



**DRAFT
STATEMENT OF ACCOUNTS
2015/16**

SUBJECT TO AUDIT

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

Certified _____

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

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NARRATIVE REPORT

From the Strategic Director of Finance and Governance, Duncan Whitfield

Introduction

The Narrative Report provides information about Southwark including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2015/16 and of its financial position at 31 March 2016. The Narrative Report is a change in requirements for 2015/16 and replaces the Explanatory Foreword. It is structured as below:

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

An Introduction to Southwark

Southwark is a place of growth, development and opportunity. It is a borough with a rich and proud history, strong sense of community and a great ability to transform and renew, sometimes very much against the odds. Southwark is highly diverse, in some ways a product of history and the ability to welcome new communities alongside existing residents. Over 120 languages are spoken in local schools, 66% of the under-20 population and 75 per cent of reception-age children are from black and minority ethnic (BME) groups. Over 4 in 5 residents believe this is a place where people of all races live in harmony.

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

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

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

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

Council Performance

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

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

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

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

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

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

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

Financial Performance

Economic climate

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

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

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

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

Revenue

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

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Revenue outturn - General Fund

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

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

Revenue outturn - HRA

The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The table below summarises the HRA income and expenditure and movement on balances for 2015/16.

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

Capital

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

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

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Balance Sheet

- Reserves**

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

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

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

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

- Borrowing and Lending**

The council borrows money to support its capital financing requirement. The borrowing outstanding as at 31 March 2016 is £463 million (£469 million at 31 March 2015). All loans are from the Public Works Loans Board (PWLB, a body operating within the UK Debt Management Office, an Executive Agency of HM Treasury) at fixed rates. The average rate of interest payable is 5.5% at 31 March 2016 (5.5% at 31 March 2015) and the average life of all loans is 20 years.

The council invests its cash in GBP bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities such as the European Investment Bank and the World Bank. The money market investments are in short term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. The cash held in investments at 31 March 2016 was £144 million (£166 million at 31 March 2015).

Pensions

The council has net pension liabilities of £450m in the Balance Sheet. This reflects the value of pension liabilities which the council is required to pay in the future offset by the value of assets invested in the Pension Fund.

The council's pension fund has to be revalued every three years to set future contribution rates. The last valuation was in 2013 which reported that the Funds assets represented 83% of the estimated future pension liabilities. The council has a deficit recovery plan in place to make additional contributions into the Pension Fund over the next 18 years in line with the Pension Funding Statement.

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Principal Risks and uncertainties

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

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

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

Explanation of Accounting Statements

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2015. These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.

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

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

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

Supplementary financial statements are:

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

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EARMARKED RESERVES

Appendix 1

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

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

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

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

Total

104,778	(21,606)	83,172
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STATEMENT OF RESPONSIBILITIES

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council that officer is the Strategic Director of Finance and Governance;
- manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets; and
- approve the Statement of Accounts.

The Strategic Director of Finance and Governance responsibilities

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

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

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

The Strategic Director of Finance and Governance has also:

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

I certify that the Statement of Accounts presents a true and fair view of the financial position of Southwark Council as at 31 March 2016 and its income and expenditure for the financial year ended 31 March 2016.

Duncan Whitfield
Strategic Director of Finance and Governance
30 June 2016

Council approval

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

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

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MOVEMENT IN RESERVES STATEMENT

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

The Net Increase/Decrease before the transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves have been undertaken by the council.

MOVEMENT IN RESERVES 2015/16

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

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

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MOVEMENT IN RESERVES 2014/15

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

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

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

BALANCE SHEET

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

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

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

CASH FLOW STATEMENT

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

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

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i. GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice (SeRCOP) for Local Authorities 2015/16, supported by International Financial Reporting Standards (IFRS).

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

ii. ACCRUALS OF INCOME AND EXPENDITURE

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

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

iii. ADJUSTMENT BETWEEN ACCOUNTING BASIS AND FUNDING BASIS

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

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Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant and Equipment	Depreciation & revaluation/ impairment losses	Revenue provision to cover historical cost determined in accordance with 2003 Regulations	Capital Adjustment Account
Intangible Assets	Amortisation and impairment		
Investment Properties	Movement in fair value		
Revenue Expenditure Funded from Capital under statute	Expenditure incurred in year		
Capital Grants and Contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital Grants unapplied reserve (unapplied at 31 March) Capital Adjustment Account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (carrying amount) Capital Receipts Reserve (sale proceeds & cost of disposal) Deferred capital Receipts Reserve (where sale proceeds not yet received)
Financial Instruments	Premiums payable & discounts receivable on early repayment of borrowing in 2015/16 Losses on soft loans and interest receivable on an amortised cost basis	Deferred debits/credits of premiums/discounts from earlier years Interest due to be received on soft loans	Financial Instruments Adjustment Account
Pension Costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions Reserve
Council Tax	Accrued income from 2015/16 bills	Demand on the Collection Fund for the year plus estimated surplus/ deficit from previous year	Collection Fund Adjustment Account
Business Rates	Accrued income from 2015/16 bills	Budgeted income receivable from the Collection Fund for the year plus estimated surplus/ deficit from previous year	Collection Fund Adjustment Account
Holiday Pay	Projected cost of untaken leave entitlements at 31 March	No charge	

iv. BUSINESS IMPROVEMENT DISTRICTS

A Business Improvement District (BID) scheme may apply across the whole of the council, or to specific areas of the council. Schemes are funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under these schemes, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

v. EMPLOYEE BENEFITS

Termination benefits

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

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Post-employment Benefits

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

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

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

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

Employment Benefits - The Local Government Pension Scheme

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

The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures on Note 34 to the Accounts set out the discount rates and assumptions applied by each fund.

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

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

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

- Service cost comprising
 - current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - net interest on the net defined benefit liability (asset) - charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

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Discretionary Benefits

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

vi. *EVENTS AFTER THE REPORTING PERIOD*

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

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

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

vii. *FAIR VALUE*

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

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

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

viii. *FINANCIAL INSTRUMENTS*

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

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

Financial assets are classified into two types:

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

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

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

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

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

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

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

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

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

ix. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

x. INVESTMENT PROPERTY

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

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

xi. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other

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leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The council as Lessee – Finance leases

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

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

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

The council as Lessee - Operating Leases

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

The council as lessor – operating leases

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

xii. OVERHEADS AND SUPPORT SERVICES

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

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

xiii. PRIVATE FINANCE INITIATIVE AND SIMILAR CONTRACTS

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

xiv. PROPERTY PLANT AND EQUIPMENT

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Sites under development

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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- Community assets, 100 years
- Intangible assets, 3 years.

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

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

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

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

xv. ***PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS***

Provisions

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

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

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

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Contingent Liability

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

Contingent Assets

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

xvi. RESERVES

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

xvii. SCHOOLS

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

xviii. VALUE ADDED TAX

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

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in preparing the Statement of Accounts are as follows:

Accounting for schools non-current assets

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

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

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

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

Integrated waste management facility

The integrated waste management facility at the Old Kent Road became operational in February 2012. This is a facility constructed by Veolia Environmental Services under a 25 year PFI contract for the collection and disposal of waste in the borough. The scheme has been evaluated in accordance with IFRS accounting practices, and it is considered that the council has an interest in the asset which should be reflected in the council's Balance Sheet, with a matching liability to make capital repayments as part of the unitary charges. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 31.

Heat and energy supply arrangement

The Heat Supply PFI Arrangement with Veolia Environmental Services became operational in November 2013. It placed piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public. It has been assessed as a service concession in accordance with IFRS accounting practice. Unitary charges are payable until 2033 and allocated as charges for service, interest and principal. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 31.

Fair value of PFI liabilities

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

HRA depreciation, impairment & valuation losses

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

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

Review of Minimum Revenue Provision Policy

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

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

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

The items in the council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Valuation of property, plant and equipment

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

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

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

Defined benefit pension amounts and disclosures

The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2016 the outstanding liability was assessed at £452 million (£491 million 2014/15). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund. These assessments require significant estimation, and the estimates and assumptions are set out in detail in Note 34.

Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension liability of changes in individual assumptions can be measured. A sensitivity analysis to changes in assumptions is provided at Note 34.

4. EVENTS AFTER THE BALANCE SHEET DATE

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

5. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

The following sets out a description of the reserves that the adjustments are made against.

General Fund balance

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

Housing Revenue Account balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function.

Major repairs reserve

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

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Capital Receipts Reserve

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

Capital Grants Unapplied

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

2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	27,458	68,796	-	-	-	(96,254)
Revaluation losses on Property, Plant and Equipment	(1,629)	4,053	-	-	-	(2,424)
Movements in the fair value of Investment Properties	(26,938)	(7,263)	-	-	-	34,201
Capital grants and contributions applied	(38,300)	(73,939)	-	-	-	112,239
Revenue expenditure funded from capital under statute	9,344	1,871	-	-	-	(11,215)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	8,535	24,402	-	-	-	(32,937)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	(2,689)	(5,163)	-	-	-	7,852
Lease & PFI repayment	(3,952)	(184)	-	-	-	4,136
Repayment of premiums	(244)	(824)	-	-	-	1,068
Capital expenditure charged against the General Fund and HRA balances	(6,782)	(35,763)	-	-	-	42,545
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(2,312)	2,312
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(25,078)	(64,074)	-	89,152	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	326	-	(326)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(75,302)	-	75,302
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	324	1,073	-	(1,397)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	4,581	-	-	(4,581)	-	-
Provision to reduce the capital financing	-	-	-	(2,667)	-	2,667

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2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
requirement						
Adjustments primarily involving the deferred capital receipts reserve						
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	2,429	-	(2,429)
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(48,919)	48,919	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(84,883)	-	-	84,883
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(42)	1,001	-	-	-	(959)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	47,630	7,939	-	-	-	(55,569)
Employer's pensions contributions and direct payments to pensioners payable in the year	(35,465)	(4,895)	-	-	-	40,360
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	758	-	-	-	-	(758)
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(5,722)	-	-	-	-	5,722
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(19)	3	-	-	-	16
Total adjustments	(48,230)	(131,886)	(35,964)	7,960	(2,312)	210,432

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2014/15	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	24,236	58,549	-	-	-	(82,785)
Revaluation losses on Property, Plant and Equipment	(5,235)	33,022				(27,787)
Movements in the fair value of Investment Properties	(3,603)	(6,842)	-	-	-	10,445
Amortisation of intangible assets	-	-	-	-	-	-
Capital grants and contributions applied	(38,338)	(56,040)	-	-	-	94,378
Revenue expenditure funded from capital under statute	59,803	7,125	-	-	-	(66,928)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	102,169	78,439	-	-	-	(180,608)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	(9,059)	(15,438)	-	-	-	24,497
Lease & PFI repayment	(4,619)	475	-	-	-	4,144
Repayment of premiums	(241)	(7,003)	-	-	-	7,244
Capital expenditure charged against the General Fund and HRA balances	(6,217)	(18,672)	-	-	-	24,889
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-
Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(419)	-	-	-	419	-
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(33,328)	(54,354)	-	87,682	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	66	-	(66)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(111,525)	-	111,525
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	600	1,189	-	(1,789)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	3,982	-	-	(3,982)	-	-
Provision to reduce the capital financing requirement	-	-	-	(3,885)	-	3,885
Adjustments primarily involving the deferred capital receipts reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(110)	(42,412)	-	-	-	42,522
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	4,913	-	(4,913)

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2014/15	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(47,842)	47,842	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(18,570)	-	-	18,570
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(22)	(210)	-	-	-	232
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	46,351	7,262	-	-	-	(53,613)
Employer's pensions contributions and direct payments to pensioners payable in the year	(34,066)	(4,204)	-	-	-	38,270
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,810)	-	-	-	-	1,810
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,071)	-	-	-	-	1,071
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	486	79	-	-	-	(565)
Total adjustments	99,489	(66,877)	29,272	(28,520)	419	(33,783)

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6. USABLE RESERVES

Reserves represent the authority's net worth and show its spending power. Usable reserves result from the authority's activities and can be spent in the future. This note sets out the amounts set aside and posted back to Usable Reserves in 2015/16, they include:

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

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

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

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

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

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7. OTHER OPERATING EXPENDITURE

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

8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

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

9. TAXATION AND NON-SPECIFIC GRANT INCOME

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

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

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

2015/16	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value									
Opening balance	2,699,929	780,745	77,490	304,688	10,689	109,795	26,477	4,009,813	70,419
Additions	201,866	23,420	4,602	29,251	530	260	45,544	305,473	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	224,082	51,515	-	-	-	65,175	-	340,772	3,042
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,874)	104	-	-	-	-	-	(9,770)	-
Derecognition – Disposals	(20,229)	-	-	-	-	(510)	-	(20,739)	-
Derecognition – Other	(3,873)	(10)	-	-	-	(249)	-	(4,132)	-
Assets reclassified (to)/from Held for Sale	(13,018)	-	-	-	-	-	-	(13,018)	-
Other movements in Cost or Valuation	1,170	19,258	-	-	-	(6,275)	(6,492)	7,661	-
Balance as at 31 March 2016	3,080,053	875,032	82,092	333,939	11,219	168,196	65,529	4,616,060	73,461
Depreciation and Impairment									
Opening balance	213	32,252	35,799	68,746	902	2,562	-	140,474	2,849
Depreciation charge	65,705	12,753	5,497	10,847	-	1,452	-	96,254	1,884
Depreciation written out on revaluations recognised in the Revaluation Reserve	(28,680)	(8,683)	-	-	-	-	-	(37,363)	798
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(7,137)	(1,253)	-	-	-	(112)	-	(8,502)	-
Derecognition – Disposals	(441)	-	-	-	-	(18)	-	(459)	-
Derecognition – Other	(93)	(7)	-	-	-	(19)	-	(119)	-
Other movements in Depreciation and Impairment	74	(127)	-	-	-	(1,058)	-	(1,111)	-
Balance as at 31 March 2016	29,641	34,935	41,296	79,593	902	2,807	-	189,174	5,531
Net Book Value At 31 March 2016	3,050,412	840,097	40,796	254,346	10,317	165,389	65,529	4,426,886	67,930

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2014/15	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value									
Opening balance	2,294,208	747,820	69,365	265,622	9,506	123,165	84,752	3,594,438	69,977
Additions	134,567	24,439	8,125	31,124	355	7,858	23,448	229,916	906
Revaluation increases/(decreases) recognised in the Revaluation Reserve	330,527	41,656	-	-	-	84,709	-	456,892	(241)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(42,952)	3,046	-	-	-	354	-	(39,552)	(223)
Derecognition – Disposals	(18,896)	(1,836)	-	-	-	(15,391)	-	(36,123)	-
Derecognition – Other	-	(48,930)	-	(112)	-	(10,150)	(50,797)	(109,989)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(85,745)	-	(85,745)	-
Other movements in Cost or Valuation	2,475	14,550	-	8,054	828	4,995	(30,926)	(24)	-
Balance as at 31 March 2015	2,699,929	780,745	77,490	304,688	10,689	109,795	26,477	4,009,813	70,419
Depreciation and Impairment									
Opening balance	-	46,259	30,599	59,726	902	699	-	138,185	1,871
Depreciation charge	55,915	11,702	5,200	9,020	-	948	-	82,785	1,764
Depreciation written out on revaluations recognised in the Revaluation Reserve	(44,823)	(14,813)	-	-	-	(332)	-	(59,968)	(405)
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(10,458)	(3,327)	-	-	-	(17)	-	(13,802)	(381)
Derecognition – Disposals	(417)	(75)	-	-	-	-	-	(492)	-
Derecognition – Other	-	(5,854)	-	-	-	(380)	-	(6,234)	-
Other movements in Depreciation and Impairment	(4)	(1,640)	-	-	-	1,644	-	-	-
Balance as at 31 March 2015	213	32,252	35,799	68,746	902	2,562	-	140,474	2,849
Net Book Value At 31 March 2015	2,699,716	748,493	41,691	235,942	9,787	107,233	26,477	3,869,339	67,570

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The valuation of assets has been carried out by the council's internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluations and of the rolling cycle of revaluations is 1 April of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.

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

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

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

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

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

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

The income and expenditure on investment assets was as follows:

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

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

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

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Properties held under operating leases

The council holds a number of properties as lessee, held as operating leases, which are then sub-leased out as investment properties. The income and expenditure on these leases is included above but, being operating leases, are not included with property, plant & equipment.

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

12. FINANCIAL INSTRUMENTS

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

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

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

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

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

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Financial Instruments – Gains and Losses

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

	2015/16				2014/15			
	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	25,521	-	-	25,521	25,745	-	-	25,745
Other Charges	330	-	-	330	134	-	-	134
Total Expenses in Surplus or Deficit on the Provision of Services	25,851	-	-	25,851	25,879	-	-	25,879
Interest Income	-	(520)	(1,303)	(1,823)	-	(613)	(781)	(1,394)
Less Allocated to Other Funds	-	-	-	-	-	8	-	8
Total Income in Surplus or Deficit on the Provision of Services	-	(520)	(1,303)	(1,823)	-	(605)	(781)	(1,386)
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure	-	-	164	164	-	-	(141)	(141)
Net Gain/(Loss) for Year	25,851	(520)	(1,139)	24,192	25,879	(605)	(922)	24,352

Financial Instruments - Fair values

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

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31st March 2016. Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2016, using the following methods and assumptions:

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

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

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

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

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

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

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

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

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

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

13. DEBTORS

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

14. CASH AND CASH EQUIVALENTS

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

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

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15. ASSETS HELD FOR SALE

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

16. CREDITORS

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

17. UNUSABLE RESERVES

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

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

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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

Financial instruments adjustment account

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

Amongst the transactions on this Account are premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the in the Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31/03/16 includes £19.951 million premiums (£21.016 million at 31/03/15) to be discharged in future.

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

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Revaluation reserve

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

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

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

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

Pensions Reserve

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

	2015/16 £000	2014/15 £000
Balance at 1 April	(491,286)	(487,062)
Remeasurements of the net defined benefit liability	56,399	11,119
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(55,569)	(53,613)
Employer's pension contributions and direct payments payable to pensioners in the year	40,360	38,270
Balance at 31 March	(450,096)	(491,286)

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Deferred Capital Receipts Reserve

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

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

18. CASH FLOW FROM OPERATING ACTIVITIES

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

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

The cash flows from operating activities include the following amounts:

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

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19. CASH FLOW FROM INVESTING ACTIVITIES

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

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

20. CASH FLOWS FROM FINANCING ACTIVITIES

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

21. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

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

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

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

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

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

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

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

22. POOLED BUDGETS

Better Care Fund (BCF)

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

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

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Integrated Community Equipment Store (ICES)

Southwark Council and the CCG also operate pooled fund arrangements for an Integrated Community Equipment Service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £2.088m in 2015/16 (£2.m in 14/15).

23. MEMBERS' ALLOWANCES

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

24. OFFICERS' REMUNERATION

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

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

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

Notes to the above table:

- The Strategic Director of Children's and Adults' Services joined the council in October 2014 and the 2014/15 figures for this post therefore cover the period from October 2014 onwards
- The post of Director of Public Health is shared equally with the London Borough of Lambeth. Southwark Council's share of the total remuneration and contribution to the pension fund are £75,289 and £10,216 respectively for 2015/16
- In 2015/16, the Strategic Director of Environment and Leisure and the Strategic Director of Finance and Governance received payments in respect of their additional role as Southwark Council's Returning Officer. These payments are set by the Electoral Commission and are not included in the table above
- Total remuneration reflects actual payments made to the postholders in the financial years and the related pension fund contributions made in respect of the Local Government Pension Scheme (LGPS) during that same year
- Total remuneration figures represent gross pay for the postholder before that individuals' personal contributions to the Southwark Pension Fund. They include basic salary plus any contracted additions paid during the financial year. For 2015/16, this includes performance related pay for the previous year (2014/15)
- The total remuneration figures for 2014/15 included performance related pay (PRP) for three prior years during which time no PRP had been awarded to postholders

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

During 2014/15 the council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

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

25. EXTERNAL AUDIT COSTS

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

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

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

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26. DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2015/16 are as follows:

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

27. GRANT INCOME

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

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

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

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

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

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

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

28. RELATED PARTY TRANSACTIONS

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

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

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

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

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29. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

30. LEASES

The council as Lessee – operating leases

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

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

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

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

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

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The council as Lessor – operating leases

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

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

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

31. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

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

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

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

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

- St Michael's is a new build voluntary aided secondary school, which became operational in January 2011. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd
- St Thomas is a new build voluntary aided secondary school, which became operational in February 2012. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd
- Sacred Heart Catholic School is a new build voluntary aided secondary school, which became operational in September 2014. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd
- on 11 February 2008 the council entered into a 25-year PFI contract with Veolia Environmental Services for the collection and disposal of waste in the borough. The £682 million contract will enable the council to

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

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

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

	St Michael's Catholic College	St Thomas the Apostle College	Sacred Heart Catholic School	Integrated Waste Management Facility	Heating Supply Arrangement	Total
	£000	£000	£000	£000	£000	£000
Value at 1 April 2014	15,135	19,615	-	57,994	4,279	97,023
New liability incurred	-	123	19,173	906	571	20,773
Repayments made in year	(136)	-	(232)	(4,045)	-	(4,413)
Value at 31 March 2015	14,999	19,738	18,941	54,855	4,850	113,383
New liability incurred	-	-	-	137	85	222
Repayments made in year	(149)	(301)	(305)	(3,359)	(175)	(4,289)
Value at 31 March 2016	14,850	19,437	18,636	51,633	4,760	109,316

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

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Total
	£000	£000	£000	£000
Net Book Value at 1 April 2014	44,864	18,308	4,934	68,106
Additions	-	906	-	906
Depreciation & Impairment	(798)	(796)	(170)	(1,764)
Revaluation	322	-	-	322
Net Book Value at 1 April 2015	44,388	18,418	4,764	67,570
Additions	-	137	85	222
Depreciation & Impairment	(798)	(796)	(295)	(1,889)
Net Book Value at 1 April 2016	43,590	17,759	4,554	65,903

The projected payments under the agreements are as follows:

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

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

32. TERMINATION BENEFITS

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

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

33. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

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

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

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34 below.

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34. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

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

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

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

Transactions relating to post employment benefits

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

Pensions assets and liabilities recognised in the balance sheet

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

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

Reconciliation of present value of the scheme assets:

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

Reconciliation of present value of the scheme liabilities:

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

Scheme assets comprised:

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

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Basis for estimating assets and liabilities

Liabilities for the council and LPFA schemes have been assessed by AON Hewitt Limited and Barnett Waddingham respectively. Both have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on data relating to the latest full valuations as at 31 March 2013 and rolled forward.

The principal assumptions used by the actuaries have been:

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

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

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

Impact on the council's cash flows

The objective of the schemes is to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £1,713 million (£1,747 million 2014/15) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £450 million (£491 million 2014/15). However statutory arrangements for funding the deficit mean that the council remains healthy. The deficit on both schemes will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Governments Pension Scheme may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2015/16 is £35.3 million for the council scheme and £0.3 million for the LPFA

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

35. OTHER LONG-TERM LIABILITIES

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

36. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with the Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

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

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

The main risks covered are:

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

Credit risk - investments

The council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A, the UK government, other local authorities. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and limits are also set on the amounts that can be invested in specific sectors. No more than 50% in total can be invested for a period longer than one year.

The Council's exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest repayments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is extremely rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

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

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

Credit risk - receivables

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

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

Liquidity risk

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

The maturity analysis of principal sums borrowed is as follows:

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

Market risk

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

All council borrowing outstanding at 31 March 2016 are from the Public Works Loans Board (PWLB). The debt is at fixed rates, with an average maturity of 21 years and a modified duration of 14 years. The council may draw loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £90 million and a 1% fall would raise it by £114 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such changes, unless the debt was extinguished. Legislation would then require a charge to be taken to the Financial Instruments Adjustment Account.

The overall average life of council investments is 0.5 years and the modified duration is 0.4. Within that, the available-for-sale investments have an average life of 0.6 years and a modified duration of 0.6. A 1% change in discount rates on available-for-sale investments at Balance Sheet date would change the fair value by £0.6 million and would be reflected in the Balance Sheet in the available-for-sale reserve. There would be no impact on the comprehensive income and expenditure statement, unless the investments were realised. A 1% change in discount rates on loans and receivable investments at the Balance Sheet date would change the fair value by £0.1 million, but as these are held at amortised cost there would be no impact on the comprehensive income and expenditure statement unless the investments were extinguished.

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

SOUTHWARK COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2015/16

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT

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

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

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

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

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

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

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

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

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

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

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

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

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

The vacant possession value of dwellings as at 1 April 2016 was £12.4 billion (£11.2 billion as at 1 April 2015). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

3. DEPRECIATION AND REVALUATION CHARGES

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

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

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

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

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

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

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

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

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

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

6. HRA BALANCE

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

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

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

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

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

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

7. MAJOR REPAIRS RESERVE

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

8. CAPITAL EXPENDITURE AND FINANCING

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

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

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

10. HOUSING TENANTS ACCOUNTS

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

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

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

11. IMPAIRMENT OF DEBTORS

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

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

12. PENSIONS COSTS

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

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

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

13. WATER CHARGES

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

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

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

COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT

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

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

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

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

In 2015/16 the estimated income required from the Collection Fund for all preceptors was £105.9m (£102.1 million in 2014/15). The amount of council tax for a band D property (£1,207.14 in 2015/16 and £1,211.14 in 2014/15) is multiplied by the "ratio" specified for the particular band to give the council tax due from properties in other bands. The table below shows how the council tax base was set and the resulting band D council tax.

Band	Estimated number of properties after discounts		Ratio	Equivalent number of Band D properties	
	2015/16	2014/15		2015/16	2014/15
A	6,482.00	6,353.25	6/9	4,235.63	4,234.92
B	22,617.75	21,533.00	7/9	17,591.58	16,747.89
C	23,840.00	23,003.25	8/9	21,191.11	20,447.33
D	17,275.00	16,533.50	1	17,275.00	16,533.50
E	12,390.50	11,807.25	11/9	15,143.94	14,431.08
F	5,309.25	5,295.25	13/9	7,668.92	7,648.69
G	3,817.50	3,768.75	15/9	6,362.50	6,281.25
H	557.75	536.25	18/9	1,115.50	1,072.50
Total	92,289.75	88,830.50		90,674.18	87,397.16
Less adjustment for collection rate				(2,946.91)	(3,058.90)
Council Tax Base for year				87,727.28	84,338.26
Estimated Income Required from Collection Fund				£105,899,109	£102,145,440
Band D Council Tax				£1,207.14	£1,211.14

2. NATIONAL NON DOMESTIC RATES

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

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

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

3. BUSINESS RATE SUPPLEMENT

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

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

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

As a billing authority, the council is required to make an estimate of the surplus or deficit on the Collection Fund for the year, by the 15 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing the council tax if there is a surplus or increasing the council tax if there is a deficit. In January 2015, the council estimated an accumulated collection fund surplus balance of £1.845m for 2014/15 as follows:

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

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

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

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

5. PROVISION FOR BUSINESS RATES APPEALS

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

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

PENSION FUND ACCOUNTS

FUND ACCOUNT

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

NET ASSETS STATEMENT

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

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

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

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

The following description of the fund is a summary only. For more detail, reference should be made to the Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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

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

b) Membership

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

Organisations participating in the Fund include:

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

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2013. Currently, employer rates range from 7.2% to 27.6% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

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

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

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

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

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

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

b) Transfers to and from other schemes

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

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

c) Investment income

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

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

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

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

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

d) *Fund account – benefits payable*

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

e) *Fund account – taxation*

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

f) *Management Expenses*

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

Administrative expenses

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

Oversight and Governance costs

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

Investment management expenses

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

g) *Financial assets*

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

- Equity investments, unit trusts and unitised insurance policies at their market bid price on 31 March each year.
- Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.
- End of year balances on foreign currency transactions have been translated at the exchange rate on 31 March each year.
- Property assets have been included in the accounts at market value as at 31 March each year. The valuation of direct property managed by Henderson Global Investors is carried out each year by an independent valuer.
- Investment assets have been valued and included in the accounts at bid price, except for direct property (freehold and leasehold) which have been valued at market value and derivative contracts which are valued on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

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h) Derivatives

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

i) Cash and cash equivalents

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

j) Financial liabilities

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

k) Actuarial Present Value of Promised Retirement Benefits

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

l) Additional voluntary contributions

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to underlying assumptions.

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

The Statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This applies particularly to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied. The actuarial position is set out in Note 16.

6. CONTRIBUTIONS RECEIVABLE

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

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

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Contributions receivable from employers are shown below:

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

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

7. BENEFITS PAYABLE

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

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

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

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

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

9. MANAGEMENT EXPENSES

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

There are no performance related fees.

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10. INVESTMENT INCOME

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

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

11. INVESTMENT ASSETS

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

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

Reconciliation of movements in investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

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

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

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

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

The Statement of Investment Principles can be found in appendix 6 of the pension fund annual report. This can be accessed on the council's website via the following link https://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark Council, Finance and Governance, PO Box 64529, London SE1P 5LX.

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

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

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

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

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

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

12. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

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

The current liabilities of the fund are analysed as follows:

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

13. RELATED PARTY TRANSACTIONS

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

Through its administration of the Fund, the council has a related party interest with the Pension Fund, and the costs charged by the council are disclosed in Note 28.

Management of the Pension Fund is the responsibility of the council's strategic director of finance and governance. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 9. The Strategic Director of Finance and Governance remuneration is disclosed in Note 24 of the council's Statement of Accounts.

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

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14. FINANCIAL INSTRUMENTS

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

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

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

- Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. They comprise property unit trusts.
- Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data

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

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

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

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15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

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

Responsibility for the funds risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

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

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

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

Price Risk

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

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

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

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased in line. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

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

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

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

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

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

Interest Rate Risk

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

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

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

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

The fund's currency risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 10 per cent strengthening or weakening of the pound against foreign currencies.

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

Credit Risk

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity Risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However this trend has begun to change. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the Global Custodian and holds cash relating to investment activities, the other is the Pension Fund Bank Account which holds the cash relating to member activities.

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

16. ACTUARIAL POSITION OF THE FUND

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

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

Actuarial Position

The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £994.7M) covering 83% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.

The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:

- 13.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date; *plus*

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- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2014, amounting to £12.4m in 2014/15, and increasing by 3.9% p.a. thereafter.

In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

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

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

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

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

Actuarial Present Value of Promised Retirement Benefits

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2013.

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

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GLOSSARY

ACCOUNTING STANDARDS

These are the 'proper accounting practices' that the council must follow. They comprise laws and regulations, which are set out in Acts of Parliament and in codes of practice recommended by professional bodies.

ACCRUAL

An accounting principle where income and expenditure is recognised as it is earned or spent rather than when money is received or paid. This concept is reflected in the accounts by the inclusion of debtors and creditors.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have changed.

ASSET

An item having value to the council in monetary terms. Assets are categorised as either current or non current:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the council and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

BALANCES (OR RESERVES)

These represent accumulated funds available to the council. Some balances (reserves) may be earmarked for specific purposes for funding future initiatives or meeting identified risks or liabilities. There are a number of unusable reserves which are established for technical purposes, it is not possible to utilise these to provide services.

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

Income received from the sale of land, buildings and other capital assets. These can be used to finance new capital expenditure within rules and limits set by the government, but they cannot be used to finance day to day spending.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

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

COLLECTION FUND

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

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's accounts.

CONTINGENT LIABILITY

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

COUNCIL TAX

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

CREDITORS

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

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CURRENT SERVICE COST

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

DEBTORS

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

DEFERRED CAPITAL RECEIPTS

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

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to the employee service in the current and prior periods.

DEPRECIATION

A measure of the cost of the economic benefits of the tangible non-current assets consumed during the period.

FINANCE LEASES

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

GENERAL FUND

This is the main revenue account of the council and includes the net cost of all services (except council housing) financed by local tax payers and government grants.

HOUSING REVENUE ACCOUNT (HRA)

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

IMPAIRMENT

A reduction in the value of a non current asset, greater than normal depreciation, through economic consumption or through a fall in price.

INFRASTRUCTURE ASSETS

A classification of non current assets, whose life is of indefinite length and which are not usually capable of being sold, e.g. highways, street lighting and footpaths.

INTANGIBLE ASSETS

Non-financial assets that do not have physical substance but are identifiable and are controlled by the council, for example, purchased software licences, patents and trademarks.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year and set aside as provision for credit liabilities, as required by the Local Government Act 2003.

NATIONAL NON DOMESTIC RATES (NNDR)

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the Government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the council on behalf of itself, the greater London Authority (GLA) and Central Government.

NET BOOK VALUE

The amount at which non-current assets are include in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

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NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON DISTRIBUTED COSTS

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

NON OPERATIONAL ASSETS

Non current assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATING LEASES

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

OPERATIONAL ASSETS

Non current assets held, occupied, used or consumed by the council in the direct delivery of its services.

PRIVATE FINANCE INITIATIVE (PFI)

A Government initiative that enables authorities to carry out capital projects through partnership with the private sector.

PRECEPT

These are demands made upon the Collection Fund, by the Greater London Authority (GLA), for monies which it requires to finance the services it provides.

PROVISIONS

Amounts set aside for liabilities and losses which are likely to occur but where the exact amount or timing is uncertain.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure that is not related to the council's non current assets but statutory regulations allow the cost to be funded from capital resources. The expenditure is recorded in the Comprehensive Income and Expenditure Statement as it arises.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made.

REVENUE EXPENDITURE

Day to day payments on the running of council services such as salaries and wages, operating costs and charges for the use of assets.

REVENUE SUPPORT GRANT (RSG)

A grant paid by central government in aid of local authority services in general as opposed to specific grants that may only be used for specific purposes.