Open Agenda

Southwark Council

Audit, Governance and Standards Committee

Thursday 25 April 2024
6.30 pm
160 Tooley Street, London SE1 2QH

Membership

Councillor Barrie Hargrove (Chair)
Councillor John Batteson
Councillor Dora Dixon-Fyle MBE
Councillor Gavin Edwards
Councillor Hamish McCallum
Councillor Graham Neale
Councillor Andy Simmons

Reserves

Councillor Cassandra Brown
Councillor Sam Foster
Councillor Kimberly McIntosh
Councillor David Watson

INFORMATION FOR MEMBERS OF THE PUBLIC

Access to information

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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
Althea Loderick
Chief Executive
Date: 17 April 2024

PRINTED ON RECYCLED PAPER

Audit, Governance and Standards Committee

Thursday 25 April 2024
6.30 pm
160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.
	PART A - OPEN BUSINESS	
	The chair would like to remind members that prior to the meeting they have the opportunity to inform officers of particular areas of interest relating to reports on the agenda, in order for officers to undertake preparatory work to address matters that may arise during debate.	
1.	**APOLOGIES FOR ABSENCE**	
	To receive any apologies for absence.	
2.	**CONFIRMATION OF VOTING MEMBERS**	
	A representative of each political group will confirm the voting members of the committee.	
3.	**NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT**	
	In special circumstances, an item of business may be added to an agenda within five clear days of the meeting.	
4.	**DISCLOSURE OF INTERESTS AND DISPENSATIONS**	
	Members to declare any personal interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	**MINUTES**	1 - 7
	To approve as a correct record the minutes of the open section of the meeting held on 5 February 2024	

Item No.	Title	Page No.
6.	**2022-23 STATEMENT OF ACCOUNTS INCLUDING THE PENSION FUND AND AUDIT FINDINGS REPORTS**	8 - 166

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

EXCLUSION OF PRESS AND PUBLIC

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

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

PART B - CLOSED BUSINESS

Date: 17 April 2024

Agenda Item 5

Audit, Governance and Standards Committee

MINUTES of the OPEN section of the Audit, Governance and Standards Committee held on Monday 5 February 2024 at 6.30 pm at Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

PRESENT:	Councillor Barrie Hargrove (Chair) Councillor John Batteson Councillor Gavin Edwards Councillor Hamish McCallum Councillor Andy Simmons
OFFICER SUPPORT:	Clive Palfreyman, strategic director of finance Doreen Forrester-Brown, assistant chief executive, governance and assurance Ben Plant, director of HR Althea Loderick, chief executive, Rhona Cadenhead, consultant, strategy and communities Toni Ainge, acting strategic director of environment, neighborhoods and growth Dave Pugh, head of leisure insourcing Tim Jones, director of corporate finance Laura Sandy, risk manager Stuart Davis, director of new homes Nannette Sakyi, strategic lead, housing Dionne Lowndes, chief digital & technology officer Ciaran Weldon, enterprise architect Joanne Brown, Grant Thornton Nick Halliwell, Grant Thornton Angela Mason-Bell, BDO Aaron Winter, BDO Geraldine Chadwick, senior finance manager

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Sarah King and Graham Neale, and Nick Baker, BDO.

Councillor Sam Foster was present as a reserve member.

2. CONFIRMATION OF VOTING MEMBERS

The members present were confirmed as the voting members.

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

The chair agreed to hear item 21, Review of the code of corporate governance, after item 6, Governance conversation.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

5. MINUTES

The minutes of the audit, governance and standards committee of 15 November 2023 were agreed as a correct record.

6. GOVERNANCE CONVERSATION: DOREEN FORRESTER-BROWN

Doreen Forrester-Brown, assistant chief executive, governance and assurance, and Ben Plant, director of people and organisational development, addressed the committee. The committee had questions for the officers.

Members thanked the assistant chief executive and director for attending the meeting.

7. SOUTHWARK COUNCIL CORPORATE PEER CHALLENGE

Althea Loderick, the chief executive, and Rhona Cadenhead presented the report. Members had questions of the officers.

Officers undertook to ensure the council has publically visible SMART targets for the housing repairs plan going forward, with named officers responsible for them.

RESOLVED:

That the committee noted:

- The Local Government Association Corporate Peer Challenge Report
- The council action plan agreed by Cabinet on 17 January 2024.

8. IN-HOUSING OF THE LEISURE CONTRACT UPDATE

Toni Ainge, acting strategic director of environment, neighbourhoods and growth, and Dave Pugh, head of leisure insourcing, presented the report. Members had questions for the officers.

Officers undertook to circulate next year's expected financial targets to the committee members.

RESOLVED:

That the Audit, Governance and Standards Committee noted the information in the report in relation to the insourcing of the leisure service and first seven months of operation.

9. RISK MANAGEMENT AND INSURANCE

Officers introduced the report.

RESOLVED:

1. That the audit, governance and standards committee noted the annual report on corporate risk and insurance.

2. That the audit, governance and standards committee reviewed the current corporate risk register and confirmed they would offer no comments to officers for their consideration prior to the publication of the register by the Strategic Director of Finance.

10. SOUTHWARK CONSTRUCTION - RETROSPECTIVE CONTRACT VARIATIONS

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the Audit, Governance and Standards Committee noted that the current governance process that is in place is not wholly aligned to the construction routes being undertaken, nor are they aligned to the current construction contracts which are the overriding legal context to which the council (the employer) needs to adhere to with the Contractor. Thus the Audit, Governance and Standards Committee noted that Southwark Construction has sought to exercise contract standing orders clause 6.7 to confirm additional costs, following their initial approvals as per the relevant JCT building contract, so as not to unduly delay the works on site and risk incurring additional costs as a result.

2. That the Audit, Governance and Standards Committee noted the actions taken by the Southwark Construction as set out in paragraphs 20-22 of the report to review and enhance the operational and governance arrangements for new build projects to mitigate against the risk of incurring additional unforeseen costs within their building programme in the future.

3. That the Audit, Governance and Standards Committee noted that Southwark Construction will move to a centrally managed contingency fund that covers all programme schemes, or sectional part thereof, such that localised spend is prevented and, instead, a more stringent route to managing contingency spend is

established. This is likely to incorporate higher levels of control whereby the Managing Director of Southwark Construction will need to satisfy themselves that any additional call for expenditure has been thoroughly checked and tested with a view to cost prevention and only when that has been exhausted that a recommendation for use of the global contingency may be passed to the Strategic Director for final approvals. An expenditure monitoring tool will be established accordingly.

11. IT GOVERNANCE UPDATE - CYBER SECURITY

Officers introduced the report. Members had questions of officers.

RESOLVED:

That the audit, governance and standards committee noted the actions being taken in the report.

12. 2021-22 AUDIT FINDINGS REPORTS FOR LONDON BOROUGH OF SOUTHWARK AND PENSION FUND

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

Officers undertook to come back to the committee after the 2022-23 accounts have been signed off with an action plan for internal improvements.

RESOLVED:

1. That the Audit, Governance and Standards Committee:

   a) considered the matters raised in Grant Thornton's updated audit findings report for 2021-22 (appendix A of the report) before approval of the council's main accounts

   b) noted the adjustments to the main accounts as set out in pages 27-30 of the updated audit findings report (appendix A of the report)

   c) considered the matters raised in the Pension Fund updated audit findings report 2021-22 (appendix B of the report) prior to approval of the Pension Fund accounts

   d) noted the adjustments to the Pension Fund accounts as set out in page 14-15 of the audit findings report

   e) approved the letters of representation for the council and pension fund as required by Grant Thornton in order to conclude the audit of 2021-22 statement of accounts.

12. AUDITOR'S ANNUAL REPORT ON SOUTHWARK COUNCIL 2021-22

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

The committee thanked Grant Thornton for their work.

RESOLVED:

1. That the audit, governance and standards committee noted the external auditor's annual report for 2021-22, as attached at Appendix A of the report.

13. INFORMING THE AUDIT RISK ASSESSMENT FOR THE PENSION FUND 2022/23 AND EXTERNAL AUDIT PLAN FOR THE SOUTHWARK PENSION FUND 2022/23

Grant Thornton introduced the report.

RESOLVED:

1. That the audit, governance and standards committee noted the audit risk assessment for London Borough of Southwark and Pension Fund 2022/23 report, as attached at Appendix A of the report.

2. That the audit, governance and standards committee noted the external audit plan for 2022-23 for Southwark pension fund, as attached at Appendix B of the report.

14. INTERNAL AUDIT PLAN AND STRATEGY FOR INTERNAL AUDIT AND INTERNAL AUDIT CHARTER

BDO introduced the report. Members had questions for BDO.

Officers undertook to circulate comments and proposals on the repairs improvement plan to the committee members.

Officers undertook to either expand the audit for housing and street lighting together, or to audit the systems separately.

RESOLVED:

1. That the audit, governance and standards committee noted the report, as attached at Appendix A of the report.

15. PROGRESS REPORT ON THE WORK OF INTERNAL AUDIT

BDO introduced the report.

RESOLVED:

1. That the audit, governance and standards committee noted the report, as attached at Appendix A of the report.

15. PROGRESS REPORT ON THE WORK OF ANTI-FRAUD

BDO introduced the report.

RESOLVED:

1. That the audit, governance and standards committee noted the report, as attached at Appendix A of the report.

16. REVIEW OF COMPLAINTS MADE UNDER THE MEMBERS' CODE OF CONDUCT IN 2023

Officers introduced the report. Members had questions of the officers.

RESOLVED:

1. That the audit, governance and standards committee noted the report.

17. REPORT ON OPERATIONAL USE OF REGULATION OF INVESTIGATORY POWERS ACT

Officers introduced the report.

RESOLVED:

1. That the audit, governance and standards committee noted the report.

18. ANNUAL REPORT ON THE WORK AND PERFORMANCE OF THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE IN 2023-24

Officers introduced the report. Members had questions of the officers.

RESOLVED:

1. That the audit, governance and standards committee forward this report on its work and performance in 2023-24 to all councillors, subject to any amendments it wishes to make.

2. That the audit, governance and standards committee consider the CIPFA assessment questionnaire at appendix B be brought back to the audit, governance and standards committee in June 2024.

19. ANNUAL WORK PROGRAMME FOR FOLLOWING YEAR (2024-25)

Officers introduced the report. Members had questions for the officers.

Officers undertook to include a report on the governance workings in HR to the work programme in 2024-25.

The chair undertook to discuss the programme of governance conversations with the strategic director of finance before the next meeting of the committee.

RESOLVED:

1. That the audit, governance and standards committee considered the proposed draft work programme for 2024-25 and agreed to have the annual work programme brought back to the June 2024 meeting of the audit, governance and standards committee to confirm the format of the governance conversations.

2. That the audit, governance and standards committee, subject to any requested changes, agreed the work programme for 2024-25 set out in Appendix 2 of the report.

20. NOMINATIONS OF NON-VOTING CO-OPTED MEMBERS OF THE CIVIC AWARDS SUB-COMMITTEE FOR 2023-24

Officers introduced the report. Members had questions of the officers.

RESOLVED:

1. That the committee considered the nominations for the positions of co-opted members of the audit, governance and standards (civic awards) sub-committee outlined in closed Appendix 1 and agreed to select three of the nominations plus the position held for the Civic Society.

21. REVIEW OF CODE OF CORPORATE GOVERNANCE

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the audit, governance and standards committee formally adopted the revised code of corporate governance (attached at Appendix A of the report) with no changes.

Meeting ended at 9.20 pm

CHAIR:

DATED:

Agenda Item 6

Meeting Name:	Audit, governance and standards committee
Date:	25 April 2024
Report title:	2022-23 statement of accounts including the pension fund and audit findings reports
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A

RECOMMENDATION(S)

1. That the audit, governance and standards committee:

   a. Consider the matters raised in Grant Thornton's audit findings report for the council 2022-23 (appendix A) before approval of the council main accounts

   b. Note the adjustments to the council's accounts as set out in pages 37-42 of the audit findings report (appendix A)

   c. Consider the matters raised in the pension fund audit findings report 2022-23 (appendix B) before approval of the Pension Fund accounts

   d. Note the adjustments to the pension fund accounts as set out in pages 22-24 of the audit findings report

   e. Approve the letters of representation for the council and pension fund (appendix C and appendix D) as required by Grant Thornton in order to conclude the audit of 2022-23 statement of accounts

   f. Approve the Statement of Accounts 2022-23 (appendix E).

   g. Note the internal audit report on an objection to the 2021-22 statement of accounts (appendix F)

BACKGROUND INFORMATION

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

3. There are separate audit findings reports from the auditor for the main accounts and the Pension Fund accounts due to the separate audits for both areas.

4. The auditor is required by professional auditing standards to report to the committee certain matters before giving their opinion on the financial statements.

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:

   a. reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the audit, governance and standards committee;
   b. share information to assist both the auditor and the committee to fulfil their respective responsibilities;
   c. provide the committee with recommendations for improvement arising from the audit process.
   d. Before the auditor issues their formal opinion, they will require letters of representations to be provided by the council.

KEY ISSUES FOR CONSIDERATION

Audit Opinion

7. The auditor has completed the audit of the financial statements for both 2021-22 and 2022-23 and anticipates issuing unqualified opinions for both sets of accounts. In common with the vast majority of local authorities there have been substantial delays in completion of audits in recent years. The situation at Southwark was further exacerbated by staffing changes of key personnel both at the Council and to the audit team during the audit period.

8. The current phase of the audit commenced in October 2023 and in the intervening period the auditors and council staff have been working on completing the outstanding areas of the 2021-22 audit as well as the 2022-23 audit. The 2021-22 accounts and Audit Findings Report were presented to the committee in November 2023 and February 2024. The Committee has approved the 2021-22 accounts and delegated authority to the Director of Finance in consultation with the Chair of the audit, governance and standards to approve any changes required by the conclusion of the audit. The only change required to the 2021-22 main statements was a reduction in the reported net asset for Southwark's share of the London Pension Fund Authority's pension fund from £14.84m to nil as result of applying updated accounting guidance in this area. This accounting change has no impact on the usable reserves of the Council.

9. The purpose of Grant Thornton's Audit Findings Reports (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. The auditors will present their findings to this committee.

10. The draft 2022-23 statement of accounts were approved by the audit, governance and standards committee on 17 July 2023. A number of

adjustments to the draft 2022-23 statement of accounts were made as a result of the audit which are detailed in pages 37-42 of the council audit findings report and pages 22-24 of the pension fund audit findings report. There are no areas of dispute between the council and the auditors and the adjustments mainly relate to fixed asset accounting. Changes have been made to processes for 2023-24 accounts to minimise the risk of similar misstatements occurring again. A number of amendments were also made to the disclosure notes as well as presentational changes. These are detailed in appendix C of the council AFR and appendix B of the pension fund AFR. None of the adjustments impact on the usable reserves of the Council.

11. The Department of Levelling Up, Housing and Communities (DLUHC) are in the process of introducing legislation which will enforce a legal backstop i.e. a deadline of 30 September 2024 for completion of all audits for 2022-23 and earlier years. Where this does not happen the auditors will be required to issue a disclaimer opinion which essentially means that they are unable to issue an opinion as the audit cannot be completed. This means further assurance will be required for future year's audits. Additional backstop dates will be implemented for future years over a five year period to allow the sector to reset itself back to a situation where most authorities can publish audited financial statements within the normal statutory deadline of 30 September.

12. According to data from the consultancy firm LG improve, as at the end of March 2024 only 21% of local authorities nationally had published 2022-23 audited accounts and 54% has published their 2021-22 accounts. For London 9 boroughs have published audited 2022-23 accounts and 17 have published 2021-22 audited accounts. In this context, subject to the resolution of the audit objection which is expected shortly, Southwark's performance is comparable to other boroughs and the council will avoid the risk of breaching the statutory (backstop) deadline.

13. The outcome of the VFM work will be reported by Grant Thornton in the auditor's annual report which is expected to be presented to the committee in June 2024.

14. There was one objection to the 2021-22 accounts which has been investigated and an internal audit report on the objection is attached in appendix F. The council will be able to issue a notice of conclusion of the audits for 2021-22 and 2022-23 once the objection has been formally resolved.

Letters of representation

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

Policy framework implications

16. There are no direct policy framework implications in this report.

Community impact statement

17. This report and the accompanying accounts are not considered to have a direct impact on local people and communities. However, good financial management and reporting arrangements are important to the delivery of local services and to the achievement of outcome.

Equalities (including socio-economic) impact statement

18. This report is no considered to contain any proposals that would have a significant equalities impact.

Health impact statement

19. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

20. This report is no considered to contain any proposals that would have a significant impact on climate change.

Resource implications

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

Financial implications

22. This report is financial in nature but does not give rise to any direct costs

Legal Implications

23. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act 1998 and regulations made there under.

Consultation

24. Consultation on the draft statement of accounts is carried out through formal public inspection. The accounts were open for public inspection from 3rd July to 14 August 2023.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

25. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Department of Finance files	Finance Department, Second Floor, Tooley Street	Amarjit Uppal 0207 525 4578

APPENDICES

No.	Title
Appendix A	Audit Findings Report for Southwark Council 2022-23
Appendix B	Audit Findings Report for Southwark Council Pension Fund 2022-23
Appendix C	Letter of Representation for Southwark Council
Appendix D	Letter of Representation for Southwark Council Pension Fund
Appendix E	Statement of Accounts 2022-23 for Southwark Council and Pension Fund
Appendix F	Objection review – Fair Community Housing Services (to follow)

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Amarjit Uppal, Chief Accountant	
Version	Final	
Dated	15 April 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive, Governance and Assurance	No	N/A
Strategic Director, Finance	No	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		15 April 2024

Grant Thornton

Audit Findings for Southwark Council

Year ended 31 March 2023

DRAFT SUBJECT TO CONCLUSION OF THE AUDIT

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2032 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and 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 income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed in a hybrid manner with a mixture of remote and on site working from October to March. Our work is nearing completion, but we do have a number of key audit queries we require concluding prior to us being able to complete our work. As is mentioned on page 5 this work is being undertaken in the backdrop of expected national deadlines and therefore resolving the remaining queries at pace is essential to ensuring we finalise the audit.

Our findings are summarised on pages 6 to 19. We have identified 5 key adjustments to the financial statements that have resulted in reducing the Balance sheet of the Council by 284m. Although this is clearly a significant adjustment they reflect remeasurement of property and Pension balances, rather than amounts that reflect inaccuracies around the way management have reported the cost of services to the General Fund. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. 15

Our work is nearing completion and subject to management making the agreed changes set out in Appendix . We are not aware of any matters which would require us to modify our audit opinion. However the following matters still require resolution:

- Completion of final file reviews.
- Final checks to finalised accounts.
- Receipt of management representation letter.
- Finalisation of Pension Fund audit.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have undertaken our Value for Money work for the 2022-23 year. However, this work is not complete as we have not finalised our work on an objection raised to the 2021-22 accounts. We therefore are required to consider this in our Annual Auditors report. The Annual Auditors report will be provided within 3 months of us signing the financial statements audit and by that point we expect to have finalised our work on the objection.

In assessing the significant risk identified in our audit plan around the financial sustainability of the Housing Revenue Account we have identified a significant weakness in the Council's arrangements. These will be more fully reported in our Final Annual Auditors report. However, as per the Code requirements we are required to report to Those Charged with Governance and in our audit opinion these matters when identified. The key recommendations identified to date follow on from the recommendations identified in the prior year work. These key recommendations will be reported in our audit opinion.

Our Audit certificate will not be issues until we have finalised our work on the 2021-22 objection and issues our final Annual Auditors report which considers the findings from that objection work in it. This will be issued within 3 months of the audit opinion being provided as required. We have also shared with management our findings to date in relation to our Value for Money work.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

1. Headlines

National context – audit backlog and consultation on backstop date

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions. Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

In light of these issues a national consultation was undertaken which begun on the 8th February and closed on the 7th March Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)

This consultation sets out plans to effectively disclaim incomplete audits by a backstop date. This will ensure entering into the new contract all audits are up to date and then sets out expectations that deadlines will be met for future years. Given this pressure both ourselves and the Council have been working towards ensuring the audit is complete by the end of March. We appreciate that given we have been working on two open year audits in this process this has places pressure on the finance team and those who help support the audit process. We have sought to manage the risk of this by keeping the finance team updated on key risks impacted the audit delivery, we have also escalated issues to senior officers were appropriate.

In this backdrop we would like to thank everyone at the Council for their support in working with us. The audit has been undertaken in a constructive spirit and finance officers have engaged with us in a positive manner to understand audit issues and resolve them in a prompt manner were possible. It is also a particular challenge working whilst multiple year audits are open as there are requirements for us to consider findings identified in this year to the prior year to and ensure the consistency between the accounts. Given these challenges we are pleased the audit is nearing its completion.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Please find in our Annual Auditor Report for details of our review around Southwark's arrangements in this area.

1. Headlines – Significant Matters

Newly constructed Council dwellings not revalued at EUV-SH as required for Council dwellings- £26m The Council values its non-Investment property assets at the 31st December. This meant £51,539k of Council houses were not revalued due to coming into use after the valuation date. This meant on transfer to Council dwellings they were recongised at Cost. This is not Code compliant as Council houses should be held at the Existing use value with the social housing discount applied. We therefore requested the Council to assess the value of these assets given their size.	The Councils valuer has assessed these assets and their value at the 31st March 2023 if they were valued as an Existing use value asset. On this valuation basis the assets would have a value of £102,725k, however following the Social housing discount of 25% this value sits at £25,681k. This resulted in a downward revaluation movement to be recongised as an impairment in the CIES cost of services of £25,858k. From our own review we are satisfied the updated valuation is appropriate having reviewed the method and comparable used to determine the valuation. We have noted this as a significant matter to the audit given it has resulted in a material downward movement of the Council dwellings by £25,858k.
Valuation Date Indices review- £106.4m As noted above the Council values both Council dwellings and Other Land and Buildings at the 31st December. Given the respective value of both balances circa £4 billion this creates a risk that market fluctuations would cause the valuation to be materially different if performed at the year end.	Based on our discussions and challenges of the valuer we have determined the indices movement for Other land and buildings would not be material in this 3-month period. However, for Council dwellings it was identified that there had been a downward movement of 3% in this period. From this review it was identified the likely movement would be £106.4m downwards. Management have agreed to update the financial statements for this change given it is material. From our and our own valuers experts review of this indices adjustment we are satisfied this has been appropriately applied.
Double Counted assets – 125m In our review of the Councils financial statements, we identified there were assets with a Gross book value of £128,974k that had not been revalued in year within Council dwellings. Upon investigation it was identified that these were in fact double counted assets and should be removed from the Fixed Asset register.	It was identified in the year end closedown process the Council had double counted assets. This was after decommissioning some of the components the Council previously split Council dwellings between to simplify the process. However, in doing so the Council failed to write out some of the old components which resulted an overstatement of Council dwelling valuations by £125,288k NBV. The impact of this on a GBV level was to overstate the Property plant and equipment note gross cost by£128,974k and Accumulated depreciation by £3,664k. The net impact of this was to mean Council dwellings were overstated by £125,288k. Although we consider the attempt to simplify the process appropriate, we note the application was not correctly applied. We also note the Council should review unusual valuation movements and ensure the Fixed asset register reconciles back to the Valuation report as part of the year end checks to prepare the financial statements.

1. Headlines – Significant Matters

Significant matters- Assets reclassification From discussions with management, it was identified that for a number of prior year assets that they had been incorrectly classified as surplus assets. We also identified similarly for a prior year asset that it had been incorrectly classified as an Asset under construction. Both of these issues were corrected in the open 2021-22 financial statements. In addition there was an asset classification issue around a reclassification in year of a primary school to Assets Under construction.	This matter required a prior period adjustment in the 2021-22 financial statements. This is noted in our 2021-22 Audit findings report. The impact on the draft 2022-23 accounts involved reclassifying £76,031k of surplus assets in 2022-23 to Other land and buildings. A further amendment was identified that required updating in the open 2021-22 financial statements. This related to regeneration assets the council had purchased and moved to AUC due to plans to regenerate the sites. However, the previous purpose of these assets was still operational and the assets are both in use. From our discussions management are of the view these assets should be reclassified to surplus assets. The value of this amendment is £34,500k. There is an issue regarding this asset that it had not been considered for revaluation reviews due to being held in surplus assets. Based on discussions with the Council's valuer and given the fact it was purchased at the end of the 2020-21 financial year at a market rate we are satisfied this does not create a risk of material misstatement. In the 2022-23 year from discussions with the Council we identified that the school should have been classified as an Other Land and building. This is an 16,459k adjustment from AUC to Other Land and buildings. Given the significance of these amendments we have raised a finding in our action plan on this matter.
IFRIC 14 Application- £27m For a number of Council's this was the first year since IFRS was adopted that they had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. For Southwark council they are a significant member of both the LPFA and LGPS Pension Fund with both being in a surplus position. In the draft FS the LGPS scheme was in a 99.8m surplus and the LPFA fund had a surplus of £27m. Although the Pension balance may be in surplus IFRIC 14 is applied to account for the fact these funds are not liquid.	From our review of the application of IFRIC 14 we have reperformed our own high-level calculation of its application and reviewed the actuary report. In doing so we concur and are satisfied that the LGPS scheme has appropriately applied the asset ceiling and none of the Surplus can be recongised in the Council's financial statements. On review of the LPFA actuaries' response the following was identified: • The actuary had not fully considered IFRIC 14 and the full surplus had been recongised in the Councils financial statements. • The surplus in the draft accounts was being shown in Non-current liabilities whereas it should have been shown as an asset. • The Council had not appropriately set out the accounting policies and impact of IFRIC 14 in the accounts. From the Councils review it was identified in 2021-22 the surplus had been overstated for the LPFA scheme by £14,848k which will be amended in both open year accounts. For 2022-23 it was identified that the surplus was overstated by £26,645k. The Council has obtained an updated actuary report for 2022-23 which has now appropriately considered IFRIC 14. We are satisfied these changes have now been appropriately accounted for but have highlighted this as a significant matter given the impact on the statement of accounts.

1. Headlines – Significant Matters

Dual years audits open/active Whilst undertaking the audit we have worked across the 2021-22 and 2022-23 accounts. This was done to ensure the expected backlog deadlines are met.	This process creates challenges for both ourselves and the Councils team. As the 2021-22 accounts had not been finalised all changes identified in those accounts have to be considered in the 2022-23 audit. This means at the end of the audit we have to recheck opening balances. In addition to this issues identified in the 2022-23 audit must also be then considered in relation to the open years audit work. This process was complicated further by material adjustments being posted in the Pension Fund accounts in 2021-22 after the 2022-23 accounts were published which also impacted the Council financial statements. Details of the findings in 2021-22 can be found in the 2021-22 AFR and we can confirm the consistency of the two accounts and all matters identified in 2021-22 have been addressed in 2022-23. However, for both sides this has created additional pressure and work. We would like to thank the finance team for their support in these challenging circumstances and ensuring the changes identified have been appropriately adjusted for in both years accounts.
Key Staff members leaving involved in Property valuations During the audit the Councils key valuation officer who prepared the majority of the valuations retired. 3 of our significant risks relate to property valuations and this issue did create further work for both ourselves and the Council staff.	We would like to thank the Council's property team for stepping in to support our valuation queries in what we're challenging circumstances. However, the retirement of the main valuer did delay the pace we were provided sample responses back on valuations which is a key part of our audit work. This combined with a number of adjustments identified in the valuations work has acted to elongate the time taken on the audit. The Council has taken action to move resource around to ensure our audit queries are answered. We have raised some recommendations in Appendix B regarding this process.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- The Materiality set for the audit is £19.5m. This was based on 1.5% of your gross expenditure for the year. We report to the Audit, Governance and Standards Committee any misstatements or matters identified above our reporting threshold which has been set at £975k.

Conclusion

We are working towards the completion of your financial statements audit providing the points set out on page 3 of this pack are satisfactorily resolved we will then anticipate we will issue an unmodified audit opinion.

Acknowledgements

As noted there have been specific challenges on this audit including some issues around the way the audit progressed. We do note some of this was outside of the finance teams' control, resulting from inevitable staff turnover, with this issue being exacerbated by the overall Audit backlogs, meaning new officers were having to facilitate the audit of a historical financial statements. We also appreciate that our own turnover of staff has impacted the timeframe it will take to complete the audit and thank the finance team for their patience as we work through this process.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff and for their patience as we have worked through these issues.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The City Fund faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the City Fund, which was one of the most significant assessed risks of material misstatement. There have been no changes to our assessment as reported in the Audit Plan.	We undertook the following procedures: • Evaluated the design effectiveness of management controls over journals • Analysed the journals listing and determined the criteria for selecting high risk unusual journals • Identified and tested journals we considered to have the greatest risk of material misstatement or from our data analytics Journals that were identified to be unusual. We then tested these Journals for appropriateness and corroboration to evidence. • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our work on management override of controls is complete. We identified a number of Journals that we tested that we could not obtain formal evidence to demonstrate the Journal was approved. This was in part due to this not being an automated process and staff not keeping sufficient records to support all Journal approvals. We have nothing further to bring to the attention of those charged with governance and management.
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable 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. In the Audit Plan, we had 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. • The culture and ethical frameworks of Local Authority's, mean that all forms of fraud are seen as unacceptable.	There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we: • Documented our understanding of the revenue business process. • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. No issues have been identified from our work.

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2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Property Investment properties have been identified as a significant weakness due to their value and the fact property valuations have a higher level of uncertainty and potential for movements from year to year. The Council in the draft financial statements held Investment properties valued at £313.2m.	We undertook the following procedures: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out. • Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the valuation methodology and approach, resulting assumptions adopted and any other relevant points. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Recalculated the valuations, testing key inputs including yields applied, rental information used, and all other key assumptions applied in the valuers' calculations behind the asset's valuation. • Tested revaluations made during the year to see if they have been input correctly to the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Assessed the classification of assets to ensure they were held in the right asset category. In part due to the audit backlog the Councils key valuer had retired. This meant other officers in the valuation team had to help collate evidence and respond to our audit queries on this area. In relation to this there were some challenges for those involved due to the way the evidence was saved, meaning it was more challenging to locate the workings than ideally would be the case. We have raised a control point around ensuring the Council maintains a clear log and the calculations behind the audit valuations to help support the audit of these assets. We noted in our review of assets the Council has a large property portfolio, with a number of plans regarding assets containing some uncertainty. We note management should seek to ensure a consistent approach is applied across its portfolio of property assets in relation to their classification. We have also in our Letter of representation requested specific representations around the classification of assets. We note the classification of assets is driven by management intent for the assets. Given the Council has a number of capital plans that are under review and a large complex asset portfolio we require this representation in addition to our own audit procedures on this area. We note that judgments around classification of assets can impact asset valuations due to different assets having different valuation requirements under the Code. In our testing of Investment properties, we did encounter some challenges due to the retirement of one of the Councils valuation officers. It was also identified in the testing that one asset had been incorrectly valued, due to the wrong asset being valued. This resulted in a misstatement of £1.3m. We are satisfied from our other testing that this would not lead to a material error but indicates a possible understatement of Investment properties of £1.3m. Management have also assured us that this is a one off error and due to the similarity of two property assets in the area that is unique to this case. No other issues have been identified and our work on this area is complete.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Council revalue its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved 924m and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

During the audit, we have undertaken the following work:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.
- Evaluate the competence, capabilities and objectivity of the valuation expert.
- Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out.
- Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the guidance regarding the valuation of council dwellings and social housing.
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- Recalculated the valuations, testing key inputs including BCIS rates, floor areas, obsolescence rates and other key assumptions used in both DRC and EUV valuations. We also considered the appropriateness of the basis of each method for determining the assets valuation.
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

In part due to the audit backlog the Councils key valuer had retired. This meant other officers in the valuation team had to help collate evidence and respond to our audit queries on this area. In relation to this there were some challenges for those involved due to the way the evidence was saved, meaning it was more challenging to locate the workings than ideally would be the case. We have raised a control point around ensuring the Council maintains a clear log and the calculations behind the audit valuations to help support the audit of these assets.

From our work the following matters were noted. The valuation for Other Land and Buildings is performed with a valuation date of the 31st December, 3 months prior to the year end. This creates a high risk that market fluctuations will result in adjustments to the Year-end value. Given the size of the Council's asset portfolio this approach combined with uncertainties around non revalued assets creates a risk of potential changes in the asset values. As noted in the prior year we consider this to be a significant control deficiency, we do note though that management was provided this finding after the date this years accounts were produced.

In our work we identified that the Council had failed to impair two assets that had been identified by the valuer for impairment. This meant the assets were overstated by £1,958k. It was also identified that £2,888k of additions on a school asset had not been considered in the valuation process. This resulted in a potential understatement of the school asset that had been enhanced in year. The net impact of these two errors indicates a possible understatement of Other Land and Buildings of £930k This is below our triviality levels when netted off. We also identified that two assets were misclassified in Other land and budlings that should have been on Investment properties, the value of these was below our reporting threshold. The above matters were all identified in our reconciliation of the Fixed Asset register to the valuation report and this should have been identified in the preparation of the financial statements.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Council Dwellings The Council revalue its Council Dwellings on a Beacon basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved £3.7 billion. We therefore identified valuation of Council Dwellings particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We undertook the following procedures: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Discussed with, the valuer to confirm the basis on which the valuation was carried out. • Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the guidance regarding the valuation of council dwellings and social housing. • Reviewed and tested a number of assets back to market data for properties in that area. • Reviewed a sample of assets to test the appropriateness of the Beacon applied as well as undertaking existence testing of a sample of assets. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Conducted impairment reviews including visiting asset sites to check sites where impairments have been applied and non-impaired assets to check for completeness. • Reviewed issues around RAAC and made enquires around this to ensure the Councils assets were not significantly impacted by this issue. From our work performed the following significant matters were identified: • £51m of Assets Under construction were held at Cost. This was because they were complete after the valuation date of December 31st. We requested the valuer to assess if they were held at EUV-SH valuation what the impact would be this identified a £25.9m overstatement of Housing Assets. This issue links to a significant control deficiency noted in our AFR presented in February 2024 that the valuation date should be the same as the Year end date. • It was identified £125.3m of Housing assets were double counted. This was due to changes in the way assets were componentised and was picked up in our reconciliation of the valuer's report to the SOA. This issue meant the assets were overstated by £125.3m, we have raised this as a significant control deficiency in our control findings. • It was also identified for those assets revalued that the changes in the property market indicated a drop in property valuations from December 31st to March 31st. Following this managements valuer has reassessed the movement and identified the change should be 105.3m This is considered another significant matter in our AFR. The above changes indicate a £256.5m overstatement in the Council dwellings at the Year end. Management has agreed to amend the accounts on this basis. We have identified no further issues in our work on this area but note the above findings indicate there is a requirement going forwards for management to consider the year end valuations procedures to ensure the accuracy of the financial statements, particular given the Council has one of the largest Council dwelling asset bases nationally. The Council valuer has provided us with an updated valuation certificate to reflect these adjustments and materially changed valuation. No other issues have been identified and our work on this area is complete.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of pension fund net Surplus

The Council's pension fund net surplus, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net surplus is considered a significant estimate due to the size of the numbers involved (£26.8m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. Note the fair value of the Plan assets in the draft financial statements is £1,898m and the plan assets are at £1,871m)

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

Commentary

The Councils Pension surplus consists of nil balance from the LGPS scheme due to the asset ceiling being applied. The overall surplus is circa £100m of the LGPS fund. For the LPFA no asset ceiling was applied in the draft accounts with a £26.8m asset being recongised.

We undertook the following procedures:

- Gained an understanding of the processes and controls put in place by management to ensure that the Councils pension fund net liability is not materially misstated and evaluate the design of the associated controls.
- Evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work.
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation and the actuary who undertook the valuation of the LPFA.
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
- Documented the scope of the actuary's work for the triennial valuation
- Performed audit procedures in respect of the triennial valuation data submitted by the actuary.
- Tested individual member data used by the actuary in their triennial valuation calculations against independent records.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). The source data used by the actuaries to produce the IAS 19 estimates is provided by administering Authority's and employers. We verified that this source data was accurate. Our work is nearing completion, but the following significant matters were identified:

- The Surplus if being accounted for correctly should be shown in Long term assets not netted of against Long term liabilities.
- The actuary of the LPFA scheme had not considered IFRIC 14. A new report has been issued reducing the overall asset to £139k from the £26,783k balance previously stated.
- In our Pension Fund accounts an increase of the LGPS assets has been identified of 43m. The Council has a 96% share of these assets and this requires updating in the Pensions note. However, this matter does not impact the Balance sheet as the LGPS scheme has had the asset ceiling fully applied, this does require restatements of the Pensions note to note this increased asset value.
- We identified due to the significance of IFRIC 14 in the Councils accounts the Council should note the policy in their financial statements and details of the impact on the Statement of accounts.

Our work on the valuation of the pension fund liability is complete. We have nothing further to bring to the attention of those charged with governance and management.

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating: Security management	ITGC control area rating: Technology acquisition, development and maintenance	ITGC control area rating: Technology infrastructure	Additional work performed	Findings
SAP	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Our It team consider the issues identified to be a red rating. However, upon review of the users we noted none of the users with the relevant deficiencies posted Journals. Therefore, we have revised the ratings grade to reflect this.	See Appendix C for findings.
NEC	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	Our It team consider the issues identified to be a red rating. However, upon review of the users we noted none of the users with the relevant deficiencies posted Journals. Therefore, we have revised the ratings grade to reflect this.	See Appendix C for findings.

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: 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
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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation will be requested from the Council. We will make specific representations on the following matters: • That all post balance sheet events have been made aware to us as part of our audit procedures. • There are no known RAAC issues which would impact the valuations of property assets. • The Council has no liabilities in relation to equal pay liabilities. • All impairment events that are known of regarding assets have been appropriately accounted for. • The classification of Council assets are appropriate and has been consistently applied.

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2. Financial Statements: other communication requirements

Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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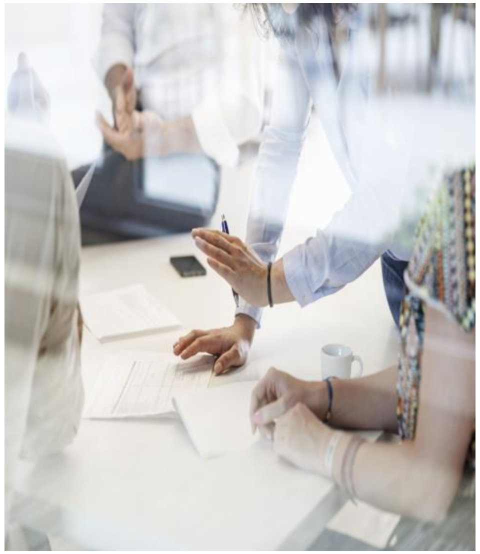
2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified from our work performed.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to date to report on these matters.



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2. Financial Statements: other responsibilities under the Code

Issue	Commentary
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. • Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Southwark Council in the audit report, due to us having an outstanding objection raised in the 2021-22 audit that requires resolving.

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3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

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Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have undertaken our Value for Money work for the 2022-23 year. However, this work is not complete as we have not finalised our work on an objection raised to the 2021-22 accounts. We therefore are required to consider this in our Annual Auditors report. The Annual Auditors report will be provided within 3 months of us signing the financial statements audit and by that point we expect to have finalised our work on the objection.

In assessing the significant risk identified in our audit plan around the financial sustainability of the Housing Revenue Account we have identified a significant weakness in the Council's arrangements. These will be more fully reported in our Final Annual Auditors report. However, as per the Code requirements we are required to report to Those Charged with Governance and in our audit opinion these matters when identified. The key recommendations identified to date follow on from the recommendations identified in the prior year work and are noted on the next two slides. These matters will be noted in our final audit opinion.

3. VFM: our procedures and conclusions

Key recommendations from 2021-22 Report – Follow up

Our 2021-22 annual audit report (presented January 2024) highlighted a number of significant weaknesses in relation to the Council's housing service. The concerns related to the Asset Management Strategy (AMS). The 2016 AMS identified a funding requirement (in 2015 terms) of £796.5 million to deliver improvements to the Council's housing stock to bring the homes up to the required standard and this gave rise to the Quality Homes Improvement programme (QHIP). The AMS is now in the process of being updated as we note below. Our concerns also related to the completeness of up-to-date stock condition information which we referenced in our 2020/21 Auditor's Annual Report. In particular, we were concerned that under current projections, the Council did not have access to sufficient funds to ensure the affordability of its capital programme impacting on the Housing Revenue Account (HRA). This was especially the case given the competing priorities of building new homes, responding to the net zero agenda and meeting new building and fire safety regulations post Grenfell. We made 4 key recommendations in the report and our 2022-23 audit has followed up with key senior Finance and Housing staff on how the Council has addressed these recommendations.

It is important to note that these issues came to our attention during our work on VfM for the financial year 2021/22 and continued to apply in 2022/23. This report primarily relates to financial year 2022/23 and therefore for that period, we consider it appropriate that the significant weaknesses previously identified and the corresponding key recommendations still apply to that year. However, we do note that progress has been made, particularly in the current year 2023/24 and we are pleased to recognise this in our commentary against each of the four key recommendations set out below.

Key recommendation 1: We recommended that the Council introduce arrangements to refresh its AMS at least every 3-5 years. This would be supported by an annual review process which assesses delivery against the programme and carries out re-profiling and forecasting of costs.

The Council has just agreed a 2-year capital programme commencing April 2024 which in effect is a replacement for the QHIP programme. This includes decency standard and building safety requirements so will be up to date in terms of statutory requirements. The stock condition reset is starting imminently with the work currently out to tender. The expectation is that it will be complete within 18 to 24 months in time to inform a 3-5 year Asset plan from that point forwards. This will then be a 5-year rolling programme which will feed the Council's asset database. Contracts will be awarded through existing partnering contractors and the use of new contractors through updated frameworks. The Housing Recovery Board has been set up to ensure refreshed costs are aligned to the Council's budget to deliver the asset management programme. The outcome provided the 2 year capital programme to inform the Council's budget planning. There is also an annual review of costs with cost consultants to look at the inflationary pressure on the programme.

Key recommendation 2: We recommended that the Council carries out a refresh of the costings for all housing capital expenditure (including the QHIP programme) and establishes how the resulting re-profiled programme might be funded. We noted that the Council had started the process to address this (e.g. by commissioning a new stock condition survey from Savills). We note that Officers are communicating with members accordingly.

The Council is working with cost consultants and partners to manage the programme within the Council's current budget. It has already made revisions to the original budget in the QHIP programme and we are satisfied that the current programme is based on a more realistic estimate of the costs. The Council acknowledges that there is further work to do to further strengthen the Council's understanding of projected costs. The financing of the programme will draw from the major repairs reserve (£50m), revenue contributions to capital outlay (RCCO - £20m) with the remainder to be funded from increased borrowing (c. £30m) together with the pausing of schemes within the new build programme providing savings in interest costs that would have impacted the revenue account. In the longer term, the intention is that the repayment of borrowing will be partially met by selling off surplus properties. The Council acknowledges that this will need to be closely monitored as it will be impacted by economic conditions and market values.

With reference to the SCS the Council has now received approval at Gateway 1 and can proceed to Gateway 2. Data collection is expected in the 18-24 month period to inform the future AMS. The current building safety programme is informing the Council of its stock condition but is limited to high rise blocks. The SCS will capture the traditional data on decency combined with building safety data.

3. VFM: our procedures and conclusions

Key recommendations from 2021-22 Report – Follow up (continued)

Key recommendation 3: We recommended that the Council, as an immediate priority and a matter of urgency, uploads the recently collected data on stock condition into its new database.

The Council has been working hard to update the stock condition survey data, taking into account the requirements of new legislation in areas such as fire safety and damp and mould. The refreshed data will ultimately help inform revisions to the asset management strategy. Although the government has been recommending 100% stock condition surveys this is likely to be beyond the capability of the Council to deliver in the short term and the focus is therefore on priority areas under the new regulations and in delivering sufficient coverage of stock to allow maintenance demands to be extrapolated with a reasonable degree of accuracy. The priority for the Council is the high-rise buildings as that is what the legislation specifically references. Low rise buildings will come after these have been surveyed in terms of priority. The Council has started its stock condition data collection for high rise building safety and that will be combined with other key elements of decent homes standards across the Council's housing stock. It is highly likely that this process will identify additional cost pressures and the Council is setting aside contingencies to mitigate this risk within the new funding solution.

The database to capture asset component information is Apex. The Apex system is deemed compliant and the quality of the data input is being managed by the Council. A new database is to be introduced called 'True Compliance' which will capture building safety, decency and compliance information and integrates with the housing management system. This will in time replace Apex.

Key recommendation 4: We recommended that the Council addresses the issue of how it will fund the commitment it has to all its tenants to meet the decent homes standard. We note that the Council has started the process to address this and is communicating with members accordingly

Historically the Council has had a £50m budget reserve for housing stock which they have supplemented by the use of revenue contributions from the HRA. Now that budget has been increased to £100m+ to take account of the additional work likely to be required. This has been funded via borrowing which the Council is planning to pay back via capital receipts by selling off void properties. It is unusual for the Council to borrow for asset management rather than for new homes but it has been necessary and payback plans are in place so the borrowing is just to get the Council over the spike in activity they're seeing at the moment arising from building safety and fire safety regulations with the plan to return back to a slightly more sustainable budget as soon as possible.

Conclusion

In summary, having discussed progress against each of our four key recommendations from 2021-22 we are pleased to note that the Council has made good progress in addressing all the issues. The imminent start of the stock condition survey which is expected to take up to 18-24 months is welcome as this will ultimately provide the necessary data to both update the Council's asset management system and at the same time feed into the 3-5 year asset strategy. It is clear the Council is taking the recommendations seriously and putting in the required effort to rectify its stock condition data and build a credible asset strategy and this is to be commended. As 2022/23 represents the last year of our appointment as auditors to the Council it will be a matter for your new auditor to consider the status of these issues and the full implementation of the key recommendations in their assessment of VfM in 2023/24. Council is aware of long time frame but as they are looking at high priority areas first they hope to mitigate highest areas of risk early in the process (eg fire safety) and then to expedite the remainder of the programme to bring forward that time frame.

4. 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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. In relation to the fees noted this includes all fees that were billed/paid or entered into from the 1st April 2022 to the present date. The following non-audit services were identified.

Service	Fees £	Year relates to	Threats identified	Safeguards
Audit related				
Certification of Pooling of Housing Capital Receipts 2022-23	20,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement
Teachers Pensions Return Certification 2022-23	20,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived threats to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
Greater London Authority Checklist 2022-23	30,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have been so for a number of years and would, therefore, be aware of our role. Summary outcomes of the work are reported to TCWG in the council and they are aware of the Firm and have the role of overseeing work of external audit. Again, we are satisfied they would be of the view that this is work that external auditors would undertake and they are appropriately informed. Therefore, we are satisfied independence and safeguards appropriate. We are satisfied given there are no auditor judgements involved in the work that there is no risk around undertaking this work.

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4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. In relation to the fees noted this includes all fees that were billed/paid or entered into from the 1st April 2022 to the present date. The following non-audit services were identified.

Service	Fees £	Year relates to	Threats identified	Safeguards
Audit related				
Certification of Housing Benefit Grant Claim 2022-23	77,625	2022-23	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have done so for a number of years. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £77,625 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
CFO Insights Subscription 2022-23	10,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.
Greater London Authority Checklist 2021-22	7,500	2021-22	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have been so for a number of years and would, therefore, be aware of our role. Summary outcomes of the work are reported to TCWG in the council and they are aware of the Firm and have the role of overseeing work of external audit. Again, we are satisfied they would be of the view that this is work that external auditors would undertake and they are appropriately informed. Therefore, we are satisfied independence and safeguards appropriate. We are satisfied given there are no auditor judgements involved in the work that there is no risk around undertaking this work.
Certification of Housing Benefit Grant Claim 2021-22	63,000	2021-22	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have done so for a number of years. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £63,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. In relation to the fees noted this includes all fees that were billed/paid or entered into from the 1st April 2022 to the present date. The following non-audit services were identified.

Service	Fees £	Year relates to	Threats identified	Safeguards
Audit related				
Teachers Pensions Return Certification 2021-22	8,000	2021-22	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
Certification of Pooling of Housing Capital Receipts 2021-22	7,500	2021-22	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement
CFO Insights Subscription 2021-22	10,000	2021-22	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Governance and Standards Committee.

4. Independence and ethics

Audit and non-audit services

The below non audit fees relate to work undertaken outside the 2021-22 and 2022-23 financial year. This either relates to fees we are required to bring to your attention due to the billing or payment taking place in the financial year or audit period or the fact we have begun our take on procedures for the work that relates to the 2023-24 financial year grant work.

Please see details of this work below.

Service	Fees £	Year relates to	ES5	Threats identified	Safeguards
Non audit related- Update of financial model for 2023-24	15,000	2023-24	34566	Self Interest (because this is a recurring fee) Self review Management	Our engagement is with Veolia to assist them with a model to set out the impact of various scenarios around contract length etc on the financial outturn of the district heat network in Southwark. Our engagement is only with Veolia; all inputs into the model and the outputs from it are the sole responsibility of Veolia; we will use the standard model release letter which makes clear our and their responsibilities in respect of the model; and we will take no part in any negotiations between Veolia and our audit client Information barriers can be put into place between the audit and advisory teams if required, but there is no overlap in personnel between the teams. Although the service is likely to be performed while we are still the auditors of Southwark Council, the impact of contract negotiations between our audit client and Veolia would affect the financial period (year ending 31 March 2024 and subsequent) after we cease to be auditors of the Council.
CFO Insights Subscription 2023-24	10,000	2023-24	40375	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.
CFO Insights Subscription 2024-25	10,000	2024-25	40375	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.
Certification of Pooling of Housing Capital Receipts 2020-21	7,000	2020-21	28348	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Governance and Standards Committee.

4. Independence and ethics

Audit and non-audit services

The below non audit fees relate to work undertaken outside the 2021-22 and 2022-23 financial year. This either relates to fees we are required to bring to your attention due to the billing or payment taking place in the financial year or audit period or the fact we have begun our take on procedures for the work that relates to the 2023-24 financial year grant work.

Please see details of this work below.

Service	Fees £	Year relates to	ES5	Threats identified	Safeguards
Certification of Pooling of Housing Capital Receipts 2019-20	6,000	2019-20	20875	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement
Certification of Housing Benefit Grant Claim 2020-21	46,000	2020-21	23168	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have done so for a number of years. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £46,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Governance and Standards Committee.

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4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

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 including significant risks	●	
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	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Follow up of prior year recommendations

Assessment	Risk level	Issue and risk previously communicated	Update on actions taken to address the issue
X	● High	**Valuation Date of December 31st** We consider the Council not revaluing assets at the YE date but at December 31st as posting a significant risk of creating material misstatements in the financial statements. We recommend the Council uses the year end date as the valuation date in all valuations and ensures the appropriate BCIS figures are used in the Year end valuations.	This issue was reported to the Council after the 2022-23 accounts were produced so there was no opportunity for it be considered. There have been a number of material adjustments to the property valuations in the 2022-23 accounts, which highlights why we have raised this as a high level risk.
✓	● Medium	**Maintenance of Records to support Journals posted** Due to a number of changes in the finance team in the time between the preparation of the financial statements and the completion of the audit there were challenges obtaining backing for 6 Journals posted. For these 6 Journals although there was no evidence of management override of Controls, we noted that management had failed to maintain appropriate support for these postings. We recommend the Council reviews its processes and instructions for officers to ensure sufficient records are maintained to support Journals posted.	This issue was not identified in the 2022-23 audit. However, we did identify that the Adult social care services accruals are not monitored post year end to identify the actual performance on them. We note that we would expect year end accruals to be monitored for performance to monitor and improve the accuracy of financial reporting.
X	● Medium	**Records to support Investment property valuations** We recommend the Council reviews its working paper requirements used to support the year end property valuations. Including having shared folders for key evidence used for each asset type as the valuation is performed.	This issue was reported to the Council after the 2022-23 accounts were produced so there was no opportunity for it be considered. There were again challenges in the 2022-23 year following the valuer having retired in obtaining timely replies to audit queries on this area.
X	● Medium	**Canada Water** We recommend the Council performs a detailed annual review of this matter and clearly documents this in a paper each year	This issue was reported to the Council after the 2022-23 accounts were produced so there was no opportunity for it be considered.
X	● Medium	**Review of Contingent Assets and Disposals** We recommend management review Contingent assets and ensure they are appropriately captured in the financial statements. We note the capturing of this information will also ensure this is appropriately monitored and audited to ensure its accuracy.	This issue was reported to the Council after the 2022-23 accounts were prepared. In the 2022-23 audit we identified a number of similar cash receipts relating to this matter and this supports our prior year recommendation that management should consider how this data can be captured going forwards. We note given the timing of the recommendation management did not have sufficient time to implement this in the 2022-23 accounts preparation process.

Assessment

✓ Action completed

X Not yet addressed

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B. Follow up of prior year recommendations

Assessment	Risk level	Issue and risk previously communicated	Update on actions taken to address the issue
X	Medium	**Related Parties** We recommend the Council remind Members of their responsibilities to fully disclose their interests in the relevant declarations. In addition the Council should consider periodic checks on the declarations made.	This issue has not been resolved for the 2022-23 financial period. We recommend the measures outlined in our Audit Findings Report for the year ended 31 March 2022.
X	Medium	**Review of Capital Records** We recommend the Council reviews the year end capital procedures to ensure sufficient review of capital spend, disposals and the classification of assets takes place.	This issue has not been resolved for the 2022-23 financial period. We recommend the measures outlined in our Audit Findings Report for the year ended 31 March 2022.
✓	Low	**Internal Audit review of Home Care overpayments** The Council should implement the key findings made in the Internal audit review. This includes providing a training module to staff regarding this area of work, ensuring the finance service division monitors the financial information within Mosaic at the appropriate level of detail and that the recommendations around Purchase orders are implemented.	The Council have confirmed all significant recommendations have been addressed in year.
✓	Low	**Pooled budgets** The Council's Pooled Budget arrangement was signed on the 17th May 2022, meaning the agreement for 2021-22 was not signed until after the year end. This creates a risk that if there are disputes around the agreement there is no signed contract by both parties. We recommend the Council ensure all key contracts/agreements are signed in an appropriate time period.	No such issues were identified in our 2022-23 audit.

Assessment

✓ Action completed

X Not yet addressed

B. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
● High	**Review procedures following Valuation input into the Fixed Asset Register** It was identified in our reconciliation of the fixed asset register to the valuation report that £125m of assets had been double counted. This resulted from the Council simplifying the componentisation process for Council dwellings. However, these assets were shown as being held at cost and not revalued in year despite the fact the valuer at the valuation date had revalued all Council dwellings.	We recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual Journals being used to make corrections. **Management response** Management note the findings and will provide a verbal update at the committee meeting.
● High	**Review of Reclassifications and Assets Under Construction Balances** In our testing of reclassifications, the following issues were identified: • Surplus assets required a 76m adjustment to Investment properties following further reviews prompted by audit queries, this adjustment was put through in the prior year. • We identified £17m of OLB assets that had been incorrectly transferred to Assets Under construction. • In addition, 35mk of assets that have been identified as surplus assets were incorrectly classified as Assets Under construction, this adjustment was put through in the prior year. We also noted on review of the Asset Under construction balance that management does not perform an annual impairment review of these ongoing projects. We note that although Assets Under construction are held at cost on large capital risks there is the possibility of costs being impaired. And management should ensure they are reviewed for the risk of impairment under IAS 36. This is particularly relevant given the large balance of Assets Under Construction held by the council of £680.8m. There were also assets sitting in Assets Under construction with the wrong valuation method ie held at Cost not depreciated. The above creates risks around inaccurate classification/valuation of Property Plant and equipment assets.	Management should ensure annually assets in all classes are reviewed formally for reclassification and the risk of impairment. We note assets held as surplus assets and Assets Under construction require particular attention in relation to these reviews. **Management response** Management note the findings and will provide a verbal update at the committee meeting.

B. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
Medium	**Variances between the Fixed Asset Register to the Statement of Accounts** We identified two reconciling issues between the General Ledger and Fixed Asset register: 1) We have identified a reconciling difference in the amount of £2,062k between the GL/FAR and the note in the Other Land and Building (OLB) and Assets Under Construction (AUC) category due to the Bellenden Primary school revaluation adjustment, which has been incorrectly accounted for as an AUC. While the figure in the accounts is correct, the FAR/TB position will need to be adjusted accordingly. 2) We also identified another reconciling difference between FAR and the Accounts in the AUC category in the amount of £1,231k. This difference accounts for the depreciation which was recorded in the FAR but not in the Accounts (which is the correct treatment).	We recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual Journals being used to make corrections. **Management response** Management note the findings and will provide a verbal update at the committee meeting.

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
●	**Business users with conflicting access in SAP** We identified 40 business users with critical access to transactions/ tables/ profiles on SAP. We further noted the following: • 8 business users had access to SM30 and SM31 - Call View_Table Maintenance • 32 business users had access to SM37 - Monitor Batch Job, SM36 - Schedule Background Job. **Risks** A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to unauthorised changes being made to system parameters, creation of unauthorised accounts, unauthorised updates to their own account privileges and deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.
●	**Users with inappropriate debug access in the production environment on SAP** Our audit procedures identified 18 Dialog (A) user accounts that were assigned debug access in the production environment. Risks Having access to the debugger (“/H”) in SAP, could provide the users the capability of circumventing authorisation checks and allowing access to data or modification of data.	Management should restrict or remove access to the debugger within the production environment of SAP. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
	Oversight on account with access to all SAP authorisations Our audit procedures identified four (4) Dialog user accounts that were assigned access to SAP_NEW and SAP_ALL profiles during the audit period. *(Refer to Appendix 3 for the identified accounts)*. We also noted that that there was no evidence to confirm that access to the profile was formally requested or approved. **Risk** The SAP_ALL and SAP_NEW authorisation profile contains full system rights and should not be used with any dialogue type accounts within the production environment. The profile provides access to all IT functions within SAP as well as business transactions and if misused can cause operational stability and financial misstatements	Management should ensure that access to the SAP_ALL and SAP_NEW profile is removed from all accessible SAP user accounts. The SAP_ALL and SAP_NEW profiles should be reserved for use within an emergency or firefighter type ID that can be locked immediately when not in use, as most day-to-day administrative activities do not require such wide-ranging access as provided by SAP_ALL and SAP_NEW. Where access to this account / level of privileged is required, a process should be put in place for it to be requested, approved, and then disabled as soon as the requirement is completed. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.
	Segregation of duties conflict as users have ability to configure and delete audit logs in production on SAP We performed a comparison of all users with the ability to configure audit logs within production via SM19 with those with the ability to re-organise or delete them in production using SM18. We identified nine (9) user accounts with both access rights. **Risks** Users with access to SM19 and SM18 have the ability to configure and delete audit logs on SAP. Hence, inappropriate and anomalous activity may not be detected and resolved in a timely manner.	Management should segregate a user's ability to configure(SM19) and delete(SM18) user security event logs within production. If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include usage of Firefighter accounts with a set validity period based on formal approvals. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
●	**Segregation of Duties Conflict on the NEC application** Our review identified that the below three users from the non-IT team have administrative access to Ci Anywhere: • Housing Solutions Review Officer • Policy and Change Manager • Housing Choice and Supply Manager We also further observed that the Housing Choice and Supply Manager performs both financial duties and development work for the application. Risk A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; overseeing periodic counts of physical inventory, equipment or other assets and comparing them with accounting records; and reviewing reconciliations of account balances or performing them independently] **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

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Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
●	**User access within the Southwark Exchequer System is not appropriately revoked for terminated employees on NEC** It was observed, through comparison, that there were 78 leavers with active accounts on NEC application within the Southwark Exchequer System. Although Line Managers are required to complete an amendment/deletion request form, it was noted that the Line Managers did not always submit a leavers' form to IT department on the users' last day. **Risks** Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.	Management should ensure that a comprehensive user administration procedures are in place to revoke application and AD access in a timely manner. For a user administration process to be effective, IT must be provided with timely notifications from HR and/ or line managers Management should consider performing user access reviews on all terminated accounts to ensure all accounts have been disabled in a timely manner. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

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Assessment

- ● Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- ● Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- ● Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

D. Audit adjustments – adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £000
Properties transferred from Assets Under Construction to Council Dwellings not revalued at the year end The Council between the December 31st Valuation date completed a significant number of council dwellings (169) that were not revalued as under construction at the valuation date. This meant that the assets were transferred across on a cost basis and not valued on an Existing Use-Social housing basis, as required by the Code. Upon reviewing the value, it was identified that the valuation at EUV-SH which contains a 25% discount to an EUV valuation it was identified these assets should be written down from a cost of £51,539k to an EUV-SH value of £25,681k. Resulting in an impairment of £25,858k, to be charged to the cost of services given these assets had a nil revaluation reserve. This change impacted a number of note and required changes to the MIRS, Cash Flow statement, note 1, note 5, note 7, note 11, note 23, note 24, HRA main statement and other related HRA notes.	Dr Cost of services HRA 25,858k	Cr Property Plant and Equipment 25,858k	Dr 25,858k
Double Counting Council Dwelling assets in the Fixed Asset Register It was identified in the year end closedown process the Council had double counted assets. This was after decommissioning some of the components the Council previously split Council dwellings between to simplify the process. However, in doing so the Council failed to write out some of the old components which resulted an overstatement of Council dwelling valuations by £125,288k. This change impacted a number of note and required changes to the MIRS, Cash Flow statement, note 1, note 5, note 7, note 11, note 23, note 24, HRA main statement and other related HRA notes.	DR Revaluation Reserve 125,288k	CR PPE 125,288k	DR 125,288k
Movements between Valuation date and year end data for Council dwellings In our review of the valuation work undertaken we challenged management regarding whether changes in the market from December 31st to March 31st would lead to material differences in the valuation of Council dwellings. Upon reviewing this a change of 3% was noted and has been amended using indices resulting in in Council dwellings reducing in value by £106.4m This change impacted a number of note and required changes to the MIRS, Cash Flow statement, note 1, note 5, note 7, note 11, note 23, note 24, HRA main statement and other related HRA notes.	Dr Surplus on the Revaluation of PPE 106,383k	Cr PPE 106,383k	Dr 106,383k

D. Audit adjustments – adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £000
Application of IFRIC 14 From our discussions with management and their actuary it was identified that on the LPFA pension scheme IFRIC 14 had not been considered. This meant the Pension asset within the accounts was reduced to £138k from £26,783k. The Council had previously shown the surplus incorrectly in the long-term liabilities line when it should have been held as long term assets, due to the surplus position. This change therefore has increased the Councils long term liabilities by £26,645k. This change also impacts the MIRS, note 23 Unusable reserves and Note 38 Pensions note.	DR Remeasurement of Pension liability 26,645k	CR Pension Liability 26,645k	DR 26,645k
Overall impact	284,174k	284,174k	284,174k

D. Audit adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2022-23 audit which have been made in the final set of financial statements.

Area of the accounts	Auditor recommendation	Adjusted?
CIES	Management has made changes to the service line reporting headings to reflect changes in year around the way internal reporting takes place. On review of this we identified that the way costs had been allocated between headings year on year were inconsistent, particularly for the Housing General Fund service line. Management has updated the note to ensure consistency between the years.	Yes
CIES, EFA and Note 17 Debtors	The following notes due to changes in the corporate structures reporting and changes year on year on the presentation of the note included prior period changes. Per IAS 1:41 when such changes are made there is a requirement for the body to: • Clearly disclose on a line-by-line basis the changes made. • Explain in detail the reasons and basis for the changes made. Presently it is our view that neither the draft or final Statement of accounts is presented in a way that fully complies with IAS1:41.	No
Note 2.14	We identified this note could be enhanced by making it clear that the earmarked reserves are part of the General Fund.	TBC
Note 4 – Critical Judgements	It was agreed that this note could be made more concise to specifically focus on the Critical judgement, rather than supplementary narrative around Canada Water.	Yes
Note 6- Events After the Balance Sheet Date	In our review of the narrative report and wider value for money work we noted the Council have decided to bring leisure services back in house. We consider this to be a non adjusting post balance sheet event. The Council has agreed to amend the note to reflect this.	Yes
Note 13 Property Plant and equipment – reclassifications	It was identified that £17mof Other Land and buildings had been incorrectly reclassified to Assets Under Construction from Other Land and Buildings that should have been held as Other Land and Buildings. As noted in our significant matters slide a number of amendments to the prior year financial statements were also identified regarding similar issues.	TBC
Note 13 Property Plant and equipment – Capital commitments	The Capital commitments note was identified as missing prior year comparators as is required by IAS1.	Yes
Note 13 Property Plant and equipment – Accounting policies	We identified on reviewing useful lives that the equipment useful life applied was 5 years. However, the accounting policies had a Useful economic life of 7-15 years for this category (per the relevant note in the accounts). The Council noted the life was stated as such incorrectly.	TBC

D. Audit adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2022-23 audit which have been made in the final set of financial statements.

Area of the accounts	Auditor recommendation	Adjusted?
Note 17 Debtors	The Council this year has added to fully comply with the CIPFA standards a note summarising Local taxation debtors that are not subject to IFRS 9. The requirement for this note is to show the net value of these debtors for those debtors that are overdue. The Council had presented this note on a gross basis and not considered if the debtors were overdue or not in the initial preparation of this note.	No
Note 19 Provisions	We identified that the provisions note had not been updated for the latest insurance report and the Insurance provision and Appeals provision have not been presented showing the utilisation of the provision in year. We also identified that the Council should consider disclosing potential contingent liabilities around RAAC, although no liabilities have been identified to date given the size of the property portfolio balance we note this could be considered a possible Contingent liability.	No
Note 20- Dedicated schools grant	Presentational improvements were identified in the Dedicated schools Grant note to more clearly show the surplus/deficit line in the note.	Yes
Note 30 Senior Officers pay	The note was updated for consistency purposes to include all the Public health officer in 2022-23 whilst removing officers who were not senior officers in 2021-22 but were in 2022-23.	Yes
Note 32- Related Parties	The Council currently does not disclose the names of related parties in the note.	No
Note 33- Capital Financing requirement	We identified this note could be enhanced by the Council splitting out the CFR balance between the HRA and the General Fund.	No
Note 38 Pension Note	We identified a number of key changes to the Pensions note: • The note required updating to reflect material increases in the Pension Fund accounts and the impact on the gross assets disclosed in the note under the LGPS scheme. • The note required adjusting to reflect the application of IFRIC 14 on the LPFA pension scheme. • We identified the note should disclose that IFRIC 14 has been applied in year and details of this application. • We identified presentational changes to more clearly show the current surplus position in the two Pension Funds and the application of the asset ceiling under IFRIC 14.	Yes

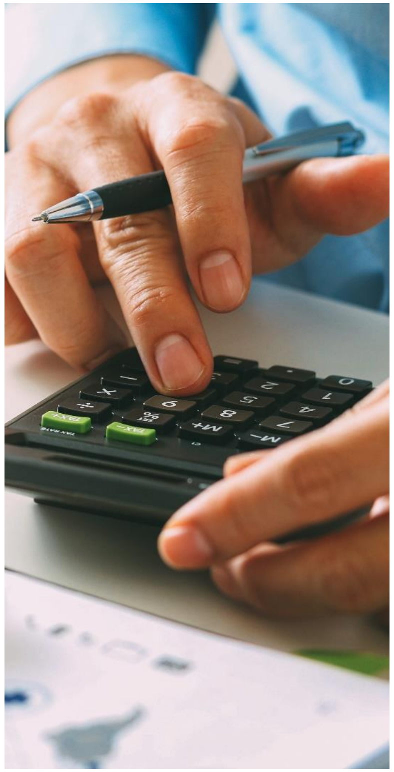
D. Audit adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2022-23 audit which have been made in the final set of financial statements.

Area of the accounts	Auditor recommendation	Adjusted?
Note 38 Pensions	We note the Council makes changes in regulations around the Pensions service act in this note. Upon our review we deem the current wording misleading as it implies changes to the Final Benefit scheme.	No
Note 41- Fair value assets and Liabilities	Upon review this note contains insufficient detail on how the asset and liability valuations have been calculated as required by the Code.	No
Collection Fund note 1	We identified challenges reconciling the note back to the actual property data provided by the VOA. We note the formal cabinet report presented should have a clear reconciliation of the discounted value of Council dwellings after reliefs to the actual number of properties held.	No
Narrative report	We identified that this note could be more clearly presented in relation to the Budget data within the report. Currently the report implies that the budget shows total spend in year when it is actually shown on a net basis.	Yes
Minor presentational points throughout	We identified a number of minor presentational changes to the accounts and have communicated these to management.	Yes

D. Audit adjustments – unadjusted misstatements



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022-23 audit which have not been made within the final set of financial statements. The Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £m	Impact on total net expenditure £m
We identified uncertainties around the Provisions note. In doing so the following was identified: • The Insurance provision had not been updated to reflect the latest insurance report with the latest provision being based on the report as of the 31st March 2021. Compared to the year end insurance report as of the 31st March 2023 this would indicate the provision may be overstated by £3,207k. • The Public health provision identified does not meet IAS 37 requirements of a provision. It relates to a provision for a future event and instead would be more appropriately described as an earmarked reserve. The value of this is 1,476k. • Of the Appeals provision we noted that following our post balance sheet review the provision utilised was at a higher rate than set in the estimate. The Council note that the amounts settled post year end are likely the riskier cases in the provision. However to satisfy ourselves this higher rate of settlement did not indicate a potential material misstatement we applied this rate on the remaining appeals and identified a potential understatement of £8,330k. The above two uncertainties net of to equal £3,656k. We have reported this as an unadjusted error but note this is an estimation uncertainty rather than a factual misstatement.	DR Cost of services £3,656k	CR Provisions £3,656k	DR Net expenditure £3,656k
Overall impact	DR £3,656k	CR £3,656k	DR £3,656k

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E. Fees and non-audit services

Audit fees	2020-21- Agreed with management	2021-22 Proposed	2022-23 Proposed
Fee Per Audit Plan	£257,718	£252,718	£272,423
Additional work	£125,000	£28,000	£61,370
Total audit fees (excluding VAT)	**£382,718**	**£332,918**	**£334,793**

The fees reconcile to the financial statements.

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Non-audit fees for other services	2021-22 Fee	2022-23 Fees
Audit Related Services Grant claims billed during the audit period ie 1st April 2022- to present date	£86,000	£147,625
Other CFOI Insight	£10,000	£10,000
Total non-audit fees (excluding VAT)	**£96,000**	**£157,625**

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the Council, its directors and senior manager and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

The above fees reconcile to the financial statements.

Note the following fees have not been included in the financial statements. £59,000 of non audit fees relating to prior year grant work that was billed since the 1st April 2022 to the present date. And in addition £35,000 of fees that relate to future financial years. These fees have been recongised in the appropriate financial year.

E. Fees and non-audit services

We confirm below our final fees charged for the audit are non audit fees can be found on the next slide.

Audit fees	Proposed fee
New PSAA Scale fee	**£196,468**
Additional audit procedures arising from a lower materiality	£6,575
Enhanced audit procedures for Property, Plant and Equipment – estimate of cost charged to external expert	£2,630
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs 540, ISA 315	£11,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Additional procedures to address other local risk factors	£22,500
FRC response - additional review, EQCR or hot review	£1,500
Enhanced procedures relating to HRA	£7,500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315/ 240	£500
Audit Fee per Plan	**£272,423**
Additional work to review accounting for IFRIC 14 and changes to the Pension Fund accounts	£10,800
Challenges obtaining information from valuation queries in part due to the key personnel having left the Valuation team	£8,200
Follow up work on Journals due to additional ITGC findings	£3,470
Additional VFM work	£12,500
Technical issues relating to a number of material adjustments in Property Plant and Equipment and Investment Properties	£27,400
Total audit fees (excluding VAT)	**£334,793**

These fees are subject to PSAA approval, we have proposed the final fee for the 2021-22 audit as £332,218.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

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

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The Audit Findings for London borough of Southwark Pension Fund

Year ended 31 March 2023

31 Month 2023 [DRAFT FOR DISCUSSION AND SUBJECT TO COMPLETION OF OUR AUDIT PROCEDURES]

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit fieldwork was undertaken from January 2024 to March 2024. Our findings are summarised on pages 4 to 14. We have identified 4 adjustments to the financial statements that have resulted in a £39m upward adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

From the work performed it was identified that from the draft accounts prepared on the 30th June that the Net assets had increased by £43m. Our work is nearing completion complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of final file reviews.
- receipt of management representation letter and
- review of the final set of financial statements –which has appropriately accounted for the adjustments set out in Appendix D.
- Receipt of updated response from Actuary in relation to actuarial disclosures

Whilst our work on the Pension Fund financial statements is complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.

Our anticipated audit report opinion will be unmodified.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on the same date we issue our audit opinion.

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2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

Our work is nearing completion following the conclusion of the outstanding matters noted on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. We note the overall audit backlog in the sector is frustrating for both parties and we thank the team for their patience as we have worked through the audit process.

2. Financial Statements

Our approach to materiality

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

Note for the Main statements materiality we have applied a performance materiality of £14.2m. And for our Fund Account audit a Performance materiality of £4.9m.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	20.3m	Based on a percentage of the Assets held.
Trivial matters	1.15m	This is our reporting threshold for the audit.
Materiality for fund account	7m	This is set as a percentage of the total expenditure of the Fund which is largely made up of Benefits Payable. This is applied to Benefits Payable and Contributions in the Fund Account. And a lower materiality is set to ensure sufficient procedures are undertaken on the Fund Account.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.	We have: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our work is now complete, and no issues were identified in relation to Management override of Controls.

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2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments (including Private Equity, Pooled properties and Infrastructure) You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore have identified Valuation of Level 3 Investments as a significant risk for Private Equity and Infrastructure investments.	We have: • evaluated management's processes for valuing Level 3 investments and gain an understanding over the role of the custodian in the valuation process; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • independently requested year-end confirmations from investment managers and the custodian; • for the private equity (£50.4m) and infrastructure funds (£190.4m), obtained audited financial statements for the investments as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2023. • performed additional testing for the full pooled property investments (£92.7m) by using indices obtained externally to benchmark against those used by the Fund Manager. • evaluated the competence, capabilities and objectivity of the valuation expert; and • review investment manager service auditor report on design and operating effectiveness of internal controls. Compared to the draft Financial statements we identified adjustments totalling 26.3m which indicated the investments in the year end draft accounts were understated. The reason for this difference was at the date the accounts were prepared these more up to date valuations were not available. In our assessment of IAS 10 we deem this an adjusting post balance sheet-event and it has been agreed with management that this will be updated in the final accounts. In addition, when reviewing the most recent valuation date of the Funds two variances were identified both below our materiality levels and netted of too 1.4m. This is not a factual error, but an uncertainty identified in the balance. Our work is now complete with no further issues identified.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
The valuation of Direct Property is incorrect (Level 3) The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£194,3 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and custodian and assessed their responses as part of our work. • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records • where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls. In the directly held property the assets showed a reduction in their valuation by £22.3m compared to the prior year. From our work there are no matters we are required to report to those charged with Governance and our work is now complete on this area.

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

This review focuses on the design of controls in place around each system and not their operating effectiveness.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating: Security management	ITGC control area rating: Technology acquisition, development and maintenance	ITGC control area rating: Technology infrastructure	Additional work performed	Findings
SAP	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Additional work was required when reviewing Journal users to consider the risks identified around users within the system. Note it was identified the users with these super user access rights were not signficantly involved in the financial accounts closedown process upon our review.	See Appendix C for findings.
NEC	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	Additional work was required when reviewing Journal users to consider the risks identified around users within the system. Note it was identified the users with these super user access rights were not signficantly involved in the financial accounts closedown process upon our review.	See Appendix C for findings.

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

This review focuses on the design of controls in place around each system and not their operating effectiveness.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Additional work performed	Findings
UPM	Detailed ITGC assessment (design and implementation)					No additional work identified from ITGC work findings.	Although we did not identify any significant control deficiencies around the UPM system, there were specific challenges in obtaining data from the new system. This review relates to the controls design and did not review the operation of the new system.

We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system. We observed the following results:

IT system	Event	Result	Related significant risks / risk / observations
UPM	New System Implementation		N/A

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements: Information Technology

This section provides details of additional work undertaken around the IT system change.

Work Undertaken	Commentary
Transfer of Member Data between Systems On the 1st May 2022 the Pension Fund transferred its data from Altair to Oracle UPM. This required the transfer of all member held records on the outgoing system onto the new system, this information is key to the calculation of a number of key Pension tasks such as the Pensions due to members upon retirement. Thus in our work we had to consider the risk that the data transfer was not accurate and that members could be paid incorrect balances. Therefore, this was a new risk for this year's audit. As noted on the previous slide our IT team performed a review of the controls in place regarding this. In doing so they noted they were appropriate and therefore we identified this as an Other risk and not a significant risk.	In respect of this area, we have performed the following work: • Reviewed the processes and controls which have been put in place by the Pension Fund to ensure the effective transfer of data between the two systems. • Reviewed internal reconciliations performed regarding the internal transfer. • Engaged our IT specialists to undertake a detailed review of the controls around the systems change to ensure their appropriateness. • Undertaken detailed upstream and downstream testing of the transfer of data. This involved testing information from the old system to the new system and vice versa. From our work although we identified no issues around the data transfer. We did identify that there were challenges around the usage of the new system and running reports of the system to support the audit. These issues are noted on the next slide. No further issues were identified from our work.

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit

Significant matter	Commentary
UPM system- Obtaining Key reports	We encountered challenges obtaining data from the new UPM system, in relation to Benefits Payable and Membership data. These two aspects are key parts of the audit requests, and this impacted the timeliness of the audit. Although we are satisfied sufficient data was provided to support the member data held at the year end and the Benefits payable listing it did mean we were not able to substantively test benefits paid in April 2022. Given the amounts spent were in line with our analytical procedures and the monthly spend itself was not material we were able to gain comfort over this balance, regarding the risk of material misstatement. But note this did limit our audit procedures on this month's spend, which totalled £5m.
Valuation Of Investments and changes in disposals and purchase figures	As in the previous year our audit identified material changes in the Pension Investment valuations. This was also the case for purchase and sales data. This issue arose due to the fact more up to date information had been provided on these figures after the accounts were prepared. We had agreed with management that we would delay the start of the audit so these amendments could be made prior to our audit. However, due to changes in key staff personal this did not take place and material adjustments were identified following our audit process.
Key Changes in staff personnel	The Pension Fund had employed a contractor to prepare the draft Pension Fund accounts. Due to this staff member leaving the team a newly hired team member had to respond to the audit queries as the primary point of contact. This did create some inefficiencies in the audit process due to them having to familiarise themselves with the Pension Fund and the fact they had not prepared the accounts we were auditing. In addition, since the draft accounts prepared on the 30th June 2023 which was approved an updated version was prepared for the audit on the 29th November. We had requested management for a list of the changes made between versions and the reasons for the changes, this was not provided or available. With key staff then leaving we have been unable to receive detailed explanations for the movements between the versions. We have undertaken our audit on the updated accounts in November but for transparency in Appendix D we have identified the lines that have been amended in the Main statements between versions. We appreciate the support the team have offered us in undertaking the audit in what were challenging circumstances. However, the factors noted above did elongate the time spent concluding our audit procedures.
Actuarial disclosure	In the CIPFA code there are three options set out for Pension Funds to consider within the Actuarial note. The Pension Fund has elected to follow option B which states the latest annual valuation should be presented in the note. Our interpretation and that of management differs, in that our view this means that on an annual basis the Pension Fund should obtain from the actuary the gross liability of the Pension fund. We consider this key information for the Pension Fund and to the readers of the accounts as this effectively shows the overall surplus/deficit the Fund is on an annual basis. We have requested management obtain confirmation from the actuary what the Year end value is relating to this and add this to the financial statements. Management have agreed to restate this note with the latest information and have requested this from the actuary.

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2. Financial Statements: 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
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 incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation will be requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.

2. Financial Statements: other communication requirements

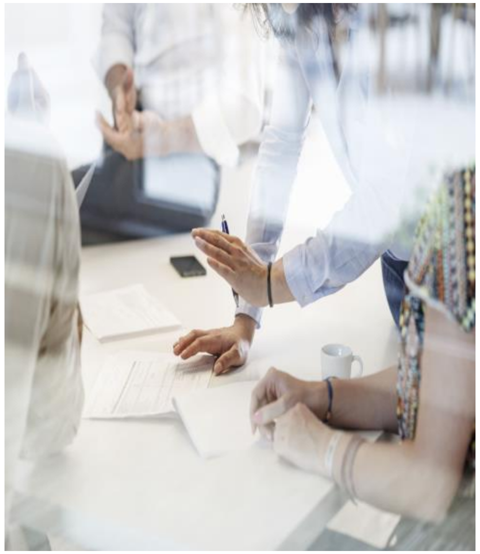
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund is administered by Southwark Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified although a number of audit adjustments noted in Appendix D have required amending.
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. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report on the same day we issue our financial statements opinion. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



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3. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

We confirm that we have not identified any non audit fees related to the Pension Fund. Given this we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

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 including significant risks	•	
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
● High	**Key reports being run of the UPM system** We encountered challenges obtaining Benefits payable and member data listing from the UPM system. We understood from discussions there had been challenges on the new system having reports written to enable this to take place. This meant that instead a more manual and time-consuming process was required to provide the information we required to audit these balances. It also meant that we were unable to obtain these listings for the April period the month prior to the transfer to the UPM system.	Management should review the UPM system and ensure that key reports to support the audit are available to be run. **Management response** xxx
● High	**Management should obtain from the Actuary on an annual basis the latest Actuarial liability position on an annual basis to comply with the Code requirements** In the CIPFA code there are three options set out for Pension Funds to consider within the Actuarial note. The Pension Fund has elected to follow option B which states the latest annual valuation should be presented in the note. Our interpretation and that of management differs, in that our view this means that on an annual basis the Pension Fund should obtain from the actuary the gross liability of the Pension fund. We consider this key information for the Pension Fund and to the readers of the accounts as this effectively shows the overall surplus/deficit the Fund is on an annual basis. We consider this key information to the Accounts and to inform the Pension fund on how it is performing in meeting the future needs of the Fund.	We recommend that management obtain a formal IAS 26 report to state the year end actuarial liability on an annual basis. **Management response**
● Medium	**Management should perform an Analytical review and understand unusual movements in the Pension Fund Accounts** In our review of the Fund Accounts, we identified an unusual increase in Other Current liabilities, which had significantly increased year on year. Typically, at a Pension Fund the overall Non current liability balance would not be high. However, at the year-end there had been a significant increase, which was largely explained by an £11.5m Journal posting that had been misallocated. We note we would of expected this type of error to have been identified in managements review of the Pension Fund accounts.	We recommend that management performs Analytical reviews of the key notes in the accounts and ensures all significant movements are understood to avoid the risk of errors in the Financial statements. **Management response** xxxx

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● High – Significant effect on financial statements
● Medium – Limited effect on financial statements
● Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Pension Fund's 2021/22 financial statements, which resulted in 1 recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Issues over Member Data** In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This could then have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low. The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.	The Pension Fund has procured new pensions administrations software to replace its current system. Following this implementation, we encountered challenges obtaining information from this new system to audit both the membership data and benefits Payable. Following the receipt of this information we found similar issues as in previous years in relation to obtaining data that sits outside the Councils payroll system and for older cases.

Assessment

✓ Action completed

X Not yet addressed

D. Audit/Management Adjustments – Main Statements

Impact of adjusted misstatements

As noted in our significant matters section the Pension Fund produced draft accounts on the 30th June 2023. This version of the accounts was superseded prior to the audit commencing with an updated version being provided for audit on the 29th November 2023. Below are the changes above our reporting threshold in the Main statements.

Detail	Fund Account £	Net Asset Statement £m
Adjustments between draft accounts June 30th and version submitted for audit as of 29th November Due to turnover of key staff, we have not had a detailed explanation provided for the movements between the versions of the Accounts. In completing our audit, the trial balance and workings provided supported the accounts submitted as of November 29th. **The next slide summarises our audit adjustments to this version.**	CR Contributions 830k CR transfers in from other Pension Funds 28k CR Management expenses 1,098k CR Investment Income £15,058 DR Benefits paid £2,114k DR Profit and Loss on changes in market value £6,028k DR Taxes paid £519k	DR Current Assets £23,986k CR Current Liabilities £8,352k
Overall impact	CR £8,353k	**DR £8,353k**

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D. Audit Adjustments – Main Statements

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Fund Account £m	Net Asset Statement £m
Variances identified in level 3 Investments Due to the timing of when the accounts were prepared and the audit period more up to date valuation information came available for 3 Investments held. This indicated Investments were understated by £26,300k. Per our consideration of IAS 10 we deem this to be an adjusting Event after the reporting period and therefore have agreed with management this will be adjusted in the final Pension Fund accounts.	Profit and losses on disposal of investments and changes in market value of investments CR 26,318k	Investment Assets DR – £26,318k
Adjustment to Current liabilities and Fund Account From our review of the Pension Fund accounts Current liabilities significantly increased year on year, due to other liabilities increasing from £72k to £12,143k. Given most Pension Funds do not have significant current liabilities this was an unusual movement which we queried with management on first review of the Accounts. From review this was due to a Journal mis posting of £11,500k that lead to current liabilities being overstated and reduced the Profit and Loss on changes in market value by the same value.	Profit and losses on disposal of investments and changes in market value of investments CR £11,500k	Current liabilities DR £11,500
Adjustment to Current assets held by Fund Manager From our work it was identified that there was a variance between the draft accounts deferred debtors and that held by JP Morgan of £3,374k . This led to the Current assets balance being overstated by £3,374k.	Profit and losses on disposal of investments and changes in market value of investments DR £3,374k	Current Assets CR 3,374k
Adjustment to Current assets held by Fund Manager From our Investment income testing it was identified that accrued debtors were overstated by £3,962k and investment income was also overstated by this value.	Investment Income DR £3,962k	Current Assets CR 3,962k
Changes to Opening Balance of Fund Adjustments to Investments identified in the 2021-22 audit had to be made to the accounts. This resulted in the Opening Net assets increasing by £18,400k. This has not impact on the Net Asset statement but does mean the Fund account movement in Investments valuations are impacted.	Opening Net asset statement £18,400k Increase Profit and losses on disposal of investments and changes in market value of investments DR 18,400k **Note this change has been made in the 2021-22 accounts*	
Overall impact to audited November Accounts	CR £30,492k	DR £30,492k
Overall impact to draft Accounts (including adjustments on previous page)	CR £38,835k	DR £38,835k

D. Audit Adjustments- Disclosure changes

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

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Accounting policies and Other notes –minor presentational adjustments	In our work a number of minor presentational amendments were identified and agreed with management. This included the removal of a critical judgement made by the Pension fund which per IAS 1 did not meet the requirements of a critical judgement. The Critical judgement did not express a judgement but the fact the Fund was applying the standards appropriately for property assets.	✓
Audit fees- Note 10	The audit fees note required adjusting to the final figure.	✓
Note 14A- reconciliation of movements in Investments	For the purchases and sales in the accounts the Fund Manager had provided more up to date information to the accounts.. This resulted in the Purchases data increasing across four asset types by £163,488k. The Sales information also contained material adjustments totalling 194,078k increases to the sales.	✓
Note 17 Financial instruments	The financial instruments note was misstated to include statutory liabilities which do not meet the definition of being financial instruments under IFRS 9. This lead to a £4,173k adjustment to this note.	✓
Note 19 and 20 – Actuarial Present Value of Promised Retirement Benefits	The Pension Fund in the preparation of this note had not included the latest valuation data as of the 31st March 2023. This was based on their interpretation of the Code requirements that the latest full triennial data should be used. This is not in line with our understanding of the CODE which requires the Pension Fund to state the total Pension Fund liabilities for each reporting year. Given the significance of this information to the readers of the accounts we considered this as requiring adjustment.	✓
Note 26 Unfunded Commitments	The Draft statement of accounts had the value at £105.8m however upon review this was overstated and has been restated to 89.9m following the audit adjustments identified.	✓
Other Information including Pension Fund Annual report	The other information noted in the Pension Fund Annual report and other parts of the Accounts required updating to reflect the material changes in the prior and current year Financial statements.	✓

E. Fees and non-audit services

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

Audit fees	Proposed fee
Scale fee per PSAA for 2022-23	24,920
New System Implementation (this reflects the UPM system and the cost of our additional work the estimated fee captures the cost of this review of the data transfer and controls regarding the implementation)	12,500
ISA 540	3,600
ISA 315	6,000
Journals testing	2,000
Fee Per Audit plan	49,020
Additional work on Investment Valuations and challenges obtaining data from Fund Managers	3,400
Challenges obtaining information from UPM system and other key reports	2,800
Quality and preparation of accounts issues resulting in key staff turnover during the preparation and audit period	5,750
Total audit fees (excluding VAT)	£60,970

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

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

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Grant Thornton

grantthornton.co.uk

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
30 Finsbury Square,
London
EC2A 1AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Grant Thornton UK LLP

London Borough of Southwark ("the Council")
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of London Borough of Southwark ("the Council") the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council's 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 2022/23 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of investment properties, council dwellings, land and buildings, and pension fund net liability. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We note the control deficiency raised by you on our methodology to determine the valuation of council dwellings and land and buildings. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates, including this valuation of council dwellings and land and buildings and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. 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.

vii. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent

  b. none of the assets of the Council has been assigned, pledged or mortgaged

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

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

xi. RAAC - we have considered the impact of reinforced autoclaved aerated concrete (RAAC) on our financial statements. We have no knowledge of any material events or circumstances that would require adjustments to be made to our financial statements.

xii. Equal Pay - we have considered the impact of equal pay claims on our financial statements. And we can confirm there are no active claims against the authority in relation to this. In addition, we can confirm we have considered under IAS 37 our provisions balance in relation to this and not identified any provisions that would be required in relation to this matter.

xiii. We have reviewed all property assets and following adjustments are satisfied they are appropriately classified within the Property plant and equipment note and Investment property notes.

xiv. We confirm on review of property assets we have not identified any further impairments to property valuations since the preparation of the financial statements. With all impairments having been appropriately accounted for.

xv. We confirm the Council has complied with the statutory ring fenced requirements of the Housing Revenue Account.

xvi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. 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. The financial statements are free of material misstatements, including omissions.

xvii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

xix. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

  a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

xx. 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.

xxi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xxii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

xxiii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's 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. access to persons within the Council from whom you determined it necessary to obtain audit evidence.

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

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

xxvi. 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.

xxvii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

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

xxviii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxix. 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.

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

xxxi. 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

xxxii. 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

xxxiii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's 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 25th April 2024.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
30 Finsbury Square,
London
EC2A 1AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Grant Thornton UK LLP

Southwark Pension Fund
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Southwark Pension Fund for the year ended 31 March 2023 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 2022/23 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of investments and pension liability. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Fund has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. 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.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

xiii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

  a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

  b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

  c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

  We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the 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. access to persons within the Fund via remote and in-person arrangements from whom you determined it necessary to obtain audit evidence.

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

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

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

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

  a. management;

  b. employees who have significant roles in internal control; or

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

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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

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

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

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

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

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

Southwark Council
southwark.gov.uk

STATEMENT OF ACCOUNTS

2022/23

AUDITED VERSION

Clive Palfreyman
Strategic Director of Finance
_ _ April 2024

TABLE OF CONTENTS

DISCLOSURE NOTES TO THE ACCOUNTS

NARRATIVE REPORT

From Clive Palfreyman
Director of Finance

Introduction

This narrative statement provides information about Southwark council, including the key issues affecting the council and its accounts for the period 2022-23. It complies with Regulation 8 of the Accounts and Audit Regulations 2015 which requires that the statement includes a comment on its financial performance and economy, efficiency and effectiveness in its use of resources in 2022-23.

The CIPFA code of practice (the ‘Code’) states that the narrative report provides information on the authority, its main objectives and strategies and the principal risks that it faces, as well as providing a commentary on how the authority has used its resources to achieve its desired outcomes in line with its objectives and strategies.

An Introduction to Southwark- Organisational Overview and External Environment

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 a vibrant cultural and arts scene with numerous top theatres including Shakespeare's Globe, the Bridge, and Unicorn as well as the historical Borough market nestled in Dickensian cobbled streets. Art galleries along bankside include the Tate Modern and one of the world's leading contemporary art galleries, White Cube, is located in Bermondsey. Educational establishments include Camberwell College of Arts, a constituent college of the University of the Arts London, regarded as one of the UK's foremost art and design institutions.

In economic terms, Southwark has been a net importer of labour in London, powering the jobs market across the city. The borough has a rich mix of employers, 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, including the impact of leaving the European Union.

Southwark has the 7th highest population density in England and Wales, with a population count in 2021 of 307,700, up from 288,300 in 2011. It is ethnically diverse with over 120 languages are spoken in local schools, 66% of the under-20 population and 75% of reception-age children are from black and minority ethnic groups.

The median age of Southwark residents in 2021 was 34 years, over two years younger than the London average and almost seven years younger than the national average. Whilst the borough's population is comparatively young, this is not driven by a large number of children and young people. It is primarily a result of the large number of young adults in their 20s and 30s. And although Southwark has seen a 16% increase in over 65s, this is lower than the England average of a 20% increase.

- ### Economic climate

In 2021/22, the Covid-19 pandemic was still prevalent and the council continued to tailor service provision and resources to vulnerable residents, support local businesses and communities and ensure staff well-being, as well as maintaining essential services and accommodating new ways of working. In 2022/23, the pandemic restrictions have been lifted and ways of living and working have returned to a new normal.

The council budget for 2022/23 was based on assumptions that had been subjected to intense budget challenge from council members. And throughout the year, we paid close attention to the impact on the council of a materially deteriorating economic climate and a new emergency – the cost of living crisis - with rising interest rates and very high levels of inflation.

The strength of the council’s response during the pandemic has facilitated an effective financial and operational response to the cost of living crisis. The council has created a cost of living fund bringing together resources from government grant and contributions from the council. This has provided a vital support network for the most vulnerable in the borough.

- **Community engagement and partnerships**

The council continues to commit to a shared long term vision of the future, despite this uncertain economic climate.

We have launched the ‘Southwark 2030’ initiative through consultation with residents, community organisations and businesses to ensure the council’s vision is a shared one. This builds on a legacy of good community relationships and partnerships already in place across the borough.

The council is part of the new South East London Integrated Care System, a partnership between with the NHS, the community and voluntary sector and provider partners to ensure health provision reaches individual residents and families wherever and how they need it.

- **Workforce**

The council employed a total of 4,639 staff on 31 March 2023 (including permanent, fixed-term and casual staff), a slight increase compared to the 4,458 employed on 31 March 2022. The number of employees is expected to increase further during the course of 2023/24 as a result of decisions to insource services – including leisure centres – and a drive to reduce the use of agency workers.

The council is committed to exemplary employment practice. We are an accredited Living Wage employer and we participate in a number of schemes designed to promote an inclusive working environment, including Disability Confident and Stonewall’s Diversity Champions.

Our Southwark Stands Together programme is focused on tackling racial disparities within our workforce and promoting anti-racist practice. Since we began delivering this programme, we have seen a reduction in the size of our ethnicity pay gap and an increase in the proportion of senior management roles that are filled by colleagues from Black, Asian and minority ethnic backgrounds. However, we know there is much more to do to achieve our ambition of eradicating racism and this programme continues to be of the highest priority. We have recently formed a consortium with Islington, Richmond, Wandsworth and Westminster councils to commission places on the “Black on Board” programme, which is designed to help ethnically diverse employees to develop the skills and confidence to take on board-level roles. We are also working with London Councils to pilot their new Tackling Race Inequality Standard before it is rolled out across the capital.

The council makes use of the apprenticeship levy to create apprenticeship opportunities for local people and existing employees. In the last year, we created apprenticeships across a diverse range of professions, including accountancy, social care, and skilled trades in our repairs and maintenance service. We also launched a new internship programme, which provides young people with the opportunity to access 12 weeks of paid work experience at the council.

Council Priorities and Resource allocation

The Council Delivery Plan (CDP) 2022-26 was agreed in September 2022 and is the council's business plan setting out the programme of work for the period. This plan replaced the previous Borough Plan. The CDP is a clear statement to our residents, businesses, local voluntary/community organisations and other stakeholders of how the council will deliver a fairer, greener and safer borough for all in Southwark.

The CDP is structured around seven priority themes, reflecting the topics that the people of Southwark said were most important to them. The themes are:

- Transforming our borough
- A thriving and inclusive economy
- A healthy environment
- Quality, affordable homes
- Keeping you safe
- Investing in communities
- Supporting families.

Council performance is measured against detailed performance schedules, which sit beneath this council plan. Responsibility is apportioned by lead cabinet member and chief officer for each commitment ensuring the whole organisation is working towards the delivery of the plan and that outcomes are measured and assessed.

To ensure that this plan has real impact, the measures and milestones that underpin it, are monitored on a quarterly basis through the year by the Corporate Management Team (CMT). An annual performance report is published each year.

The CDP is the strategic view of what the council wants to achieve and over the short, medium and long term. The financing of these plans is met through the medium term financial plan and annual budgets.

At the beginning of each financial year the council plans ahead over a three year period though the Medium Term Financial Strategy (MTFS). As a starting point, estimated changes in income streams from government grants, council tax and business rates and other income are assessed together with expected pay awards, inflationary costs, debt charges and demand pressures, recognising that the external economic environment will impact on the council's financial plans.

In 2022/23, the economic backdrop has shown an unusually high level of volatility from government policy changes, the war in Ukraine impacting on energy prices and an emerging cost of living crisis. Within these parameters, the council has continued to work hard to deliver the commitments by successfully maximising resources and making efficiency savings wherever possible.

The gap between the overall resources and expected net expenditure to deliver service plans is then assessed and both capital and revenue budgets are integrated to create a coherent plan of action.

Council Performance and Achievements in 2022/23

The annual performance report focuses on outcomes around the CDP priorities, with the commitment to Southwark's communities put at the centre of these initiatives. The council's website is the primary channel of communication for performance with updates also provided through regular e-newsletters, social media channels and through Southwark Life magazine.

Examples of the outcomes achieved in 2022/23 against these commitments are listed in the table below.

Commitments	Outcomes
Transforming our borough	Southwark 2030 launched to empower communities to shape the places they live in and support local people to deliver for their communities. Council focus on closing the gap in life chances through the delivery of the Council's Equality Framework. Ensuring the council is a great place to live- review of neighbourhood policy plans to clarify gaps in provision for what's on offer.
A thriving and inclusive economy	Cost of Living Fund has supported 45,000 households and provided 15,000 children with school meals during school holidays. 1,800 children attended summer and winter holiday programmes Launched a Thriving High Streets fund Major improvements in town centre, including Peckham, Canada Water, Old Kent Road Creation of 1240 green jobs in Southwark Southwark Pioneers Fund Grow your Enterprise fully operational to support sustainable business that have lasting impact on community 600 apprenticeships and 6,400 training opportunities created.
A healthy environment	Over 8,000 trees planted 214 new gardens/growing plots and 16 new nature sites established Council homes greener- insulation and heat pumps, More and better parks- including developments at Burgess Park and Pelier Park. Work to end carbon emissions in council operations and vehicles and the pension fund Better pavements for those with mobility issues. Increased disabled parking Working in partnership with the NHS, TfL, and local organisations to free up more land 126 cycle hangers providing 756 cycle spaces 1000 more electric charging points
Quality, affordable homes	1,500 council homes, built, in construction or gained planning permission 99.7% of council estate inspections rated good or excellent 100% of rough sleepers receive support within 48hrs of a referral Increased protections and support for private renters
Keeping you safe	£2m anti – social behaviour task force created with visible presence and more community safety wardens 1,895 street and estate lights upgraded to LED Launch of initiatives to make Southwark safe for young people Major campaign to tackle misogyny and violence against women and girls
Investing in communities	Southwark 2030- neighbourhood funding of local projects Expansion of services provided through the libraries (wifi printing/warm hubs/cashless payments) Events to celebrate diversity - 59 community events and festivals held/ 64 street parties. 27,000 people attended community events in 2022/23
Supporting families	Launched a new sure start for teenagers services Mental health support for children and young people through Nest walk-in service 97% of schools achieved good or outstanding Ofsed rating Launch of Southwark Standard webpage under Southwark Stands Together to support teaching and careers advice. Access to good quality residential and care homes- new nursing home opened and more extra care housing

Financial Performance - Revenue

For 2022/23, a net budget of £293m was approved by council assembly in February 2022. Council assembly also agreed a 2.99% increase in council tax and a contribution of £1m from reserves to support a balanced budget.

The revenue outturn position is summarised below:

General Fund	Original budget £000	Budget movement £000	Revised budget £000	Net Spend in Year £000	Reserve transfers £000	Total use of resources £000	Variance after using reserves £000
Children & Families	67,317	(1,967)	65,350	64,714	1,742	66,456	**1,106**
Adult Social Care	77,709	2,416	80,125	77,808	(171)	77,637	**(2,488)**
Commissioning & Central	5,017	(333)	4,684	4,920	(41)	4,879	**195**
Education	19,526	(1,100)	18,426	21,772	(2,217)	19,555	**1,129**
Public Health	-	-	-	(1,276)	1,276	-	**-**
Children & Adults total (excl. DSG)	**169,569**	**(984)**	**168,585**	**167,938**	**589**	**168,527**	**(58)**
Dedicated Schools Grant (DSG) In-Year	-	-	-	2,037	-	2,037	**2,037**
DSG Safety Valve Grant Receipt	-	-	-	(9,221)	-	(9,221)	**(9,221)**
DSG Total	**-**	**-**	**-**	**(7,184)**	**-**	**(7,184)**	**(7,184)**
Environment, Neighbourhoods and Growth	86,027	2,973	89,000	90,508	976	91,484	**2,484**
Housing	19,330	1,412	20,742	21,030	240	21,270	**528**
Finance	35,593	2,038	37,631	41,292	(1,555)	39,737	**2,106**
Governance and Assurance	22,036	1,542	23,578	25,589	(780)	24,809	**1,231**
Strategy and Communities	4,013	1,706	5,719	4,889	903	5,792	**73**
Strategic Finance	(2,914)	(8,604)	(11,518)	(31,190)	15,230	(15,960)	**(4,442)**
Support Cost Reallocations	(42,340)	(83)	(42,423)	(42,423)	-	(42,423)	**-**
Contribution from Reserves	(2,078)	-	(2,078)	-	-	-	**2,078**
General Contingency	4,000	-	4,000	-	-	-	**(4,000)**
DSG balance to adjustment account	-	-	-	7,184	-	7,184	**7,184**
Net revenue budget	**293,236**	**-**	**293,236**	**277,633**	**15,603**	**293,236**	**-**

Despite a highly volatile macro-economic environment, high rates of inflation, energy costs and regular increases in interest rates, a balanced revenue outturn was reported for 2022/23.

This is a good outcome for the council. For a further year, the council has managed to swiftly implement schemes to support residents most in need, and critically, ensuring the resources are available to support these schemes. Budgetary discipline has ensured value for money across the council enabling it to fulfil the promises made in the council delivery plan whilst ensuring financial stability.

Across adults and children's social care a balanced position has been achieved. While the shortage in the supply of children's social workers is still a key financial pressure within the department, the recruitment and retention initiatives that has been introduced started to improve the position on the previous year's outturn. Higher demand and cost pressures in home to school transport within the education service created additional financial pressures.

There continues to be ongoing pressure on the homelessness budget exacerbated by the cost of living crisis which has resulted in significant additional cost. The finance overspends are the result of significant additional administrative burdens on back office services to accommodate the increase in the number of welfare claimants and the greatly expanded programme to support those most vulnerable with the cost of living.

Strategic Finance includes a number of budgets that are not allocated directly to departments and which are managed centrally. These include treasury management, insurance, corporate provisions, levies and a number of technical accounting budgets, such as the reversal of depreciation. Movements to and from this budget area is expected, but do not impact on the net budget requirement or level of council tax that the council sets each year.

Pay and inflationary costs that have impacted on the budgets in 'Environment, Neighbourhoods and Growth' and 'Governance and Assurance' departments (and elsewhere) have been mitigated by the use of the contingency and planned use of reserves.

The £2m overspend for the Dedicated Schools Grant (DSG), is driven by increased demand. The DSG deficit account is unchanged due to regulation but we have a credit balance in the DSG due to having received £9.2m in 'safety valve' government funding in 2022/23. This reduces the overall DSG deficit to £14.5m.

Despite the external economic factors impacting on council budgets, the outturn position continues to demonstrate strong financial management and sound governance arrangements across the Council.

Housing Revenue Account (HRA) outturn 2022/23

The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The revenue outturn for 2022/23 shows income from tenants and homeowners of £275.6m and spending of £282.3m. The underlying financial position for 2022/23 was impacted substantially by the inflationary energy costs, primarily gas and electricity in the district heating account. However, the position was ameliorated through better than expected rental income performance, one-off service underspends elsewhere across the HRA, and a combination of financing measures, including a reduction in the level of revenue contribution to the capital programme and the use of £6.7m of reserves.

The repair and maintenance of the housing stock consumes the largest proportion of operating resources, with the volume of work and cost of repairs, rising far in excess of budget expectations. In addition, there are a number of other significant underlying budget pressures in the HRA. New commitments have arisen from the management and maintenance of housing stock and new requirements arising from the Building Safety and Fire Safety Acts which will serve to exacerbate the pressure on both revenue and capital resources.

Overall, HRA reserves are at their lowest ever point and in the context of the size of the council's HRA and Housing Investment Programme (HIP), with combined annual turnover of over £600m, reserve levels are considered to be below the optimal level necessary, requiring the council to establish a more prudent and sustainable level of reserves going forward.

The council needs to borrow to fund the HIP, which is set to increase significantly, at the same time as meeting investment in current stock, building and fire safety works, investment in heat networks together with the council's commitments to carbon reduction. The continued growth in the council's debt, to finance the new homes programme has increased the revenue financing requirement by £3.1m more than last year. These costs will continue to accelerate rapidly over the short-term and with interest rates currently at over 5%, some 3% higher than two years ago, the servicing of the council's housing debt, will consume a much greater share of HRA resources to the detriment of other service priorities.

Collection Fund

The collection fund shows the transactions of the council as a billing authority in relation to council tax and business rates. Both taxation schemes are designed to be self-balancing; an estimate of any accumulated surplus or deficit is made each year and factored into the following year's tax requirement. Any difference between estimated and actual outturn will be received or borne by taxpayers in the following year.

Income raised from Council Tax is the single largest source of general funding for the council's revenue budget. In 2022/23, the Council collected £171m in Council Tax, of which £42m was collected on behalf of the GLA. The Council Tax for a Band D property (including the GLA precept) was £1,594.54 in 2022/23.

The financial downturn, during the pandemic and cost of living crisis, caused collection rates to be substantially lower than those that were predicted.

The Statement of Accounts provides further detail on the Collection Fund account for 2022/23.

Capital

Southwark has one of the largest capital investment programmes in London, with current committed plans to spend over £3.6 billion by 2032/33, with a further £1 billion planned for new homes and major works. Financing for these projects has yet to be established.

The capital programme delivers tangible benefits to the borough's residents. For example, to improvements in care homes, children's homes, parks and leisure centres. Capital budgets have added strength to the council's commitment to tackling the impact of climate change. As well as creating a £25m capital fund, the council has made significant progress across the individual capital programme projects to achieve energy efficiencies and reduce carbon emissions. There are projects to improve air quality, the completion of the programme of changing street lighting to LED lights, the delivery of 1000 EV charge points ahead of plan, an additional 646 cycle hangers.

Capital spending and financing in 2022/23 is shown in the following table.

	2022/23 £000	2021/22 £000
Service:		
Children's and adults' services (including schools)	14,297	21,784
Environment, Neighbourhoods and Growth (formerly Environment and Leisure)	58,465	16,880
Housing (formerly Housing and Modernisation)	1,572	13,804
Finance, Governance and Assurance (formerly Chief Executives)	13,570	48,537
Housing investment programme (HIP)	316,959	210,850
Total spending	**404,863**	**311,855**
Financed by:		
Capital receipts	(36,582)	(13,708)
Government grants and other contributions	(145,370)	(68,031)
Direct revenue contributions	(18,915)	(16,315)
Major repairs reserve	(51,708)	(55,046)
Prudential borrowing and credit arrangements	(152,288)	(158,755)
Total financing	**(404,863)**	**(311,855)**

The scale of the capital programme is immense, representing a major element of the council's financial activities. The housing investment programme (HIP) is forecasting total expenditure of £2.7 billion over a 10 year period to 2031/32.

The council is under increasing pressure to address housing investment needs, driven by the need for new homes as well as dealing with its existing stock, in responding to new building and fire safety legislation, the need to maintain decency standards and the climate emergency. The council is facing these challenges during a period of sustained economic downturn and increasing financial uncertainty.

In particular, the HIP has been impacted by high levels of construction inflation and significant increases in the cost of borrowing, on which the new homes programme in particular is heavily reliant. These increases in costs reduce the amount that can be done within existing budgets.

Over recent months, the council has taken steps to limit new commitments to the new homes scheme beyond those already contractual committed, as the current commitment will exhaust the council's borrowing capability. In addition, the council will review closely the programme on existing stock not least in relation to the Building Safety Act 2022 which will incur significant additional costs both to complete surveys and to fund the costs of works emerging as a result.

Balance Sheet

Reserves

The following table shows the opening and closing balances on usable reserves:

	1 April 2022 £000	Movement £000	31 March 2023 £000
General Fund Balance	**(22,445)**	**2**	**(22,443)**
Earmarked Reserves			
Corporate projects and priorities	(18,876)	(20,703)	(39,579)
Service reviews and improvement	(34,554)	580	(33,974)
Capital programme and capital investment	(36,723)	964	(35,759)
Strategic financial risk	(58,097)	(1,081)	(59,178)
Technical liabilities and smoothing reserves	(34,118)	(4,792)	(38,910)
Covid-19 reserves	(25,872)	23,399	(2,473)
Grant reserves	0	(2,617)	(2,617)
Subtotal	**(208,240)**	**(4,250)**	**(212,490)**
School reserves			
Schools - dedicated schools grant (DSG) reserve	-	(7,184)	(7,184)
School balances	(14,391)	723	(13,668)
Subtotal	**(14,391)**	**(6,461)**	**(20,852)**
Housing Revenue Account (HRA)			
HRA balance	(26,130)	6,672	(19,458)
Major repairs reserve	0	0	0
Subtotal	**(26,130)**	**6,672**	**(19,458)**
Total revenue usable reserves	**(271,206)**	**(4,037)**	**(275,243)**
Capital reserves	**(100,419)**	**(307)**	**(100,726)**
Total usable reserves	**(371,625)**	**(4,344)**	**(375,969)**

The Council maintains reserves to help smooth the impact of government funding reductions and to mitigate anticipated funding shocks arising from funding reforms or changes in government direction.

The general fund balance represents reserves set aside to mitigate and manage financial shocks and is a key financial resilience indicator. The unallocated reserve remains at £22.4m which is approximately 2% of gross general fund revenue expenditure.

Overall the general fund earmarked reserves have remained stable in 2022/23. Whilst Covid-19 reserves have been exhausted as planned, further funds have been set aside or re-purposed for a range of priorities. These include the bringing together of a number of funding sources to create a £15.5m Southwark Cost of Living Fund, £3m for the Southwark 2030 Fund, £2m for Streets for People and £11.6m set aside to mitigate pay inflation in 2023/24 and 2024/25.

In accordance with regulations, the deficit on the schools DSG reserve has been transferred to the dedicated schools grant adjustment account, an unusable reserve.

The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years. At 31 March 2023 the HRA balance stood at £19.5m (£26.1m at 31 March 2022). The HRA holds reserves for specific purposes and as contingency against operational deficits, unforeseen events and to mitigate future risks in line with the council's medium-term financial strategy (MTFS), in the same manner as the council's General Fund. During 2022/23 it has been necessary to drawdown £6.7m of reserves to balance the HRA mainly due to the district heating account (£4.1m), which has been exposed to unprecedented price volatility and now carries forward a minor deficit for the first time since it was first established in 1985.

Borrowing and Lending

The council borrows money to support its ambitious capital programme, refinance maturing loans and to maintain target cash balances. As at 31 March 2023, actual total borrowings held by the council was £991m (£896m at 31 March 2022), of which £921m was long-term PWLB loans (£721m at 31 March 2022) and £70m short-term loans from other local authorities (£175m at 31 March 2022).

In accordance with IFRS 9 financial reporting requirements, long-term loans at amortised cost amounted to £894m at 31 March 2023 (£702m at 31 March 2022). This reflects accounting adjustments for accrued interest of £7m (£6m in 2021-22) and loans due for repayment within one year after the reporting period of £33m (£24m in 2021-22), which are included in the Notes to the accounts (Note 38) as short-term borrowings.

The timing of long-term borrowing needs to be weighed against the risk that interest rates will increase in the future with a view to keeping future interest rate costs low. During 2022/23, in accordance with the approved treasury management strategy, the council increased its overall borrowings by £95m (Long-term PWLB loans: £220m raised with £20m repaid and short-term loans: £70m raised from other local authorities with £175m repaid). The weighted average rate of long-term borrowings was 3.72%.

The council invests its surplus cash in bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities. 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 2023, total investments stood at £220m (£161m at 31 March 2022). The overall rate of return on investments during 2022/23 was 2.07% (-0.04% in 2021/22). This increase in rate is reflective of the 8 increases in the Bank of England base rate from 0.75% in March 2022 to 4.25% in March 2023.

Pension Fund

The Pension Fund is underpinned by an investment strategy which was updated in December 2022. A revaluation is required every three years to set future contribution rates. The latest valuation, as at 31 March 2022, showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2022 covering 109% of the liabilities. Contribution rates certified in the 2022 valuation will apply from 1 April 2023.

The council has committed to reduce carbon exposure in the Fund's investment and become net zero carbon by 2030, whilst still maintaining investment performance. Progress has been made during 2022/23 to implement this.

Following a strong recovery from the impact of the outbreak of the Covid-19 pandemic three years ago, the Fund faces a challenging market environment, with a number of risks and uncertainties in both the short and long term which will need to be managed. Persistently high inflation, tight monetary policy and lingering pessimism over the outlook for global GDP, as well as the impact of geopolitical tensions, will require careful ongoing monitoring of the investment strategy to ensure the Fund is not impacted negatively from market volatility.

Principal Risks and Uncertainties

There continues to be great uncertainty, both with respect to central government funding and in terms of the economy as a whole as the growing cost of living crisis materialises. An update on the council's medium term financial strategy for 2024/25 and 2026/27 will be regularly submitted to cabinet over 2023/24.

The council has an embedded process to manage risk and assist in the achievement of its objectives. The corporate risk register captures the key departmental and corporate risks to the council. Key risks are held on the council-wide risk management system and accompanied by mitigations, setting out the controls in place to manage each risk. This has proved effective in managing the unexpected risks over the last few years and enabled the council to boost its financial resilience.

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 (AGS), assurance is given on the effectiveness of the council's system of internal control.

The council's 2022/23 annual governance statement highlighted the significant risks and issues that arose and referenced those that might potentially impact on future years. In addition to the cost of living crisis, the issues that arose were:

i) The management of the council's housing delivery programmes as a key area of financial risk. The council is the largest council landlord in London and one of the biggest in the country. The cost of living and inflationary pressures over the past 6 months have negatively impacted on the Housing Revenue Account (HRA). The government have imposed restrictions on the rent rise for social housing at 7%. This has meant that rent rises have not risen in line with inflation, which will result in a cut to the overall HRA programme, given other costs have significantly increased.

ii) Capital resources under extreme pressure with additional borrowing required to support the new homes programmes with a consequent revenue financing impact on the HRA. The council has to consider the key housing priorities going forward within a climate of limited financial resources.

iii) The climate emergency is a major focus for the council, working in partnership with stakeholders, partners, staff and residents to tackle the effects of climate change. The council has published a Climate Emergency Strategy and Action Plan setting out how the council will become carbon neutral by 2030 and work to ensure the borough is also carbon neutral by 2030.

iv) The council is aware that recruitment and retention of staff is critical to service delivery. Shortage of workers due to people retiring earlier and the continuing impact of Brexit, have created further competition with private sector companies who have already adapted to this challenge by higher wages and enhanced benefits.

v) The council entered into a formal Safety Valve Agreement with the Department for Education (DfE) at the end of the 2022/23 financial year. The programme focuses on improving SEND services in line with Southwark's SEND Strategy 2022-2025 and commits to reach an in-year balance on the DSG by 2024/25 and eliminating that deficit by 2026/27 with the support of £23m Safety Valve funding as set out in the DSG Management Plan.

vi) The council continued to prioritise the health and wellbeing of Southwark residents. In September 2021, Cabinet approved the in-sourcing of the council's leisure facilities which will take place on 21 June 2023.

vii) Cyber security and IT network security continues to require careful management, particularly in the context of the IT shared service arrangements.

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 2022/23 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS).

Core financial statements

Comprehensive Income and Expenditure Statement
This records all the council's income and expenditure for the year in accordance with International Financial Reporting Standards. The top half of the statement provides an analysis by service area, the bottom half deals with the corporate transactions and funding.

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.

Balance Sheet
A snapshot of the council's assets, liabilities, cash balances and reserves at the year-end date.

Cash Flow Statement
Shows the reason for changes in the council's cash balances during the year, and whether that change is due to operating activities, new investment or financing activities (such as repayment of borrowing and other long-term liabilities).

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

Expenditure and Funding Analysis
This analysis reports annual council expenditure and how this is funded from resources - in two ways - management accounting and financial accounting in accordance with generally accepted accounting practices.

Supplementary financial statements

Housing Revenue Account (HRA)
Shows the income and expenditure at the year-end date for the ring-fenced Housing Revenue Account which identifies the council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989. The HRA figures are included in the primary core statements.

Collection Fund
The Collection Fund reports the amounts raised and collected through local taxation for council tax and business rates. Only the council's entitlement to taxation income and expenditure 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 organisations.

Pension Fund
These are the funds the council manages to provide future retirement benefits for its employees. The funds are not included within the primary statements.

TABLE 1 - EARMARKED RESERVES

COVID-19 RESERVES

	1 April 2022	Net movement	31 March 2023
	£000	£000	£000
Covid-19 - Contain outbreak management	2,058	(763)	1,295
Covid-19 - Clinically extremely vulnerable	678	-	678
Covid-19 - Town centres and high streets	500	-	500
Covid-19 - Business rate retail relief section 31 Grant	14,977	(14,977)	-
Covid-19 - Council tax & NDR collection fund deficit	7,659	(7,659)	-
Total	**25,872**	**(23,399)**	**2,473**

CORPORATE PROJECTS AND PRIORITIES RESERVES

	1 April 2022	Net movement	31 March 2023
	£000	£000	£000
Southwark emergency support scheme	7,110	8,411	15,521
Corporate Software Application Development	-	4,500	4,500
Southwark 2030 Fund	-	3,000	3,000
Modernisation, service and operational improvement	2,199	800	2,999
Corporate Capacity Building	-	2,200	2,200
Southwark pioneers fund	1,950	(140)	1,810
Southwark scholarship scheme	1,998	(288)	1,710
Climate change emergency	1,385	-	1,385
NNDR One-Off Levy Grant	-	972	972
Health Transition and Integration	-	880	880
Rationalisation of Administrative Buildings	-	750	750
Food poverty	795	(277)	518
Neighbourhood fund	603	(112)	491
Voluntary sector small grant support scheme	391	-	391
Data strategy	343	-	343
Internal audit and anti-fraud plan	300	-	300
Anti-fraud projects	250	-	250
Southwark Living Wage Unit	-	250	250
Positive futures fund	229	-	229
Thriving Neighbourhood Model	-	200	200
Artefacts replacement and security	181	-	181
Cautionary Contact System	-	150	150
Community engagement and links development	118	-	118
Community hub - voluntary sector	100	-	100
Older People's Food Security Pilot	-	100	100
Windrush Commemoration Fund	-	75	75
Southwark stands together	182	(118)	64
Workers' Rights	-	50	50
London devolution reserve	736	(700)	36
Laptops for Southwark Schoolchildren	6	-	6
Total	**18,876**	**20,703**	**39,579**

CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES

	Balances as at 31 March 2022	Net movement	Balances as at 31 March 2023
	£000	£000	£000
Aylesbury development	6,000	-	6,000
Highways and parking climate emergency projects	7,698	(2,300)	5,398
Regeneration & development	5,288	(509)	4,779
Planned preventative maintenance and building compliance	4,088	-	4,088
Information technology and csutomer services development	2,195	-	2,195
Streets For People	-	2,000	2,000
Building schools for the future private finance initiative transition	1,623	-	1,623
Schools capital programme contribution	1,293	-	1,293
Highways winter maintenance	1,250	(50)	1,200
Modernisation, service and operational improvement	2,156	(1,000)	1,156
Cycling safety	1,000	-	1,000
Digital innovation fund	808	98	906
Recycling fund	477	418	895
Capital contingency	1,287	(600)	687
Canada Water Highway	-	600	600
Law and Democracy business change management	596	-	596
Cycling Initiatives 2023-27	-	300	300
Public realm	500	(210)	290
Cladding Remediation New Burdens Funding	-	239	239
Canada Water regeneration	214	-	214
Gym and fitness facilities	150	-	150
Black cultural centre	100	-	100
Highways Maintainance (Council Plan)	-	50	50
Total	**36,723**	**(964)**	**35,759**

SERVICE REVIEWS AND IMPROVEMENTS RESERVES

	Balances as at 31 March 2022	Net movement	Balances as at 31 March 2023
	£000	£000	£000
Adult social care resilience plan	9,430	(474)	8,956
Public health	2,010	1,335	3,345
Children and Adults transformation	2,362	566	2,928
Rough sleeping initiative	2,462	-	2,462
HR strategy review plan	1,994	-	1,994
Post-Covid social care demand	4,099	(2,426)	1,673
Adult social care residential homes	1,500	-	1,500
Leisure services insourcing	2,400	(1,177)	1,223
Children and Families Future Risks	-	1,200	1,200
HR service transformation	1,300	(288)	1,012
Temporary accommodation strategy	915	-	915
Leisure mobilisation	800	-	800
Health and wellbeing commitment to mental health	973	(235)	738
New homes bonus GLA funded programme	721	(101)	620
Highways transformation	195	405	600
Local economy	621	(44)	577
Remand Future Pressures	-	417	417
Children and Adults Innovation Development	-	400	400
Environment and Leisure change programme	372	-	372
Adoption Support Fund	-	295	295
Workforce and member development	271	(7)	264
Adopt London south hosting reserve	90	160	250
Schools improvement traded service	200	-	200
Adult services workforce development	157	-	157
Blackfriars trust allocation	138	-	138
Youth service review	170	(40)	130
Playground Provision Review	-	110	110
Southwark renters union	100	-	100
Youth parliament	100	-	100
Greenland Dock Berth Viability	-	100	100
Local flood risk	728	(629)	99
Local Audit Fees (Redmond Review)	-	97	97
Prevention of illegal tobacco distribution	91	-	91
Special educational needs and disability internships coordination	57	-	57
Youth Provision Review 2023-24	-	40	40
Local education authority music service	14	-	14
Troubled families	284	(284)	-
Total	**34,554**	**(580)**	**33,974**

TECHNICAL LIABILITIES AND SMOOTHING RESERVES

	Balances as at 31 March 2022	Net movement	Balances as at 31 March 2023
	£000	£000	£000
Insurance reserve	7,999	1,712	9,711
Interest and debt equalisation	5,500	-	5,500
Schools de-delegated balances	2,892	835	3,727
Waste PFI equalisation	2,921	-	2,921
Freedom Pass Smoothing Reserve	-	2,784	2,784
Council tax and housing benefits subsidy equalisation	3,124	(480)	2,644
Planned Contribution to Support General Fund 2023-24	-	2,500	2,500
Planned Contribution to Support General Fund 2025-26	-	2,500	2,500
Planned contribution to support general fund 2024-25*	5,000	(2,500)	2,500
Contractual risk	2,450	-	2,450
Universal credit implementation	964	-	964
Election reserve	768	(59)	709
Planned contribution to support general fund 2022-23*	2,500	(2,500)	-
Total	**34,118**	**4,792**	**38,910**

* These two reserves have been reclassified from Strategic Financial Risk Reserves to Technical Liabilities and Smoothing Reserves.

STRATEGIC FINANCIAL RISK RESERVES

		Balances as at 31 March 2022	Net movement	Balances as at 31 March 2023
	*	£000	£000	£000
Financial risk and future liabilities		15,893	(6,570)	9,323
Business rate retention risk		13,244	4,040	17,284
Fair funding review and levelling up		7,680	(5,000)	2,680
Spending review risk		7,080	-	7,080
Economic risk		6,157	(250)	5,907
Pension liability risk		2,684	-	2,684
Leaving European Union risk		2,459	(2,459)	-
Fuel inflation across council estate		2,000	(824)	1,176
Schools in financial difficulties and school closures		900	542	1,442
Future Pay Award Smoothing		-	11,602	11,602
Total		**58,097**	**1,081**	**59,178**

Earmarked Reserves	**208,240**	**1,633**	**209,873**

It should be noted that council reserves are subject to a number of pre-existing commitments and key pressures including:

• Capital reserves are required to fund existing capital commitments
• A number of the strategic financial risk reserves are earmarked for potential pressures relating to local government reform including the Fair Funding Review, Business Rates retention and revaluation; as well as economic risks including inflation and the financial effects from the downturn in the economy
• There are no reserves set aside to finance the accumulated deficit on the Dedicated Schools Grant of £14.5m if this is not funded by the Department of Education

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;

- 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 responsibilities

The Strategic Director of Finance 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 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 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 2023 and its income and expenditure for the financial year ended 31 March 2023.

Signature:

Clive Palfreyman
Strategic Director of Finance

Date: _ _ April 2024

Signature:

Councillor Barrie Hargrove
Chair of the Audit, Governance and Standards Committee

Date: _ _ April 2024

Independent auditor’s report to the members of Southwark Council

To be added following completion of the Audit.

To be added following completion of the Audit.

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CORE FINANCIAL STATEMENTS 2022/23

Comprehensive Income and Expenditure Statement

Movement in Reserves Statement

Balance Sheet

Cash Flow Statement

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	Notes			2022/23		*Restated	2021/22
		Gross Expend £000	Gross Income £000	Net Expend £000	Gross Expend £000	Gross Income £000	Net Expend £000
Children and Adults		564,947	(390,215)	174,732	567,910	(356,622)	211,288
Environment Neighbourhoods and Growth		162,790	(65,303)	97,487	143,882	(54,304)	89,578
Finance		212,617	(168,754)	43,863	213,282	(163,163)	50,119
Governance and Assurance		59,768	(2,077)	57,691	28,704	(2,179)	26,525
Strategy and Communities		6,911	(1,748)	5,163	14,040	(5,129)	8,911
Housing GF		48,925	(35,715)	13,210	47,116	(34,036)	13,080
Housing Revenue Account (HRA)		338,063	(285,378)	52,685	306,500	(264,520)	41,980
Net cost of services		**1,394,021**	**(949,190)**	**444,831**	**1,321,434**	**(879,953)**	**441,481**
Other Operating Income and Expenditure	8			(7,277)			(7,276)
Financing and Investment Income and Expenditure	9			53,155			12,457
Taxation and Non-Specific Grant Income and Expenditure	10			(475,108)			(386,657)
(Surplus)/Deficit on Provision of Services				**15,601**			**60,005**
(Surplus)/deficit on revaluation of non current assets	23			109,674			(87,540)
(Surplus) / deficit on financial assets measured at fair value through other comprehensive income	39			(606)			452
Remeasurement of the net defined benefit liability	23			(413,434)			(375,840)
Other Comprehensive Income and Expenditure				**(304,366)**			**(462,928)**
Total Comprehensive Income and Expenditure				**(288,765)**			**(402,923)**

*2021/22 has been restated to reflect changes in departmental structure.

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 2022/23

	General Fund Balances										
	General Fund Balance	Earmarked General Fund Reserves	Schools Balances Reserves	Dedicated Schools Grant Reserves	Total General Fund (GF) Balance	Housing Revenue Account (HRA) Balance	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves (Note 23)	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2021	**(21,002)**	**(204,613)**	**(13,813)**	**-**	**(239,428)**	**(28,346)**	**(3,500)**	**(71,771)**	**(343,045)**	**(3,678,262)**	**(4,021,307)**
Movement in reserves during 2021/22											
Surplus/(deficit) on the provision of services	71,121	-	-	-	**71,121**	(11,116)	-	-	**60,005**	-	**60,005**
Other Comprehensive Income and Expenditure	-	-	-	-	**-**	-	-	-	**-**	(462,928)	**(462,928)**
Total Comprehensive Income and Expenditure	**71,121**	**-**	**-**	**-**	**71,121**	**(11,116)**	**-**	**-**	**60,005**	**(462,928)**	**(402,923)**
Adjustments between accounting basis & funding basis under regulations (Note 11)	(76,769)	-	-	-	**(76,769)**	13,332	3,500	(28,648)	**(88,585)**	88,585	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(5,648)**	**-**	**-**	**-**	**(5,648)**	**2,216**	**3,500**	**(28,648)**	**(28,580)**	**(374,343)**	**(402,923)**
Transfers to/(from) earmarked reserves	4,205	(3,627)	(578)	-	**-**	-	-	-	**-**	-	**-**
Increase/(Decrease) in Year	**(1,443)**	**(3,627)**	**(578)**	**-**	**(5,648)**	**2,216**	**3,500**	**(28,648)**	**(28,580)**	**(374,343)**	**(402,923)**
Balance as at 31 March 2022	**(22,445)**	**(208,240)**	**(14,391)**	**-**	**(245,076)**	**(26,130)**	**-**	**(100,419)**	**(371,625)**	**(4,052,605)**	**(4,424,230)**
Balance as at 1 April 2022	**(22,445)**	**(208,240)**	**(14,391)**	**-**	**(245,076)**	**(26,130)**	**-**	**(100,419)**	**(371,625)**	**(4,052,605)**	**(4,424,230)**
Movement in reserves during 2022/23											
Surplus/(deficit) on the provision of services	74,975	-	-	-	**74,975**	(59,374)	-	-	**15,601**	-	**15,601**
Other Comprehensive Income and Expenditure	-	-	-	-	**-**	-	-	-	**-**	(304,366)	**(304,366)**
Total Comprehensive Income and Expenditure	**74,975**	**-**	**-**	**-**	**74,975**	**(59,374)**	**-**	**-**	**15,601**	**(304,366)**	**(288,765)**
Adjustments between accounting basis & funding basis under regulations (Note 11)	(85,684)	-	-	-	**(85,684)**	66,046	-	(307)	**(19,945)**	19,945	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(10,709)**	**-**	**-**	**-**	**(10,709)**	**6,672**	**-**	**(307)**	**(4,344)**	**(284,421)**	**(288,765)**
Transfers to/(from) earmarked reserves	10,711	(4,250)	723	(7,184)	**-**	-	-	-	**-**	-	**-**
Increase/(Decrease) in Year	**2**	**(4,250)**	**723**	**(7,184)**	**(10,709)**	**6,672**	**-**	**(307)**	**(4,344)**	**(284,421)**	**(288,765)**
Balance as at 31 March 2023	**(22,443)**	**(212,490)**	**(13,668)**	**(7,184)**	**(255,785)**	**(19,458)**	**-**	**(100,726)**	**(375,969)**	**(4,337,026)**	**(4,712,995)**

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date 31 March 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 is 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 is unusable reserves which the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘adjustments between accounting basis and funding basis under regulations.’

	Notes	31 March 2023	31 March 2022
		£000	**£000**
Property, plant and equipment	13	5,539,221	5,500,643
Heritage assets		1,223	1,223
Investment property	14	313,232	338,164
Long-term investments	39	13,822	19,994
Long-term debtors	17	27,496	24,896
Pension assets	38	138	-
Long Term Assets		**5,895,132**	**5,884,920**
Short-term investments	39	125,320	87,141
Inventories		520	480
Short-term debtors	17	154,913	193,009
Assets held for sale	15	16,617	14,531
Cash and cash equivalents	16	80,878	54,420
Current Assets		**378,248**	**349,581**
Short-term borrowing	39	(103,138)	(199,180)
Short-term creditors	18	(247,380)	(305,399)
Short-term provisions	19	(510)	(769)
Grants receipts in advance	21	(207,812)	(121,931)
Bank overdraft	16	(6,225)	(6,968)
Current Liabilities		**(565,065)**	**(634,247)**
Long-term creditors	18	(6,703)	(7,648)
Long-term provisions	19	(22,470)	(23,275)
Long-term borrowing	39	(894,821)	(702,471)
Pension liabilities	38	-	(368,540)
Other long-term liabilities	36	(71,326)	(74,090)
Long Term Liabilities		**(995,320)**	**(1,176,024)**
Net Assets		**4,712,995**	**4,424,230**
Usable reserves	12	(375,969)	(371,625)
Unusable reserves	23	(4,337,026)	(4,052,605)
Total Reserves		**(4,712,995)**	**(4,424,230)**

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	2022/23	2021/22
		£000	£000
Net surplus or (deficit) on the provision of services		(15,601)	(60,005)
Adjustment to surplus or (deficit) on the provision of services for non cash movements	24	288,343	335,243
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	24	(182,259)	(115,243)
Net cash flows from operating activities		**90,483**	**159,995**
Net cash flows from investing activities	25	(152,209)	(138,426)
Net cash flows from financing activities	26	88,927	3,511
Net increase or (decrease) in cash and cash equivalents		**27,201**	**25,080**
Cash and cash equivalents at the beginning of the reporting period	16	47,452	22,372
Cash and cash equivalents at the end of the reporting period		**74,653**	**47,452**

DISCLOSURE NOTES TO THE ACCOUNTS 2022/23

Note 1. EXPENDITURE AND FUNDING ANALYSIS

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

Expenditure and Funding Analysis	**2022/23**					***Restated 2021/22**				
	As reported for resource management (Narrative report)	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (Note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement	As reported for resource management (Narrative report)	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (Note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children and Adults (including dedicated schools grant)	168,527	(21,883)	**146,644**	28,088	**174,732**	175,496	(9,375)	**166,121**	45,167	**211,288**
Environment Neighbourhoods and Growth	91,484	(16,551)	**74,933**	22,554	**97,487**	85,562	(8,666)	**76,896**	12,682	**89,578**
Finance	23,777	(17,150)	**6,627**	37,236	**43,863**	24,469	(45,413)	**(20,944)**	71,063	**50,119**
Governance and Assurance	24,809	(141)	**24,668**	33,023	**57,691**	25,060	297	**25,357**	1,168	**26,525**
Strategy and Communities	5,792	(1,163)	**4,629**	534	**5,163**	3,981	4,396	**8,377**	534	**8,911**
Housing GF	21,270	(11,050)	**10,220**	2,990	**13,210**	22,585	(26,892)	**(4,307)**	17,387	**13,080**
Housing Revenue Account (HRA)	-	6,672	**6,672**	46,013	**52,685**	-	2,216	**2,216**	39,764	**41,980**
Support cost reallocations	(42,423)	42,423	-	-	-	(42,976)	42,976	-	-	-
Net cost of services	**293,236**	**(18,843)**	**274,393**	**170,438**	**444,831**	**294,177**	**(40,461)**	**253,716**	**187,765**	**441,481**
Other income and expenditure	(293,235)	14,805	**(278,430)**	(150,800)	**(429,230)**	(293,121)	35,973	**(257,148)**	(124,328)	**(381,476)**
(Surplus)/Deficit	**1**	**(4,038)**	**(4,037)**	**19,638**	**15,601**	**1,056**	**(4,488)**	**(3,432)**	**63,437**	**60,005**
Opening General Fund and HRA Balance at 1 April			**(271,206)**					**(267,774)**		
(Surplus)/Deficit on General Fund and HRA Balance in year			**(4,037)**					**(3,432)**		
Closing General Fund HRA Balance at 31 March			**(275,243)**					**(271,206)**		

*2021/22 has been restated to reflect changes in departmental structure.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The Statement of Accounts summarises the council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices.These practices, under section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, supported by International Financial Reporting Standards (IFRS).

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

Class of assets	Valuation basis
Property, plant and equipment - dwellings	Current value, comprising existing use value for social housing; dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, plant and equipment - land and buildings	Current value, comprising existing use value; where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, plant and equipment - surplus assets	Fair value
Investment properties	Fair value
Financial instruments - fair value through profit and loss	Fair value
Pensions assets	Fair value

Highways Network Infrastructure Assets

2.1.1 Highways Network Infrastructure Assets

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

2.1.2 Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accruals basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cosy of the item can be measured reliably.

2.1.3 Measurement

Highways network infrastructure assets are generally measured at depreciated historical costs. However, this is a modified form of historical costs – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost. Where impairment losses are identified they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

2.1.4 Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systemic allocation of their depreciable amounts over their useful lives. Annual depreciation is the depreciation amount allocated each year. Depreciation is first charged the year after capitalisation. Useful lives of the highways network are assessed using industry standards where applicable as follows and the useful lives typically used are:

Category of Infrastructure Asset	Useful Economic Life (yrs)
Build & Architecture	15
Carriageways	25
Footways	30
Hard Landscaping	25
Highways Structure	50
Soft Landscaping	5
Street Lighting	25
Street Furniture	15
Highway Drainage	25
Parks Infrastructure	10

2.1.5 Disposals and Derecognitions

When a significant component of the Network is disposed of or decommissioned, the carrying amount of the component in the balance sheet 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 (if any) 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). Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction or the IFRS based Code when parts of the asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

In accordance with the temporary relief offered by the update to the Accounting Code on infrastructure assets this note does not include a disclosure of gross costs and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position (as rather than manually derecognising infrastructure components s they are replaced we assume (as per adoption of the Statutory Instrument issued by central government (DLUHC) in December 2022) that the assets being replaced have a gross book value of nil). The council is assured that this is the case following a review of the useful lives reported and assert that overall assets are being replaced in line with the useful lives proposed in the accounting policy.

2.2 Adjustments between accounting basis and funding basis

The resources available to the council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations).

Where the statutory provisions are different from the accruals basis used in the Comprehensive Income and Expenditure Statement, adjustments to the accounting treatment are made in the Movement in Reserves Statement (MiRS) so that usable reserves reflect the funding available at the year end. Unusable reserves are created to manage the timing differences between the accounting and funding bases.

The material adjustments are:

Category	Accounting basis in	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		

Category	Accounting basis in	Funding basis in MiRS	Adjustment account
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 proceed and cost of disposal) Deferred capital receipts reserve (sale proceeds not yet received)
Financial instruments	Premiums payable and discounts receivable on early repayment of borrowing in 2022/23 Losses on soft loans and interest receivable on an amortised cost basis Movements in the fair value of money market fund investments	Deferred debits/credits of premiums/discounts from earlier years Interest due to be received on soft loans in year Historical cost gains/losses for money market fund investments disposed of in year	Financial instruments adjustment account
Pension costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions reserve
Council tax	Accrued income from 2022/23 bills	Demand on the Collection Fund for 2022/23 plus share of estimated surplus/deficit for 2021/22	Collection Fund adjustment account
Business rates	Accrued income from 2022/23 bills	Budgeted income receivable from the Collection Fund for 2022/23 plus share of estimated surplus/deficit 2021/22	Collection Fund adjustment account
Holiday pay	Projected cost of untaken leave entitlements at 31 March 2023	No charge	Accumulated absence adjustment account
Dedicated schools grant (DSG)	Expenditure incurred in 2022/23 to be met from dedicated schools grant	Expenditure incurred up to the amount of the grant receivable for 2022/23	Dedicated schools grant adjustment account

2.3 Accruals of income and expenditure

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

2.3.1 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.

2.3.2 Revenue from contracts with service recipients is recognised when it satisfies a performance obligation by transferring promised goods or services to a recipient, measured as the amount of the overall transaction price allocated to that obligation.

2.3.3 Other 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.

2.3.4 Revenue from housing rents is recognised in the year the billing amount falls due.

2.3.5 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.

2.3.6 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.

2.3.7 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.

2.3.8 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.

2.3.9 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.

2.4 Business improvement districts

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

2.5 Employee benefits

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 are members of three separate pension schemes:

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

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

However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Within the Comprehensive Income and Expenditure Statement the Children's and adults' and Environment and leisure service lines are respectively charged with 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 in note 37 to the Statement of 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.

2.6 Financial instruments

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

Financial liabilities

Financial liabilities are subsequently measured at amortised cost. For most of the council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The authority holds financial assets measured at:

- amortised cost – assets whose contractual terms are basic lending arrangements where cash flows are solely payments of principal and interest and the council's business model is to collect these cash flows
- fair value through other comprehensive income (FVOCI) – where cash flows are solely payments of principal and interest and the council's business model is to both collect these cash flows and sell the instruments
- fair value through profit or loss (FVPL) – all other financial assets

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances are debited/credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Changes in the value of assets carried at fair value (described as fair value through profit and loss) are debited/credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement as they arise.

2.7 Government grants and contributions

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

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

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

The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non specific grant income and expenditure (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

2.8 Investment property

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

2.9 Leases

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

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

The council as lessee - finance leases

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

• a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

• a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement)

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

The council as lessee - operating leases

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

The council as lessor - operating leases

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

2.10 Overheads and support services

The costs of overheads and support services are charged to those 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 executive's, 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 directorate contains the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale

2.11 Private finance initiative (PFI) and similar contracts

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

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

2.12 Property, plant and equipment (PPE)

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 £0.4m, details of the works are provided to the valuer with a request to revalue the asset.

Assets are initially measured at cost, comprising:

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

Certain categories of property, plant and equipment are measured subsequently at current value – see 2.1 for details. Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

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

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

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

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

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

Useful lives are assessed on the following bases:
- Council dwellings – weighted average life based on major components – typically 50-60 years
- Other operational buildings – as valuation – 10-60 years
- Surplus assets – as valuation – 9-40 years
- Vehicles, furniture and IT hardware – 5-8 years
- Plant, fittings and play equipment – 7-15 years
- Infrastructure assets – 5-50 years
- Intangible assets – 3-5 years

Where an item of property has major components whose cost or value is 20% or more of the total cost or value of the non-land element of the property and whose useful economic life differs by 10 years or more from the life of the main asset, the components are depreciated separately. In principle the policy for componentisation applies to all items of Property, Plant and Equipment (PPE), however typically PPE 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.

Sites under development

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

Disposals and non-current assets held for sale

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

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

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

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

2.13 Provisions, contingent liabilities and contingent assets

Provisions

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

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

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

Contingent liabilities

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

Contingent assets

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

2.14 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. This specific reserve, also referred as Earmarked reserve, are part of the council's General Fund balances. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement.

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

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

2.15 Schools

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

2.16 Value added tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty’s Revenue and Customs (HMRC). VAT receivable is excluded from income.

2.17 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2.18 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 most foundation and voluntary aided schools in the borough should not be brought onto the balance sheet as these assets are not controlled by the council but rather by whichever trust or religious body that is associated with each individual school.

	Number of schools	Value of land and buildings recognised £000
Community schools, nursery schools and special schools	46	405,919
Voluntary aided faith schools and foundation schools	25	-

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

IFRS 16 Leases	These provisions would not be mandatory until 2024/25. The council is not planning to implement IFRS16 until this becomes mandatory. The main impact of IFRS16 will relate to property that the council holds under operating leases,for which assets and liabilities are not recognised and rents are generally charged as revenue expenditure when they are payable. Under IFRS16, the accounting treatment for all leases (except those with a term of less than 12 months and those involving low value items) will be to recognise a right-of-use asset in the Balance Sheet, measuring the value of the council's right to use the property over the remaining term of the lease. The Balance Sheet will also include a liability for the rents payable before the lease expires. When rents are paid, they will be applied partly to write down the liability and partly charged as interest on the outstanding liability. The cost of the right-of-use asset will be reflected in depreciation charges in the Comprehensive Income and Expenditure Statement. However, statutory arrangements are in place that will allow the impact on the General Fund Balance to be unchanged – i.e. that the overall charge for each year will be the rents payable in that year.

There are no changes in accounting requirements for 2023/24 that are anticipated to have a material impact on the council's financial performance or financial position.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 2, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

4.1 Accounting for Canada Water development

In May 2018 the council entered the Master Development Agreement (MDA) at Canada Water with British Land (BL). The primary purpose in entering into the MDA was to bring about the comprehensive regeneration of the area for the benefit of the local community. The MDA will underpin the delivery of around 3,000 new homes, up to 20,000 new jobs, significant improvements to the public realm and a new council leisure centre. A secondary consideration was to generate income to support service delivery. To that end, the agreement gives the council an option to invest on commercial terms in the project.

Planning consent for the Canada Water Masterplan was granted in May 2020 and, with all pre-conditions being met, a 500 year headlease was granted to British Land by the council on 16 December 2020. The headlease is the ownership basis that allows BL to deliver the regeneration project.

The MDA is structured as a land transaction that credits the council with a 20% ownership stake in project land, as well as the right to invest up to 20% of the cost of developing each plot; in return for a commensurate share of the development value created. As each plot comes forward for development, the council will have the option to either invest in that plot to maintain the council's ownership, sell out its interest or retain the land interest and not invest into that plot.

The substance of the overall agreement is that the council will retain the freehold of its land holding so that it can have some control over the development and future operation of the site through the headlease, but without having sufficient control over the use of the property that it would remain as an asset for the council. The council's remuneration for the leasehold will be resolved as a result of future developments. British Land substantially has the right to use the project land over the 500 year term of the lease as well as the risks and rewards of ownership from future development thereby substantially controls the use of the asset. Key factors such as the long length of the lease term, its indeterminable residual value and the fact that BL has independentally commenced the development of new plots have led the council to make the critical judgement is that this arrangement is deemed to be a finance lease.

Future rental streams are dependent on future investment decisions, it is not possible to reliably estimate these at this stage.

The council has previously decided to investment in a new leisure centre which will be housed on the development. The council will make a payment towards the cost of construction, capped at £35m. Affordable housing units are also to be provided under the agreement and the council has an option to buy these units. In January 2021 the council decided to buy the 79 affordable homes to be built in the first phase of the development. These will be operated and managed as council homes. Both of these investments are budgeted for and included in existing council programmes. There are no critical judgements necessary for the Canada Water leisure centre at this point, as is not material at this stage of the project. Capital expenditure will be reflected on balance sheet as an asset under construction until completion of the build which will be in a future financial year. Contractual capital commitments are stated within the PPE note 13.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, since 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 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

5.1 Valuation of property, plant and equipment (PPE)

In compliance with the Code assets held at current 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 has taken place (see accounting policies for how this assessment is made).

The estimated remaining useful life of all operational assets is reviewed annually based on advice from valuers.

A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

5.2 Valuation of HRA Dwellings (part of PPE)

The HRA residential portfolio is valued based on a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential property, information available at a local level showing house price movement plus regional and national indices.

5.3 Movement in property valuations analysis

A sensitivity analysis detailing movement in valuations is as follows:

Asset category	Assets valued at 31 March 2023	Increase in valuation		Decrease in valuation	
	£000	1% £000	5% £000	1% £000	5% £000
Council dwellings	3,430,291	34,303	171,515	(34,303)	(171,515)
Other land and buildings	1,062,001	10,620	53,100	(10,620)	(53,100)
Surplus assets	36,770	368	1,839	(368)	(1,839)
Investment property	313,232	3,132	15,662	(3,132)	(15,662)
Assets held for sale	16,617	166	831	(166)	(831)
Total	**4,858,911**	**48,589**	**242,947**	**(48,589)**	**(242,947)**

5.4 Defined benefit pension liability

The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2023 the outstanding net pensions liability was assessed at £-26.8m (£371.4m at 31 March 2022). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund.

Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension's liability of changes in individual assumptions can be measured. The estimates, assumptions and sensitivity of changes in assumptions are provided in note 38.

5.5 Impairment allowance for doubtful debt

As at 31 March 2023, the council had an outstanding balance of short-term debtors totalling £245.1m. Against this debtors' balance, there is an impairment allowance of £92m. It is not certain that this impairment allowance would be sufficient as the council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.

6. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Strategic Director of Finance on 30 June 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the balance sheet date.
However, as mentioned in the Narrative report that the council is insourcing its leisure services, which means going forward there will be increase in reported gross income and expenditure in CIES.

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

	2022/23				*Restated 2021/22			
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 and Adults	18,840	19,759	(10,511)	28,088	45,283	20,836	(20,952)	45,167
Environment Neighbourhoods and Growth	26,871	11,569	(15,886)	22,554	23,749	13,909	(24,976)	12,682
Finance	(12,161)	(6,298)	55,695	37,236	(6,096)	(4,566)	81,725	71,063
Governance and Assurance	34,362	1,795	(3,134)	33,023	2,679	2,280	(3,791)	1,168
Strategy and Communities	-	551	(17)	534	-	552	(18)	534
Housing GF	1,708	941	341	2,990	1,326	1,144	14,917	17,387
Housing Revenue Account (HRA)	58,836	7,027	(19,850)	46,013	46,537	8,675	(15,448)	39,764
Net cost of services	**128,456**	**35,344**	**6,638**	**170,438**	**113,478**	**42,830**	**31,457**	**187,765**
Other income and expenditure from the funding analysis	(120,453)	9,411	(39,758)	(150,800)	(88,956)	13,982	(49,354)	(124,328)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**8,003**	**44,755**	**(33,120)**	**19,638**	**24,522**	**56,812**	**(17,897)**	**63,437**

*2021/22 has been restated to reflect changes in departmental structure.

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 (MRP) 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 through out 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.

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

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 net cost of services other differences, this represents removal of the annual leave accrual adjustment, dedicated schools grant deficit adjustment, finance costs, premiums and financial instruments adjustments. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the CIPFA Code of Accounting Practice for Local Authorities 2022/23. This is a timing difference as any difference will be brought forward in future surpluses or deficits in the Collection Fund.

An analysis of the nature of Income and Expenditure:

	2022/23	2021/22
	£000	£000
Expenditure		
Employee expenses	438,328	424,430
Other services expenses	749,104	748,400
Depreciation, amortisation and impairment	208,547	116,256
Interest payments	50,033	37,207
Precepts and levies	2,030	2,029
Losses on the disposal of assets	27,822	33,058
Subtotal	**1,475,864**	**1,361,380**
Income		
Fees, charges and other service income	(423,652)	(348,972)
Interest and investment income	1,164	(24,830)
Income from council tax and business rates (NDR)	(215,038)	(196,499)
Government grants and contributions	(785,608)	(684,445)
Gains on disposal of assets	(37,129)	(46,629)
Subtotal	**(1,460,263)**	**(1,301,375)**
(Surplus) / deficit on the provision of services	**15,601**	**60,005**

8. OTHER OPERATING INCOME AND EXPENDITURE

	2022/23	2021/22
	£000	£000
Levies	2,030	2,029
Payment to the government’s housing capital receipts pool	-	4,266
(Gain)/loss on the disposal of non-current assets	(9,307)	(13,571)
Total Other Operating Expenditure	**(7,277)**	**(7,276)**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2022/23	2021/22
	£000	£000
Interest payable and similar charges	40,621	37,208
Grant contributions towards interest costs on PFI schemes	-	(9,935)
Net interest on the net defined benefit liability	9,412	13,982
Interest receivable and similar income	(8,214)	(3,918)
Income, expenditure and changes in the fair value of investment properties	11,336	(24,880)
Total Financing and Investment Income and Expenditure	**53,155**	**12,457**

10. TAXATION AND NON-SPECIFIC GRANT INCOME

	2022/23	2021/22
	£000	£000
Council Tax Income	(130,184)	(122,332)
Non-domestic rates income and expenditure	(84,853)	(74,167)
Un-ringfenced government grants	(114,700)	(122,127)
Capital Grants and contributions	(145,371)	(68,031)
Total Taxation and Non-Specific Grant Income	**(475,108)**	**(386,657)**

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

General Fund balance

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

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

2022/23	Usable Reserves 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	(41,261)	(51,708)	-	-	-	92,969
Revaluation losses on Property, Plant and Equipment	(40,232)	(75,347)	-	-	-	115,579
Movements in the fair value of Investment Properties	(25,744)	(1,061)	-	-	-	26,805
Capital grants and contributions applied	27,219	118,151	-	-	-	(145,370)
Revenue expenditure funded from capital under statute	(16,099)	(423)	-	-	-	16,522
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	(4,867)	(22,715)	-	-	-	27,582
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement (minimum revenue provision MRP)	11,193	-	-	-	-	(11,193)
Lease and PFI repayment	7,084	295	-	-	-	(7,379)
Capital expenditure charged against the General Fund and HRA balances	2,926	15,989	-	-	-	(18,915)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
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	2,865	34,024		(36,889)	-	-
Transfer from deferred debtors to usable capital receipts					-	-
Use of the Capital Receipts Reserve to finance new capital expenditure				36,582	-	(36,582)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals					-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool					-	-
Adjustments primarily involving the deferred capital receipts reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-
Adjustments primarily involving the Major Repairs Reserve (MRR):						
MRR credited with an amount equal to the depreciation charged to the HRA		51,708	(51,708)	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve				-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure			51,708	-	-	(51,708)

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

2022/23 Continued	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 Financial Instruments Adjustment Account:						
Repayment of premiums	241	824	-	-	-	(1,065)
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	(1,029)	4,635	-	-	-	(3,606)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(71,690)	(15,094)	-	-	-	86,784
Employer's pensions contributions and direct payments to pensioners payable in the year	35,608	6,421	-	-	-	(42,029)
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	1,326	-	-	-	-	(1,326)
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	25,953	-	-	-	-	(25,953)
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	823	347	-	-	-	(1,170)
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated Schools grant reserve to the DSG adjustment account			-	-	-	-
Total adjustments	**(85,684)**	**66,046**	**-**	**(307)**	**-**	**19,945**

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

2021/22	Usable Reserves					
	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	(39,346)	(54,951)	-	-	-	94,297
Revaluation losses on Property, Plant and Equipment	(29,807)	(58,655)	-	-	-	88,462
Movements in the fair value of Investment Properties	5,360	4,047	-	-	-	(9,407)
Capital grants and contributions applied	25,001	43,030	-	-	-	(68,031)
Revenue expenditure funded from capital under statute	(12,057)	-	-	-	-	12,057
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	(12,819)	(20,239)	-	-	-	33,058
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement (minimum revenue provision MRP)	9,106	-	-	-	-	(9,106)
Lease and PFI repayment	6,310	273	-	-	-	(6,583)
Capital expenditure charged against the General Fund and HRA balances	1,713	14,602	-	-	-	(16,315)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
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	3,118	44,094		(47,212)	-	-
Transfer from deferred debtors to usable capital receipts	-	-			-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-		13,709	-	(13,709)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	(589)		589	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(4,266)	-		4,266	-	-
Adjustments primarily involving the deferred capital receipts reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-
Adjustments primarily involving the Major Repairs Reserve (MRR):						
MRR credited with an amount equal to the depreciation charged to the HRA		51,546	(51,546)	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve		-		-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure		-	55,046	-	-	(55,046)

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

2021/22 Continued	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 Financial Instruments Adjustment Account:						
Repayment of premiums	242	824	-	-	-	(1,066)
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	1,109	467	-	-	-	(1,576)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(82,492)	(17,554)	-	-	-	100,046
Employer's pensions contributions and direct payments to pensioners payable in the year	36,787	6,447	-	-	-	(43,234)
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	3,027	-	-	-	-	(3,027)
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	11,914	-	-	-	-	(11,914)
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	1,387	(10)	-	-	-	(1,377)
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated Schools grant reserve to the DSG adjustment account	(1,056)		-	-	-	1,056
Total adjustments	**(76,769)**	**13,332**	**3,500**	**(28,648)**	**-**	**88,585**

12. USABLE RESERVES

Reserves represent the authority’s net worth and show its spending power. Usable reserves result from the authority’s activities and can be spent in the future. This note sets out the amounts set aside and posted back to Usable Reserves in 2022/23, they include:

- **General Fund 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, and to carryforward revenue grants to meet grant funded revenue projects and commitments
- **School Balances** – amounts set aside for future expenditure in schools
- **HRA Reserves** - amounts specifically required by statute to be set aside and ringfenced for future investment in HRA
- **Capital Reserves** – includes capital receipts and capital grants set aside to finance future capital spending plans

	1 April 2021	Transfer out 2021	Transfer in 2021	31 March 2022	1 April 2022	Transfer out 2022	Transfer in 2022	31 March 2023
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Reserve	**(21,002)**	**-**	**(1,443)**	**(22,445)**	**(22,445)**	**2**	**-**	**(22,443)**
Earmarked Reserves:								
Corporate projects and priorities reserves	(22,803)	3,927	-	(18,876)	(18,876)	-	(20,703)	(39,579)
Service reviews and improvement reserves	(30,144)	-	(4,410)	(34,554)	(34,554)	580	-	(33,974)
Capital programme and other capital investment reserves	(24,497)	-	(12,226)	(36,723)	(36,723)	964	-	(35,759)
Strategic financial risk reserves	(54,324)	-	(11,273)	(65,597)	(65,597)	6,419	-	(59,178)
Technical liabilities and smoothing reserves	(19,420)	-	(7,198)	(26,618)	(26,618)	-	(12,292)	(38,910)
Covid-19 reserves	(53,425)	27,553	-	(25,872)	(25,872)	23,399	-	(2,473)
Revenue grants reserve	-	-	-	-	-	-	(2,617)	(2,617)
Total Earmarked Reserves	**(204,613)**	**31,480**	**(35,107)**	**(208,240)**	**(208,240)**	**31,362**	**(35,612)**	**(212,490)**
Schools Reserves								
Schools DSG Reserve	-			-	-		(7,184)	(7,184)
Schools balances	(13,813)	-	(578)	(14,391)	(14,391)	723	-	(13,668)
Total Schools Reserves	**(13,813)**	**-**	**(578)**	**(14,391)**	**(14,391)**	**723**	**(7,184)**	**(20,852)**
HRA Reserves								
HRA General Reserve	(28,346)	2,216	-	(26,130)	(26,130)	6,672	-	(19,458)
Major Repairs Reserve	(3,500)	55,046	(51,546)	-	-	51,708	(51,708)	-
Total HRA Reserves	**(31,846)**	**57,262**	**(51,546)**	**(26,130)**	**(26,130)**	**58,380**	**(51,708)**	**(19,458)**
Capital Reserves								
Capital Receipts Reserve	(71,771)	18,564	(47,212)	(100,419)	(100,419)	36,582	(36,889)	(100,726)
Capital Grants Unapplied Reserve	-	-	-	-	-			-
Total Capital Reserves	**(71,771)**	**18,564**	**(47,212)**	**(100,419)**	**(100,419)**	**36,582**	**(36,889)**	**(100,726)**
Total Usable Reserves	**(343,045)**	**107,306**	**(135,886)**	**(371,625)**	**(371,625)**	**127,049**	**(131,393)**	**(375,969)**

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

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

2022/23	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	3,538,920	1,082,893	115,698	329,983	18,382	42,279	463,354	**5,591,509**	89,261
Additions	104,961	15,371	15,313	18,767	599	44	220,121	**375,176**	2,353
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(171,622)	10,248	-	-	-	38	-	**(161,336)**	(446)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(82,872)	(40,362)				(5,235)		**(128,469)**	
Derecognition – Disposals	(10,874)	(1,727)					(3,575)	**(16,176)**	-
Derecognition – Other	240							**240**	-
Assets reclassified	51,538	(4,422)				(356)	(49,966)	**(3,206)**	-
Balance as at 31 March 2023	**3,430,291**	**1,062,001**	**131,011**	**348,750**	**18,981**	**36,770**	**629,934**	**5,657,738**	**91,168**
Depreciation and Impairment									
Opening balance	(286)	(9,056)	(80,308)	-	(901)	(119)	(196)	**(90,866)**	(10,359)
Depreciation charge	(50,209)	(16,185)	(6,882)	(19,577)	-	(21)		**(92,874)**	(2,152)
Depreciation written out on revaluations recognised in the Revaluation Reserve	39,855	11,718				89		**51,662**	223
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	10,483	2,312						**12,795**	
Derecognition – Disposals	155	238					-	**393**	-
Derecognition – Other								**-**	-
Assets reclassified		325				48		**373**	-
Balance as at 31 March 2023	**(2)**	**(10,648)**	**(87,190)**	**(19,577)**	**(901)**	**(3)**	**(196)**	**(118,517)**	**(12,288)**
Net Book Value at 31 March 2023	**3,430,289**	**1,051,353**	**43,821**	**329,173**	**18,080**	**36,767**	**629,738**	**5,539,221**	**78,880**

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

2021/22	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	3,548,128	1,086,107	107,031	322,848	18,151	53,533	276,970	**5,412,768**	86,672
Additions	83,237	24,118	8,667	25,465	231	4,914	152,171	**298,803**	1,569
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,525	24,959	-	-	-	4,594	-	**34,078**	1,020
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(69,061)	(35,808)	-	-	-	1,072	-	**(103,797)**	-
Derecognition – Disposals	(6,185)	-	-		-		(1)	**(6,186)**	-
Derecognition – Other	(11,054)	(12,863)	-	-		(490)	-	**(24,407)**	-
Assets reclassified	(10,670)	(3,620)	-	-	-	(21,344)	34,214	**(1,420)**	-
Balance as at 31 March 2022	**3,538,920**	**1,082,893**	**115,698**	**348,313**	**18,382**	**42,279**	**463,354**	**5,609,839**	**89,261**
Depreciation and Impairment									
Opening balance	(13)	(8,784)	(74,339)	-	(901)	(94)	(36)	**(84,167)**	(9,184)
Depreciation charge	(49,978)	(16,589)	(5,969)	(18,330)	-	(25)	-	**(90,891)**	(2,028)
Depreciation written out on revaluations recognised in the Revaluation Reserve	40,000	13,462	-	-	-	-	-	**53,462**	853
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	9,391	2,565	-	-	-	-	-	**11,956**	-
Derecognition – Disposals	154	-	-	-	-	-	-	**154**	-
Derecognition – Other	-	290	-	-	-	-	-	**290**	-
Assets reclassified	160	-	-	-	-	-	(160)	**-**	-
Balance as at 31 March 2022	**(286)**	**(9,056)**	**(80,308)**	**(18,330)**	**(901)**	**(119)**	**(196)**	**(109,196)**	**(10,359)**
Net Book Value at 31 March 2022	**3,538,634**	**1,073,837**	**35,390**	**329,983**	**17,481**	**42,160**	**463,158**	**5,500,643**	**78,902**

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

*Infrastructure assets

In accordance with the temporary relief offered by the update to the Accounting Code on infrastructure assets this note does not include a disclosure of gross costs and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position (as rather than manually derecognising infrastructure components as they are replaced we assume (as per adoption of the Statutory Instrument issued by central government (DLUHC) in December 2022) that the assets being replaced have a gross book value of nil). The council is assured that this is the case following a review of the useful lives reported and assert that overall assets are being replaced in line with the useful lives proposed in the accounting policy.

The valuation of assets has been carried out by the council's internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluation of council dwellings is 31 December of the relevant accounting period. Other Land and Buildings (OLB) and Surplus Assets are valued at 31 December on a 20% rolling basis to ensure valuation of all assets in this category within five years. Assets Held for Sale and Investment Properties (General Fund and Housing Revenue Account) are valued at 31 March of the relevant accounting period. The entire housing stock, Assets Held for Sale and Investment Properties are valued on an annual basis. Review of assets under construction as well as general impairments to assets are also carried out on an annual basis. Where there is a material expected difference between valuation at 31 December and 31 March, the account is updated to reflect this.

Details on the gross book value of PPE assets and the year of valuations are analysed in the table below:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Asset under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Held at historic cost and at depreciated historic cost	25,681	40,256	131,011	348,750	18,981	151	629,934	**1,194,764**
Different valuations are applied to different valuation classes								
31 March 2023	3,404,610	921,576	-	-	-	12,714	-	**4,338,900**
31 March 2022	-	11,684	-	-	-	2,460	-	**14,144**
31 March 2021	-	24,903	-	-	-	11,143	-	**36,046**
31 March 2020	-	36,795	-	-	-	2,741	-	**39,536**
31 March 2019	-	26,787	-	-	-	7,561	-	**34,348**
			-	-	-		-	**-**
Total Cost or Valuation	**3,430,291**	**1,062,001**	**131,011**	**348,750**	**18,981**	**36,770**	**629,934**	**5,657,738**

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

At 31 March 2023, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2022/23 and future years budgeted to cost £423.0 million. Similar commitments at 31 March 2022 were £399.1 million.

The commitments are as below:

	£m
General Fund	42.1
Housing Revenue Account	380.9
Total	**423.0**

The highest value contractual commitments are:

General Fund

	£m
Canada Water Leisure Centre	20.2
Elephant and Castle, Transport for London works	13.0
Total	**33.2**

Housing Revenue Account

	£m
Tustin Low Rise Works Phase 1	90.2
Aylesbury FDS PK B New Build	62.7
Kingswood Flat Roof Blocks QHIP	22.9
Albion New Homes-Contruction	19.6
Cator Street 2	17.1
Total	**212.5**

14. INVESTMENT PROPERTIES

The income and expenditure on investment assets was as follows:

	2022/23	2021/22
	£000	£000
Rental income from investment property	(20,589)	(20,913)
Fair value adjustments - (upwards)/downwards revaluation	26,806	(9,407)
Direct operating expenses arising from investment property	5,119	5,440
Net (gain)/loss included in Financing and Investment Income in CIES	**11,336**	**(24,880)**

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

	2022/23	2021/22
	£000	£000
Balance as at 1 April	**338,164**	**328,544**
Additions	655	473
Disposals	(1,616)	-
Net gains/(losses) from fair value adjustments	(26,806)	9,407
Transfers (to)/from property, plant and equipment (PPE)	2,835	(260)
Balance as at 31 March	**313,232**	**338,164**

As at 31 March 2023 there were a number of downward valuations of investment properties with the most significant adjustment being due to legislative changes aimed at facilitating electronic connectivity reducing future income potential.

The council owns a valuable commercial estate of over 700 properties, including shops, business premises and other miscellaneous properties. The vast majority of these assets have been in the council's ownership for many years having originally been acquired as part of major house building programmes from the 1950s onwards, as part of jobs and industry initiatives in the 1980s or statutorily vested with the council from strategic bodies. The assets are now managed to generate income and market rents are charged.

15. ASSETS HELD FOR SALE

	Current		Non-Current	
	2022/23	2021/22	2022/23	2021/22
	£000	£000	£000	£000
Balance at 1 April	**14,531**	**11,344**	**-**	**3,920**
Additions	12,510	523	-	-
Transfers (to)/from property, plant and equipment (PPE)	-	5,600	-	(3,920)
Revaluation gains/(losses) taken to Surplus or Deficit on the Provision of Services	-	(25)	-	-
Assets sold	(10,424)	(2,911)	-	-
Balance at 31 March	**16,617**	**14,531**	**-**	**-**

16. CASH AND CASH EQUIVALENTS

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

	31 March 2023 £000	31 March 2022 £000
Cash held by the council	-	-
Short-term funds in money markets	80,878	54,420
Subtotal	**80,878**	**54,420**
Bank current accounts (bank overdraft)	(6,225)	(6,968)
Total cash and cash equivalents	**74,653**	**47,452**

17. DEBTORS

	31 March 2023				*Restated 31 March 2022			
	GROSS Short-term Debtors	Impairment Allowance	NET Short-term Debtors	Long-term Debtors	GROSS Short-term Debtors	Impairment Allowance	NET Short-term Debtors	Long-term Debtors
	£000	£000	£000	£000	£000	£000	£000	£000
Trade receivables	131,577	(55,791)	75,786	27,496	120,988	(51,930)	69,058	24,896
Central government bodies	34,351	-	34,351	-	59,924	-	59,924	-
Council Tax receivable from taxpayers	38,289	(20,255)	18,034	-	39,161	(17,977)	21,184	-
Housing benefit debtors	18,694	(9,657)	9,037	-	19,160	(9,938)	9,222	-
Non domestic rates receivable from taxpayers	10,387	(6,247)	4,140	-	9,207	(5,874)	3,333	-
Payments in advance	6,220	-	6,220	-	9,116	-	9,116	-
Public bodies	7,345	-	7,345	-	21,172	-	21,172	-
Total	**246,863**	**(91,950)**	**154,913**	**27,496**	**278,728**	**(85,719)**	**193,009**	**24,896**

*2021/22 comparative has been restated to reflect the presentational changes in debtor categories.

Debtors with central government bodies, council tax, housing benefit, non-domestic rates and payments in advance are included as a non-financial asset under note 39 Financial Instruments, because they do not meet the definition of a financial asset.

The amount due from central government bodies and other local authorities includes the GLA's share and central government's share of the Collection Fund deficit.

DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

Age of debt	31 March 2023			31 March 2022		
	£000	£000	£000	£000	£000	£000
	Council Tax	NNDR	Total	Council Tax	NNDR	Total
Less than 1 year	7,711	2,912	10,623	8,397	2,655	11,052
Between 1 and 2 years	4,336	1,030	5,366	6,360	678	7,038
Between 2 and 3 years	2,555	198	2,753	2,664	-	2,664
More than 3 years	3,432	-	3,432	3,763	-	3,763
Total Council's share	**18,034**	**4,140**	**22,174**	**21,184**	**3,333**	**24,517**

18. CREDITORS

	31 March 2023		*Restated 31 March 2022	
	Short-term Creditors	Long-term Creditors	Short-term Creditors	Long-term Creditors
	£000	£000	£000	£000
Trade payables	(109,639)	(6,703)	(89,545)	(7,648)
Central government bodies	(38,680)	-	(114,893)	-
Council Tax refundable to taxpayers	(6,318)	-	(8,753)	-
Non domestic rates refundable to taxpayers	(11,360)	-	(11,093)	-
Employee Benefits	(6,942)	-	(8,112)	-
PFI finance lease liability	(5,118)	-	(7,380)	-
Public bodies	(24,367)		(8,465)	
Receipts in advance	(44,956)	-	(57,158)	-
Total	**(247,380)**	**(6,703)**	**(305,399)**	**(7,648)**

*2021/22 comparative has been restated to reflect the presentational changes in creditor categories.

Creditors with central government bodies, council tax, non-domestic rates and receipts in advance are included as a non-financial liability in note 39 Financial Instruments, because they do not meet the definition of a financial liability.

The reduction in Central government bodies balance is mainly due to returning of the GLA and central government's share (£38.9m) of the section 31 grants which was provided in 2021/22 to help with cash flow related to business rates reliefs. Additionally, £17.6m of Energy Rebate Grant and £18.6m Covid-19 additional relief fund (CARF) was received in 2021/22 and utilised in 2022/23.

19. PROVISIONS

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.

2022/23	**1 April 2022**	Increase during year	Utilised during year	**31 March 2023**
	£000	£000	£000	**£000**
Long-term provisions				
Insurance provision	(9,030)	(1)	-	(9,031)
Water refund provision	(1,098)	-	145	(953)
Business rates appeals	(10,095)	-	689	(9,406)
Employee remuneration related	(15)	-	15	-
Southwark Business Services employment terms	(828)	-	69	(759)
Public Health	(1,476)	-	-	(1,476)
Housing & Modernisation provisions	(377)	-	-	(377)
Civil refunds	(356)	-	-	(356)
Other	-	(112)	-	(112)
Total Long-term provisions	**(23,275)**	**(113)**	**918**	**(22,470)**
Short-term provisions				
Business rates appeals	(769)	-	259	(510)
Southwark Business Services employment terms	-	-	-	-
Total Short-term provisions	**(769)**	**-**	**259**	**(510)**

2021/22	**1 April 2021**	Increase during year	Utilised during year	**31 March 2022**
	£000	£000	£000	**£000**
Long-term provisions				
Insurance provision	(9,030)	-	-	(9,030)
Water refund provision	(1,636)	-	538	(1,098)
Business rates appeals	(11,213)	(8,164)	9,282	(10,095)
Employee remuneration related	(878)	-	863	(15)
Southwark Business Services employment terms	(828)	-	-	(828)
Public Health	-	(1,476)	-	(1,476)
Housing & Modernisation provisions	-	(377)	-	(377)
Civil refunds	-	(356)	-	(356)
Other	-	-	-	-
Total Long-term provisions	**(23,585)**	**(10,373)**	**10,683**	**(23,275)**
Short-term provisions				
Business rates appeals	(867)	-	98	(769)
Southwark Business Services employment terms	(354)	-	354	-
Total Short-term provisions	**(1,221)**	**-**	**452**	**(769)**

20. 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 2022/23 are as follows:

	Central Expenditure	Individual Schools Budgets	Total	Total
			2022/23	2021/22
	£000	£000	£000	£000
Final DSG before academy and high needs figure recoupment			(360,251)	(350,214)
Academy and High needs figure recouped			157,695	151,158
Total DSG after academy and high needs figure recoupment			**(202,556)**	**(199,056)**
Plus: Brought forward from previous year			-	-
Less: Carry-forward agreed in advance			-	-
Agreed initial budgeted distribution for the year	(67,998)	(134,558)	**(202,556)**	**(199,056)**
In year adjustments	(9,072)	-	**(9,072)**	573
Final budget distribution for the year	(77,070)	(134,558)	**(211,628)**	**(198,483)**
Less: Actual central expenditure	69,886	-	**69,886**	50,489
Less: Actual ISB deployed to schools	-	134,558	**134,558**	149,050
Plus: Local authority contribution	-	-	**-**	-
Carry-forward Deficit	**(7,184)**	**-**	**(7,184)**	**1,056**

The final DSG before academy recoupment figure includes a provision for the early years block. Final DSG allocations are announced in June following the end of each financial year based on census figures at the preceding January.

The in-year surplus of £7.184m has been transferred to the usable reserve account per accounting regulation, although, the unusable reserve balance total remains at £21.651m. The usable and unusable reserve balances is tabled below:

Per Note 12 Usable Reserve and Note 23 Unusable Reserves	2022/23	2021/22
Dedicated Schools Grant balances	**£000**	**£000**
DSG unusable reserve as at 1 April	21,651	20,595
Addition to DSG unusable reserve during the year	**-**	1,056
Total of DSG unusable reserve as at 31 March (Note 23)	**21,651**	**21,651**
DSG usable reserve as at 1 April	-	-
Addition to DSG usable reserve during the year	(7,184)	-
Total of DSG usable reserve as at 31 March (Note 12)	**(7,184)**	**-**
Dedicated Schools Grant net accumulated balance	**14,467**	**21,651**

21. GRANT INCOME

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

	2022/23	2021/22
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Capital grants and contributions	(145,371)	(68,031)
Revenue support grant	(37,776)	(36,649)
Business rates top up	(39,518)	(35,854)
Business rates relief/section 31 grants	(22,948)	(23,798)
Covid-19 general funding	-	(16,481)
New homes bonus	(5,113)	(8,202)
Lower tier support grant	(9,345)	(1,264)
Covid-19 tax income guarantee	-	121
Sub total	**(260,071)**	**(190,158)**
Credited to Provision of Services		
Dedicated Schools grant	(209,005)	(199,327)
Housing Benefits Subsidy - rent rebates granted to housing revenue account tenants	(63,482)	(63,233)
Housing Benefits Subsidy - rent allowances	(52,575)	(55,874)
Public Health	(29,504)	(28,698)
Housing Benefits Subsidy - non-housing revenue account rent rebates	(20,825)	(19,757)
Better Care Fund	(19,170)	(18,143)
Improved Better Care Fund	(17,847)	(17,323)
Social Care Support grant	(17,776)	(13,199)
The Private Finance Initiative (PFI)	(9,935)	(9,935)
Pupil Premium grant	(10,336)	(9,198)
Homelessness prevention grant	(6,413)	(6,792)
Covid-19 Infection control grant	-	(5,176)
Other grants individually less than £5 million	(68,669)	(47,632)
Sub total	**(525,537)**	**(494,287)**
Total	**(785,608)**	**(684,445)**

21. GRANT INCOME continued

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

	2022/23	2021/22
	£000	£000
Balance as at 1 April	(121,931)	(75,473)
New capital grants received in advance	(231,252)	(114,489)
Amounts released to the CIES (conditions met)	145,371	68,031
Balance as at 31 March	**(207,812)**	**(121,931)**

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

	2022/23	2021/22
	£000	£000
Planning Gains	(108,887)	(69,955)
Schools	(1,821)	(1,497)
Transport for London (TFL)	(1,198)	(1,198)
Education	(12,538)	(7,431)
New Homes	(73,132)	(33,843)
Disabled facilities grant (DLUHC)	(2,279)	(2,131)
Other grants	(7,957)	(5,876)
Balance as at 31 March	**(207,812)**	**(121,931)**

22. POOLED BUDGETS

Better Care Fund (BCF)

Southwark Council and NHS South East London Integrated Care Board (ICB) 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.

The arrangement is made in accordance with Section 75 (S75) of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed as per the BCF planning group. The pooled budget includes all income and expenditure relating to the Better Care Fund (BCF), whether funded by the local authority or the NHS. It is hosted by Southwark council; however not all transactions pass through the council's accounting system.

	2022/23		2021/22	
	£000	**£000**	**£000**	**£000**
Funding Provided to the Pooled Budget:				
· Council	(19,533)		(19,009)	
· Integrated Care Board (ICB)	(26,592)		(25,168)	
		(46,125)		**(44,177)**
Expenditure met from the pooled budget:				
· Council	38,703		37,151	
· Integrated Care Board (ICB)	7,422		7,026	
		46,125		**44,177**
Net (surplus)/deficit arising on the pooled budget		**-**		**-**

Integrated Community Equipment Store (ICES)

Southwark council and the NHS SEL ICB also operate pooled fund arrangements for an integrated community equipment service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £2.41m in 2022/23 (£2.57m in 2021/22).

23. UNUSABLE RESERVES

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

	2022/23	2021/22
	£000	£000
Capital Adjustment Account	(2,555,028)	(2,522,356)
Revaluation Reserve	(1,840,816)	(1,991,470)
Pensions Reserve	(138)	368,540
Collection Fund Adjustment Account	7,230	34,509
Financial Instruments Adjustment Account	23,368	28,039
Dedicated Schools Grant Adjustment Account	21,651	21,651
Accumulating Absences Adjustment Account	6,942	8,112
Financial Instruments Revaluation Reserve	(235)	370
Total unusable reserves	**(4,337,026)**	**(4,052,605)**

23. UNUSABLE RESERVES continued

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 11, adjustments between accounting basis and funding basis under regulations, provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

	2022/23		2021/22	
	£000	**£000**	**£000**	**£000**
Balance at 1 April		**(2,522,356)**		**(2,527,048)**
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	92,969		94,297	
Revaluation losses on Property Plant & Equipment and AHFS	115,579		88,462	
Revenue expenditure funded from capital under statute	16,522		12,057	
Movements in the market value of Investment Properties	26,805		(9,407)	
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	27,582		33,058	
		279,457		**218,467**
Adjusting amounts written out of the revaluation reserve for disposals and restatements	(11,585)		(16,325)	
Adjusting amounts written out of the Revaluation Reserve for the difference between fair value depreciation and historical cost depreciation	(29,397)		(28,660)	
Net written out amount of the cost of non current assets consumed in the year		**(40,982)**		**(44,985)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(36,582)		(13,709)	
Use of the Major Repairs Reserve to finance new capital expenditure	(51,708)		(55,046)	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(145,370)		(68,031)	
Provision for the financing of capital investment charged against the General Fund and HRA balances	(18,572)		(15,689)	
Capital expenditure charged against the General Fund and HRA balances	(18,915)		(16,315)	
		(271,147)		**(168,790)**
Balance at 31 March		**(2,555,028)**		**(2,522,356)**

23. UNUSABLE RESERVES continued

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

	2022/23		2021/22	
	£000	£000	£000	£000
Balance at 1 April		**(1,991,470)**		**(1,948,914)**
Upward revaluation of assets	(149,891)		(154,699)	
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of Services	259,565		67,159	
Total of surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of Services		**109,674**		**(87,540)**
Adjusting amounts written to the Capital Adjustment Account for disposals and restatements		11,584		16,325
Difference between fair value depreciation and historical cost depreciation		29,396		28,659
Balance at 31 March		**(1,840,816)**		**(1,991,470)**

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.

	2022/23	2021/22
	£000	£000
Balance at 1 April	**368,540**	**687,568**
IAS19 report balance adjustment	2,812	(2,812)
Remeasurements of the net defined benefit liability	(416,245)	(373,028)
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	86,784	100,046
Employer's pension contributions and direct payments payable to pensioners in the year	(42,029)	(43,234)
Balance at 31 March	**(138)**	**368,540**

23. UNUSABLE RESERVES continued

Collection Fund Adjustment Account

	2022/23	2021/22
	£000	**£000**
Balance at 1 April	**34,509**	**49,450**
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(27,279)	(14,941)
Balance at 31 March	**7,230**	**34,509**

The Collection Fund adjustment account is analysed into council tax and business rates:

Collection Fund Adjustment Account - Council Tax	**2022/23**	**2021/22**
	£000	**£000**
Balance at 1 April	**2,321**	**5,348**
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	(1,326)	(3,027)
Balance at 31 March	**995**	**2,321**

Collection Fund Adjustment Account - Business Rates	**2022/23**	**2021/22**
	£000	**£000**
Balance at 1 April	**32,188**	**44,102**
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	(25,953)	(11,914)
Balance at 31 March	**6,235**	**32,188**

23. UNUSABLE RESERVES continued

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 Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31 March 2023 includes £12.5 million premiums (£13.6 million at 31 March 2022) to be discharged in future.

	2022/23	2021/22
	£000	£000
Balance at 1 April	**28,039**	**30,681**
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	(3,606)	(1,577)
Balance at 31 March	**23,368**	**28,039**

Dedicated Schools Grant Adjustment Account

	2022/23	2021/22
	£000	£000
Balance at 1 April	**21,651**	**20,595**
Transfer of the opening dedicated schools grant deficit from the DSG reserve (earmarked usable reserve) to the DSG adjustment account.	-	-
In year dedicated schools grant deficit	-	1,056
Balance at 31 March	**21,651**	**21,651**

The Local Authorities (Capital Finance and Accounting) regulations were amended on 29 November 2020. New accounting treatment is required for local authorities' schools budget deficits relating to its accounts for a financial year beginning 1 April 2020, 1 April 2021 and 1 April 2022. Local authorities are not permitted to charge the value of the deficit to the general fund. Any historical deficit and in year deficit is to be recorded in a dedicated schools grant adjustment account, an unusable reserve.

Southwark council entered into a Department for Education Basic Safety Value agreement in 2023 for the period 2022/23 to 2026/27. Additional DSG funding from government in 2023 and future financial years is subject to compliance with the conditions in the DfE Basic Safety Value agreement approved by Southwark council which is intended to eliminate the cumulative DSG deficit by 2026/27 at the latest.

The DSG deficit account is unchanged due to regulation but we have a credit balance in the DSG (note 20) due to having received £9.2m in ‘safety valve’ government funding in 2022/23. This reduces the overall deficit to £14.5m, please see note 20.

23. UNUSABLE RESERVES continued

Accumulating Absences Adjustment Account

The Accumulated Absences Account absorbs the timing differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2023. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2022/23	2021/22
	£000	£000
Balance at 1 April	**8,112**	**9,489**
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	(1,170)	(1,377)
Balance at 31 March	**6,942**	**8,112**

24. CASH FLOW FROM OPERATING ACTIVITIES

	2022/23	2021/22
	£000	**£000**
Adjustment to surplus or deficit on the provision of services for non cash movement:		
Depreciation and impairment of non-current assets	92,969	94,297
Upward/(downward) revaluations	142,383	79,055
Increase/(decrease) in impairment for credit lossess (bad debts)	6,231	6,818
Increase/(decrease) in creditors	(53,846)	33,465
(Increase)/decrease in debtors	29,265	31,071
(Increase)/decrease in inventories	(40)	552
Movement in pension liability	44,755	56,812
Increase/(decrease) in provisions	(1,064)	880
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	27,582	33,058
Other non-cash items charged to the net surplus or deficit on the provision of services	108	(765)
	288,343	**335,243**

	2022/23	2021/22
	£000	**£000**
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities :		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(36,889)	(47,212)
Capital grants included in Taxation and non-specific grant income	(145,370)	(68,031)
Total	**(182,259)**	**(115,243)**

The cash flows from operating activities include the following amounts:

	2022/23	2021/22
	£000	**£000**
Interest received	(8,214)	(3,109)
Interest paid	40,621	37,471
Net interest	**32,407**	**34,362**

25. CASH FLOW FROM INVESTING ACTIVITIES

	2022/23	2021/22
	£000	**£000**
Purchase of PP&E, Investment Property and Intangible Assets	(388,341)	(298,748)
Proceeds from the sale of Property, Plant and equipment, investment property and intangible assets	36,889	47,212
Proceeds from sale of short-term investments (not considered to be cash equivalents)	(32,008)	(1,378)
Capital grants and contributions received	231,251	114,488
Net cash flows from Investing Activities	**(152,209)**	**(138,426)**

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.

26. CASH FLOW FROM FINANCING ACTIVITIES

	2022/23	2021/22
	£000	£000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-balance-sheet PFI contracts	(7,380)	(6,781)
Cash receipts of short and long-term borrowing	192,349	225,199
Repayments of short and long term borrowing	(96,042)	(214,907)
Net Cash flows from Financing Activities	**88,927**	**3,511**

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (IAS 7)

	Long-term borrowings	Short-term borrowings	Lease liabilities	Total
	£000	£000	£000	£000
Opening balance as at 1 April 2021	**(683,989)**	**(207,370)**	**(86,484)**	**(977,843)**
Financing cash flows	(32,093)	22,000	6,582	(3,511)
Non-financing cash flows	13,611	(13,810)	(1,569)	(1,768)
Closing balance as at 31 March 2022	**(702,471)**	**(199,180)**	**(81,471)**	**(983,122)**
Opening balance as at 1 April 2022	**(702,471)**	**(199,180)**	**(81,471)**	**(983,122)**
Financing cash flows:				
Repayment	-	96,042	7,380	103,422
Proceeds	(192,349)	-		(192,349)
Subtotal	**(192,349)**	**96,042**	**7,380**	**(88,927)**
Non-financing cash flows:				
Acquisition			(2,353)	(2,353)
Fair value				-
Reclassification				-
Subtotal	**-**	**-**	**(2,353)**	**(2,353)**
Closing balance as at 31 March 2023	**(894,820)**	**(103,138)**	**(76,444)**	**(1,074,402)**

28. EXTERNAL AUDIT COSTS

	2022/23	2021/22
	£000	£000
Fees payable for external audit services carried out by the appointed auditor for the year (PSAA scale fee)	196	186
Additional fees payable for external audit services carried out by the appointed auditor (per ISA 260 report, subject to PSAA approval)	139	147
Total external audit fees	**335**	**333**
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	148	86
Fees payable in respect of other non-audit services not covered above	10	10
Total non audit fees	**158**	**96**
Total fees payable to external auditor	**493**	**429**

29. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2022/23 was £1,383,827 (£1,350,800 in 2021/22).

30. 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 2022/23 and 2021/22.

	2022/23		*Restated 2021/22	
Postholder	Remuneration	Council's contributions to the Pension Fund	Remuneration	Council's contributions to the Pension Fund
	£	£	£	£
Chief Executive - A Loderick	191,046	35,152	-	-
Chief Executive - E Kelly	60,743	11,177	210,277	30,490
Strategic Director of Housing and Modernisation – M Scorer	199,320	36,675	185,733	26,931
Strategic Director of Finance - D Whitfield	199,413	36,692	191,901	27,826
Strategic Director of Children's & Adult Services - D Quirke-Thornton	199,320	36,675	185,733	26,931
Strategic Director of Environment & Leisure - C Bruce	186,840	34,379	174,033	25,235
Director of Public Health	129,677	23,861	121,218	22,304
Director of Children and Families - A Smith	158,281	29,124	-	-
Assistant Chief Executive - Governance and Assurance	143,870	26,472	-	-
Assistant Chief Executive - Strategy and Communities	120,718	22,212	-	-

*2021/22 figures has been restated to include 2022/23 comparatives.

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.

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.

Notes on related 2022/23 figures:

- The Chief Executive - A Loderick commenced the role in May 2022.

- The previous Chief Executive E Kelly left the council in May 2022.

- The Director of Children and Families took up the statutory role for Children's Services on 1 April 2022, the role was previously undertaken by the Strategic Director of Children and Families.

- The Assistance Chief Executives (Governance and Assurance and Strategy and Communities) directly reported to Chief Executive since 1 April 2022. This was not applicable for 2021/22, and therefore they were not included in the 2021/22 comparatives. Their respective remuneration and pension costs for 2021/22 were:
  Assistant Chief Executive - Governance and Assurance £136,886 and £25,187
  Assistant Chief Executive - Strategy and Communities £109,187 and £22,304

30. OFFICERS' REMUNERATION continued

During 2022/23 the council employed staff whose taxable remuneration, including payment on termination of employment was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

Band (£)	Schools	Non schools	Number of employees 2022/23	Number of employees 2021/22
50,000 - 54,999	147	308	455	406
55,000 - 59,999	84	243	327	176
60,000 - 64,999	66	54	120	99
65,000 - 69,999	39	52	91	101
70,000 - 74,999	32	64	96	62
75,000 - 79,999	23	8	31	42
80,000 - 84,999	12	28	40	34
85,000 - 89,999	19	15	34	16
90,000 - 94,999	7	12	19	16
95,000 - 99,999	11	2	13	22
100,000 – 104,999	4	19	23	4
105,000 - 109,999	2	1	3	5
110,000 - 114,999	1	4	5	1
115,000 – 119,999	1	-	1	2
120,000 – 124,999	-	-	-	5
125,000 – 129,999	1	3	4	5
130,000 – 134,999	1	3	4	3
135,000 – 139,999	-	1	1	6
140,000 – 144,999	-	3	3	-
150,000 – 154,999	-	2	2	-
160,000 – 164,999	-	1	1	-
Total	**450**	**823**	**1,273**	**1,005**

For the financial year 2022/23, the total number of non-school employees whose earnings exceeded £100,000 per annum (excluding payments on termination of employments) was 37 (for 2021/22 was 23).

31. 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	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
	No. staff	No. staff	No. staff	No. staff	No. staff	No. staff	£000	£000
£0 - £20,000	21	59	26	27	**47**	**86**	249	514
£20,001 - £40,000	1	5	9	10	**10**	**15**	276	416
£40,001 - £60,000	1	-	1	4	**2**	**4**	96	196
£60,001 - £80,000		-	2	3	**2**	**3**	138	215
£80,001 - £100,000		-	1	-	**1**	**-**	90	-
Total	**23**	**64**	**39**	**44**	**62**	**108**	**849**	**1,341**

Five compulsory redundancies were made by schools in 2022/23 totalling £66,045 with 4 within the £0 to £20,000 exit package band and 1 in the £20,001 to £40,000 exit package cost band (2021/22 forty-one compulsory redundancies totalling £268,934).

32. RELATED PARTY TRANSACTIONS

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

Central government

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding. Grants received from government departments during the year and receipts outstanding at 31 March 2023 are set out in note 21 to the accounts.

Members and chief officers

Members of the council have direct control over the council's financial and operating policies.The total of members' allowances paid in 2022/23 is shown in note 29. Information regarding reportable transactions has been collated by requiring all members and chief officers to declare any related party transactions.A review of the register of members' interests has been conducted, including the register of declarations at committee meetings.

Related party interests for which transactions exist for financial outflows in 2022/23 were declared by 9 councillors and no submission from chief officers (13 and 1 respectively in 2021/22):

- with voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.1 million (£0.2 million in 2021/22):
- with businesses or other organisations that have contracted for goods and services with the council to the estimated value of £4.0 million (£0.6 million in 2021/22):

Related party interests for which transactions exist for financial inflows in 2022/23 were declared by 9 councillors and no submission from chief officers (9 and 0 respectively in 2021/22):

- from businesses or other organisations that the council have contracted for goods and services to the estimated value of £0.0 million (£0.8 million in 2021/22):

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

Pensions

The council is the administering authority of the Pension Fund. The council charged the fund £0.9 million (£0.9 million in 2021/22) for expenses incurred in administering the Pension Fund which is included within the Statement of Accounts.

33. 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 private finance initiatives (PFI) / public private partnership (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.

	2022/23	2021/22
	£000	£000
Opening Capital Financing Requirement	**1,362,956**	**1,219,890**
Adjustment to opening balance*	4,678	-
Revised Opening Capital Financing Requirement	**1,367,634**	**1,219,890**
Capital Investment		
Property, Plant & Equipment (including assets held for sale)	387,686	299,325
Revenue expenditure funded from capital under statute (REFCUS)	16,522	12,057
Long-term debtors	1,715	-
Investment property	655	473
Total capital investment	**406,578**	**311,855**
Sources of capital finance		
Capital receipts	(36,582)	(13,708)
Government grants and other contributions	(145,370)	(68,031)
Direct revenue contributions	(18,915)	(16,315)
Major Repairs Reserve	(51,708)	(55,046)
Minimum revenue provision (MRP) / loans fund principal	(18,572)	(15,689)
Total capital investment financed	**(271,147)**	**(168,789)**
Closing Capital Financing Requirement	**1,503,065**	**1,362,956**
Explanation of movement		
Increase in underlying need to borrow	137,756	141,498
Assets acquired under private finance initiative (PFI) contracts	2,353	1,568
Net movement in year	**140,109**	**143,066**

*The opening CFR balance had to be adjusted slightly to take account of errors and omissions from prior years.

34. 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 Comprehensive Income and Expenditure Statement (CIES) during the year in the use of operating leases:

	2022/23	2021/22
	£000	£000
Minimum lease payments	2,267	2,722
Less sub-lease payments	(460)	(490)
Total	**1,807**	**2,232**

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

	2022/23	2021/22
	£000	£000
Within 1 year	1,399	2,603
Within 2 to 5 years	1,949	5,365
After 5 years	6,488	8,703
Total	**9,836**	**16,671**

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.

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

	31/03/2023	31/03/2022
Period due	£000	£000
Within 1 year	17,420	17,586
Within 2 to 5 years	55,242	56,308
After 5 years	65,887	69,471
Total due	**138,549**	**143,365**

35. 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 secondary (academy) 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 Amber Infrastructure Limited.
- St Thomas is a new build secondary (voluntary aided) 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 Amber Infrastructure Limited.
- Sacred Heart Catholic School is a new build secondary (academy) 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 Amber Infrastructure Limited.
- In 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. Veolia are to provide high specification facilities to receive transfer and treat waste under the PFI contract from a facility at Old Kent Road, a site the council has leased to the company since September 2008. The integrated waste management facility at the Old Kent Road became operational in February 2012. The £682 million contract has enabled the council to deliver government targets for waste minimisation, landfill diversion and recycling.
- In July 2013 the council entered into the Heat Supply PFI Arrangement with Veolia, which involved 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 heat supply arrangement became operational in November 2013.

Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd for operating the three above schools and reimbursement of the capital expense incurred, the council does not have an interest in the assets.

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS continued

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
Opening balance as at 1 April 2021	**13,320**	**17,320**	**16,633**	**35,080**	**4,131**	**86,484**
New liability incurred	-	-	-	1,469	100	**1,569**
Repayments made in year	(471)	(551)	(526)	(4,762)	(272)	**(6,582)**
Closing balance as at 31 March 2022	**12,849**	**16,769**	**16,107**	**31,787**	**3,959**	**81,471**
Opening balance as at 1 April 2022	12,849	16,769	16,107	31,787	3,959	**81,471**
New liability incurred				2,252	101	**2,353**
Repayments made in year	(243)	(701)	(649)	(5,493)	(294)	**(7,380)**
Closing balance as at 31 March 2023	**12,606**	**16,068**	**15,458**	**28,546**	**3,766**	**76,444**

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 2021	**58,752**	**14,402**	**4,334**	**77,488**
Additions	-	1,469	100	**1,569**
Depreciation & Impairment	(853)	(978)	(197)	**(2,028)**
Revaluation	1,873	-	-	**1,873**
Net Book Value at 1 April 2022	**59,772**	**14,893**	**4,237**	**78,902**
Net Book Value at 1 April 2023	59,772	14,893	4,237	**78,902**
Additions		2,252	101	**2,353**
Depreciation & Impairment	(899)	(1,051)	(202)	**(2,152)**
Revaluations	(223)	-	-	**(223)**
Net Book Value at 1 April 2023	**58,650**	**16,094**	**4,136**	**78,880**

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS continued

The projected payments under the agreements are as follows:

	1 year	2-5 years	6-10 years	11-15 years	16-20 years	Total
	£000	£000	£000	£000	£000	£000
St Michael’s Catholic College						
Liability	640	2,098	5,390	4,478		**12,606**
Interest	1,593	5,748	4,827	1,018		**13,186**
Service Charges	630	3,371	32,725	2,883		**39,609**
St Thomas the Apostle College						
Liability	594	3,136	6,206	6,132		**16,068**
Interest	1,691	6,025	5,267	1,337		**14,320**
Service Charges	313	1,338	1,934	1,087		**4,672**
Lifecycle Payments	114	614	1,145	902		**2,775**
Sacred Heart Catholic School						
Liability	453	2,646	5,555	6,804		**15,458**
Interest	1,556	5,612	5,064	1,684		**13,916**
Service Charges	495	2,152	3,079	3,358		**9,084**
Lifecycle Payments	209	703	855	1,351		**3,118**
Integrated Waste Management Facility						
Liability	3,215	12,120	13,211			**28,546**
Interest	1,589	4,904	2,952			**9,445**
Service Charges	22,221	95,170	134,726			**252,117**
Lifecycle Payments	2,251	12,375	17,690			**32,316**
Heat Supply Arrangement						
Liability	216	1,153	2,397			**3,766**
Interest	462	1,560	996			**3,018**
Service Charges	1,378	5,865	8,195			**15,438**
Lifecycle Payments	104	444	621			**1,169**

36. OTHER LONG-TERM LIABILITIES

	31 March 2023	31 March 2022
	£000	£000
Payments due under PFI schemes and similar arrangements:		
St Michaels Catholic college	(11,966)	(12,606)
St Thomas the Apostle College	(15,474)	(16,069)
Sacred Heart Catholic school	(15,005)	(15,457)
Integrated waste Management Facility	(25,331)	(26,295)
Heat Supply Arrangement	(3,550)	(3,663)
Total	**(71,326)**	**(74,090)**

37. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES (NHS AND TECAHERS)

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

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

In 2022/23 the council paid £13.1m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.6% of pensionable pay (£13.3m and 23.6% respectively in 2021/22). It also paid £0.033m to the NHS Pension Scheme representing 14.4% of pensionable pay (£0.032m 2021/22, representing 14.4% of pensionable pay). In 2022/23 the employer contribution rate was 20.7% of pensionable pay (including levy). Employers are responsible for paying 14.4% of contributions, with the remaining 6.3% being funded by government. 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 38.

38. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

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

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

38. DEFINED BENEFIT PENSION SCHEMES continued

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:

	2022/23			2021/22		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Comprehensive Income and Expenditure Statement						
Cost of services:						
- Current service cost	76,500	272	**76,772**	82,900	364	**83,264**
- Past service costs	600	-	**600**	2,800	-	**2,800**
Financing and investment income and expenditure:						
- Net interest expense/(income)	9,800	(388)	**9,412**	14,100	(118)	**13,982**
Total post employment benefit charged to the surplus or deficit on the provision of services	**86,900**	**(116)**	**86,784**	**99,800**	**246**	**100,046**
Other comprehensive income and expenditure:						
Remeasurement of the net defined benefit liability comprising						
- *IAS19 report balance adjustment*	(23,435)	(14,848)	**(38,283)**	(17,660)	14,848	**(2,812)**
- Return on plan assets (excluding amount included in the net interest expense)	147,700	(280)	**147,420**	(104,200)	(7,619)	**(111,819)**
- Actuarial gains and losses arising on changes in demographic assumptions	-	(1,655)	**(1,655)**	(30,600)	-	**(30,600)**
- Actuarial gains and losses arising on changes in financial assumptions	(885,400)	(14,341)	**(899,741)**	(159,200)	(1,325)	**(160,525)**
- Actuarial gains and losses arising on changes in liability experience	206,700	4,690	**211,390**	(70,200)	116	**(70,084)**
- Other actuarial gains and losses on assets	140,895	26,541	**167,436**		-	**-**
Total remeasurements in other comprehensive income and expenditure	**(413,540)**	**107**	**(413,433)**	**(381,860)**	**6,020**	**(375,840)**
Total post employment benefit charged to the comprehensive income and expenditure statement	**(326,640)**	**(9)**	**(326,649)**	**(282,060)**	**6,266**	**(275,794)**

	2022/23			2021/22		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
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	(86,900)	116	**(86,784)**	(99,800)	(246)	**(100,046)**
Actual amount charged against the General Fund Balance for pensions in the year:						
- Employers' contributions payable to the scheme	41,900	129	**42,029**	43,100	134	**43,234**
Net adjustment between accounting basis and funding basis under regulations	**(45,000)**	**245**	**(44,755)**	**(56,700)**	**(112)**	**(56,812)**

38. DEFINED BENEFIT PENSION SCHEMES continued

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:

	2022/23			2021/22		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fair value of plan assets	1,972,095	66,884	**2,038,979**	2,055,660	67,328	**2,122,988**
Less Present value of defined benefit obligation	(1,831,200)	(40,101)	**(1,871,301)**	(2,424,200)	(52,480)	**(2,476,680)**
Net surplus/(liability) arising from defined benefit obligation pre asset-ceiling	**140,895**	**26,783**	**167,678**	**(368,540)**	**14,848**	**(353,692)**
Less asset ceiling under IFRIC 14 assessment	(140,895)	(26,645)	**(167,540)**		(14,848)	**(14,848)**
Net (liability) arising from defined benefit obligation post asset-ceiling	**-**	**138**	**138**	**(368,540)**	**-**	**(368,540)**

Reconciliation of movement in the fair value of the scheme assets:

	2022/23			2021/22		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April	2,055,660	67,328	**2,122,988**	1,901,000	61,349	**1,962,349**
IAS19 report balance adjustment	23,435	-	**23,435**	17,660	-	**17,660**
Interest income on assets	54,900	1,718	**56,618**	39,900	1,140	**41,040**
Remeasurement gains/(losses) on assets	(147,700)	280	**(147,420)**	104,200	7,619	**111,819**
Other actuarial gains/(losses)	-	104	**104**	-	-	**-**
Administration expenses	-	(20)	**(20)**	-	(80)	**(80)**
Employer contributions	41,900	129	**42,029**	43,100	134	**43,234**
Contribution by participants	14,100	43	**14,143**	13,000	44	**13,044**
Contribution by admitted bodies	700	-	**700**	800	-	**800**
Net benefits paid out	(70,900)	(2,698)	**(73,598)**	(64,000)	(2,878)	**(66,878)**
Closing balance at 31 March	**1,972,095**	**66,884**	**2,038,979**	**2,055,660**	**67,328**	**2,122,988**

Reconciliation of movement in the present value of defined benefit obligation (liabilities):

	2022/23			2021/22		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April	(2,424,200)	(52,480)	**(2,476,680)**	(2,594,700)	(55,217)	**(2,649,917)**
Current service cost	(76,500)	(252)	**(76,752)**	(82,900)	(284)	**(83,184)**
Interest cost	(64,700)	(1,330)	**(66,030)**	(54,000)	(1,022)	**(55,022)**
Contribution by admitted bodies	(700)	-	**(700)**	(800)	-	**(800)**
Contributions by scheme participants	(14,100)	(43)	**(14,143)**	(13,000)	(44)	**(13,044)**
Change in financial assumptions	885,400	14,341	**899,741**	159,200	1,325	**160,525**
Change in demographic assumptions	-	1,655	**1,655**	30,600	-	**30,600**
Experience loss/(gain) on defined benefit obligation	(206,700)	(4,690)	**(211,390)**	70,200	(116)	**70,084**
Benefits paid	70,900	2,698	**73,598**	64,000	2,878	**66,878**
Past service costs	(600)	-	**(600)**	(2,800)	-	**(2,800)**
Closing balance at 31 March	**(1,831,200)**	**(40,101)**	**(1,871,301)**	**(2,424,200)**	**(52,480)**	**(2,476,680)**

38. DEFINED BENEFIT PENSION SCHEMES continued

Scheme assets comprised:

	2022/23			2021/22		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Quoted						
- Equities	988,672	39,332	**1,028,004**	1,112,748	37,785	**1,150,533**
- Government bonds	142,894	-	**142,894**	173,230	-	**173,230**
- Corporate bonds	177,652	-	**177,652**	185,458	-	**185,458**
- Target return portfolio	-	12,436	**12,436**	-	14,307	**14,307**
- Other	30,896	-	**30,896**	34,646	-	**34,646**
Subtotal	**1,340,114**	**51,768**	**1,391,882**	**1,506,082**	**52,092**	**1,558,174**
Unquoted						
- Equities	46,344	-	**46,344**	26,494	-	**26,494**
- Infrastructure	-	8,463	**8,463**	-	6,725	**6,725**
- Property	293,512	6,568	**300,080**	311,814	5,880	**317,694**
- Cash	75,309	85	**75,394**	71,330	2,631	**73,961**
- Other	175,721	-	**175,721**	122,280	-	**122,280**
Subtotal	**590,886**	**15,116**	**606,002**	**531,918**	**15,236**	**547,154**
IAS19 report balance adjustment	41,095	-	**41,095**	17,660	-	**17,660**
Total	**1,972,095**	**66,884**	**2,038,979**	**2,055,660**	**67,328**	**2,122,988**

Basis for estimating assets and liabilities

The scheme assets, as shown above, are those attributable to the council from its membership of the Local Government Pension Scheme (LGPS) for both the London borough of Southwark Pension Fund and the London Pension Fund Authority (LPFA). The value of the assets is provided by fund actuaries. The LGPS valuation is based on asset values at 31 March 2023. The LPFA actuary uses market values at 31 January 2023, then indexed for market movements to arrive at a valuation for 31 March 2023.

Liabilities for the council and LPFA schemes have been assessed by Aon Hewitt 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 2022 and rolled forward.

Principal assumptions used by the actuaries

	Council		LPFA	
	2022/23	2021/22	2022/23	2021/22
Mortality assumptions				
Longevity at 65 for current pensioners				
- Men (years)	21.6	21.5	20.2	20.9
- Women (years)	24.2	24.1	23.4	23.7
Longevity at 45 for future pensioners				
- Men (years)	22.9	22.8	21.7	22.4
- Women (years)	25.7	25.6	25.2	25.6
Principal financial assumptions				
- Rate of inflation CPI	2.7%	3.0%	2.9%	3.4%
- Rate of increase in salaries	4.2%	4.5%	3.9%	4.4%
- Rate of increase in pensions	2.7%	3.0%	2.9%	3.4%
- Rate of pension accounts revaluation	2.7%	3.0%	0.0%	0.0%
- Rate for discounting scheme liabilities	4.7%	2.7%	4.8%	2.6%

38. DEFINED BENEFIT PENSION SCHEMES continued

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table below. 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)	1,878,800	42,398	**1,921,198**	1,783,600	37,940	**1,821,540**
Rate of increase in salaries (+/- 0.1%)	1,833,000	40,111	**1,873,111**	1,829,400	40,091	**1,869,491**
Rate of increase in pensions (+/- 0.1%)	1,858,700	40,490	**1,899,190**	1,803,700	39,718	**1,843,418**
Rate for discounting scheme liabilities (+/- 0.1%)	1,801,900	39,715	**1,841,615**	1,860,500	40,493	**1,900,993**
Projected service cost						
Longevity (+/- 1 Year)	38,300	157	**38,457**	35,500	146	**35,646**
Rate of increase in salaries (+/- 0.1%)	36,900	152	**37,052**	36,900	151	**37,051**
Rate of increase in pensions (+/- 0.1%)	38,400	155	**38,555**	35,500	149	**35,649**
Rate for discounting scheme liabilities (+/- 0.1%)	35,500	149	**35,649**	38,400	154	**38,554**

Impact on the council's cash flows

The objective of the schemes are to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total obligation of £1,871m (£2,477m at 31 March 2022) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net asset of £138k (liability of £369m at 31 March 2022). The surplus recognised in the balance sheet was restricted by £140.9m on council's scheme and by £26.6m on LPFA scheme, under paragraph 64 of IAS19 / IFRIC 14 assessment.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government's Pension Scheme may not provide final salary scheme benefits in relation to service after 31 March 2014. The act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2023/24 is £36.90m for the council scheme and £0.15m for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 15.9 years (19.5 years 2021/22) and 10 years for LPFA scheme members (13 years 2021/22).

39. 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. Non-exchange transactions, such as those relating to taxes (business rates and council tax) and government grants, do not give rise to financial instruments.

Financial Liabilities

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.

All of the council's financial liabilities held during the year are measured at amortised cost and comprised:
- long-term loans from the Public Works Loan Board and the Mayors Energy Efficiency Fund
- short-term loans from other local authorities
- overdraft with the National Westminster Bank
- Private Finance Initiative contracts
- trade payables for goods and services received

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term		Total	
	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022
	£000	£000	£000	£000	£000	£000
Borrowings						
At amortised cost	(894,821)	(702,471)	(103,138)	(199,180)	(997,959)	(901,651)
Cash and Cash Equivalents						
Bank overdraft at amortised cost		-	(6,225)	(6,967)	(6,225)	(6,967)
PFI and Other liabilities						
At amortised cost	(71,326)	(74,090)	(5,118)	(6,582)	(76,444)	(80,672)
Creditors						
At amortised cost	(6,703)	(7,648)	(109,639)	(266,943)	(116,342)	(274,591)
Total Financial Liabilities	**(972,850)**	**(784,209)**	**(224,120)**	**(479,672)**	**(1,196,970)**	**(1,263,881)**
Non-Financial Liabilities			(132,623)	(31,874)	(132,623)	(31,874)
Total	**(972,850)**	**(784,209)**	**(356,743)**	**(511,546)**	**(1,329,593)**	**(1,295,755)**

The total short-term borrowing includes £33.1m (£24.2m at 31 March 2022) representing accrued interest and principal payments due within 12 months on long-term borrowing.

The creditors lines in the balance sheet include £132.6m (£31.9m at 31 March 2022) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

39. FINANCIAL INSTRUMENTS continued

Financial Assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments. The financial assets held by the council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows) comprising:

- cash in hand and at bank
- certificates of deposit and covered bonds issued by banks and building societies
- treasury bills and gilts issued by the UK Government
- loans made for service purposes
- lease receivables
- trade receivables for goods and services provided

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows and sell the instrument) comprising:

- bonds issued by banks, building societies, the UK Government, multilateral development banks and large companies that the council holds to sell if cash flow needs demand

Fair value through profit and loss (all other financial assets) comprising:

- money market funds managed by three fund managers.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term		Total	
	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022
	£000	£000	£000	£000	£000	£000
Investments						
At fair value through other comprehensive income	13,822	19,994	95,047	86,156	108,869	106,150
At amortised cost	-	-	30,273	985	30,273	985
Total Investments	**13,822**	**19,994**	**125,320**	**87,141**	**139,142**	**107,135**
Cash and Cash Equivalents						
At fair value through profit and loss	-	-	80,878	54,419	80,878	54,419
Debtors						
Trade receivables at amortised cost	27,496	24,896	75,786	137,664	103,282	162,560
Total Financial Assets	**41,318**	**44,890**	**281,984**	**279,224**	**323,302**	**324,114**
Non-Financial Assets	**-**	-	79,127	55,345	79,127	55,345
Total	**41,318**	**44,890**	**361,111**	**334,569**	**402,429**	**379,459**

The short-term debtors line on the balance sheet include £115.3m (£55.3m at 31 March 2022) debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

39. FINANCIAL INSTRUMENTS continued

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:

	2022/23					2021/22				
	Financial Liabilities at amortised cost	**Financial Assets at amortised cost**	**fair value through other comprehensive income**	**Financial Assets at fair value through profit or loss**	**Total**	**Financial Liabilities at amortised cost**	**Financial Assets at amortised cost**	**fair value through other comprehensive income**	**Financial Assets at fair value through profit or loss**	**Total**
	£000		**£000**	**£000**	**£000**	**£000**	**£000**		**£000**	**£000**
Interest expense	40,327				**40,327**	29,812	-		-	**29,812**
Other charges	294				**294**	7,395	-		-	**7,395**
Total expenses in surplus or deficit on the provision of services	**40,621**		**-**	-	**40,621**	**37,207**	**-**		**-**	**37,207**
Interest Income		(4,344)	(1,376)	(2,494)	**(8,214)**	-	(3,507)	(356)	(55)	**(3,918)**
Total income in surplus or deficit on the provision of services	**-**	**(4,344)**	**(1,376)**	**(2,494)**	**(8,214)**	**-**	**(3,507)**	**(356)**	**(55)**	**(3,918)**
Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-		(606)	-	**(606)**	-	-	452	-	**452**
Net (gain)/loss for the year	**40,621**	**(4,344)**	**(1,982)**	**(2,494)**	**31,801**	**37,207**	**(3,507)**	**96**	**(55)**	**33,741**

40. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the council approves a treasury management strategy before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with financial instruments. The council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The treasury management strategy includes an annual investment strategy in compliance with the Department of Levelling Up, Housing and Communities guidance on local government investments. The strategy emphasises that priority is given to security and liquidity, rather than yield. The council's treasury management strategy and its treasury management practices seek to achieve a suitable balance between risk and return on cost.

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

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 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 31 March 2023 that this was likely to crystallise.

The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2023 is set out below:

	£000				%			
	A	AA	AAA	Total	A	AA	AAA	Total
	£000	£000	£000	£000	%	%	%	%
Up to 1 year	26,373	63,222	116,603	**206,198**	11.9%	28.5%	53.4%	**93.8%**
1 - 2 years	2,134	279	4,170	**6,583**	1.0%	0.1%	1.9%	**3.0%**
2 - 5 years	535	1,776	4,928	**7,239**	0.2%	0.8%	2.2%	**3.2%**
Total investments	**29,042**	**65,277**	**125,701**	**220,020**	**13.1%**	**29.4%**	**57.5%**	**100.0%**

40. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

Credit risk - receivables

Trade receivables arise from the provision of goods and services and the carrying out of the council's functions. The credit quality of debtors is reflected in the level of the impairment allowance for trade debtors shown in note 17.

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:

	2022/23	2021/22
	£000	£000
Less than 1 year	85,565	193,279
Between 1 and 5 years	122,736	85,855
Between 5 and 10 years	101,853	79,029
Between 10 and 20 years	75,354	42,558
Over 20 years	605,361	495,361
Total	**990,869**	**896,082**

Market risk

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

Outstanding long-term council debt at 31 March 2023 is primarily from the PWLB with short-term borrowing from other local authorities. The debt is at fixed rates, with an average maturity of 23.0 years (29.5 years at 31 March 2022). The maturity profile of the debt is shown in the table above. 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 £81m. 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.

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

The overall weighted average life of council's investments is 2.56 years. Within that, the weighted average life of investments measured at fair value through other comprehensive income is 1.87 years. A 1% change in discount rates on these investments would change the fair value by £0.8m and would be reflected in other comprehensive income or the surplus or deficit on the provision of services as appropriate.

41. FAIR VALUE - ASSETS AND LIABILITIES

Fair value - basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

<table>
<tr><th>Description of asset or liability</th><th>Held on balance sheet as</th><th>Valuation hierarchy</th><th>Basis of Valuation</th><th>Observable and unobservable inputs</th></tr>
<tr><td>Market quoted investments (money market funds, equity funds, corporate, covered government bonds)</td><td>Fair value</td><td>1</td><td>Published bid market price ruling on the final day of the accounting period</td><td>Not required</td></tr>
<tr><td>Long term loans from PWLB / MEEF</td><td>Amortised cost</td><td>2</td><td>Discounting of contractual cash flows over the remaining life of the instrument at an appropriate market rate</td><td>The attributable market derived discount rate for each individual loan</td></tr>
<tr><td>Lease Payable and PFI Liabilities</td><td>Amortised cost</td><td>2</td><td>Projected discounted future Unitary contractual payments</td><td>Payments determined by contractual agreement, discounted at an appropriate market derived corporate bond yield.</td></tr>
<tr><td>Investment Property</td><td>Fair value</td><td>2</td><td rowspan="3">Valued at Fair Value at year end by Head of Property, taking into account the characteristics of the assets, nature of the relevant market for those assets and behaviours of those participating in these markets, assuming the highest and best use for the asset. The valuations employ a market approach technique.</td><td rowspan="3">Quoted rents, yields etc. for comparable assets transacted in active markets, subject to adjustment as necessary in valuer's judgement to equate the evidence with the subject of the valuation.</td></tr>
<tr><td>Assets held for sale</td><td>Fair value</td><td>2</td></tr>
<tr><td>Surplus Assets</td><td>Fair value</td><td>2</td></tr>
</table>

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

41. FAIR VALUE - ASSETS AND LIABILITIES continued

Financial and non-financial assets and liabilities measured at fair value are classified in accordance with three levels as shown below:

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 included within Level 1 that are observable for the asset, either directly or indirectly

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

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

	Fair value level	31 March 2023		31 March 2022	
		Balance Sheet	Fair value	Balance Sheet	Fair value
		£000	£000	£000	£000
Financial liabilities held at amortised cost:					
Long term loans from PWLB	2	(914,689)	(720,088)	(709,570)	(763,323)
Other long-term loans	2	(6,179)	(3,969)	(6,511)	(5,684)
Private finance initiative liabilities	2	(76,444)	(97,383)	(74,090)	(150,809)
Subtotal		**(997,312)**	**(821,440)**	**(790,171)**	**(919,816)**
Liabilities for which fair value is not disclosed		(332,281)		(505,585)	
Total financial liabilities		**(1,329,593)**		**(1,295,756)**	
Recorded on balance sheet as:					
Short-term creditors		(242,262)		(305,399)	
Short-term borrowing		(103,138)		(199,180)	
Short-term PFI liabilites		(5,118)		-	
Bank overdraft		(6,225)		(6,968)	
Long-term creditors		(6,703)		(7,648)	
Long-term borrowing		(894,821)		(702,471)	
Other long-term liabilities		(71,326)		(74,090)	
Total financial liabilities		**(1,329,593)**		**(1,295,756)**	

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to be approximate to the carrying amount.

41. FAIR VALUE - ASSETS AND LIABILITIES continued

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

	Fair value level	31 March 2023		31 March 2022	
		Balance Sheet	Fair value	Balance Sheet	Fair value
		£000	£000	£000	£000
Financial assets held at fair value:					
Money market funds	1	80,878	80,878	54,420	54,420
Corporate, covered and government bonds	1	139,142	139,142	107,135	107,135
Subtotal		**220,020**	**220,020**	**161,555**	**161,555**
Assets for which fair value is not disclosed		155,051		217,905	
Total financial liabilities		**375,071**		**379,460**	
Recorded on balance sheet as:					
Short-term debtors		154,913		193,009	
Short-term investments		125,320		87,141	
Long-term debtors		138		24,896	
Long-term investments		13,822		19,994	
Cash and cash equivalents		80,878		54,420	
Total financial assets		**375,071**		**379,460**	

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to be approximate to the carrying amount.

SUPPLEMENTARY FINANCIAL STATEMENTS 2022/23

Housing Revenue Accounts

Collection Fund Account

Pension Fund Account

HOUSING REVENUE ACCOUNT 2022/23

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	2022/23 £000	2021/22 £000
Income			
Dwelling Rents		(207,652)	(199,038)
Non-dwelling rents		(6,233)	(5,817)
Charges for services and facilities		(68,981)	(56,702)
Contributions towards expenditure		(2,512)	(2,963)
Total Income		**(285,378)**	**(264,520)**
Expenditure			
Repairs and maintenance		62,429	56,452
Supervision and management		135,352	123,269
Rents, rates, taxes and other charges		9,375	10,743
Depreciation, impairment and revaluation losses of non-current assets	3	127,054	113,606
Debt management costs		323	264
Increase in provisions for bad debts		2,001	1,060
Revenue expenditure funded from capital under statute	4	423	-
Total expenditure		**336,957**	**305,394**
Net cost of HRA Services included in the Comprehensive Income and Expenditure Statement		**51,579**	**40,874**
HRA share of Corporate and Democratic Core		1,106	1,106
Net Cost of HRA Services		**52,685**	**41,980**
Gains and losses on the sales of HRA non-current assets		(11,309)	(23,265)
Interest payable and similar charges		27,538	23,303
Interest and investment income		(6,720)	(2,472)
Income, expenditure and changes in the fair value of investment properties	14	(5,064)	(10,064)
Pensions interest cost and expected return on pensions assets		1,647	2,432
Capital grants and contributions receivable		(118,151)	(43,030)
Total (surplus)/deficit for the year		**(59,374)**	**(11,116)**

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	2022/23		2021/22
		£000		**£000**
(Surplus)/deficit for the year on HRA services		(59,374)		(11,116)
Adjustments between accounting basis and funding basis under regulations	5	66,046		13,332
(Increase)/decrease in the HRA Balance		**6,672**		**2,216**
HRA Balance brought forward		(26,130)		(28,346)
Balance carried forward	6	**(19,458)**		**(26,130)**

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

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

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of Dwelling		Number of bedrooms				Total	Total
		1	2	3+	Other	31 March 2023	31 March 2022
Houses and bungalows	**31 March 2023**	**367**	**719**	**2,884**	**-**	**3,970**	
	31 March 2022	370	719	2,847	-		**3,936**
Low rise flats	**31 March 2023**	**2,753**	**618**	**374**	**-**	**3,745**	
	31 March 2022	2,781	614	365	-		**3,760**
Medium rise flats	**31 March 2023**	**6,604**	**7,148**	**6,168**	**-**	**19,920**	
	31 March 2022	6,559	7,125	6,142	-		**19,826**
High rise flats	**31 March 2023**	**2,715**	**4,709**	**1,727**	**-**	**9,151**	
	31 March 2022	2,673	4,653	1,712	-		**9,038**
Non-permanent	**31 March 2023**	**-**	**-**	**-**	**-**	**-**	
	31 March 2022	-	-	-	-		**-**
Multi-occupied	**31 March 2023**	**-**	**-**	**-**	**96**	**96**	
	31 March 2022	-	-	-	96		**96**
TOTALS	**31 March 2023**	**12,439**	**13,194**	**11,153**	**96**	**36,882**	
TOTALS	**31 March 2022**	**12,383**	**13,111**	**11,066**	**96**		**36,656**

In addition to the numbers shown in the table above, as at 31 March 2023 there were also 881 void properties (803 at 31 March 2022). 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 31 March 2023 was £14.0bn (£14.0bn as at 31 March 2022). 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

	2022/23	2021/22
	£000	£000
Dwellings depreciation	50,210	49,980
Other property depreciation	1,498	1,567
Revaluation losses on non-current assets	75,346	62,059
Total	**127,054**	**113,606**

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 2022/23 £0.423 million was incurred in the HRA as REFCUS (£0.00 million in 2021/22).

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:

	2022/23	2021/22
	£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	5,459	1,292
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	347	(10)
Gain or loss on the sale of HRA non current assets	11,309	23,265
HRA share of contributions to or from the Pensions Reserve	(8,673)	(11,107)
Capital expenditure funded by the HRA	15,989	14,602
Transfer to/from the Major Repairs Reserve	51,708	51,546
Transfer to/from the Capital Adjustment Account	(10,093)	(66,256)
Net additional amount required by statute to be charged to the HRA	**66,046**	**13,332**

6. HRA BALANCE

HRA reserves as at 31 March 2023 of £19.458 million (£26.130 million as at 31 March 2022) are allocated as follows:

	31 March 2023	31 March 2022
	£000	£000
Modernisation, Service and Operational Improvement Reserve	(350)	(3,655)
Financial Risk Reserve	(19,108)	(22,475)
Total	**(19,458)**	**(26,130)**

The modernisation, service and operational improvement reserve of £3.6m comprises £0.6m for IT transformation, and £3.0m for investment in energy infrastructure.

The Financial Risk reserve, £19.2 million, includes £7.5 million Contingency reserve, broadly representing 2.3% 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, £1.0 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, £0.6 million for estate parking and £5.6 million relating to debt financing. There is also a residents participation reserve of £0.4 million. The repairs and maintenance transition is £2.2 million and the great estates reserve remains at £1.1 million. In 2020/21 new reserves were created relating to service charges which has remained at £1.9 million and a HRA operational reserve which has been reduced slightly to £0.1 million.

7. MAJOR REPAIRS RESERVE

	2022/23	2021/22
	£000	£000
Balance 1 April	**-**	**(3,500)**
Transfers from the Capital Adjustment Account	(51,708)	(51,546)
Transfer to (from) the HRA	-	-
Financing of capital expenditure	51,708	55,046
Balance 31 March	**-**	**-**

8. CAPITAL EXPENDITURE AND FINANCING

	2022/23	2021/22
	£000	**£000**
Capital Investment		
Non-current assets	316,537	210,751
REFCUS	423	-
Total	**316,960**	**210,751**
Funding Source:		
Revenue contributions	(15,989)	(14,602)
Capital receipts from the sales of assets	(33,716)	(10,590)
Grants and other contributions	(118,151)	(43,030)
Major Repairs Reserve	(51,708)	(55,046)
Borrowing	(97,396)	(87,483)
Total	**(316,960)**	**(210,751)**

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

	2022/23	2021/22
	£000	**£000**
Council dwellings		
Right to Buy	(23,834)	(25,027)
Non Right to Buy	(10,061)	(5,703)
Other receipts		
Land sales	(124)	(12,770)
Mortgages	(4)	(5)
Sub total	**(34,024)**	**(43,505)**
Less: Pooled (paid to central Government)	-	4,266
Total	**(34,024)**	**(39,239)**

10. HOUSING TENANTS ACCOUNTS

	2022/23	2021/22
	£000	£000
Gross arrears as at 1 April	29,633	27,578
Prior year payments	(14,322)	(14,038)
Arrears as at 1 April	**15,311**	**13,540**
Charges due in the year	240,148	229,935
Rent rebates	(63,590)	(63,374)
Write-offs	(609)	(477)
Adjustments	(8,243)	(6,046)
Cash collected	(165,583)	(158,267)
Net arrears as at 31 March	**17,434**	**15,311**
Payments in advance	13,845	14,322
Gross arrears as at 31 March	**31,279**	**29,633**

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

	2022/23	2021/22
	£000	£000
Rents	(15,799)	(14,096)
Income from hostels	(1,550)	(1,423)
Court costs	(882)	(879)
Commercial rents	(3,495)	(3,665)
Penalty Charge Notices and parking warrants	(4,532)	(4,219)
Total	**(26,258)**	**(24,282)**

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.

	2022/23	2021/22
	£000	£000
Current service cost less contributions	7,027	8,675
Interest on pension scheme liabilities	1,647	2,432
Actuarial (gains)/losses	(72,796)	(63,660)
Movement on the Pensions Reserve	**(64,122)**	**(52,553)**
Add Pension contributions attributable to the HRA	6,421	6,447
Total IAS 19 charges	**(57,701)**	**(46,106)**

13. WATER CHARGES

In March 2016, the High Court (Chancery Division) found that the council had been overcharging a tenant for water supplies via Thames Water, contrary to the Water Resale Order 2006. Refunds to current and former tenants commenced in 2016-17, and the council made appropriate provision in its accounts for this purpose. This process has continued during subsequent years, with the amount provided for reduced accordingly. The balance on the water refund provision as at 31 March 2023 was £0.953m (31 March 2022 was £1.098m).

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.

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

This disclosure identifies expenditure, rental/investment income and changes in the fair value of HRA shops and other HRA assets classified on the balance sheet as investment properties.

The net gain included in the HRA Income and Expenditure Statement in 2022/23 is £5.064m (net gain of £10.064m in 2021/22).

COLLECTION FUND ACCOUNT
2022/23

COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT

	Notes	Council Tax	Business Rates	Business Rates Supplement	2022/23	2021/22
		£000	£000	£000	£000	£000
Income						
Income from Council Tax	1	(173,028)			(173,028)	(164,664)
Transfer from the General Fund		(267)			(267)	(245)
Income from Business Rates	2		(286,044)		(286,044)	(280,221)
Transitional protection payments from DLUHC			-		-	(214)
Income from Business Rate Supplement (BRS)	3			(9,953)	(9,953)	(7,040)
Contribution from preceptors towards previous years Collection Fund deficit	4	-	(83,022)		(83,022)	(112,641)
Total Income		**(173,295)**	**(369,066)**	**(9,953)**	**(552,314)**	**(565,025)**
Expenditure						
Precepts and Demands						
Greater London Authority (GLA)		42,434			42,434	38,431
London Borough of Southwark		128,608			128,608	123,024
Share of Business Rates						
Greater London Authority (GLA)			103,363		103,363	119,163
London Borough of Southwark			83,807		83,807	96,619
Department of Levelling Up, Housing and Communities (DLUHC)			92,188		92,188	106,280
Transitional protection payment to DLUHC			1,299		1,299	-
Cost of Collection allowance (NNDR)			752		752	773
Business Rate Supplement (BRS):	3					
Payment to GLA				9,938	9,938	7,025
Administrative costs				15	15	15
Council Tax impairment of debts:						
Increase/(decrease) allowance for non-collection		3,330			3,330	2,079
Write Offs		(3,155)			(3,155)	2,311
NDR Impairment of debts & appeals:						
Increase/(decrease) allowance for non-collection			1,243		1,243	999
Write Offs			3,061		3,061	318
Provision for appeals	5		(3,157)		(3,157)	26,888
Contribution to preceptors towards previous years Collection Fund surplus	4	342			342	-
Total Expenditure		**171,559**	**282,556**	**9,953**	**464,068**	**523,925**
Net deficit/(surplus) for the year		(1,736)	(86,510)	-	(88,246)	(41,100)
Deficit/(surplus) at 1 April		3,047	107,294		110,341	151,440
Deficit/(Surplus) at 31 March		**1,311**	**20,784**	**-**	**22,095**	**110,340**

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 (VoA) 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 2022/23 the estimated income required from all preceptors for the Collection Fund was £171.0m (2021/22 £161.5m). The amount of council tax for a band D property was £1,594.54 in 2022/23 inclusive of the GLA precept (2021/22 £1,527.80) and is multiplied by the ratio specified for the particular band to give the council tax due from properties in those bands. The 2022/23 council tax base after allowing for adjustments for non-collection (97.2% collection rate) was 107,267.

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	
	2022/23	**2021/22**		**2022/23**	**2021/22**
A	7,736	7,469	6/9	5,157	4,979
B	26,690	26,361	7/9	20,759	20,503
C	27,230	27,223	8/9	24,204	24,198
D	22,085	21,629	1	22,085	21,629
E	16,558	16,032	11/9	20,237	19,594
F	6,511	6,378	13/9	9,405	9,212
G	4,177	4,225	15/9	6,962	7,041
H	774	783	18/9	1,548	1,566
Total	**111,760**	**110,100**		**110,357**	**108,722**
Less adjustment for collection rate				(3,090)	(3,044)
Council Tax Base for year				**107,267**	105,678
Estimated Income Required from Collection Fund				**£ 171,041,523**	£ 161,454,848
Band D Council Tax				**£ 1,594.54**	£ 1,527.80

2. NON-DOMESTIC RATES

Non-domestic rates (NDR), known as business rates are collected from local businesses by the council. From 1 April 2013 the business rates retention scheme was introduced nationally.

For 2022/23, the regulations meant the council could retain 30% business rates income, with the remainder allocated to the Greater London Authority at 37% and the Department of Levelling Up, Housing and Communities (DLUHC) 33%.

Business rates are based on local rateable values set by the Valuation Office Agency (VoA) and a multiplier set by central government (DLUHC). The non-domestic rating multiplier and the small business non-domestic rating multiplier for England in 2022/23 were:

i) the standard multiplier was 51.2p (2021/22 51.2p)

ii) the small business multiplier was 49.9p (2021/22 49.9p)

Local businesses pay NDR calculated by multiplying their rateable value (RV) by the appropriate multiplier and subtracting any relevant reliefs. The total VoA rateable value in Southwark at 31 March 2023 was £755.2m (at 31 March 2022 £757.2m).

3. BUSINESS RATE SUPPLEMENT

Business rate supplements (BRS) are collected from local businesses by the council, on behalf of the GLA for the Crossrail project in London. For 2022/23, the levy remains set at 2p per pound of rateable value (RV), (unchanged since its inception in 2010) on non-domestic properties with a rateable value greater than £70,000. The last rateable value change from £55,000 to £70,000 occurred in 2016-17.

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

As a billing authority, the council is required to make an estimate of the surplus or deficit for the Collection Fund; for council tax by the 15 January and for non-domestic rates by 31 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing council tax if there is a surplus or increasing council tax if there is a deficit. In January 2022, the Council estimated a council tax surplus of £0.342m and NDR deficit of £83.022m for 2021/22, as follows:

	Council Tax	Business Rates	Total
	£000	£000	£000
(Surplus) / Deficit as at 31 March 2021	4,833	107,808	112,641
Estimated in-year (surplus)/deficit for 2021/22	(5,175)	(24,786)	(29,961)
Estimated (surplus) / deficit as at 31 March 2022	**(342)**	**83,022**	**82,680**

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 DLUHC as follows:

Authority	**Council Tax**		**Business Rates**		**Total**
	%	**£000**	**%**	**£000**	**£000**
Southwark Council	75	(251)	30	27,397	27,146
Greater London Authority	25	(91)	37	24,907	24,816
Central Government			33	30,718	30,718
Estimated (surplus) / deficit for 2021/22 redistributed in 2022/23		**(342)**		**83,022**	**82,680**

5. PROVISION FOR BUSINESS RATE APPEALS

The introduction of the business rates retention scheme in 2013 allows the council to retain a share of any growth in non-domestic rates (NDR) income, but also transfers some of the risks of losses.

As at 31 March 2023, 1253 appeals cases remain unsettled and outstanding with the VoA. Following the 2017 revaluation, a check, challenge, and appeals policy was introduced by central government to reform the business rates appeals system applicable to the new rating list effective on 1 April 2017. The check and challenge system is designed to make the business rates appeals assessment and application process more stringent to reduce the level of unsubstantiated appeals lodged with the VoA.

The provision for alteration of lists and appeals as at 31 March 2023 is £33m (£36.2m as at 31 March 2022), a decrease of £3.1m based on consideration of recent case law, potential unlodged appeals cases and other factors including check and challenge cases information from the VoA - Southwark council's share being £9.9m.

Share of provision	**Southwark Council**	**GLA**	**DLUHC**	**Total**
	30%	**37%**	**33%**	**100%**
	£m	**£m**	**£m**	**£m**
2022/23	9.9	12.2	10.9	**33.0**
2021/22	10.9	13.4	11.9	**36.2**

PENSION FUND ACCOUNT
2022/23

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2022/23		2021/22	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	7	(62,575)		(62,851)	
Transfers in from other pension funds	8	(3,285)		(8,419)	
Subtotal			**(65,860)**		**(71,270)**
Benefits	9	71,702		65,135	
Payments to and on account of leavers	10	4,322		6,915	
Subtotal			**76,024**		**72,050**
Net reduction/(addition) from dealing with members of the fund			**10,164**		**780**
Management expenses	11		11,785		8,980
Net additions including fund management expenses			**21,949**		**9,760**
Returns on investments					
Investment income	12	(18,488)		(7,425)	
Taxes on income	12	520		2,058	
Profit and losses on disposal of investments and changes in market value of investments	14a	79,281		(199,518)	
Net return on investments			**61,313**		**(204,885)**
Net (increase)/decrease in the net assets available for benefits during the year			**83,262**		**(195,125)**
Opening net assets of the scheme			(2,143,749)		(1,948,624)
Net assets of the scheme available to fund benefits as at 31 March			**(2,060,487)**		**(2,143,749)**

NET ASSETS STATEMENT

	Note		31 March 2023 £000		31 March 2022 £000
Long Term Investments			150		150
Investment assets	14		2,039,132		2,120,541
Total Net Investments			**2,039,282**		**2,120,691**
Current assets	21		28,849		28,223
Current liabilities	22		(7,644)		(5,165)
Net assets of the scheme available to fund benefits as at 31 March			**2,060,487**		**2,143,749**

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. DESCRIPTION OF THE FUND

The Pension Fund (the 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 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 as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance, 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.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

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 is included within the pension fund annual report. This is available from the council website.

Membership details for the fund are set out below:

	31 March 2023	**31 March 2022**
Number of contributors to the fund	7,647	6,995
Number of contributors and dependants receiving allowances	8,512	8,167
Number of contributors who have deferred their pensions	9,032	10,067
Total contributors	**25,191**	**25,229**

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 2023. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2022. For the 2022-23 financial year primary employer contribution rates ranged from 15.5% to 20.7% 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. From 1 April 2014 the scheme became a career average scheme.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

<table>
<tr><th></th><th>Service pre
1 April 2008</th><th>Service post
31 March 2008</th><th>From 1 April 2014</th></tr>
<tr><td>Pension</td><td>Each year worked is worth 1/80 x final pensionable salary</td><td>Each year worked is worth 1/60 x final pensionable salary</td><td>Each year worked is accrued at 1/49 of pensionable pay for the year</td></tr>
<tr><td>Lump sum</td><td>Automatic lump sum of 3 x pension.

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.</td><td colspan="2">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.</td></tr>
</table>

In August 2022, the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing and issuance of member Annual Benefit Statements, due to issues with data migration to the new Pensions Administration system. The Pensions Regulator was informed of the plans to rectify and agreed no further action past these plans were required. These statements were then issued in tranches, with the final statements going out in December 2022.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2022-23 financial year and its position at year-end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2024. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in **Note 20.**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:
- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the 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. Amounts not due until future years are classed as long-term financial assets.

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 employee contributions**. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) 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) 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	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.

f) 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.

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

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 the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13. Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

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 Nuveen is carried out annually by an independent valuer.

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

j) 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.

k) 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.

l) Loans and Receivables

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost 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.

n) 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 to the accounts (note 19).

o) 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. AVC assets are not included in the accounts but are disclosed as a note (note 6).

p) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2022-23.

Directly Held Property
The fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between six months and five years. The fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg if there is a premium paid at the inception of the lease).

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.

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	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 approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 5.9% would be an increase or decrease in the value of property of £17m, on a fair value of £291m.

6. EVENTS AFTER THE REPORTING DATE

There have been no material adjusting events after the reporting date.

7. CONTRIBUTIONS RECEIVABLE

By category

	2022-23 £000	2021-22 £000
Employee's Contributions	(15,391)	(15,030)
Employer's Contributions		
Normal	(39,830)	(33,732)
Deficit funding	(5,963)	(10,667)
Early retirement strain	(1,391)	(3,422)
Total contributions from employers	**(47,184)**	**(47,821)**
Total	**(62,575)**	**(62,851)**

By type of employer

	2022-23			2021-22		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark council	(13,653)	(42,216)	(55,869)	(13,422)	(43,435)	(56,857)
Admitted bodies	(252)	(799)	(1,051)	(243)	(736)	(979)
Scheduled bodies	(1,486)	(4,169)	(5,655)	(1,365)	(3,650)	(5,015)
Total	**(15,391)**	**(47,184)**	**(62,575)**	**(15,030)**	**(47,821)**	**(62,851)**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2022-23 £000	2021-22 £000
Individual transfers	(3,285)	(8,419)
Total	**(3,285)**	**(8,419)**

9. BENEFITS PAYABLE

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

	2022-23 £000	2021-22 £000
Pensions	55,560	53,130
Commutation of pensions and lump sum retirement benefits	13,596	9,588
Lump sums - death benefits	2,546	2,417
Total	**71,702**	**65,135**

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

	2022-23 £000	2021-22 £000
Southwark Council	66,862	61,941
Admitted bodies	3,195	2,316
Scheduled bodies	1,645	878
Total	**71,702**	**65,135**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2022-23 £000	2021-22 £000
Refund of contributions	132	263
Individual transfers out to other schemes	4,190	6,652
Total	**4,322**	**6,915**

11. MANAGEMENT EXPENSES

	2022-23 £000	2021-22 £000
Administrative costs	3,580	1,891
Investment and management expenses	7,715	6,531
Oversight and governance costs	490	558
Total	**11,785**	**8,980**

The 2022-23 fee for external audit services for the pension fund is £21K (£21k in 2021-22). The increase in administration costs are due to 21-22 failing to include the recharge related to council services as it was stated elsewhere in the accounts and additional costs in 22-23 for Civica/UPM software implementation.

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2022-23 (£0.9m during 2021-22).

12. INVESTMENT INCOME

	2022-23 £000	2021-22 £000
Dividends from equities	(6,515)	(4,171)
Pooled funds	(2,343)	(849)
Pooled property funds	(1,048)	(650)
Net rent from properties	(8,582)	(6,072)
Interest on cash deposits	-	-
Clearance of historic debtor balances	-	4,317
Total before taxes	**(18,488)**	**(7,425)**
Taxes on income	520	2,058
Total after taxes	**(17,968)**	**(5,367)**

12a. PROPERTY INCOME

	2022-23 £000	2021-22 £000
Rental Income	(10,144)	(7,950)
Direct operating expenses	1,562	1,878
Net rent from properties	**(8,582)**	**(6,072)**

13a. EXTERNAL AUDIT COSTS

	2022-23 £000	2021-22 £000
Payable in respect of external audit	49	46

14. INVESTMENT ASSETS

	31 March 2023 £000	31 March 2022 £000
Long Term Investments		
Equities	150	150
Total	**150**	**150**
Investment Assets		
Equities	267,242	256,900
Pooled Funds		
Fixed Income	133,397	132,310
Equities	429,580	480,221
Diversified Growth	130,023	191,389
Property	92,967	90,302
Infrastructure	211,991	133,709
Private Equity	50,363	38,475
Other	42,895	43,027
Unitised Insurance Policy		
Fixed Income	152,894	180,108
Equities	331,929	335,240
Property	194,310	234,299
Other investment balances	1,541	4,561
Total Investment Assets	**2,039,132**	**2,120,541**
Net Investments	**2,039,282**	**2,120,691**

14a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance	Purchases	Sales	Change in market value	31 March 2023
	£000	**£000**	**£000**	**£000**	**£000**
Equities	256,900	65,969	(59,316)	3,689	267,242
Pooled funds	1,019,131	123,217	(148,586)	93,457	1,087,219
Pooled property funds	94,001	2,248	(557)	(2,726)	92,966
Unitised insurance policy	515,348	661,389	(661,392)	(119,492)	395,853
Property	230,600	7,511	(9,605)	(34,195)	194,311
	2,115,980	**860,334**	**(879,456)**	**(59,267)**	**2,037,591**
Other investment balances	4,561			(20,014)	1,541
Total	**2,120,541**			**(79,281)**	**2,039,132**

	Opening balance	Purchase	Sales	Change in market value	31 March 2022
	£000	**£000**	**£000**	**£000**	**£000**
Equities	233,525	144,070	(145,490)	24,795	256,900
Pooled funds	625,731	618,057	(286,529)	61,872	1,019,131
Pooled property funds	67,784	21,802	(857)	5,272	94,001
Unitised insurance policy	810,917	12,119	(381,343)	73,655	515,348
Property	187,470	9,226	-	33,904	230,600
	1,925,427	**805,274**	**(814,219)**	**199,498**	**2,115,980**
Other investment balances	5,393			20	4,561
Total	**1,930,820**			**199,518**	**2,120,541**

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's 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 Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2023. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website.

14b. INVESTMENTS ANALYSED BY FUND MANAGER

The market value of assets (excluding cash and other investment balances) managed by the investment managers at the balance sheet date 31 March 2023 is set out in the table below. The fund has no investment assets managed by the regional asset pool, the London Collective Investment Vehicle (LCIV).

	31 March 2023		31 March 2022	
	£000	%	£000	%
BlackRock	747,969	37%	843,247	40%
Legal and General Investment Managers	395,853	19%	427,128	20%
Newton Investment Management	267,226	13%	256,898	12%
Nuveen	197,339	10%	234,299	11%
Comgest	93,431	5%	97,913	5%
Temporis	112,108	6%	56,980	3%
M&G	43,231	2%	42,927	2%
Invesco	33,068	2%	32,554	2%
BTG Pactual	35,743	2%	30,380	1%
Blackstone	50,363	2%	38,475	2%
Darwin	21,620	1%	20,428	1%
Glennmont	26,001	1%	19,930	1%
Frogmore	6,799	0%	8,011	0%
Brockton Capital	6,839	0%	6,810	0%
Total	**2,037,591**	**100%**	**2,115,980**	**100%**

The following investments represent more than 5% of investment assets at 31 March 2023.

Name of investment	Fund manager	31 March 2023	% of investment assets	31 March 2022	% of investment assets
		£000	%	£000	%
Low Carbon Target	BlackRock	336,149	16%	382,308	18%
Global Equities	Newton	267,226	13%	256,898	12%
Direct Property	Nuveen	197,339	10%	234,299	11%
Low Carbon Transition	Legal and General	166,572	8%	-	0%
Low Carbon Target	Legal and General	165,357	8%	335,240	16%
Diversified Growth Fund	BlackRock	130,023	6%	191,389	9%
Absolute Return Bond Fund	BlackRock	133,397	7%	132,310	6%

14c. PROPERTY HOLDINGS

	31 March 2023	31 March 2022
	£000	£000
Opening balance	**230,600**	**187,470**
Additions:		
Purchases	7,734	7,130
Subsequent expenditure	2,661	2,096
Disposals	(19,513)	-
Net increase in market value	(27,172)	33,904
Closing Balance	**194,310**	**230,600**

15. ANALYSIS OF DERIVATIVES

The fund does not currently have exposure to derivatives

16. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

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
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – unit trusts	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - property unit trusts and limited partnerships	Level 3	Valued at fair value as provided by the fund manager.	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates
Unitised Insurance Policies	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (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 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	267,242	150	-	**267,392**
Pooled Funds				
Fixed Income	-	133,397	-	**133,397**
Equities	-	429,580	-	**429,580**
Diversified Growth	-	130,023	-	**130,023**
Property	-	-	92,967	**92,967**
Infrastructure	-	21,620	190,370	**211,990**
Private Equity	-	-	50,363	**50,363**
Other	-	42,895		**42,895**
Unitised Insurance Policy				
Fixed Income	-	152,894	-	**152,894**
Equities	-	331,929	-	**331,929**
Total Financial Assets	**267,242**	**1,242,488**	**333,700**	**1,843,430**
Non-financial assets at fair value through profit and loss				
Property	-	-	194,310	**194,310**
Grand Total	**267,242**	**1,242,488**	**528,010**	**2,037,740**

Value as at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	256,900	150	-	**257,050**
				-
Pooled Funds				**-**
Fixed Income	-	132,310	-	**132,310**
Equities	-	480,221	-	**480,221**
Diversified Growth	-	191,389	-	**191,389**
Property	-	-	94,001	**94,001**
Infrastructure	-	20,428	113,281	**133,709**
Private Equity	-	-	38,475	**38,475**
Other	-	43,027		**43,027**
				-
Unitised Insurance Policy				**-**
Fixed Income	-	180,108	-	**180,108**
Equities	-	335,240	-	**335,240**
Total Financial Assets	**256,900**	**1,382,873**	**245,757**	**1,885,530**
Non-financial assets at fair value through profit and loss				
Property	-	-	230,600	**230,600**
Total	**256,900**	**1,382,873**	**476,357**	**2,116,130**

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

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2023 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	94,001	2,248	(557)	(194)	(2,532)	**92,966**
Infrastructure	113,281	42,647	(2,684)	519	36,608	**190,371**
Private Equity	38,475	13,532	(6,431)	87	4,700	**50,363**
Non-financial assets at fair value through profit and loss						
Property	230,600	7,511	(9,605)	(11,910)	(22,286)	**194,310**
Total	**476,357**	**65,938**	**(19,278)**	**(11,498)**	**16,490**	**528,010**

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2022 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	67,784	21,801	(857)	184	5,089	**94,001**
Infrastructure	41,248	71,892	(11,498)	225	11,414	**113,281**
Private Equity	-	29,078	(1,283)	(146)	10,826	**38,475**
Non-financial assets at fair value through profit and loss						
Property	187,470	9,226	-	-	33,904	**230,600**
Total	**296,502**	**131,997**	**(13,638)**	**263**	**61,233**	**476,357**

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has

Value as at 31 March 2023	Assessed valuation range	Valuation as at 31 March 2023 £000	Value on increase £000	Value on decrease £000
Pooled Funds				
Property	5.9%	92,966	98,470	87,462
Infrastructure	4.6%	190,371	199,176	181,566
Private Equity	4.6%	50,363	52,692	48,034
Property	5.9%	194,310	205,813	182,807
Total		**528,010**	**556,151**	**499,869**

17. FINANCIAL INSTRUMENTS

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

		31 March 2023 £000	31 March 2022 £000
Financial assets			
	Fair value through profit and loss		
	Equities	267,392	257,050
	Pooled Investments	998,248	1,019,131
	Pooled Property Investments	92,967	94,001
	Unitised Insurance Policy	484,823	515,348
	Amortised cost		
	Cash	26,432	24,255
	Other Investment Balances	1,541	4,561
	Debtors	3,371	300
Total		**1,874,774**	**1,914,646**
Financial liabilities			
	Amortised cost		
	Creditors	(3,471)	(4,522)
Net Total		**1,871,303**	**1,910,124**

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 fund's 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 fund's risk management strategy rests with the Strategic Director of Finance advised by the Pensions Advisory Panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

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

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

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

Price risk

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

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The fund's investment managers mitigate this price risk through diversification and the selection of securities 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 consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

2022-23 - asset type	31 March 2023 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	286,291	5.1%	300,896	271,686
Equities	1,028,901	12.9%	1,161,804	895,998
Diversified Growth	130,023	6.1%	137,940	122,106
Property	92,967	5.9%	98,471	87,463
Infrastructure	211,991	4.6%	221,796	202,186
Private Equity	50,363	4.6%	52,692	48,034
Other	42,895	4.6%	44,879	40,911
Total	**1,843,431**		**2,018,478**	**1,668,384**

2021-22 - asset type	31 March 2022 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	312,418	5.4%	329,289	295,547
Equities	1,072,511	13.0%	1,211,937	933,085
Diversified Growth	191,389	6.3%	203,447	179,331
Property	94,001	3.6%	97,385	90,617
Infrastructure	133,709	3.2%	137,988	129,430
Private Equity	38,475	3.2%	39,706	37,244
Other	43,027	3.2%	44,404	41,650
Total	**1,885,530**		**2,064,156**	**1,706,905**

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 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 2023	**125,746**	127,003	124,488
As at 31 March 2022	**312,418**	315,542	309,294

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 6.3% strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value	Change	Value on foreign exchange rate increase	Value on foreign exchange rate decrease
	£000	%	£000	£000
As at 31 March 2023	372,764	6.3%	396,248	349,280
As at 31 March 2022	649,073	7.3%	696,455	601,691

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 fund's entire investment portfolio is therefore exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. FUNDING ARRANGEMENTS

Statement of the Actuary for the year ended 31 March 2023

Introduction

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013 (the ‘LGPS Regulations’).

The LGPS 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 last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2022 by Aon, in accordance with Regulation 62 of the LGPS Regulations.

Actuarial Position

1. The valuation as at 31 March 2022 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund’s assets as at 31 March 2022 (of £2,125.4M) covering 109% of the liabilities.

2. The valuation also assessed each individual employer’s (or group of employers’) position separately. Contribution requirements were determined based on the principles in the Fund’s Funding Strategy Statement and are set out in Aon's report dated 31 March 2023 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (including ill-health early retirements) will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2026 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2024	21.2	-
2025	21.2	-
2026	21.2	-

3 The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).

4 The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount Rate	4.05% p.a.
Rate of pay increases	3.8% p.a.
Rate of increase to pension accounts*	2.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)*	2.3% p.a.

** In addition, a 10% uplift was applied to the past service liabilities to make allowance for short-term inflation above the long-term assumption.*

The assets were valued at market value.

5 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) S3 'Heavy' mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic HorizonsTM longevity model, and included an allowance for future improvements based on the 2021 Continuous Mortality Investigation Projections Model, 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 (for normal health retirements) were:

	Men	**Women**
Current pensioners aged 65 at the valuation date	21.5	24.1
Future pensioners aged 45 at the valuation date	22.8	25.6

6 The valuation results summarised in paragraph 1 above are based on the financial position and market levels at the valuation date, 31 March 2022. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

7 The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2023 to 31 March 2026 were signed on 31 March 2023. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2025 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8 This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2022. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

9 The report on the actuarial valuation as at 31 March 2022 is available on request from the London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2023

20. 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 2022.

	31 March 2023 £m	**31 March 2022 £m**
Fair value of net assets	2,064	2,125
Actuarial present value of promised retirement benefits	(1,911)	(2,597)
Surplus/(deficit) in the fund as measured for IAS 26	**153**	**(471)**

21. CURRENT ASSETS

The current assets of the fund are analysed as follows:

	31 March 2023 £000	31 March 2022 £000
Contributions due - employees	191	-
Contributions due - employers	2,811	3,642
Sundry debtors	3,371	300
Prepayments	6	-
Tax	-	26
Cash at managers	17,291	13,705
Cash and bank	5,179	10,550
Total	**28,849**	**28,223**

22. CURRENT LIABILITIES

The current liabilities of the fund are analysed as follows:

	31 March 2022 £000	31 March 2022 £000
Benefits	(2,347)	(6)
Professional fees	(151)	(138)
Investment fees	(3,320)	(4,391)
Taxes	(913)	(558)
Other	(913)	(72)
Total	**(7,644)**	**(5,165)**

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Fund Manager	Contributions Paid 2022-23	Market Value 31 March 2023	Contributions Paid 2021-22	Market Value 31 March 2022
	£000	£000	£000	£000
Aegon UK	249	3,644	249	3,605
Total	**249**	**3,644**	**249**	**3,605**

24. AGENCY SERVICES

The council has not acted as an agent for any employers of the fund in 2022-23.

25. RELATED PARTY TRANSACTIONS

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 2022-23 (£0.9m in 2021-22). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2022-23 and 2021-22.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 11.

The Pension Advisory Panel (PAP) offers advice to the Strategic Director of Finance and Governance. Five members of the PAP are currently active members of the pension fund whilst one member is in recept of pension benefits. Members of the PAP are required to make a declaration each meeting which is recorded in the minutes and are available on the council website. In 2022-23 there was one declaration for some elected members and officers of the council regarding the decisions around the acturial valuation of the pension fund and the annual budget setting process of the council.

The council is also the single largest employer of members of the Pension Fund and contributed £42.2m to the fund in 2022-23 (£43.4m in 2021-22).

25A. KEY MANAGEMENT PERSONNEL

Job Title	Increase in IAS 19 Liability to 31st March 2023 £000	Increase in IAS 19 Liability to 31st March 2022 £000
Strategic Director of Finance and Governance	4	6
Departmental Finance Manager - Corporate	2	6
Senior Finance Manager - Treasury and Pensions	10	23
Pensions Manager	13	8
Total	**29**	**43**

26. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2023 totalled £86.3m (31 March 2022: £101.6m).

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

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.

AMORTISED COST
A way of measuring financial instruments that ignores changes in fair value. Defined as the amount at which a financial instrument is measured when it is first brought onto the Balance Sheet, adjusted for:

- repayments of principal (minus), and
- cumulative amortisation of any difference between the initial amount and the maturity amount (using the effective interest method) (plus or minus).

These differences might arise (e.g.) from transaction costs being set off against the principal amount of a loan or interest being payable at less than market rates.

ASSET
An item having value to the council in monetary terms. Assets are categorised as either current or non-current:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the council and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

BALANCES (OR RESERVES)
These represent accumulated funds available to the council. Some balances (reserves) may be earmarked for specific purposes for funding future initiatives or meeting identified risks or liabilities. There are a number of unusable reserves which are established for technical purposes, it is not possible to utilise these to provide services.

BUDGET
A forecast of the council’s planned expenditure and income, either over a set period or for a specific project.

CAPITAL ADJUSTMENT ACCOUNT
An account recording financing and disposals transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CARRYING AMOUNT
Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

CASH EQUIVALENTS
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CAPITAL EXPENDITURE
Expenditure on the purchase, construction and enhancement of council assets such as houses, offices, schools and roads. Expenditure can only be treated as ‘capital’ if it meets the statutory definitions and is in accordance with accounting practice and regulations.

CAPITAL FINANCING
Capital financing is the process which occurs after capital expenditure has been incurred. There are a number of different sources of capital funding such as government capital / revenue grants, non-government grants, contributions from private developers, capital receipts and unsupported borrowing. Various funding sources are applied to capital spend to ensure that a project is fully financed from approved finance sources.

CAPITAL FINANCING REQUIREMENT (CFR)
The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION
Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CIPFA
The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

CAPITAL RECEIPTS
Income received from the sale of land, buildings and other capital assets. These can be used to finance new capital expenditure within rules and limits set by the government, but they cannot be used to finance day to day spending.

COLLECTION FUND
This is a statutory account, which records income and expenditure on council tax, National Non Domestic Rates and the sums paid to precepting authorities.

COMMUNITY ASSETS
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control.

CONTINGENT LIABILITY
A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control; or

A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CONTRACT ASSET
An asset arising from a contract for the purchase of goods and/or services from the council, where the council has met some of its performance obligations but is not yet entitled unconditionally to receive payment.

CONTRACT LIABILITY
A liability arising from a contract for the purchase of goods and/or services from the council, where the council has received payment but has yet to meet the performance obligations relating to that payment.

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.

CREDIT LOSSES
A measure of how much the council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the council under a financial asset and those that it actually expects to receive (discounted using the investment's effective interest rate).

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.

EARMARKED RESERVES
These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

EXPECTED CREDIT LOSSES
Weighted average of credit losses with the respective risks of a default occurring as the weights.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable.

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

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS
Investments for which gains and losses in fair value are recognised on the Balance Sheet but do not impact on the council's income as they arise but only when the investment matures or is sold. Defined as financial assets:

- held within a business model whose objective is achieved by both collecting contractual cash flows and selling investments, and
- which have the form of a basic lending arrangement (ie, contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS
Defined as financial assets that do not qualify for measurement at amortised cost or fair value through other comprehensive income.

FINANCE AND OPERATING LEASES
A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

FINANCIAL ASSET
A financial asset is any asset that is:
a) cash
b) an equity instrument of another entity
c) a contractual right:
i) to receive cash or another financial asset from another entity, or
ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the authority
d) a contract that will or may be settled in the entity's own equity instruments and is:
i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice d) is not applicable to local authorities as they do not issue equity instruments. However, it may apply to an

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

GENERAL FUND
This is the main revenue account of the council and includes the net cost of all services (except council housing) financed by local taxpayers and government grants.

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

IAS19 EMPLOYEE BENEFITS
International Accounting Standard 19 is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

IMPAIRMENT
A reduction in the value of a 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS.

INVESTMENT PROPERTIES
Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

LEVIES
Payments to levying bodies such as the London Pension Fund Authority, Lee Valley Park Authority and Environment agency. The cost of these bodies is borne by local authorities in the area concerned, based on their council tax base and is met from the General Fund.

LOSS ALLOWANCE
An allowance made by setting funds aside to cover the expected credit losses calculated for a financial asset.

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.

NON DOMESTIC RATES (NDR)
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
Refer to finance and operating leases.

OPERATIONAL ASSETS
Non-current assets held, occupied, used or consumed by the council in the direct delivery of its services.

PERFORMANCE OBLIGATION
A promise in a contract with a service recipient for the council to deliver goods and/or 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.

SERVICE RECIPIENT
A person or an organisation that has contracted with the council (as part of the council's normal business) to obtain goods and/or services in return for payment (or in exchange of goods/services to the council).

TRANSACTION PRICE
The amount the council expects to be entitled to under contract in exchange for transferring promised goods and/or services to a service recipient.

USEFUL LIFE
The period over which the council will derive benefits from the use of a fixed asset.

WRITE-OFFS
Income is recorded in the council's accounts on the basis of amounts due. When money owing to the council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

MUNICIPAL YEAR 2023-24

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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Councillor Cassandra Brown	By email		
Councillor Sam Foster	By email		
Councillor Kimberly McIntosh	By email	**GRANT THORNTON**	
Councillor David Watson	By email		
		Joanne Brown	By email
OTHER COUNCILLORS		Grant Thornton	
Councillor Stephanie Cryan	By email	110 Bishopsgate	
		London EC2N 4AY	
GOVERNANCE AND ASSURANCE			
Norman Coombe	By email	Nick Halliwell	By email
Doreen Forrester-Brown	By email	Grant Thornton	
		110 Bishopsgate	
COMMUNICATIONS		London EC2N 4AY	
Louise Neilan	By email		
CONSTITUTIONAL TEAM		**Total Print Run:**	**2**
Virginia Wynn-Jones	By email		
INDEPENDENT PERSONS			
Ms Natasha Jindal	By email		
Ms Amrit Mangra	By email		
Mr Gary Roberts	By email		
		List Updated: March 2024	