was another area which had a negative impact on the overall financial position, with **£1.4m** of exceptional costs (after drawdown) occurring across this area and Facilities Management, which have been long standing issues for the Council, which are likely to remain the case over the short term. • A balanced budget has been set for 2017-18, delivery of which will require savings and income generation schemes totalling **£26.4m** to be achieved during the course of the year. All of these schemes were identified in advance of 2017-18, set across all of the Council's Departments. We have reviewed the assumptions underlying this budget and are satisfied that they are reasonable given the Council's circumstances. These assumptions include a 4.99% increase in Council Tax in 2017-18, including the Adult Social Care Precept, along with allowances for increases in pay and other areas such as contracts. • As part of the 2017-18 Budget, the Council is allowing for a further £13m increase in spending on Social Care, which seems appropriate given the challenges which have been faced over the past two years. However this will need careful monitoring and management to ensure that these increases do not slip and have an impact on the savings plans which the Council has already identified. • Looking longer term, the Council's latest Medium Term Financial Plan covers the period up to 2018/19, which is largely due to the level of uncertainty around Local Government financing post-2020, which is when the new Local Government funding settlement is going to be implemented. At the moment the Council is struggling to come up with plans post this period, and thus they will need to monitor progress closely as 2020 gets closer to ensure they are well placed to react to the revised plans. Overall, it is clear that the Council needs to ensure its Social Care spending is under control to ensure it is a strong position ahead of the challenges that 2020 is likely to bring for all Local Authorities. Whilst steps have been taken, it is clear there is still more for the Council to do in this area to have this completely under control.

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	23,018	TBC
Total audit fees (excluding VAT)	**260,314**	**TBC**

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, would be shown under 'Fees for other services', but there are no items of this type to be considered in 2016-17.

Our final fee for this work will only be confirmed once we have completed all of the work required by this certification, which will be completed by the end of November 2017, which is the national deadline for the completion of this work.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers' Pensions Certification	4,500
• Pooling of Housing Capital Receipt Certification	4,500
Non-audit services:	
• Financial Resilience – Capacity Building Programme	3,500
• Cost Assurance	43,959
• CFO Insights Subscription	10,000

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to Southwark Council	Fees (£)	Threat?	Safeguard
Audit related services	Teachers' Pensions Certification	4,500	No	Fee is low in comparison to the Council's audit fee. A separate independent engagement is performed and a report will be given in line with a separate engagement letter.
	Pooling of Housing Capital Receipt Certification	4,500	No	Fee is low in comparison to the Council's audit fee. A separate independent engagement is performed and a report will be given in line with a separate engagement letter.
Non-audit services	Financial Resilience – Capacity Building Programme	3,500	No	Fee is low in comparison to the Council's audit fee. This work is merely training delivered to the Council's finance team by Grant Thornton colleagues who are not involved in the external audit of the Council.
	Cost Assurance	43,959	No	Whilst this fee is significant, this work is performed by a separate engagement team who are completely independent from the external audit team to reduce the risk.
	CFO Insights Subscription	10,000	No	Fee is low in comparison to the Council's audit fee. This work entails us providing the Council with information about the Council's position in relation to its peers and has no impact on the Council's financial statements or our audit.
	TOTAL	**66,459**		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Section 5: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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Appendices

Appendix A: Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	**HR – Casual Workers** The Council needs to ensure sufficient documentation is in place to confirm the employment status of casual workers employed during the course of the year.	**Medium**		
2	**Value for Money – Social Care** The Council needs to continue to work to understand the issues causing the overspends in Social Care to ensure the Council is in a sustainable financial position ahead of the revised Local Government Funding Settlement being announced in 2020.	**Medium**		

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Controls

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

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund 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 2016/17.

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

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

As explained more fully in the Statement of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of its expenditure and income for the year then ended; and
• the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Appendix B: Audit opinion (continued)

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

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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice 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 2017. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

30 Finsbury Square
London
EC2Y 2YU

xx September 2017

grant-thornton.co.uk

APPENDIX B

Council
southwark.gov.uk

We acknowledge our responsibility Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

13 September 2017

Dear Sirs

Southwark Council
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Southwark Council for the year ended 31 March 2017 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 2016/17 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 2016/17 ("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 For the design, implementation and maintenance of internal control to prevent and detect fraud.

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

vi 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 considered the unadjusted misstatements schedule included in your Audit Findings Report and the appendix attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.

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

xv 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

xvi 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.

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

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

xix 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.

xx 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.

xxi 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.

xxii 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.

xxiii 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.

xxiv 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

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

Narrative Report

xxvi The disclosures within the Narrative Report 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 Council’s Audit, Governance and Standards Committee at its meeting on 13 September 2017.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position…………………………

Date…………………………….

Signed on behalf of the Council

Appendix C – Schedule of Unadjusted Misstatements

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

APPENDIX D

Grant Thornton

The Audit Findings for the London Borough of Southwark Pension Fund

Year ended 31 March 2017

13 September 2017

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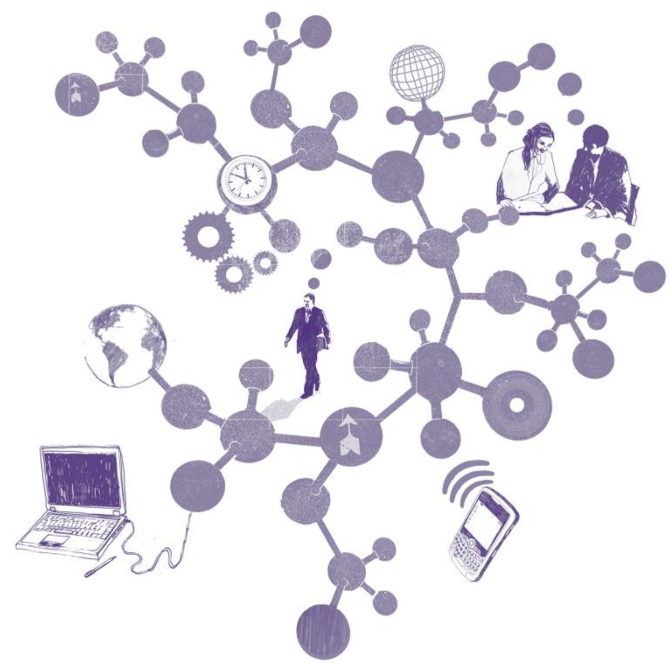

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13 September 2017

Dear Members of the Audit Committee

Audit Findings for London Borough of Southwark Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of London Borough of Southwark Pension Fund, the Audit, Governance and Standards Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 2017. 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.

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 27 February 2017.

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

- review of the level 3 investments and change in category from the prior year
- review the report from the Actuary about the work undertaken in the member data system and the levels of assurance obtained by the Council for this
- closing queries arising from final quality review of the file
- 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. At the conclusion of our audit we will meet with management to discuss how further improvements and efficiencies could be made to next year's process.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Fund's reported financial position. The draft and final version of the financial statements for the year ended 31 March 2017 recorded net assets of £1,494,992k.

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

- membership data for Scheduled and Admitted bodies needs to be updated and maintained to ensure the actuaries are able to provide accurate valuation reports
- the quality of the working papers and documents supporting the balances within the financial statements were of a reasonable standard
- we received a good level of co-operation and support during the course of our audit
- we have recommended a small number of minor adjustments to improve the presentation of the financial statements that the Council has corrected in the revised set of financial statements.

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

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

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:

- testing identified some late contribution returns from a number of scheduled and admitted bodies.

In addition, our testing identified that two issues identified in the previous year still remain in 2016/17:

- foreign domiciled pensioners not being circularised to confirm that they are entitled to their pensions
- testing has identified a small number of errors in the information within the membership active status which although are unlikely to lead to a material misstatement in the accounts highlights data quality issues.

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 have 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
September 2017

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 £12,564k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and as a result of increase in net assets at year end, this led us to revise our overall materiality to £14,950k (being 1% of net assets).

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 £747k..

At the time of issuing in our audit plan, we had not identified any items where we decided that separate materiality levels were appropriate. However, on receipt of the draft financial statements we determined that a separate materiality level was required for management expenses as this is a sensitive item. We have set the following materiality level:

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures	£747k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

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 have rebutted this risk, our audit work in relation to material revenue streams 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 over-ride of controls. In particular the findings of our review of journal controls and testing 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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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

We have also identified the following significant risk of material misstatement upon receipt of the draft financial statements. We set out below the work we have completed to address this risk.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**NEW RISK IDENTIFIED DURING THE AUDIT:** **Investments portfolio** *Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.* Level 3 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. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period.	Our audit work to date has not identified any significant issues in relation to the risks identified.

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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.

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Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 and 3 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 3 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. However, testing identified that some contributions from scheduled and admitted bodies were received by the Fund after the deadline of 19 days after month end in March 2017. The delays are due in part to the contributions still being paid in to the Council's bank account and then transferred to the Fund's bank account. This method 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.

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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. However, our testing identified one case where documents were not retained from employee confirming there election rights of pension to be paid. Documents need to be available for review in case of any queries from pensioner at a later date. In addition, the fund has not circulated pensioners domiciled abroad to confirm that they are still eligible. This was a recommendation in the prior year and action has not been taken this year.
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.	Our audit work has identified a number of issues in the member data testing in 2016/17: • 1 case was identified where the admitted bodies had not provided starter information and the pensions team had to estimate the start date from the schedule of contributions. Also there was also no evidence to show if statutory notification was sent to these individuals; • 3 cases were identified where the leavers date was not provided. We have obtained assurance that the financial statements are materially fairly stated. However, we made a recommendation to management that membership data needed to be reviewed before the next triennial valuation is due to ensure the information provided to the actuary is complete and accurate. The Council engaged the actuary to carry out a review of information. We are currently awaiting this report to reach a conclusion for our audit and make a recommendation for this audit report.

Audit findings against other risks (continued)

Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there are no issues arising for the Fund in 2016/17.

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 - level 3 investments	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. We have requested that management amend the disclosure in note 4 to include the critical judgment made by management in changing the fair value investment categories to levels 2 and 3 in 2016/17.	● 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 2016/17 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

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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.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

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 pages 11-13 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	• Our contributions testing identified some late contribution returns from a number of scheduled and admitted bodies. These were received in the Pension Fund bank account after the statutory deadline of 19 days after month end. • The delay is partially due to the contributions being paid in to the Council bank account instead of directly to the Pension Fund bank account.	• 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. The need of using holding account code and additional reconciliation s for transfer will not then be required and will therefore be a more efficient process.

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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.	X	• Pensioners domiciled abroad have not been circularized for over two years to confirm that they are still eligible for their pensions.	• The Council has not yet implemented this recommendation.
2.	X	• Errors identified in our testing of membership data presents the risk that data used in Actuary's valuation report is not accurate or complete.	• Management engaged Aon Hewitt, the Actuary, to undertake a data cleansing exercise to improve the quality of existing member data and to assist with the implementation of new system processes to support more accurate ongoing recording of membership data. However, our testing of member data identified four errors in the sample population of 50 members. • In addition, the 2016 valuation reported that the Actuary has had to use an estimated calculation for 350 records.

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Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

There are no adjustments to the draft accounts have been 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	Disclosure	1,143	Investment assets (note 12)	Officers reviewed the accounting disclosure of the Accrued Dividend Entitlement in the 2016/17 and determined that the Code allows for this to be shown as either Current Asset or Investment Asset. The accounts now disclose this amount as an Investment Asset. The 2015/16 accounting treatment has been restated on that basis for the accrued dividend of £1,143k. We requested that management include a narrative explanation of the change in treatment in the final version of the accounts.
2	Disclosure	21	Management expenses (note 10)	There is a new requirement to disclose the Pension Fund audit fee of £21k within the accounts. This has been included as a narrative disclosure in the management expenses note.
3	Disclosure	211,139	Fair value hierarchy (note 15)	The transfers between level 2 and 3 of the fair value measurements were disclosed in the draft accounts as the 'opening balance' whereas this should have been included in the 'transfers into Level 3' column. No impact on the closing balance.
4	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.

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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 £	Actual fee * £
Pension Fee	21,000	22,714

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

* An additional fee of £1,714 has been proposed for the 2016/17 audit due to the additional work required for the quality of the working paper audit trails and on the EFA note. This fee is subject to approval by the PSAA and cannot be agreed as final until confirmed with them.

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.

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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

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 regularly circularized to confirm that they are still eligible for their pensions.	Low	As noted last year, there is a contract with Faraday Tracing Bureau who provide a monthly report of recent deaths within our pensioner data set. 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 have recently contacted all overseas pensioners (not covered by Faraday) as part of a piece of work to review pension payments to them but still need to send life-certificates.	31 December 2017; P Hughes, Acting Pensions Manager
2	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. The need of using holding account code and additional reconciliation s for transfer will not then be required and will therefore be a more efficient process.	Medium	The council has already agreed a project plan and timetable to ensure that all contributions and other associated transactions due to the Pension Fund are received directly into the Pension Fund bank account and that systems and processes are in place to ensure effective monitoring and reporting of contributions. To ensure a smooth process and that also takes into account employer circumstances, the council has agreed a staggered transition for employers and other bodies over the remainder of the calendar year.	31 December 2017; Alex Moylan, Senior Finance Manager
3	Continue to data cleanse the information for the	Medium	By its nature, work to ensure that membership data is complete and accurate has to be ongoing. As this audit report notes, the actuary had to use an estimated calculation for only 350 records (out of c. 22,000) in their 2016 valuation report. Many of the issues with data have arisen from incomplete or inaccurate data from employers and a key area of focus has therefore been to take preventive action to improve the quality of data. This action includes a clarification of responsibilities in the administration strategy (issued on 1 December 2016) and providing training to schools. In addition, further work has been carried out by Aon Hewitt which has included additional significant cleansing of data. Work is also underway to improve the members' self service portal to make it easier for individuals to keep their information up-to-date.	Ongoing; P Hughes, Acting Pensions Manager

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Appendix B: Audit opinion

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

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 2017 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 2016/17.

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 Stategic Director of Finance and Governance and auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director of Finance and Governance 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Governance; 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 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

[Signature]

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

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

[Date]

Southwark Council
southwark.gov.uk

APPENDIX E

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

13 September 2017

Dear Sirs

Southwark Council Pension Fund
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of Southwark Council ('the Fund') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities, in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') 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

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 error and 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 We have considered the 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.

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 There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

23 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

24 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.

25 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 13 September 2017.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

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

Southwark Council
southwark.gov.uk

STATEMENT OF ACCOUNTS

2016/17

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NARRATIVE REPORT

From the Strategic Director of Finance and Governance, Duncan Whitfield

Introduction

The Narrative Report provides information about Southwark including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2016-17 and of its financial position at 31 March 2017 including:

- An introduction to Southwark
- The council's performance during 2016-17
- Financial performance during 2016-17 and financial position at 31 March 2017
- Principal risks and uncertainties
- An explanation of the financial statements

An Introduction to Southwark

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

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

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

The significant programme of regeneration will help Southwark to meet this rising demand for homes of all kinds across a range of incomes and create new job opportunities especially for high demand jobs in the construction sector. That's why the council and its development partner LendLease opened a new construction skills centre in 2016 at Elephant Park.

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

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

Council Performance

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

In 2010, the council set out a plan which committed to deliver ten promises. Updated with ten new promises in 2014 these include among others: free swim and gym use for residents, supporting 5,000 local people into jobs, building new homes 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 council's annual performance report 2016/17 can be found here:
http://moderngov.southwark.gov.uk/mgIssueHistoryHome.aspx?IId=50013460&PlanId=452

Financial Performance

The budget strategy is underpinned by the principles set out in the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan 2017-18 to 2019-20 agreed by cabinet on 20 September 2016.
http://moderngov.southwark.gov.uk/documents/s63814/Appendix%20A%20Updated%20Fairer%20Future%20Medium%20Term%20Financial%20Strategy%20and%20Integrated%20Efficiency%20Plan.pdf

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

For 2016-17, the budget of £271.3m was set, this included savings of £26.6m in response to reduced government funding and increasing cost pressures and commitments. The revenue outturn report can be found at:

http://moderngov.southwark.gov.uk/ieListMeetings.aspx?CommitteeId=302

(link to 18 July Cabinet report). This sets out the adverse budget pressures within Children's and Adults Services of £14.887m after the planned use of reserves and cost pressures within No Recourse to Public Funds and ICT. The earmarked reserves reduced by £27.430m in 2016-17 (note 6), this included £8.922m of ring-fenced Dedicated Schools Grant.

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.

Housing Revenue Account (HRA) Outturn 2016-17

The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The revenue outturn report can be found by the link below. The outturn for 2016-17 shows a marginal operating surplus of £0.3m after the movement of earmarked balances to reserves and meeting in full the cost of severance and redundancy costs.

http://moderngov.southwark.gov.uk/ieListMeetings.aspx?CommitteeId=302

The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years and at 31 March 2017 HRA reserves stand at £14.4m (against £16.6m in 2015-16), of which around two-thirds are specifically earmarked. The remainder is held as contingency against unforeseen events in line with the council's medium-term resource strategy. Given the size and complexity of the HRA and Housing Invsetment Programme, this is considered to be below the optimal level required and presents a moderate degree of risk, which will be closely monitored and managed going forward.

Capital

Southwark has one of the largest capital investment programmes in London, with current plans to spend over £2bn by 2026-27. Capital spending and financing in 2016-17 is shown in the table below. This is set out in more detail at cabinet capital outturn report.

	2016/17	2015/16	2014/15
	£000	£000	£000
Children's and adults services (including schools)	54,613	27,065	25,837
Environment and leisure	17,164	11,630	22,252
Housing and modernisation	9,189	8,525	1,974
Finance and governance	-	50	8,205
Chief executive's department	22,126	26,430	22,498
Housing Investment Programme	153,079	243,582	168,597
Total	**256,171**	**317,282**	**249,363**
Financed by:			
Use of capital receipts	71,137	75,303	111,525
Specific grants and other contributions	44,223	114,551	94,379
Sums set aside from revenue	59,040	42,545	24,889
Contribution from Major Repairs Reserve	46,778	84,883	18,570
Internal Borrowing	34,993	-	-
Total	**256,171**	**317,282**	**249,363**

Balance Sheet

Reserves

In line with the Medium Term Financial Strategy (MTFS), 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. In 2016-17 the level of earmarked reserves reduced reflecting planned use of reserves to support the budget and unplanned use to balance the budget resulting in the main cost pressures from within Children's and Adults Services.

Overall, there has been a reduction of £2.258m in HRA 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.

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

	31/03/2017	31/03/2016	31/03/2015
	£000	£000	£000
General Fund	**18,803**	**18,803**	**18,125**
Earmarked Reserves			
Corporate projects and priorities	4,955	9,572	16,866
Service reviews and improvements	2,893	7,829	12,969
Capital programme and other capital investment	22,516	26,822	30,345
Strategic financing, technical liabilities and future risks	24,128	28,777	29,645
Sub total – earmarked reserves	**54,492**	**73,000**	**89,825**
Schools (including DSG)	**17,263**	**28,550**	**34,245**

HRA			
HRA Balance	14,355	16,613	25,945
Major Repairs Reserve	5,389	3,577	39,541
Sub total - HRA	**19,744**	**20,190**	**65,486**
Capital reserves	**80,489**	**50,750**	**45,102**
Total	**190,791**	**191,293**	**252,783**

Borrowing and Lending

The council borrows money to support its capital financing requirement. The borrowing outstanding as at 31 March 2017 is £463m (£468m as at 31 March 2016). 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 2017 (5.5% at 31 March 2016).

The council invests its cash in GBP bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities such as the European Investment Bank and the World Bank. The money market investments are in short term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies as at 31 March 2017 stood at £159m (£144m 31 March 2016). The overall rate of return on investments during 2016-17 was 0.71% (0.77% 2015-16). More information can be found at:

http://moderngov.southwark.gov.uk/ieListMeetings.aspx?CommitteeId=132

Pensions

The council has net pension liabilities of £570m in the Balance Sheet. This reflects the value of pension liabilities which the council is required to pay in the future, offset by the value of assets invested in the Pension Fund.

The council's pension fund must be revalued every three years to set future contribution rates. The last valuation was in 2016 which reported that the Fund's assets represented 88% of the estimated future pension liabilities. The council has a deficit recovery plan in place to make additional contributions into the Pension Fund over the next 17 years in line with the Funding Strategy Statement of the Southwark Pension Fund.

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
- Cost pressures in Children's and Adults' Services

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 2016-17 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.

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

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

- **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

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

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 2016 £000	Net movement £000	Balances as at 31 March 2017 £000
Southwark emergency support scheme	2,493	(1,243)	1,250
Modernisation, service & operational improvement	2,357	(1,608)	749
Homelessness Prevention	-	628	628
Business support fund	510	-	510
Southwark scholarship scheme (including Youth Fund)	778	(300)	478
Voluntary sector transition fund	391	-	391
Internal audit & anti fraud	356	(156)	200
Community engagement & Links development	389	(220)	169
Revenue grants	164	-	164
Neighbourhood fund	151	6	157
Artefacts replacement & security reserve	117	-	117
Community safety schemes	106	-	106
Community restoration fund	30	-	30
DWP community budget	81	(75)	6
Fair and valued treatment of staff	1,491	(1,491)	-
Welfare hardship fund	79	(79)	-
Adaptations and capital works	79	(79)	-
Total	**9,572**	**(4,617)**	**4,955**

CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES

	Balances as at 31 March 2016 £000	Net movement £000	Balances as at 31 March 2017 £000
Aylesbury development	6,441	(441)	6,000
Planned preventative maintenance & building compliance	5,285	(841)	4,444
IT and customer service development	3,171	-	3,171
Regeneration & development	2,178	461	2,639
BSF PFI transition	1,631	1	1,632
Schools capital programme contribution	1,560	(87)	1,473
Modernisation, service & operational improvement	1,103	253	1,356
Capital contingency	1,289	(2)	1,287
Legal case management system	300	-	300
Canada Water	214	-	214
Contracts realignment (capital)	1,396	(1,396)	-
Tate Modern commitment	1,000	(1,000)	-
New homes bonus grant capital allocation	704	(704)	-
Exchequer services development	550	(550)	-
Total	**26,822**	**(4,306)**	**22,516**

SERVICE REVIEWS AND IMPROVEMENTS RESERVES

	Balances as at 31 March 2016 £000	Net movement £000	Balances as at 31 March 2017 £000
Organisational development	1,111	134	1,245
Cycling Safety	1,000	-	1,000
Highways	746	-	746
Local flood risk	628	-	628
Highways winter maintenance	576	-	576
Workforce development (adults services)	222	-	222
Temporary Accommodation Strategy	300	(80)	220
Member development	182	-	182
Blackfriars trust allocation	138	-	138
LEA Music Service	-	110	110
HR transformation	94	-	94
Prevention of illegal tobacco distribution	91	-	91
Youth service	70	-	70
BCF Risk Reserve	2,388	(2,388)	-
Special Education Needs & Disabilities grants	805	(805)	-
Legal Trading	-	-	-
Regeneration	-	-	-
Street trading account	(522)	1	(521)
Public Health	-	(1,907)	(1,907)
Total	**7,829**	**(4,935)**	**2,894**

STRATEGIC FINANCING, TECHNICAL LIABILITIES AND FUTURE FINANCIAL RISKS RESERVES

	Balances as at 31 March 2016 £000	Net movement £000	Balances as at 31 March 2017 £000
Insurance	5,376	-	5,376
Financial risk & future liabilities	2,692	183	2,875
Planned contribution to support General Fund budget 2017/18	-	3,700	3,700
Interest and debt equalisation	4,000	(1,000)	3,000
Waste PFI equalisation reserve	2,921	-	2,921
New Homes Bonus funded LEP Programme	3,685	(1,103)	2,582
Business rate retention risk	2,500	(542)	1,958
Council tax and housing benefits subsidy equalisation	1,000	648	1,648
Schools in financial difficulties, schools closures and academies	332	(80)	252
Planned contribution to support General Fund budget 2016/17	6,283	(6,283)	-
Legal and contractual risks	172	(172)	-
Queen's Road lease smoothing	(184)	-	(184)
Total	**28,777**	**(4,649)**	**24,128**
Total	**73,000**	**(18,507)**	**54,492**

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund 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 2016/17.

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

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

As explained more fully in the Statement of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of its expenditure and income for the year then ended; and

• the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or

• we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
• we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
• we have exercised any other special powers of the auditor under the Act. We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

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

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice 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 2017. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

30 Finsbury Square
London
EC2Y 2YU

13th September 2017

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 2017 and its income and expenditure for the financial year ended 31 March 2017.

Duncan Whitfield
Strategic Director of Finance and Governance
13 September 2017

Council approval

This Statement of Accounts was approved at a meeting of the Audit, Governance and Standards Committee on 13 September 2017.

Councillor Paul Fleming
Chair of the Audit, Governance and Standards Committee
13 Spetember 2017

Note 1a. EXPENDITURE AND FUNDING ANALYSIS

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

			2016/17			**2015/16**
	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis	Net expenditure in the CIES	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis	Net expenditure in the CIES
	£000	£000	£000	£000	£000	£000
Children & Adults	203,995	13,925	217,920	201,483	7,210	208,693
Environment & Leisure Services	68,570	12,581	81,151	73,413	(5,150)	68,263
Housing and Modernisation	73,034	2,124	75,158	72,990	2,561	75,551
Public Health	1,907	25	1,932	2,381	5	2,386
Chief Executive's	3,490	5,918	9,408	9,193	1,811	11,004
Finance and Governance	(6,689)	35,222	28,533	(7,968)	30,699	22,731
HRA	2,258	24,461	26,719	9,332	25,346	34,678
Support Cost Re-allocations	(43,677)	-	(43,677)	(46,076)	-	(46,076)
Net cost of services	**302,888**	**94,256**	**397,144**	**314,748**	**62,482**	**377,230**
Other income and expenditure	(270,836)	(78,188)	(349,024)	(283,574)	(184,936)	(468,510)
(Surplus)/Deficit	**32,052**	**16,068**	**48,120**	**31,174**	**(122,454)**	**(91,280)**
Opening (Surplus)/Deficit on General Fund (including earmarked reserves), School Balances, DSG and HRA Balance at 01 April	(136,966)			(168,140)		
Less (Surplus)/Deficit on General Fund (including earmarked reserves), School Balances, DSG and HRA Balance in year	32,052			31,174		
Closing (Surplus)/Deficit on General Fund (including earmarked reserves), School Balances and DSG and HRA Balance at 31 March	**(104,914)**			**(136,966)**		

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.

			2016/17			2015/16
	Gross Expend £000	Gross Income £000	Net Expend £000	Gross Expend £000	Gross Income £000	Net Expend £000
Children & Adults	480,958	(263,038)	217,920	477,700	(269,007)	208,693
Environment & Leisure Services	112,339	(31,187)	81,151	97,747	(29,484)	68,263
Housing and Modernisation	91,308	(16,150)	75,158	88,618	(13,067)	75,551
Public Health	32,409	(30,476)	1,932	30,400	(28,014)	2,386
Chief Executive's	16,948	(7,540)	9,408	16,400	(5,396)	11,004
Finance and Governance	248,092	(219,558)	28,533	269,299	(246,568)	22,731
HRA	318,952	(292,233)	26,719	326,069	(291,391)	34,678
Support Cost Re-allocations	(43,677)	-	(43,677)	(46,076)	-	(46,076)
(Surplus)/Deficit on Continuing Operations	**1,257,329**	**(860,182)**	**397,144**	**1,260,157**	**(882,927)**	**377,230**
Other Operating Expenditure (Note 7)			(37,405)			(48,606)
Financing and Investment Income and Expenditure (Note 8)			29,362			(1,177)
Taxation and Non-Specific Grant Income (Note 9)			(340,982)			(418,727)
(Surplus)/Deficit on Provision of Services			**48,120**			**(91,280)**
(Surplus)/deficit on revaluation of non current assets			(351,123)			(510,484)
(Surplus)/deficit on revaluation of available for sale financial assets			(163)			164
Remeasurement of the net defined benefit liability			104,976			(56,399)
Other Comprehensive Income and Expenditure			**(246,310)**			**(566,719)**
Total Comprehensive Income and Expenditure			**(198,190)**			**(657,999)**

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 2016/17

	General Fund Balance	Earmarked General Fund Reserves	School Balances and DSG reserve	HRA Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves (Note 18)	Total Reserves of the council
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2016	**18,803**	**73,000**	**28,550**	**16,613**	**3,577**	**50,750**	**-**	**191,293**	**3,539,138**	**3,730,431**
Movement in reserves during the year										
Surplus/(deficit) on the provision of services	(36,702)	-	-	(11,418)	-	-	-	(48,120)	-	(48,120)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	246,311	246,311
Total Comprehensive Income and Expenditure	**(36,702)**	**-**	**-**	**(11,418)**	**-**	**-**	**-**	**(48,120)**	**246,311**	**198,191**
Adjustments between accounting basis & funding basis under regulations (Note 5)	6,907	-	-	9,160	1,813	29,740	-	47,620	(47,620)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(29,795)**	**-**	**-**	**(2,258)**	**1,813**	**29,740**	**-**	**(500)**	**198,691**	**198,191**
Transfers to/(from) earmarked reserves (Note 6)	29,795	(18,508)	(11,287)	-	-	-	-	-	-	**-**
Increase/(Decrease) in Year	-	**(18,508)**	**(11,287)**	**(2,258)**	**1,813**	**29,740**	**-**	**(500)**	**198,691**	**198,191**
Balance as at 31 March 2017	**18,803**	**54,492**	**17,263**	**14,355**	**5,390**	**80,490**	**-**	**190,793**	**3,737,830**	**3,928,623**

MOVEMENT IN RESERVES 2015/16

	General Fund Balance	Earmarked General Fund Reserves	School Balances and DSG reserve	HRA Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	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 the year										
Surplus/(deficit) on the provision of services	26,388	-	-	64,892	-	-	-	91,280	-	91,280
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	566,719	566,719
Total Comprehensive Income and Expenditure	**26,388**	**-**	**-**	**64,892**	**-**	**-**	**-**	**91,280**	**566,719**	**657,999**
Adjustments between accounting basis & funding basis under regulations	(48,230)	-	-	(74,224)	(35,964)	7,960	(2,312)	(152,770)	152,770	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(21,842)**	**-**	**-**	**(9,332)**	**(35,964)**	**7,960**	**(2,312)**	**(61,490)**	**719,489**	**657,999**
Transfers to/(from) earmarked reserves	22,520	(18,351)	(4,169)	-	-	-	-	-	-	-
Increase/(Decrease) in Year	678	**(18,351)**	**(4,169)**	**(9,332)**	**(35,964)**	**7,960**	**(2,312)**	**(61,490)**	**719,489**	**657,999**
Balance as at 31 March 2016	**18,803**	**73,000**	**28,550**	**16,613**	**3,577**	**50,750**	**-**	**191,293**	**3,539,138**	**3,730,431**

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	31/03/2017	31/03/2016
		£000	**£000**
Property, Plant & Equipment	10	4,854,987	4,501,573
Heritage Assets		1,224	1,223
Investment Property	11	147,803	152,267
Assets held for sale	15	77,589	79,500
Long term Investments	12	32,320	27,756
Long term Debtors	13	51,018	50,259
Long Term Assets		**5,164,941**	**4,812,578**
Current intangible assets		169	167
Short-term Investments	12	70,534	64,075
Inventories		636	709
Short-term Debtors	13	127,438	129,064
Cash and Cash Equivalents	14	48,590	41,442
Assets held for sale	15	13,275	20,067
Current Assets		**260,642**	**255,524**
Short-term Borrowing	12	10,219	10,339
Short-term Creditors	16	176,159	157,794
Provisions	17	10,664	3,003
Grants receipts in advance	28	151,722	127,649
Current Liabilities		**348,764**	**298,785**
Long-term Creditors	16	10,623	9,931
Provisions	17	13,916	16,058
Long-term Borrowing	12	452,851	457,851
Pension Liabilities	35	570,452	450,096
Other Long-term Liabilities	36	100,354	104,950
Long Term Liabilities		**1,148,196**	**1,038,886**
Net Assets		**3,928,623**	**3,730,431**
Usable reserves	6	190,791	191,293
Unusable reserves	18	3,737,832	3,539,138
Total Reserves		**3,928,623**	**3,730,431**

CASH FLOW STATEMENT

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

	Notes	2016/17	2015/16
		£000	£000
Net surplus/(deficit) on the provision of services		(48,120)	91,280
Adjust net surplus/(deficit) on the provision of services for non-cash movements	19	289,155	196,427
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	19	(150,620)	(201,391)
Net cash flows from operating activities		**90,415**	**86,316**
Net cash flows from investing activities	20	(73,774)	(53,492)
Net cash flows from financing activities	21	(9,494)	(10,337)
Net increase/(decrease) in cash and cash equivalents		**7,147**	**22,487**
Cash and cash equivalents at the beginning of the reporting period		41,442	18,955
Cash and cash equivalents at the end of the reporting period		**48,590**	**41,442**

NOTES TO THE ACCOUNTS

1b. ACCOUNTING POLICIES

i. GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. 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 2016/17 and the Service Reporting Code of Practice (SeRCOP) for Local Authorities 2016/17, 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 and revaluation/ impairment losses	Revenue provision to cover historical cost determined in accordance with 2003 Regulations	Capital Adjustment Account
Intangible Assets	Amortisation and impairment		
Investment Properties	Movement in fair value		
Revenue Expenditure Funded from Capital under statute	Expenditure incurred in year		
Capital Grants and Contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital Grants unapplied reserve (unapplied at 31 March) Capital Adjustment Account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less 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 2016/17 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 2016/17 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 2016/17 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	Accumulated absence adjustment account

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. Southwark has five BIDS in operation; Better Bankside, Blue Bermondsey, Southbank, Team London Bridge and We Are Waterloo.

v. EMPLOYEE BENEFITS

Employee Benefits - Termination benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Finance and Governance 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 can be members of one 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 Public Health services lines respectively are charged with the employer's contributions payable to Teachers' Pensions and NHS Pensions in the year.

Employment Benefits - The Local Government Pension Scheme

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

The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures on Note 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 pensions liability is analysed into the following components:

- Service cost comprising
    - current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - past service cost – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Finance and Governance.
    - 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

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

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

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

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

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

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

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

ix. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

x. INVESTMENT PROPERTY

Investment properties are those that are held solely to earn rentals and/or for capital appreciation.

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

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

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

  High value assets, assets held for sale and investment properties are valued on an annual basis

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

The effective date of annual revaluations for HRA Dwellings, assets held for sale and investment properties is 31st March, all other rolling cycle of revaluations has a 31st December effective date 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 commences. Once construction work commences and is anticipated to last longer than 12 months, the asset is transferred to assets under construction. Once substantially complete the Valuer is asked to value the site as a completed development, including land value and the construction costs incurred to date, and the asset is transferred to operational assets. Where construction work is due to complete within 12 months of the balance sheet date the Valuer is asked to value the site on the basis of land value plus the construction costs incurred to date, however the asset is retained in Surplus Assets until such time as the construction work has substantially completed.

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 or construction or enhancement expenditure in the year of acquisition, construction or enhancement. A full year's depreciation is provided for in the year in which an asset is derecognised.

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

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

xviii. VAT

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

Customs. VAT receivable is excluded from income.

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. 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 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 schools 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. The council has separated Waste PFI contract payments between elements that vary according to availability of the property and another element that varies according to usage or performance of services using estimation techniques in accordance with the code. The property and related liability is measured at the fair value of the asset and the payments allocated between: (a) repayment of liability, (b) finance charge and (c) service element. The council further considers that payments prior to the asset becoming operational reasonably represent the fair value of services. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 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. It has been assessed as a service concession in accordance with IFRS accounting practice. Unitary charges are payable until 2033 and allocated as charges for service, interest and principal. Further details of the financial arrangements for the heat and energy supply contract, and the obligations outstanding, can be found in Note 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.

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 2016/17, the council chose this option and made an adjustment of £29.894 million for excess dwellings depreciation over the Notional Major Repairs Allowance.

Review of Minimum Revenue Provision Policy

The council is required to make a minimum revenue provision (MRP) towards the repayment of debt in each financial year. During 2015/16 an MRP review was undertaken by the council which resulted in a revision to the 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 2016/17 financial statements was a revenue provision of £7.544m charged to the CIES under the revised 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 2017 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 was undertaken as at 31 March.

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

A sensitivity analysis detailing movement in valuations is as follows:

Asset Category	**Assets Valued at 31st March 2017**	**Increase in Valuation**			**Decrease in Valuation**		
		1%	2%	3%	(1)%	(2)%	(3)%
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Council Dwellings	3,330,950	33,310	66,619	99,929	(33,310)	(66,619)	(99,929)
Other Land and Buildings	663,056	6,631	13,261	19,892	(6,631)	(13,261)	(19,892)
Surplus Assets	108,140	1,081	2,163	3,244	(1,081)	(2,163)	(3,244)
Investment property	143,088	1,431	2,862	4,293	(1,431)	(2,862)	(4,293)
Assets Held For Sale	90,864	909	1,817	2,726	(909)	(1,817)	(2,726)
Total	**4,336,098**	**43,361**	**86,722**	**130,083**	**(43,361)**	**(86,722)**	**(130,083)**

Defined benefit pension amounts and disclosures

The council recognises its outstanding liabilities to meet future pension's costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2017 the outstanding liability was assessed at £570.542 million (£450.096 million 2015/16). 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's 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 of 31 March 2017, 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. The council purchased investment assets, with completion taking place after the balance sheet date. Further details of these purchases can be found at Cabinet Committee on 21 March 2017, item 25.

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. The balance is not available to be applied to funding HRA services.

Housing Revenue Account balance

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

Major repairs reserve

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

Capital Receipts Reserve

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

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

2016/17	**General Fund Balance**	**Housing Revenue Account**	**Major Repairs Reserve**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
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	33,292	78,484	-	-	-	(111,779)
Revaluation losses on Property, Plant and Equipment	14,783	62,413	-	-	-	(77,196)
Movements in the fair value of Investment Properties	(1,938)	(656)	-	-	-	2,594
Capital grants and contributions applied	(39,053)	(5,169)	-	-	-	44,223

2016/17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Revenue expenditure funded from capital under statute	16,165	2,954	-	-	-	(19,119)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	7,883	53,878	-	-	-	(61,761)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	(2,778)	-	-	-	-	2,778
Lease & PFI repayment	(4,581)	(185)	-	-	-	4,766
Repayment of premiums	(241)	(824)	-	-	-	1,065
Capital expenditure charged against the General Fund and HRA balances	(3,081)	(55,960)	-	-	-	59,041
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-
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	(23,726)	(82,672)	-	106,398	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	99	-	(99)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(71,137)	-	71,137
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	153	1,124	-	(1,277)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	4,344	-	-	(4,344)	-	-
Provision to reduce the capital financing requirement	-	-	-	-	-	-
Adjustments primarily involving the deferred capital receipts reserve						
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(48,590)	48,590	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(46,778)	-	-	46,778

2016/17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
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	-	843	-	-	-	(843)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	44,257	8,249	-	-	-	(52,506)
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,372)	(4,754)	-	-	-	37,126
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	(1,934)	-	-	-	-	1,934
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(4,609)	-	-	-	-	4,609
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	343	25	-	-	-	(368)
Total adjustments	**6,907**	**9,160**	**1,812**	**29,739**	**-**	**(47,620)**

2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	27,458	68,796	-	-	-	(96,254)
Revaluation losses on Property, Plant and Equipment	(1,629)	61,715				(60,086)
Movements in the fair value of Investment Properties	(26,938)	(7,263)	-	-	-	34,201

2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
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 requirement	-	-	-	(2,667)	-	2,667
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

2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
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)**	**(74,224)**	**(35,964)**	**7,960**	**(2,312)**	**152,770**

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 2016/17, 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 2015	Transfer out 2015	Transfer in 2015	31 March 2016	Transfer out 2016	Transfer in 2016	31 March 2017
	£000	£000	£000	£000	£000	£000	£000
General Fund Reserve	**(18,125)**	**-**	**(678)**	**(18,803)**	**-**	**-**	**(18,803)**
Earmarked Reserves:							
Corporate Projects and Priorities	(16,866)	11,087	(3,793)	(9,572)	9,934	(5,317)	(4,955)
Service Improvement Reserves	(12,969)	7,672	(2,532)	(7,829)	5,215	(279)	(2,893)
Capital Investment Reserves	(30,345)	11,094	(7,571)	(26,822)	4,806	(500)	(22,516)
Strategic Financing, Technical and Risk reserves	(29,645)	17,777	(16,909)	(28,777)	12,794	(8,145)	(24,128)
Total	**(89,825)**	**47,630**	**(30,805)**	**(73,000)**	**32,749**	**(14,241)**	**(54,492)**
Schools Reserves							
Schools – DSG	(14,953)	4,781	-	(10,172)	8,922	-	(1,250)
Schools - Balances	(19,292)	3,969	(3,055)	(18,378)	4,977	(2,612)	(16,013)
Total Schools	**(34,245)**	**8,750**	**(3,055)**	**(28,550)**	**13,899**	**(2,612)**	**(17,263)**
HRA Reserves							
HRA General Reserve	(25,945)	10,820	(1,488)	(16,613)	9,771	(7,513)	(14,355)
Major Repairs Reserve	(39,541)	105,835	(69,871)	(3,577)	46,778	(48,590)	(5,389)
Total HRA Reserves	**(65,486)**	**116,655**	**(71,359)**	**(20,190)**	**56,549**	**(56,103)**	**(19,744)**
Capital Reserves							
Capital Receipts	(42,790)	121,524	(129,484)	(50,750)	76,758	(106,497)	(80,489)
Capital Grants Unapplied	(2,312)	2,312	-	-	-	-	-
Total Usable Capital Reserves	**(45,102)**	**123,836**	**(129,484)**	**(50,750)**	**76,758**	**(106,497)**	**(80,489)**
Total Usable Reserves	**(252,783)**	**296,871**	**(235,381)**	**(191,293)**	**179,955**	**(179,453)**	**(190,791)**

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 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

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

	2016/17	2015/16
	£000	£000
Levies	1,611	1,631
Payment to the government's housing capital receipts pool	4,344	4,581
(Gain)/loss on the disposal of non-current assets	(43,360)	(54,818)
Total Other Operating Expenditure	**(37,405)**	**(48,606)**

8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2016/17	2015/16
	£000	£000
Interest payable and similar charges	34,243	34,711
Grant contributions towards interest costs on PFI schemes	(7,158)	(7,159)
Net interest on the net defined benefit liability	14,679	15,120
Interest receivable and similar income	(2,162)	(2,778)
Income, expenditure and changes in the fair value of investment properties	(10,240)	(41,071)
Total Financing and Investment Income and Expenditure	**29,362**	**(1,177)**

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

	2016/17	2015/16
	£000	£000
Council Tax Income	(89,217)	(83,166)
Non-domestic rates income and expenditure	(69,342)	(70,364)
Un-ringfenced government grants	(138,200)	(152,958)
Capital Grants and contributions	(44,223)	(112,239)
Total Taxation and Non-Specific Grant Income	**(340,982)**	**(418,727)**

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 net book value of property, plant and equipment.

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

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	(52,565)	(8,683)	-	-	-	-	-	**(61,248)**	798
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(12,510)	(1,253)	-	-	-	(112)	-	**(13,875)**	-
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	**383**	**34,935**	**41,296**	**79,593**	**902**	**2,807**	**-**	**159,916**	**5,531**
Net Book Value at 31 March 2016	**3,125,099**	**840,097**	**40,796**	**254,346**	**10,317**	**165,389**	**65,529**	**4,501,573**	**67,930**

PP&E (continued)

The valuation of assets has been carried out by the council’s internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluations and of the rolling cycle of revaluations is 31st December and 31st March 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. No impairments have been charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account for the 2016/17

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 full beacon valuation was undertaken with an effective revaluation date of 31 March 2017,
At 31 March 2017, 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 £95 million. Similar commitments at 31 March 2016 were £253 million. The commitements are as below:

	£M
Children's & Adults Capital Programme	26
Environmental and other Regeneration Programme	20
Housing Development and Regeneration	47
Total	**93**

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Infrastructure Assets contains a balance of £98.3 million that represents the current depreciated historic cost value of capital expenditure on infrastructure up to 31 March 2007. This balance is effectively treated as a single 'consolidated' asset as we do not currently have sufficient information to disclose at the level of individual assets and obtaining such information would be impracticable. The balance is depreciated on a straight-line basis over 40 years.

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

The income and expenditure on investment assets was as follows:

	2016/17	2015/16
	£000	£000
Rental income from investment property	(11,413)	(10,381)
Fair value adjustments	(2,594)	(34,201)
Direct operating expenses arising from investment property	3,767	3,511
Net (gain)/loss included in Financing & Investment Income in CIES	**(10,240)**	**(41,071)**

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

	2016/17	2015/16
	£000	£000
Balance as at 1 April	152,267	126,400
Additions:		
Subsequent expenditure	563	650
Disposals	(776)	(209)
Net gains/(losses) from fair value adjustments	2,594	34,201
Transfers:		
To/From Property, Plant and Equipment	(6,845)	(8,775)
Balance as at 31 March	**147,803**	**152,267**

Properties held under operating leases

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

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
	31/03/2017	31/03/2016	31/03/2017	31/03/2016
	£000	£000	£000	£000
Investments				
Available for Sale	32,320	27,756	71,233	65,099
Loans & Receivables	-	-	784	459
Less Trust Funds	-	-	(1,483)	(1,483)
Total Investments	**32,320**	**27,756**	**70,534**	**64,075**
Debtors				
Loans and receivables	50,818	50,058	114,055	123,575
Total Debtors	**50,818**	**50,058**	**114,055**	**123,575**
Cash and Cash Equivalents				
Cash and bank	-	-	(7,153)	(9,241)
Short term deposits	-	-	55,743	50,682
Total Cash and Cash Equivalents	**-**	**-**	**48,590**	**41,441**

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
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Borrowings				
Financial Liabilities at Amortised Cost	(452,851)	(457,851)	(10,219)	(10,339)
Total Borrowings	**(452,851)**	**(457,851)**	**(10,219)**	**(10,339)**
Other Long Term Liabilities				
PFI and Finance Lease Liabilities	100,354	(104,950)	**-**	
Total Other Long Term Liabilities	**100,354**	**(104,950)**	**-**	**-**
Creditors				
Financial Liabilities at Amortised Cost	(10,623)	(9,931)	(134,155)	(127,717)
Total Creditors	**(10,623)**	**(9,931)**	**(134,155)**	**(127,717)**

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:

	2016/17				2015/16			
	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	25,185	-	-	**25,185**	25,521	-	-	**25,521**
Other Charges	366	-	-	**366**	330	-	-	**330**
Total Expenses in Surplus or Deficit on the Provision of Services	**25,551**	**-**	-	**25,551**	**25,851**	**-**	**-**	**25,851**
Interest Income	-	(131)	(860)	**(991)**	-	(520)	(1,303)	**(1,823)**
Less Allocated to Other Funds	-	-	-	**-**	-	-	-	**-**
Total Income in Surplus or Deficit on the Provision of Services	**-**	**(131)**	**(860)**	**(991)**	**-**	**(520)**	**(1,303)**	**(1,823)**
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure	-	-	(163)	**(163)**	-	-	164	**164**
Net Gain/(Loss) for Year	**25,551**	**(131)**	**(1,023)**	**24,397**	**25,851**	**(520)**	**(1,139)**	**24,192**

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 2017. 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 2017, 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 £100 million as at 31/03/2017 (£105 million at 31/03/2016). 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

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 31/03/2017	Fair Value 31/03/2017	Balance Sheet 31/03/2016	Fair Value 31/03/2016
		£000	**£000**	**£000**	**£000**
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	(457,851)	(674,020)	(462,851)	(627,806)
Lease payable and PFI liabilities	3	(100,354)	(100,354)	(104,950)	(104,950)
Sub total		(558,205)	(774,374)	(567,801)	(732,756)
Liabilities for which fair value is not disclosed		(149,997)	(143,559)	(142,987)	(142,987)
TOTAL FINANCIAL LIABILITIES		**(708,202)**	**(917,933)**	**(710,788)**	**(875,743)**
Recorded on the balance sheets as:					
Long-term creditors		(10,623)		(9,931)	
Long-term borrowing		(452,851)		(457,851)	
Short-term creditors		(134,155)		(127,717)	
Short-term borrowing		(10,219)		(10,339)	
Other long-term liabilities		(100,354)		(104,950)	
TOTAL FINANCIAL LIABILITIES		**(708,202)**		**(710,788)**	

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 31/03/2017	Fair Value 31/03/2017	Balance Sheet 31/03/2016	Fair Value 31/03/2016
		£000	**£000**	**£000**	**£000**
Financial assets held at fair value:					
Money Market Funds	1	50,681	50,681	50,681	50,681
Bond, Equity and property funds	1	36,846	36,846	36,846	36,846
Corporate, covered and government bonds	2	56,009	56,009	56,009	56,009
Sub total		143,536	143,536	143,536	143,536
Assets for which fair value is not disclosed		172,781	172,781	166,335	166,335
TOTAL FINANCIAL ASSETS		**316,317**	**316,317**	**309,871**	**309,871**
Recorded on the balance sheets as:					
Long-term debtors		50,818		50,058	
Long-term investments		32,320		27,756	
Short-term debtors		114,055		123,575	
Short-term investments		70,534		67,041	
Cash and cash equivalents		48,590		41,441	
TOTAL FINANCIAL ASSETS		**316,317**		**309,871**	

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

	2016/17		2015/16	
	Short Term Debtors	Long Term Debtors	Short Term Debtors	Long Term Debtors
	£000	£000	£000	£000
Central government bodies	19,852	-	19,230	-
Other local authorities	5,215	-	44,889	-
NHS bodies	6,395	-	3,953	-
Public corporations and trading funds	448	-	7	-
Other entities and individuals	142,968	51,018	109,485	50,259
Total before impairment	**174,878**	**51,018**	**177,564**	**50,259**
Impairment	47,440	-	48,500	-
Total net of impairment	**127,438**	**51,018**	**129,064**	**50,259**

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 31/03/2017	As at 31/03/2016
	£000	£000
Cash held by the council	7	8
Bank current accounts	(7,160)	(9,248)
Short-term funds in money markets	55,743	50,682
Total cash and cash equivalents	**48,590**	**41,442**

15. ASSETS HELD FOR SALE

	Current		Non-Current	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Balance at 1 April	**20,067**	**22,815**	**79,500**	**73,500**
Additions	2,376	-	4,089	-
Transfers from Property, Plant & Equipment	-	7,018	-	6,000
Revaluation gains/(losses) taken to Surplus or Deficit on the Provision	(50)	(1,330)	-	-
Assets sold	(9,118)	(8,436)	(6,000)	-
Balance at 31 March	**13,275**	**20,067**	**77,589**	**79,500**

16. CREDITORS

	Short Term Creditors		Long Term Creditors	
	2016/17	**2015/16**	**2016/17**	**2015/16**
	£000	**£000**	**£000**	**£000**
Central government bodies	35,768	7,166	-	-
Other local authorities	20,804	10,066	-	-
NHS bodies	8,604	8,531	-	-
Public corporations and trading funds	16	-	-	-
Other entities and individuals	110,967	132,031	10,623	9,931
Total	**176,159**	**157,794**	**10,623**	**9,931**

17. PROVISIONS

	Short Term Provisions		Long Term Provisions	
	2016/17	**2015/16**	**2016/17**	**2015/16**
	£000	**£000**	**£000**	**£000**
Insurance Provision	-	-	8,900	9,509
Business Rates Appeals	10,664	2,678	1,436	3,100
Provision for refunds - Thames Water (former tenants)	-	-	3,449	3,449
Education high needs provision	-	325	-	-
Other miscellaneous provisions	-	-	131	-
Total	**10,664**	**3,003**	**13,916**	**16,058**

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 increased from £5.778m at 31 March 2016 to £14.113m at 31 March 2017. The provision is now based on data and trends that more accurately reflect local circumstances.

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) 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:

	2016/17	**2015/16**
	£000	**£000**
Capital Adjustment Account	2,433,367	2,410,004
Financial Instruments Adjustment Account	(24,626)	(24,848)
Revaluation Reserve	1,858,258	1,569,131
Available for Sale Financial Instruments Reserve	132	(31)
Pensions Reserve	(570,452)	(450,096)
Deferred Capital Receipts	42,400	42,400

Collection Fund Adjustment Account	6,166	(377)
Accumulating Compensated Absences Adjustment Account	(7,413)	(7,045)
Total unusable reserves	**3,737,832**	**3,539,138**

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.

	2016/17		2015/16	
	£000	**£000**	**£000**	**£000**
Balance at 1 April		**2,410,004**		**2,210,565**
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	(111,777)		(96,254)	
Revaluation Losses on Property Plant & Equipment	(77,196)		(60,086)	
Revenue expenditure funded from capital under statute	(19,119)		(11,215)	
Movements in the market value of Investment Properties	2,594		34,201	
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	(61,761)		(32,937)	
		(267,259)		**(166,291)**
Adjusting amounts written out of the Revaluation Reserve re disposals	28,020		9,918	
Adjusting amounts written out of the Revaluation Reserve re the difference between fair value depreciation and historical cost depreciation	33,976		24,199	
Transfer from deferred debtors	(99)		(323)	
Net written out amount of the cost of non current assets consumed in the year		**61,897**		**33,794**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	71,137		75,302	
Provision to reduce the capital financing requirement	-		7,509	
Use of the Major Repairs Reserve to finance new capital expenditure	46,778		84,883	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	44,223		112,239	
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	7,546		7,146	

Capital expenditure charged against the General Fund and HRA balances	59,041		42,545	
		228,725		**331,936**
Balance at 31 March		**2,433,367**		**2,410,004**

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 31/03/17 includes £18.885 million premiums (£19.951 million at 31/03/16) to be discharged in future.

	2016/17	**2015/16**
	£000	**£000**
Balance at 1 April	**(24,848)**	**(24,954)**
New premiums incurred in the year	-	-
Proportion of premiums to be charged against the General Fund Balance in accordance with statutory requirements	1,065	1,065
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(843)	(959)
Balance at 31 March	**(24,626)**	**(24,848)**

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.

	2016/17		**2015/16**	
	£000	**£000**	**£000**	**£000**
Balance at 1 April		**1,569,131**		**1,092,764**
Upward revaluation of assets	301,441		543,777	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	49,682		(33,293)	
Total of Surplus or deficit on revaluation of non-current assets not		351,123		510,484
Adjusting amounts written to the Capital Adjustment Account re		(28,020)		(9,918)
Difference between fair value depreciation and historical cost		(33,976)		(24,199)
Balance at 31 March		**1,858,258**		**1,569,131**

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.

	2016/17	2015/16
	£000	£000
Balance at 1 April	**(450,096)**	**(491,286)**
Remeasurements of the net defined benefit liability	(104,976)	56,399
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	(52,506)	(55,569)
Employer's pension contributions and direct payments payable to pensioners in the year	37,126	40,360
Balance at 31 March	**(570,452)**	**(450,096)**

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.

	2016/17	2015/16
	£000	£000
Balance at 1 April	**42,400**	**44,829**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	-	(2,429)
Balance at 31 March	**42,400**	**42,400**

19. CASH FLOW FROM OPERATING ACTIVITIES

	2016/17	2015/16
	£000	£000
Adjustment to surplus or deficit on the provision of services for non cash movement:		
Depreciation	111,779	96,254
Impairment & downward valuation	74,602	25,885
Increase/(decrease) in impairment for bad debts	(1,061)	1,197
Increase/(decrease) in creditors	18,244	34,965
(Increase)/decrease in debtors	1,822	(10,703)
(Increase)/decrease in inventories	74	(26)
Movement in pension liability	15,380	15,209
Movement in provisions	5,517	456
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	61,761	32,937
Other non-cash items charged to the net surplus or deficit on the provision of services	1,039	253
	289,155	**196,427**

	2016/17	2015/16
	£000	£000
Adjustment for items included in the net surplus or deficit on the provision of services that		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(106,397)	(89,152)
Capital grants included in "Taxation & non-specific grant income"	(44,223)	(112,239)
Total	**(150,620)**	**(201,391)**

The cash flows from operating activities include the following amounts:

	2016/17	2015/16
	£000	£000
Interest received	(1,155)	(1,752)
Interest paid	34,545	34,934
Net interest	**33,390**	**33,182**

20. CASH FLOW FROM INVESTING ACTIVITIES

	2016/17	2015/16
	£000	£000
Purchase of PP&E, investment property and intangible assets	(237,445)	(306,209)
Proceeds from the sale of Property, Plant and equipment, investment property and intangible assets	106,398	89,152
Proceeds from sale of short-term investments (not considered to be cash equivalents)	(11,023)	48,895
Capital grants and contributions received	68,296	114,670
Net cash flows from Investing Activities	**(73,774)**	**(53,492)**

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 FLOW FROM FINANCING ACTIVITIES

	2016/17	2015/16
	£000	**£000**
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(4,373)	(3,913)
Repayments of short and long term borrowing	(5,121)	(6,424)
Net Cash flows from Financing Activities	**(9,494)**	**(10,337)**

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

				2016/17				2015/16
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children & Adults	11,397	2,247	281	13,925	5,303	1,690	217	7,210
Environment & Leisure Services	11,460	983	138	12,581	308	756	(6,214)	(5,150)
Housing and Modernisation	1,631	483	11	2,125	2,181	438	(58)	2,561
Public Health		17	9	26	-	8	(3)	5
Chief Executive's	3,834	240	1,844	5,918	(32)	175	1,668	1,811
Finance and Governance	24,092	(4,272)	15,399	35,219	18,260	(3,665)	16,104	30,699
HRA	39,303	1,002	(15,844)	24,461	42,537	687	(17,878)	25,346
SCR	-	-	-	-	-	-	-	-
Net cost of services	**91,717**	**700**	**1,838**	**94,255**	**68,557**	**89**	**(6,164)**	**62,482**
Other income and expenditure from the funding analysis	(90,176)	14,679	(2,692)	(78,189)	(201,258)	15,120	1,202	(184,936)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**1,541**	**15,379**	**(854)**	**16,066**	**(132,701)**	**15,209**	**(4,962)**	**(122,454)**

Adjustments for Capital purposes

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

Net change for the pensions adjustments

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

Other differences

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

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

	2016/17	**2015/16**
	£000	£000
Expenditure		
Employee expenses	375,315	372,074
Other Services Expenses	834,266	827,052
Support Service Recharges	(43,677)	(46,076)
Depreciation, amortisation and impairment	111,779	96,254
Interest payments	34,085	34,575
Precepts and Levies	1,611	1,631
Gain on the Disposal of Assets	(43,360)	(54,818)
Sub-total	**1,270,018**	**1,230,692**
Income		
Fees, Charges and Other Service Income	(371,568)	(368,223)
Interest and Investment Income	(13,575)	(13,159)
Income from Council Tax and NDR	(158,559)	(153,530)
Government Grants and Contributions	(678,195)	(787,060)
Sub-total	**(1,221,898)**	**(1,321,972)**
(Surplus)/Deficit on the provision of Services	**48,120**	**(91,280)**

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.

	2016/17		2015/16	
	£000	**£000**	**£000**	**£000**
Funding Provided to the Pooled Budget:				
· Council	1,149		1,489	
· CCG	20,679		20,478	
		21,828		21,967
Expenditure met from the pooled budget:				
· Council	15,335		16,218	
· CCG	6,493		5,749	
		21,828		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 £1.948m in 2016/17 (£2.088m in 2015/16).

24. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2016/17 was £1,295,975 (£1,264,075 in 2015/16).

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 2016/17 and 2015/16 and provides a number of notes in support.

	2016/17		2015/16	
Postholder	**Total remuneration**	**Council's contributions to the Pension Fund**	**Total remuneration**	**Council's contributions to the Pension Fund**
	£000	**£000**	**£000**	**£000**
Chief Executive - E Kelly	202,072	28,403	216,236	30,465
Strategic Director of Environment & Leisure - D Collins	178,158	-	191,658	-
Strategic Director of Housing & Community Services – G Scott	178,158	-	191,568	-
Strategic Director of Finance & Governance - D Whitfield	178,158	24,992	185,490	26,064
Strategic Director of Children's & Adult Services - D Quirke-Thornton	147,212	20,505	147,116	20,500

Notes to the above table:

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

- Total remuneration figures represent gross pay for the postholder before that individual's 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 both 2014/15 and 2015/16. No performance related pay was awarded in 2016/17 as the scheme has been ended.

- The post of Director of Public Health was employed on NHS terms and conditions and was shared equally with the London Borough of Lambeth. The Council's share of the total remuneration, severance and contribution to the pension fund was £43,643, £142,663 and £4,255 respectively for the post in 2016/17.

During 2016/17 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 on the following page in bands of £5,000:

Band (£)	Schools	Non schools	Number of employees 2016/17	Number of employees 2015/16
50,000 - 54,999	121	120	241	231
55,000 - 59,999	82	91	173	146
60,000 - 64,999	35	63	98	118
65,000 - 69,999	33	38	71	58
70,000 - 74,999	20	40	60	66
75,000 - 79,999	18	28	46	36
80,000 - 84,999	7	20	27	21
85,000 - 89,999	11	6	17	19
90,000 - 94,999	7	11	18	13
95,000 - 99,999	3	6	9	12
100,000 – 104,999	1	4	5	8
105,000 - 109,999	1	3	4	4
110,000 - 114,999	3	2	5	5
115,000 – 119,999	1	1	2	6
120,000 – 124,999	-	5	5	2
125,000 – 129,999	2	3	5	4
130,000 – 134,999	-	-	-	5
135,000 – 139,999	-	2	2	2
140,000 – 144,999	-	-	-	-
145,000 – 149,999	-	-	-	1
150,000 – 154,999	-	-	-	2
155,000 – 159,999	-	-	-	1
160,000 – 164,999	-	-	-	-
165,000 – 169,999	-	-	-	1
170,000 – 174,999	-	-	-	2
175,000 – 179,999	-	-	-	1
180,000 – 184,999	-	-	-	1
185,000 – 189,999	-	-	-	1
Total	**345**	**443**	**788**	**766**

The post of Director of Public Health is employed on NHS terms and conditions and was shared equally with the London Borough of Lambeth. The Council's share of the total remuneration, severance and contribution is referred above.

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

26. EXTERNAL AUDIT COSTS

	2016/17 £000	2015/16 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	237	237
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	33	18
Fees payable in respect of other services provided by the appointed auditor during the year	80	58
Total	**350**	**313**

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

27. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department for Education 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 2016/17 are as follows:

	Central Expenditure	Individual Schools Budgets	Total	Total
			2016/17	**2015/16**
	£000	**£000**	**£000**	**£000**
Final DSG before academy recoupment	(31,668)	(266,664)	**(298,333)**	(294,767)
Academy figure recouped	-	108,998	**108,998**	103,963
Total DSG after academy recoupment	(31,668)	(157,667)	(189,335)	(190,804)
Brought forward from previous year	(10,172)	-	**(10,172)**	(14,953)
Carry forward agreed in advance	1,249	-	**1,249**	10,172
Agreed budgeted distribution	(40,591)	(157,667)	(198,258)	(195,585)
Actual central expenditure	40,591	-	**40,591**	38,814
Actual ISB deployed to schools	-	157,667	**157,667**	156,771
Carry-forward	**0**	**-**	**0**	**-**
Total carry forward including agreed in advance	**(1,249)**	**-**	**(1,249)**	**(10,172)**

28. GRANT INCOME

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

	2016/17	2015/16
	£000	**£000**
Credited to Taxation and Non Specific Grant Income		
Revenue support grant	(73,480)	(90,044)
Business rates top up	(45,339)	(44,965)
New homes bonus	(16,569)	(13,449)
Autumn statement compensation grant	(2,812)	(3,183)
Other grants individually less than £1 million	-	(1,317)
Capital grants and contributions	(44,223)	(112,239)
Sub total	**(182,423)**	**(265,197)**
Credited to Provision of Services		
Dedicated Schools Grant	(190,249)	(195,067)

Housing Benefits Subsidy - rent rebates granted to HRA tenants	(100,620)	(108,868)
Housing benefits subsidy - rent allowances	(95,081)	(103,439)
Housing benefits subsidy - non HRA rent rebates	(6,741)	(6,373)
Housing benefit administration	(3,025)	(3,469)
Public health	(29,228)	(25,090)
Better Care Fund	(15,423)	(20,478)
Pupil premium grant	(11,715)	(12,145)
The private finance initiative (PFI)	(9,935)	(9,935)
Reablement grant	-	(4,908)
Universal infant free school meals	(2,744)	(3,211)
Education services grant	(2,500)	(2,632)
Tackling troubled families	(1,559)	(2,109)
School sixth form funding	(2,116)	(1,838)
Community learning grant	(1,364)	(1,433)
Southwark CCG contribution to public health	-	(1,337)
Discretionary housing payment	(1,099)	(1,023)
Local welfare provision	(2,056)	-
Youth Justice good practice	(1,117)	-
Adoption reform grant		-
Other grants individually less than £1 million	(12,042)	(11,349)
Sub total	**(488,614)**	**(514,704)**
Total	**(671,037)**	**(779,901)**

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

	2016/17	**2015/16**
	£000	**£000**
Balance as at 1 April	(127,649)	(125,218)
New capital grants received in advance	(68,296)	(114,670)
Amounts released to the CIES (conditions met)	44,223	112,239
Balance as at 31 March	**(151,722)**	**(127,649)**

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

	2016/17	**2015/16**
	£000	**£000**
Planning Gains	(145,033)	(121,938)
Lottery Funds	(1,039)	(1,039)
Education	(2,084)	(3,524)
Transport for London	(1,611)	
Other grants individually less than £1 million	(1,955)	(1,147)
Balance as at 31 March	**(151,722)**	**(127,648)**

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 2016/17 were declared by 20 councillors and no chief officers (19 and nil respectively in 2015/16):

- with voluntary bodies or charitable organisations that received funding totalling £1.6 million (£0.5 million in 2015/16)

- with businesses or other organisations that have contracted for goods and services with the council to the value of £1.9 million (£3.0 million in 2015/16).

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 2017 are set out in Note 28 to the accounts. The Pension Fund is also a related party and the council charged the fund £1.0 million (£0.9 million in 2015/16) 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.

	2016/17	**2015/16**
	£000	**£000**
Opening Capital Financing Requirement	**777,086**	**791,634**
Capital Investment		
Property, Plant & Equipment	230,266	305,473
Revenue expenditure funded from capital under statute (REFCUS)	19,119	11,215
Investment Property	563	650
Municipal bonds purchase	-	50
Total capital investment	**249,948**	**317,388**
Sources of capital finance		
Capital receipts	(71,137)	(75,302)
Government grants and other contributions	(44,223)	(114,551)
Direct revenue contributions	(59,040)	(42,545)
Major Repairs Reserve	(46,778)	(84,883)
MRP/Loans fund principal	(7,546)	(14,655)
Total capital investment financed	**(228,724)**	**(331,936)**
Closing Capital Financing Requirement	**798,310**	**777,086**
Explanation of movement		
Increase in underlying need to borrow	20,831	(14,685)
Assets acquired under PFI contracts	393	137
Net movement in year	**21,224**	**(14,548)**

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:

	2016/17	2015/16
	£000	£000
Minimum lease payments	1,578	1,465
Less sub-lease payments	(147)	(309)
Total	**1,431**	**1,156**

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

	2016/17	2015/16
	£000	£000
Within 1 year	1,527	1,449
Within 2 to 5 years	4,681	5,082
After 5 years	15,338	22,603
Total	**21,546**	**29,134**

The council as Lessor – operating leases

The council has industrial and commercial units which it lets out. 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:

	31/03/2017	31/03/2016
Period due	£000	£000
Within 1 year	9,395	9,426
Within 2 to 5 years	26,078	26,063
After 5 years	105,570	106,989
Total due	**141,043**	**142,478**

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

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

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 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**
New liability incurred	-	-	-	307	86	**393**
Repayments made in year	(242)	(363)	(351)	(3,562)	(186)	**(4,704)**
Value at 31 March 2017	**14,594**	**19,027**	**18,273**	**48,378**	**4,660**	**104,932**

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 2015	**44,388**	**18,418**	**4,764**	**67,570**
Additions	-	137	85	**222**
Depreciation & Impairment	(798)	(796)	(295)	**(1,889)**
Revaluation	-	-	-	**-**
Net Book Value at 1 April 2016	**43,590**	**17,759**	**4,554**	**65,903**
Additions	-	307	-	**307**
Depreciation & Impairment	805	(909)	(170)	**(274)**
Revaluations	12,138	-	-	**12,138**
Net Book Value at 1 April 2017	**56,533**	**17,157**	**4,384**	**78,074**

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							
Liability	269	1,485	2,074	4,921	5,747	-	**14,496**
Interest	1,861	7,042	7,628	5,494	1,756	-	**23,781**
Service Charges	576	2,445	4,027	4,291	3,808	-	**15,147**
St Thomas the Apostle							
Liability	419	1,998	3,531	5,534	7,527	-	**19,009**
Interest	2,010	7,554	8,018	5,816	2,090	-	**25,488**
Service Charges	305	1,187	1,625	1,887	1,519	-	**6,523**
Lifecycle Payments	7	386	552	1,076	1,180	-	**3,201**
Sacred Heart Catholic							
Liability	406	1,895	3,005	5,018	7,924	-	**18,248**
Interest	1,842	6,927	7,410	5,539	2,451	-	**24,169**
Service Charges	458	1,886	2,557	2,981	3,997	-	**11,879**
Lifecycle Payments	35	416	754	775	1,651	-	**3,631**
Integrated Waste							
Liability	3,306	13,285	15,676	13,378	2,733	-	**48,378**
Interest	2,496	8,412	7,250	3,628	324	-	**22,110**
Service Charges	19,392	83,114	113,572	135,293	24,572	-	**375,943**
Lifecycle Payments	-	2,705	13,611	17,419	3,538	-	**37,273**
Heat Supply Arrangement							
Liability	109	591	1,225	2,143	592	-	**4,660**
Interest	570	2,122	2,166	1,249	86	-	**6,193**
Service Charges	1,169	4,974	6,949	7,862	1,692	-	**22,646**
Lifecycle Payments	113	377	526	594	128	-	**1,738**

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	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
	No. staff	No. staff	**No. staff**	No. staff	**No. staff**	No. staff	**£000**	£000
£0 - £20,000	**18**	19	**152**	156	**170**	175	**1,814**	1,590
£20,001 - £40,000	**4**	4	**185**	151	**189**	155	**5,447**	4,348
£40,001 - £60,000	**1**	-	**81**	63	**82**	63	**3,941**	3,020
£60,001 - £80,000	**1**	-	**11**	11	**12**	11	**839**	722
£80,001 - £100,000	**-**	-	**3**	9	**3**	9	**263**	767
£100,001 - £150,000	**-**	-	**1**	6	**1**	6	**150**	430
Total	**24**	23	**433**	396	**457**	419	**12,454**	11,122

There were four compulsory redundancies made relating to schools, all within the £0-20,000 exit package cost band, totalling £6,530 in 2016/17. The post of Director of Public Health was employed on NHS terms and conditions and was shared equally with the London Borough of Lambeth. The Council's share of severance, not included in the above table, amounted to £143k.

34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the council can be 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 2016/17, the council paid £9.73 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay, (£8.99 million and 15.5% respectively in 2015/16). It also paid £0.115 million to the NHS Pension Scheme representing 14.2% of pensionable pay (£0.255 million 2015/16, representing 14.2% of pensionable pay). There were no contributions remaining payable at the year end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 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 provides access to a pension scheme. Although these benefits will not actually be payable until employees retire, the council has to make and disclose 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.

	2016/17			2015/16		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost of services:						
- current service cost	33,400	327	**33,727**	35,200	449	**35,649**
- past service costs	4,100	-	**4,100**	4,800	-	**4,800**
Financing and investment income and expenditure						
- net interest expense	14,500	179	**14,679**	14,900	220	**15,120**
Total post employment benefit charged to the surplus or deficit on the provision of services	**52,000**	**506**	**52,506**	**54,900**	**669**	**55,569**
Other post employment benefit charged to the comprehensive income and expenditure statement						
Remeasurement of the net defined benefit						
- Return on plan assets (excluding amount included in the net interest expense)	(202,300)	(8,455)	**(210,755)**	24,700	1,949	**26,649**
- Actuarial (gains)/losses arising on changes in demographic assumptions	(32,400)	(1,466)	**(33,866)**	-	-	**-**

- Actuarial (gains)/losses arising on changes in financial assumptions	334,200	9,040	**343,240**	(61,400)	(3,948)	**(65,348)**
- Actuarial (gains)/losses arising on changes in liability experience	9,800	(3,091)	**6,709**	(17,700)	-	**(17,700)**
- Other	-	(352)	**(352)**	-	-	**-**
Total post employment benefit charged to the comprehensive income and expenditure statement	**161,300**	**(3,818)**	**157,482**	**500**	**(1,330)**	**(830)**
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	52,000	506	**52,506**	54,900	669	**55,569**
Actual amount charged against the General Fund Balance for pensions in the year						
- employers' contributions payable to the scheme	36,600	526	**37,126**	39,800	560	**40,360**

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:

	2016/17			**2015/16**		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Present value of defined benefit obligation	2,016,100	59,495	**2,075,595**	1,656,800	55,830	**1,712,630**
Fair value of plan assets	1,447,000	58,143	**1,505,143**	1,212,400	50,134	**1,262,534**
Net (liability) arising from defined benefit obligation	**(569,100)**	**(1,352)**	**(570,452)**	**(444,400)**	**(5,696)**	**(450,096)**

Reconciliation of present value of the scheme assets:

	2016/17			**2015/16**		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April	1,212,400	50,134	**1,262,534**	1,203,200	52,658	**1,255,858**
Interest income on assets	41,100	1,616	**42,716**	38,400	1,549	**39,949**

Remeasurement gains/(losses) on assets	202,300	8,455	**210,755**	(24,700)	(1,949)	**(26,649)**
Other acturial gains/(losses)	-	352	**352**	-	-	**-**
Administration expenses	-	(65)	**(65)**	-	(79)	**(79)**
Employer contributions	37,500	526	**38,026**	40,900	560	**41,460**
Contribution by participants	11,100	57	**11,157**	11,600	71	**11,671**
Net benefits paid out	(57,400)	(2,932)	**(60,332)**	(57,000)	(2,676)	**(59,676)**
Closing balance at 31 March	**1,447,000**	**58,143**	**1,505,143**	**1,212,400**	**50,134**	**1,262,534**

Reconciliation of present value of the scheme liabilities:

	2016/17			**2015/16**		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April	1,656,800	55,830	**1,712,630**	1,686,900	60,244	**1,747,144**
Current service cost	33,400	261	**33,661**	35,200	370	**35,570**
Interest cost	55,600	1,795	**57,395**	53,300	1,769	**55,069**
Contributions by scheme participants	12,000	57	**12,057**	12,700	71	**12,771**
Change in financial assumptions	311,600	9,040	**320,640**	-	-	**-**
Change in demographic assumptions	-	(1,466)	**(1,466)**	-	-	**-**
Actuarial gains and losses	-	(3,091)	**(3,091)**	(79,100)	(3,948)	**(83,048)**
Benefits paid	(57,400)	(2,932)	**(60,332)**	(57,000)	(2,676)	**(59,676)**
Past service costs	4,100	1	**4,101**	4,800	-	**4,800**
Closing balance at 31 March	**2,016,100**	**59,495**	**2,075,595**	**1,656,800**	**55,830**	**1,712,630**

Scheme assets comprised:

	2016/17			**2015/16**		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Quoted						
- Equities	827,684	34,452	**862,136**	643,784	23,289	**667,073**
- Property	-	-	**-**	-	-	**-**
- Government bonds	143,253	-	**143,253**	123,665	-	**123,665**
- Corporate bonds	121,548	-	**121,548**	115,178	-	**115,178**
- LDI/Cashflow matching	-	-	**-**	-	5,082	**5,082**
- Target return portfolio	-	12,286	**12,286**	-	10,664	**10,664**
- Commodities	-	-	**-**	-	224	**224**
- Other	120,101		**120,101**	117,603	-	**117,603**
	1,212,586	**46,738**	**1,259,324**	**1,000,230**	**39,259**	**1,039,489**
Unquoted						
- Infrastructure	-	3,061	**3,061**	-	2,747	**2,747**
- Property	227,179	2,964	**230,143**	201,258	1,789	**203,047**
- Cash	7,235	5,380	**12,615**	10,912	6,339	**17,251**
	234,414	**11,405**	**245,819**	**212,170**	**10,875**	**223,045**
	1,447,000	**58,143**	**1,505,143**	**1,212,400**	**50,134**	**1,262,534**

The scheme assets as shown above, are those attributable to the council from its membership of the Local Government Pension Scheme (LGPS) for both the London Borough of Southwark Pension Fund and the London Pension Fund Authority. The value of the assets is provided by both fund actuaries originally using market values at 31 December 2016, then indexed for market movements to arrive at a valuation for 31 March 2017.

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

The principal assumptions used by the actuaries have been:

	Council		LPFA	
	2016/17	**2015/16**	**2016/17**	**2015/16**
Mortality assumptions				
Longevity at 65 for current pensioners				
- Men (years)	22.5	21.9	20.4	21
- Women (years)	26.1	26.5	23.5	24.3
Longevity at 65 for future pensioners				
- Men (years)	24.1	24.1	22.7	23.4
- Women (years)	27.9	28.8	25.8	26.6
Principal financial assumptions				
- rate of inflation - RPI	3.1%	2.9%	3.3%	2.9%
- rate of inflation - CPI	2.0%	1.8%	2.4%	2.0%
- rate of increase in salaries	3.5%	3.3%	3.9%	3.8%
- rate of increase in pensions	2.0%	1.8%	2.4%	2.0%
- rate of pension accounts revaluation	2.0%	1.8%	-	-
- rate for discounting scheme liabilities	2.6%	3.4%	2.3%	3.3%

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)	1,957,000	61,929	**2,018,929**	2,075,500	57,159	**2,132,659**
Rate of increase in salaries (+/- 0.1%)	2,022,900	59,543	**2,082,443**	2,009,300	59,447	**2,068,747**
Rate of increase in pensions (+/- 0.1%)	2,045,800	60,192	**2,105,992**	1,986,900	58,806	**2,045,706**
Rate for discounting scheme liabilities (+/- 0.1%)	1,980,200	58,758	**2,038,958**	2,052,700	60,242	**2,112,942**
Projected service cost						
Longevity (+/- 1 Year)	44,000	343	**44,343**	47,400	322	**47,722**
Rate of increase in salaries (+/- 0.1%)	45,700	332	**46,032**	45,700	332	**46,032**
Rate of increase in pensions (+/- 0.1%)	47,100	338	**47,438**	44,300	326	**44,626**
Rate for discounting scheme liabilities (+/- 0.1%)	44,300	326	**44,626**	47,100	338	**47,438**

Impact on the council's cash flows

The objective of the schemes is to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £2,076 million (£1,713 million 2015/16) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £570 million (£450 million 2015/16). 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. The anticipated service cost in 2017/18 is £45.7 million for the council scheme and £0.332 million for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 18.0 years (18.3 years 2015/16) and 13 years for LPFA scheme members (14 years 2015/16).

36. OTHER LONG-TERM LIABILITIES

	As at 31/03/2017	As at 31/03/2016
	£000	£000
Payments due under PFI schemes and similar arrangements:		
St Michaels Catholic college	14,329	14,584
St Thomas the Apostle College	18,644	19,017
Sacred Heart Catholic school	17,869	18,263
Integrated waste Management Facility	45,072	48,378
Heat Supply Arrangement	4,439	4,646
Payments due under finance leases	-	62
Total cash and cash equivalents	**100,354**	**104,950**

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 (revised in November 2011).

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

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

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

The main risks covered are:

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

Credit risk - investments

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

The Council is able to utilise the expertise of external fund managers to seek to mitigate credit risk in the construction of a well diversified treasury portfolio.

Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and no more than 50% of total investments can be for a period longer than one year.

The Council's exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally, as the risk of any institution failing to make interest repayments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is extremely rare for such entities to be unable to meet their commitments.

A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of

	A	AA	AAA	Total
Up to 1 year	18%	11%	51%	80%
1 - 2 years	0%	2%	11%	13%
2 - 5 years	0%	1%	6%	7%
Total investments	18%	14%	68%	**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 council is exposed to the risk that refinancing of maturing debt may occur at times of unfavourable external borrowing rates. To mitigate this risk the Council has a diversified debt maturity profile limiting the amount of debt required to be refinanced in the course of any one financial year.

The maturity analysis of principal sums borrowed is as follows:

	2016/17	2015/16
	£000	£000
Less than 1 year	5,000	5,000
Between 1 and 5 years	50,751	38,171
Between 5 and 10 years	104,134	97,145
Between 10 and 20 years	105,076	129,644
Over 20 years	192,891	192,891
Total	**457,851**	**462,851**

Market risk

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

All outstanding council debt at 31 March 2017 is from the PWLB. The debt is at fixed rates, with an average maturity of 20 years. The maturity profile of the debt is set out in the Financial Instruments note on page 41 and the council may draw further loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £81 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such a change, unless the debt was extinguished. Legislation would then require a charge to be taken to the Financial Instruments Adjustment Account.

The overall average life of council investments is 0.6 years, within that, the available-for-sale investments have an average life of 1.0 years A 1% change in discount rates on available-for-sale investments at Balance Sheet date would change the fair value by £0.5 million and would be reflected in the Balance Sheet in the available-for-sale reserve. There would be no impact on the comprehensive income and expenditure statement, unless the investments were realised.

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

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	2016/17 £000	2015/16 £000
Income			
Dwelling Rents		(198,889)	(200,368)
Non dwelling rents		(12,022)	(11,449)
Charges for services and facilities		(83,270)	(81,641)
Contributions towards expenditure		(4,937)	(4,747)
Total Income		**(299,118)**	**(298,205)**
Expenditure			
Repairs and maintenance		51,795	55,397
Supervision and management		109,764	125,892
Rents, rates, taxes and other charges		13,612	9,579
Depreciation and impairment of non-current assets	3	140,337	123,423
Debt management costs		208	193
Increase in provisions for bad debts		(331)	4,183
Revenue expenditure funded from capital under statute	4	2,954	1,871
Total expenditure		**318,339**	**320,538**
Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement		**19,221**	**22,333**
HRA share of CDC costs		1,106	1,106
Net Cost of HRA Services		**20,327**	**23,439**
Gains and losses on the sales of HRA non-current assets		(27,670)	(38,599)
Interest payable and similar charges		22,843	22,982
Premiums arising from debt refinancing		-	-
Interest and investment income		(1,406)	(1,131)
Pensions interest cost and expected return on pensions assets		2,493	2,356
Capital grants and contributions receivable		(5,170)	(73,939)
Total (surplus)/deficit for the year		**11,417**	**(64,892)**

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	2016/17	2015/16
		£000	£000
(Surplus)/deficit for the year on HRA services		11,417	(64,892)
Net additional amounts required by statute	5	(9,159)	74,224
(Increase)/decrease in the HRA Balance		**2,258**	**9,332**
HRA Balance brought forward		(16,613)	(25,945)
Balance carried forward	6	**(14,355)**	**(16,613)**

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**	**31/03/2017**	**31/03/2016**
Houses and bungalows	**31/03/2017**	**401**	**724**	**2,862**	**-**	**3,987**	
	31/03/2016	402	730	2,866	-		3,998
Low rise flats	**31/03/2017**	**2,846**	**624**	**352**	**-**	**3,822**	
	31/03/2016	2,865	629	344	-		3,838
Medium rise flats	**31/03/2017**	**6,650**	**7,172**	**6,132**	**-**	**19,954**	
	31/03/2016	6,684	7,192	6,140	-		20,016
High rise flats	**31/03/2017**	**2,912**	**4,706**	**1,801**	**-**	**9,419**	
	31/03/2016	2,962	4,752	1,820	-		9,534
Non-permanent	**31/03/2017**	**-**	**-**	**-**	**2**	**2**	
	31/03/2016	-	-	-	2		2
Multi-occupied	**31/03/2017**	**-**	**-**	**-**	**385**	**385**	
	31/03/2016	-	-	-	327		327
TOTALS	**31/03/2017**	**12,809**	**13,226**	**11,147**	**387**	**37,569**	
	31/03/2016	12,913	13,303	11,170	329		37,715

In addition to the numbers shown in the table above, as at 31 March 2017 there were also 637 void properties (676 at 31 March 2016). 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 buildings as at 1 April 2017 was £13.3 billion (£12.4 billion as at 1 April 2016). 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

	2016/17	2015/16
	£000	**£000**
Dwellings depreciation	75,723	65,705
Other property depreciation	2,761	3,091
Revaluation losses on non-current assets	61,853	54,627
Total	**140,337**	**123,423**

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

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

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

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

In 2016-17 £2.95 million was incurred in the HRA as REFCUS (£1.87 million in 2015-16).

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:

	2016/17	2015/16
	£000	**£000**
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(19)	(178)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(25)	(3)
Gain or loss on the sale of HRA non current assets	27,670	38,599
HRA share of contributions to or from the Pensions Reserve	(3,495)	(3,044)
Capital expenditure funded by the HRA	55,960	35,763
Transfer to/from the Major Repairs Reserve	48,590	48,920
Transfer to/from the Capital Adjustment Account	(137,840)	(45,833)
Net additional amount required by statute to be charged to the HRA	**(9,159)**	**74,224**

6. HRA BALANCE

HRA reserves at 31 March 2017 are £14.3 million (£16.6 million at 31 March 2016) and are allocated as follows:

	2016/17	2015/16
	£m	£m
Regeneration and Development Reserve	-	4.5
Modernisation, Service and Operational Improvement Reserve	3.2	2.5
Financial Risk Reserve	11.1	9.6
Other earmarked reserves	-	-
Total	**14.3**	**16.6**

The Regeneration and Development reserve related to the redevelopment of the Aylesbury Estate and also to the direct delivery of new council homes. In 2016-17 this reserve was applied to finance those aspects of the Housing Investment programme.

The Modernisation, Service and Operational Improvement reserve of £3.2 million comprises £0.6 million for IT modernisation, and £2.6 million for investment in heating efficiency measures.

The Financial Risk reserve, £11.1 million, includes £4.5 million Contingency reserve, broadly representing 1.1% 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, £2.4 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, and £0.7 million for estate parking. In 2016-17 a new reserve of £2.2 million was established relating to debt equalisation and refinancing.

7. MAJOR REPAIRS RESERVE

	2016/17	2015/16
	£000	£000
Balance 1 April	3,577	39,541
Transfers from the Capital Adjustment Account	78,484	68,796
Transfer to the HRA	(29,894)	(19,877)
Financing of capital expenditure	(46,778)	(84,883)
Balance 31 March	**5,389**	3,577

8. CAPITAL EXPENDITURE AND FINANCING

	2016/17	2015/16
	£000	£000
Capital Investment		
Non-current assets	150,125	241,711
REFCUS	2,954	1,871
Total	**153,079**	**243,582**
Funding Source:		

Revenue contributions	55,960	35,763
Capital receipts from the sales of assets	45,171	48,997
Grants and other contributions	5,170	73,939
Major Repairs Reserve	46,778	84,883
Total	**153,079**	**243,582**

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

	2016/17	**2015/16**
	£000	**£000**
Council dwellings		
Right to Buy	(46,416)	(31,870)
Discounts repaid	(268)	(429)
Non Right to Buy	(28,129)	(12,584)
Other receipts		
Land sales	(6,718)	(18,349)
Mortgages	(17)	(19)
Sub total	**(81,548)**	(63,251)
Less: Pooled (paid to central Government)	4,344	4,581
Total	**(77,204)**	(58,670)

10. HOUSING TENANTS ACCOUNTS

	2016/17	**2015/16**
	£000	**£000**
Gross arrears as at 1 April	17,380	19,767
Prior year payments	(9,077)	(9,535)
Arrears as at 1 April	**8,303**	**10,232**
Charges due in the year	240,316	241,676
Rent rebates	(100,544)	(109,587)
Write-offs	(1,033)	(1,276)
Adjustments	(9,072)	(7,282)
Cash collected	(128,691)	(125,456)
Net arrears as at 31 March	**9,279**	8,307
Payments in advance	10,103	9,077
Gross arrears as at 31 March	**19,382**	**17,384**

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

11. IMPAIRMENT OF DEBTORS

	2016/17	2015/16
	£000	£000
Rents	9,880	10,699
Income from hostels	870	793
Court costs	789	786
Commercial rents	577	617
Penalty Charge Notices and parking warrants	2,069	1,582
Total	**14,185**	**14,477**

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.

	2016/17	2015/16
	£000	£000
Current service cost	5,756	5,583
Interest on pension scheme liabilities	2,493	2,356
Actuarial (gains)/losses	18,590	(8,636)
Total IAS 19 charges	**26,839**	**(697)**
Less Pensions costs attributable to the HRA	(4,754)	(4,895)
Movement on the Pensions Reserve	**22,085**	**(5,592)**

13. WATER CHARGES

In March 2016, the High Court (Chancery Division) found that the council had been overcharging a tenant for water supplies via Thames Water, contrary to the Water Resale Order 2006. Refunds to current and former tenants commenced in 2016-17, and the council made appropriate provision in its accounts for this purpose.

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

COLLECTION FUND

The Collection Fund statement is an agent's statement that reflects the statutory obilgation 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 government of council tax and non-domestic rates.

INCOME AND EXPENDITURE ACCOUNT

	Notes	Council Tax	Business Rates	Business Rates Supplement	2016/17		2015/16
		£000	£000	£000	£000		£000
Income							
Income from Council Tax	1	(117,090)			(117,090)		(112,409)
Income from Business Rates	2		(256,737)		(256,737)		(224,414)
Income from Business Rate Supplement	3			(6,962)	(6,962)		(7,071)
Contribution from preceptors towards previous years Collection Fund deficit	4		(14,607)		(14,607)		(13,147)
Total Income		(117,090)	(271,344)	(6,962)	(395,396)		(357,041)
Expenditure							
Precepts and Demands							
Greater London Authority (GLA)		25,180			25,180		25,880
London Borough of Southwark		84,879			84,879		80,002
Share of Business Rates							
Greater London Authority (GLA)			46,077		46,077		45,725
London Borough of Southwark			69,115		69,115		68,587
Communities and Local Government			115,192		115,192		114,311
Transitional protection payment to CLG			446		446		60
Cost of Collection allowance (NNDR)			659		659		652
Business Rate Supplement	3						
Payment to GLA				6,948	6,948		7,054
Administrative costs				14	14		17
Council Tax impairment of debts							
Allowance for impairment		(1,602)			(1,602)		(174)
Write Offs		3,043			3,043		2,574
NDR Impairment of debts & appeals							
Allowance for impairment & write offs			3,421		3,421		783
Provision for appeals	5		21,071		21,071		(11,630)
Contribution to preceptors towards previous years Collection Fund surplus	4	3,180			3,180		5,184
Total Expenditure		114,680	255,981	6,962	377,623		339,025
Net deficit/(surplus) for the year		(2,410)	(15,363)	-	(17,773)		(18,016)
Deficit/(surplus) at 1 April		(4,886)	13,654	-	8,768		26,784
Deficit/(surplus) at 31 March		(7,296)	(1,709)	-	(9,005)		8,768

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

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

In 2016/17 the estimated income required from the Collection Fund for all preceptors was £110.1m (£105.9m in 2015/16). The amount of council tax for a band D property (£1,206.38 in 2016/17 and £1,207.14 in 2015/16) 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	
	2016/17	**2015/16**		**2016/17**	**2015/16**
A	8,537	6,482	6/9	5,691	4,326
B	27,900	22,618	7/9	21,700	17,592
C	25,118	23,840	8/9	22,327	21,191
D	17,112	17,275	1	17,112	17,275
E	11,961	12,391	11/9	14,619	15,144
F	4,612	5,309	13/9	6,662	7,669
G	3,020	3,818	15/9	5,033	6,363
H	454	558	18/9	909	1,116
Total	**98,714**	**92,290**		**94,053**	**90,674**
Less adjustment for collection rate				(2,822)	(2,947)
Council Tax Base for year				**91,231**	87,727
Estimated Income Required from Collection Fund				**£ 110,059,254**	£ 105,899,109
Band D Council Tax				**£ 1,206.38**	£ 1,207.14

2. NON-DOMESTIC RATES

Non-Domestic Rates (NDR) or business rates are collected from local businesses by the council. From 1 April 2013 the Business Rates Retention scheme was introduced. 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 2016/17 was 49.7p with a lower rate of 48.4p for small businesses (49.3p and 48.0p respectively for 2015/16). Local businesses pay NDR calculated by multiplying their rateable value by the appropriate multiplier and subtracting any relevant reliefs.

The total rateable value in Southwark at 31 March 2017 was £571.4 m (£549.2 m at 31 March 2016).

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 2016/17 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 2016, the council estimated an accumulated collection fund deficit balance of £11.4m for 2015/16 as follows:

	Council Tax	Business Rates	Total
	£000	**£000**	**£000**
(Surplus)/Deficit as at 31 March 2015	(5,943)	32,726	26,783
Less estimated deficit/(surplus) for 2015/16	2,763	(13,598)	(10,835)
Less spreading adjustment (see below)		(4,521)	(4,521)
Estimated surplus as at 31 March 2016	(3,180)	14,607	11,427

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	(2,404)	30	4,382	1,978
Greater London Authority	25	(776)	20	2,921	2,145
Central Government			50	7,304	7,304
Estimated surplus for 2015/16 redistributed in 2016/17		**(3,180)**		**14,607**	**11,427**

5. PROVISION FOR BUSINESS RATE APPEALS

Historically, the balance on the NDR 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 NDR 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 2017 is £40.3m (£19.3m at 31 March 2016).

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 control.

CONTINGENT LIABILITY
- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

COUNCIL TAX
The main source of local taxation to local authorities. It is levied on households within the council's area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the council's own General Fund.

CREDITORS
Amounts owed by the council for goods and services received but not paid for as at 31 March.

CURRENT SERVICE COST
An estimate of the true economic cost of employing people in a financial year.

DEBTORS
Amounts owed to the council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED CAPITAL RECEIPTS
These represent capital income still to be received after disposals have taken place and wholly consist of principal outstanding from the sale of council houses.

DEFINED BENEFIT 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 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.
- the parties, or any member of a group of which it is a part, provides key management personnel services to the other, or to the parent of the other, reporting entity.

RELATED PARTY 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.

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2016-17		2015-16	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(52,212)		(55,479)	
Transfers in from other pension funds	7	(3,577)		(5,702)	
Sub total			**(55,789)**		**(61,181)**
Benefits	8	57,367		56,850	
Payments to and on account of leavers	9	2,902		4,905	
Sub total			**60,269**		**61,755**
Net reduction/(addition) from dealing with members of the fund			**4,480**		**574**
Management expenses	10		**5,096**		**4,549**
Returns on investments					
Investment income	11	(14,324)		(12,717)	
Taxes on income	11	175		155	
Profit and losses on disposal of investments and changes in market value of investments	12	(234,037)		(1,212)	
Net return on investments			**(248,186)**		**(13,774)**
Net (increase)/decrease in the net assets available for benefits during the year			**(238,610)**		**(8,651)**
Opening net assets of the scheme			(1,256,382)		(1,247,731)
Net assets of the scheme available to fund benefits at 31 March			**(1,494,992)**		**(1,256,382)**

NET ASSETS STATEMENT

	Note	31/03/2017 £000	31/03/2016* £000
Investment assets	12	1,487,842	1,246,582
Current assets	13	13,612	14,936
Current liabilities	13	(6,462)	(5,136)
Net assets of the scheme available to fund benefits at 31 March		**1,494,992**	**1,256,382**

**The fund's accounting policies for accrued dividend entitlements have been reviewed for the 2016-17 statement of accounts and have resulted in a change of classification from treatment as a current asset to an investment asset. To reflect this change the 2015-16 net asset statement has been restated. The value of accrued dividend entitlements as at the 31 March 2016 is £1,143k.*

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

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 2016-17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

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

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

b) Membership

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

Organisations participating in the Fund include:

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

A list of participating organisations and their contributions for the financial year 2016-17 is included within the Pension Fund Annual Report 2016-17. This is available from the council website on the following link.
https://www.2.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report

	31/03/2017	**31/03/2016**
Number of contributors to the Fund	6,914	7,117
Number of contributors and dependants receiving allowances	7,483	7,212
Number of contributors who have deferred their pensions	7,895	7,858

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 2017. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2016. Currently, employer rates range from 10.7% to 17.8% 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 2016-17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016-17*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) *Contributions income*

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

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

b) *Transfers to and from other schemes*

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

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

c) *Investment income*

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

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

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset . Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.
Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

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

d) Fund account – benefits payable

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

e) Fund account – taxation

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

f) Management Expenses

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

Administrative expenses

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

Oversight and Governance costs

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

Investment management expenses

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

Net Asset Statement

g) *Financial assets*

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

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

h) *Freehold and leasehold property*

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

i) *Derivatives*

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

j) *Cash and cash equivalents*

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

k) *Financial liabilities*

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

l) *Actuarial Present Value of Promised Retirement Benefits*

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

m) *Additional voluntary contributions*

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Property Unit Trust Valuation
Fund investment assets in property funds were reclassified as level 3 from level 2 within the fair valuation hierarchy. This change was the result of additional information becoming available as to the nature of the funds and following consideration of recently published guidance on the classification of investment assets. The funds are valued infrequently on a monthly basis based upon an assessment of the net asset value. Furthermore the funds have, differing but significant, impediments to the redemption of assets, including significant time period delays to redemption, redemption only at manager discretion or only in certain circumstances. Key sensitivities and judgements therefore are present in the potential market movements between valuation and redemption dates.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits (Note 19)	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied.	A 1.0% change in the discount rate is estimated to change the present value of pension liability by £215m
Freehold and leasehold property, pooled property funds (Note 12)	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £10m, on a fair value of £240m.

6. CONTRIBUTIONS RECEIVABLE

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

	2016-17			2015-16		
	Employees	**Employers**	**Total**	**Employees**	**Employers**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Southwark Council	(10,906)	(37,315)	(48,221)	(11,295)	(39,881)	**(51,176)**
Admitted bodies	(298)	(873)	(1,171)	(346)	(1,145)	**(1,491)**
Scheduled bodies	(905)	(1,915)	(2,820)	(900)	(1,912)	**(2,812)**
Total Contributions	**(12,109)**	**(40,103)**	**(52,212)**	**(12,541)**	**(42,938)**	**(55,479)**

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Contributions receivable from employers are shown below:

	2016-17 £000	2015-16 £000
Normal	(23,075)	(23,919)
Early retirement strain	(3,840)	(4,795)
Deficit funding	(13,188)	(14,224)
Total contributions from employers	**(40,103)**	**(42,938)**
Contributions from employees	(12,109)	(12,541)
Total Contributions	**(52,212)**	**(55,479)**

During 2016-17 employees made Additional Voluntary Contributions (AVCs) of £179k (£468k in 2015-16). The value of the AVCs at 31 March 2017 was £2.6 million (£2.7 million at 31 March 2016).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2016-17 £000	2015-16 £000
Individual transfers	(3,577)	(5,702)
Total transfers in from other pension funds	**(3,577)**	**(5,702)**

8. BENEFITS PAYABLE

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

	2016-17 £000	2015-16 £000
Pensions	44,118	43,630
Commutation of pensions and lump sum retirement benefits	11,960	11,923
Lump sums – death benefits	1,289	1,297
Total benefits payable	**57,367**	**56,850**

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

	2016-17 £000	2015-16 £000
Southwark Council	55,182	54,929
Admitted bodies	1,431	1,582
Scheduled bodies	754	339
Total benefits payable	**57,367**	**56,850**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016-17 £000	2015-16 £000
Refund of contributions	94	90
State Scheme Premiums	40	114
Individual transfers out to other schemes	2,768	4,701
Total payments	**2,902**	**4,905**

10. MANAGEMENT EXPENSES

	2016-17 £000	2015-16* £000
Administrative costs	1,579	1,430
Investment and management expenses	3,103	2,742
Oversight and governance costs	414	377
Total management expenses	**5,096**	**4,549**

**Restated to account for recent changes to the Code of Practice regarding the classification of management expenses.*

During 2016-17, the fee for external audit services for the pension fund was £21k (£21k in 2015-16)

The table below shows the total investment and management expenses

	2016-17 £000	2015-16 £000
Management Fees	2,342	2,308
Performance Fees	-	-
Property Management Expenses	694	355
Custody Fees	67	79
Total Investment expenses	**3,103**	**2,742**

The pension fund incurred expenses of £1.0m in relation to services provided by the council during 2016-17 (£0.8m during 2015-16).

11. INVESTMENT INCOME

	2016-17 £000	2015-16 £000
Dividends from equities	(3,404)	(2,601)
Income from pooled investment vehicles	(2,034)	(1,813)
Net rent from properties	(8,819)	(8,207)
Interest on cash deposits	(10)	(75)
Other income	(57)	(21)
Total investment income before taxes	**(14,324)**	**(12,717)**
Taxes on income	175	155
Total investment income after taxes	**(14,149)**	**(12,562)**

12. INVESTMENT ASSETS

		31/03/2017 £000	31/03/2016 £000
Bonds			
	Quoted Overseas	11,702	5,793
Equity			
	Quoted UK	11,353	12,651
	Quoted Overseas	130,931	104,033
Pooled Funds			
	Fixed Income Overseas	121,111	117,561
	Index Linked Gilts	144,332	119,853
	Multi Asset	122,264	118,474
Unitised Insurance Policy		696,217	555,780
Property			
	Direct Property	160,200	167,000
	Property Unit Trust	80,057	43,989
Derivatives			
	Forward currency contracts	(19)	55
Cash Deposits		8,100	100
London Collective Investment Vehicle (CIV)		150	150
Other Investment Balances		1,445	1,143
Investment Assets		**1,487,842**	**1,246,582**

Note 12 is restated from 2015-16 to account for the change in accounting policy for accrued dividend entitlement to be reclassified as other investment balances as part of investment assets, rather than a current asset. The value of accrued dividend entitlements as at the 31 March 2016 is £1,143k.

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 31/03/2016 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/2017 £000
Bonds	5,793	40,221	(35,633)	1,321	-	11,702
Equity	116,684	48,550	(47,183)	24,233	-	142,284
Pooled Funds	355,888	76,074	(116,961)	72,705	-	387,706
Unitised Insurance Policy	555,780	288,120	(287,123)	139,440	-	696,217
Property	210,989	40,123	(6,913)	(3,942)	-	240,257
Derivatives	55	1,535	(1,889)	280	-	(19)
Cash Deposits	100	-	-	-	8,000	8,100
London Collective Investment Vehicle (CIV)	150	-	-	-	-	150
Other Investment balances	1,143	-	-	-	302	1,445
Investment Assets	**1,246,582**	**494,623**	**(495,702)**	**234,037**	**8,302**	**1,487,842**

	Value at 31/03/2015 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/2016 £000
Bonds	8,150	22,335	(24,855)	163	-	5,793
Equity	107,586	53,546	(52,158)	7,710	-	116,684
Pooled Funds	127,159	267,863	(36,164)	(2,970)	-	355,888
Unitised Insurance Policy	817,835	1,972	(249,970)	(14,057)	-	555,780
Property	174,117	34,023	(7,302)	10,151	-	210,989
Derivatives	0	521	(681)	215	-	55
Cash Deposits	4,428	-	-	-	(4,328)	100
London Collective Investment Vehicle (CIV)	0	-	-	-	150	150
Other Investment balances	314	-	-	-	829	1,143
Investment Assets	**1,239,589**	**380,260**	**(371,130)**	**1,212**	**(3,349)**	**1,246,582**

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, our active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by TH Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2017. All properties have been valued at market value.

The Investment Strategy Statement can be accessed on the council's website via the following link http://www.2.southwark.gov.uk/downloads/download/4759/southwark_pension_fund_administration_strategy Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark Council, Finance and Governance, PO Box 64529, London SE1P 5LX.

The following investments represent more than 5% of investment assets.

Name of Investment	Fund Manager	31/03/2017	% of investment assets	31/03/2016	% of investment assets
		£000	%	£000	
North America Equity	Legal & General	206,559	14%	152,946	12%
US Equity Fund	Blackrock	134,526	9%	115,968	9%
Diversified Growth Fund	Blackrock	122,264	8%	118,475	10%
Absolute Return Bond Fund	Blackrock	121,111	8%	117,561	9%
+5 Year Index Linked Gilt Fund	Legal & General	77,043	5%	63,053	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2017 has been set out in the table below.

Investment Manager	31/03/2017		31/03/2016	
	£000	%	£000	%
BlackRock	670,335	45%	595,839	48%
Legal & General Investment Managers	413,588	28%	315,953	25%
TH Real Estate (formerly Henderson Global Investors)	200,608	13%	204,027	16%
Newton Investment Management	153,966	10%	129,463	11%
M&G Real Estate	20,006	1%	-	-
Invesco Real Estate	14,897	1%	-	-
Brockton Capital LLP	7,934	-	5,148	-
Frogmore Real Estate Partners	4,913	-	3,551	-
London CIV	150	-	150	-
Total	**1,486,397**		**1,254,131**	

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	2016-17 £000	2015-16* £000
Contribution due from employers	3,578	3,124
Other current assets	3,467	1,774
Cash at managers	5,835	8,210
Cash and bank	732	1,828
Total	**13,612**	**14,936**

Restated to account for the change in accounting policy for accrued dividend entitlement to be reclassified as an investment asset, rather than other current assets. The value of accrued dividend entitlements as at the 31 March 2016 is £1,143k.

The current liabilities of the fund are analysed as follows:

	2016-17 £000	2015-16 £000
Support services	(1,759)	(33)
Benefits	(111)	(323)
Professional fees	(563)	(473)
Investment	(2,131)	(1,915)
Taxes	(1,361)	(1,131)
Other	(537)	(1,261)
Total	**(6,462)**	**(5,136)**

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 28.

Management of the Pension Fund is the responsibility of the council's strategic director of finance and governance. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 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 £37.3 million to the fund in 2016-17 (£39.9 million in 2015-16).

15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. They comprise property unit trusts.

- Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and some property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

The following table shows the fair value valuation hierarchy of Fund assets and liabilities.

Value as at 31 March 2017	**Quoted market price**	**Using observable inputs**	**With significant un-observable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	1,002,635	243,524	80,057	**1,326,216**
Non-financial assets at fair value through profit and loss	-	-	160,200	**160,200**
Financial liabilities at fair value through profit and loss	(19)	-	-	**(19)**
Total	**1,002,616**	**243,524**	**240,257**	**1,486,397**

Value as at 31 March 2016*	Quoted market price	Using observable inputs	With significant un-observable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,025,601	43,989		**1,069,590**
Non-financial assets at fair value through profit and loss	-	-	167,000	**167,000**
Financial liabilities at fair value through profit and loss	-	-	-	-
Total	1,025,601	43,989		**1,236,590**

The following table shows the reconciliation of fair value measurements within level 3.

	Value at 31/03/2016 £000	Transfers in/ (out) of level 3	Purchase £000	Sales £000	Realised gain/(loss)	Unrealised gain/(loss)	Value at 31/03/2017 £000
Property	167,000	43,989	40,123	(6,913)	(519)	(3,423)	240,257
Total	**167,000**	**43,989**	**40,123**	**(6,913)**	**(519)**	**(3,423)**	**240,257**

Transfers into level 3 comprise property unit trusts that were classified as level 2 for 2015-16. The explanation for this transfer is set out as part of Note 4.

The sensitivity analysis for the valuation of property investments, classified as level 3, is included within Note 18.

16. FINANCIAL INSTRUMENTS

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

	2016-17 £000	2015-16* £000
Financial assets		
Loans and receivables	23,157	16,079
Financial assets at fair value through profit and loss	1,318,117	1,069,590
Financial liabilities		
Financial liabilities at amortised cost	(6,462)	(5,136)
Financial liabilities at fair value through profit and loss	(19)	-
Total	**1,334,793**	**1,080,533**

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2017 totalled £19.2m (31 March 2016: £55.6m)

These commitments relate to outstanding call payments due on property The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Pension Fund's primary long-term risk is that the funds assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the funds risk management strategy rests with the strategic director for finance and governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased in line In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible for the 2016-17 reporting period:

2016-17 - Asset Type	31/03/2017 £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	838,500	9.7	919,835	757,166
Total Bonds & Indexed linked	277,145	8.8	301,542	252,748
Multi-Asset	122,264	5.1	128,499	116,028
Property	240,257	4.1	250,108	230,407
Cash Deposits	8,100	0.0	8,101	8,099
Other Assets	1,576	0.0	1,576	1,576
Investment Assets	**1,487,842**		**1,608,517**	**1,364,279**

2015-16 - Asset Type	31/03/2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	672,462	9.7	737,692	607,234
Total Bonds & Indexed linked	243,208	7.3	260,962	225,454
Multi-Asset	118,475	5.0	124,399	112,551
Property	210,989	3.7	218,796	203,183
Cash Deposits	100	0.0	100	100
Other Assets	1,348	0.0	1,348	1,348
Total Assets	**1,246,582**		**1,343,297**	**1,149,870**

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.
Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2017	**146,725**	**148,192**	**145,257**
As at 31 March 2016	**133,757**	**135,095**	**132,419**

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**	**Change %**	**Value on foreign exchange rate increase £000**	**Value on foreign exchange rate decrease £000**
As at 31 March 2017	**912,889**	**11.2**	**1,015,176**	**810,601**
As at 31 March 2016	**740,403**	**10.0**	**814,443**	**666,363**

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.

19. ACTUARIAL POSITION OF THE FUND

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,256.4M) covering 88% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:

- 15.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate). **Plus**
- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 18 years from 1 April 2017 (the secondary rate), equivalent to 5.6% of pensionable pay (or £10.7M in 2017/18, and increasing by 3.5% p.a. thereafter).

In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.

The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate	4.55% p.a.
Rate of pay increases (additional allowance made for promotional increases)	3.50% p.a.
Rate of increase to pension accounts	2.00% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.00% p.a.

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) Core Projections Model released with Working Paper 91 with Core assumptions, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.4	26.1
Future pensioners aged 45 at the valuation date	24.0	27.8

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 30 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

The report on the actuarial valuation as at 31 March 2016 is available on request from London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2017

Actuarial Present Value of Promised Retirement Benefits

IAS 26 (retirement benefit plans) requires the ‘actuarial present value of promised retirement benefits’ to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2016.

	31 March 2016 £m	**31 March 2013 £m**
Fair value of net assets	1,256	995
Actuarial present value of promised retirement benefits	(1,671)	(1,451)
Surplus/(deficit) in the fund as measured for IAS26	**(413)**	**(456)**

20. POST BALANCE SHEET EVENTS

No such material events have occurred.

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MUNICIPAL YEAR 2017-18

COMMITTEE: **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)**

NOTE: Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or virginia.wynn-jones@southwark.gov.uk

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LAW AND DEMOCRACY	
Norman Coombe	1
Doreen Forrester-Brown	1
COMMUNICATIONS	
Louise Neilan	By email
CONSTITUTIONAL TEAM	
Gerald Gohler	3
INDEPENDENT PERSONS	
Mr William Dee	By email
Mr Charles Wynn-Evans	By email

FINANCE AND GOVERNANCE	
Duncan Whitfield	1
Jo Anson	1
Jennifer Seeley	1
Fay Hammond	1
BDO (Internal Auditors) – Greg Rubins	By email
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