

Audit, Governance and Standards Committee

Wednesday 13 September 2017

6.00 pm

Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1
2QH

Supplemental Agenda No. 2

List of Contents

Item No.	Title	Page No.
12.	Audit Findings Report 2016/17 (including Pension Fund Audit Findings) and Statement of Accounts Revised Appendix F – dated 12 September 2017	1 - 87

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

Webpage: www.southwark.gov.uk

Date: 12 September 2017

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17



STATEMENT OF ACCOUNTS

2016/17

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

TABLE OF CONTENTS

Narrative Report	1
Independent Auditor's Report to the Members of Southwark Council	8
Statement of Responsibilities	10
Expenditure and Funding Analysis	11
Comprehensive Income and Expenditure Statement	12
Movement in Reserves Statement	13
Balance Sheet	15
Cash Flow Statement	16
Notes to the Accounts	17
Housing Revenue Account	72
Collection Fund	79
Glossary	82

NARRATIVE REPORT

From the Strategic Director of Finance and Governance, Duncan Whitfield

Introduction

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

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

An Introduction to Southwark

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

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

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

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

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

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

Council Performance

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

In 2010, the council set out a plan which committed to deliver ten promises. Updated with ten new promises in 2014 these include among others: free swim and gym use for residents, supporting 5,000 local people into jobs, building new homes and revitalising neighbourhoods by transforming Elephant and Castle and the Aylesbury Estate, and making the borough age friendly so people from all ages get the best from living in Southwark.

The council's annual performance report 2016/17 can be found here:

<http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?IId=50013460&PlanId=452>

Financial Performance

The budget strategy is underpinned by the principles set out in the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan 2017-18 to 2019-20 agreed by cabinet on 20 September 2016.

<http://moderngov.southwark.gov.uk/documents/s63814/Appendix%20A%20Updated%20Fairer%20Future%20Medium%20Term%20Financial%20Strategy%20and%20Integrated%20Efficiency%20Plan.pdf>

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

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

<http://moderngov.southwark.gov.uk/ieListMeetings.aspx?Committeed=302>

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

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

Housing Revenue Account (HRA) Outturn 2016-17

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

<http://moderngov.southwark.gov.uk/ieListMeetings.aspx?Committeed=302>

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Capital

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

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

Balance Sheet

Reserves

In line with the Medium Term Financial Strategy (MTFS), the council has maintained appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made, and to provide resources to enable services to transform over time. In 2016-17 the level of earmarked reserves reduced reflecting planned use of reserves to support the budget and unplanned use to balance the budget resulting in the main cost pressures from within Children's and Adults Services.

Overall, there has been a reduction of £2.258m in HRA reserves as resources have been used to fund planned investment, for example the use of the Major Repairs Reserve to help fund the Housing Investment Programme.

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Borrowing and Lending

The council borrows money to support its capital financing requirement. The borrowing outstanding as at 31 March 2017 is £463m (£468m as at 31 March 2016). All loans are from the Public Works Loans Board (PWLB, a body operating within the UK Debt Management Office, an Executive Agency of HM Treasury) at fixed rates. The average rate of interest payable is 5.5% at 31 March 2017 (5.5% at 31 March 2016).

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

<http://modern.gov.southwark.gov.uk/ieListMeetings.aspx?Committeed=132>

Pensions

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

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

Principal Risks and Uncertainties

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Explanation of Accounting Statements

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2015. These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.

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

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

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

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

Supplementary financial statements are:

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

EARMARKED RESERVES

Appendix 1

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the financial statements of Southwark Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

As explained more fully in the Statement of Responsibilities, the Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

30 Finsbury Square
London
EC2Y 2YU

13th September 2017

STATEMENT OF RESPONSIBILITIES

The Council's responsibilities

The Council is required to:

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

The Strategic Director of Finance and Governance responsibilities

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

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

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

The Strategic Director of Finance and Governance has also:

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

I certify that the Statement of Accounts presents a true and fair view of the financial position of Southwark Council as at 31 March 2017 and its income and expenditure for the financial year ended 31 March 2017.

Duncan Whitfield
Strategic Director of Finance and Governance
13 September 2017

Council approval

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Note 1a. EXPENDITURE AND FUNDING ANALYSIS

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

MOVEMENT IN RESERVES STATEMENT

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

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

MOVEMENT IN RESERVES 2016/17

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

MOVEMENT IN RESERVES 2015/16

	General Fund Balance	Earmarked General Fund Reserves	School Balances and DSG reserve	HRA Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the council
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2015	18,125	91,351	32,719	25,945	39,541	42,790	2,312	252,783	2,819,649	3,072,432
Movement in reserves during the year										
Surplus/(deficit) on the provision of services	26,388	-	-	64,892	-	-	-	91,280	-	91,280
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	566,719	566,719
Total Comprehensive Income and Expenditure	26,388	-	-	64,892	-	-	-	91,280	566,719	657,999
Adjustments between accounting basis & funding basis under regulations	(48,230)	-	-	(74,224)	(35,964)	7,960	(2,312)	(152,770)	152,770	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(21,842)	-	-	(9,332)	(35,964)	7,960	(2,312)	(61,490)	719,489	657,999
Transfers to/(from) earmarked reserves	22,520	(18,351)	(4,169)	-	-	-	-	-	-	-
Increase/(Decrease) in Year	678	(18,351)	(4,169)	(9,332)	(35,964)	7,960	(2,312)	(61,490)	719,489	657,999
Balance as at 31 March 2016	18,803	73,000	28,550	16,613	3,577	50,750	-	191,293	3,539,138	3,730,431

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

BALANCE SHEET

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

CASH FLOW STATEMENT

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

NOTES TO THE ACCOUNTS

1b. ACCOUNTING POLICIES

i. GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice (SeRCOP) for Local Authorities 2016/17, supported by International Financial Reporting Standards (IFRS).

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

ii. ACCRUALS OF INCOME AND EXPENDITURE

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

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

iii. ADJUSTMENT BETWEEN ACCOUNTING BASIS AND FUNDING BASIS

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant and Equipment	Depreciation and revaluation/ impairment losses	Revenue provision to cover historical cost determined in accordance with 2003 Regulations	Capital Adjustment Account
Intangible Assets	Amortisation and impairment		
Investment Properties	Movement in fair value		
Revenue Expenditure Funded from Capital under statute	Expenditure incurred in year		
Capital Grants and Contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital Grants unapplied reserve (unapplied at 31 March) Capital Adjustment Account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (carrying amount) Capital Receipts Reserve (sale proceeds & cost of disposal) Deferred capital Receipts Reserve (where sale proceeds not yet received)
Financial Instruments	Premiums payable & discounts receivable on early repayment of borrowing in 2016/17 Losses on soft loans and interest receivable on an amortised cost basis	Deferred debits/credits of premiums/discounts from earlier years Interest due to be received on soft loans	Financial Instruments Adjustment Account
Pension Costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions Reserve
Council Tax	Accrued income from 2016/17 bills	Demand on the Collection Fund for the year plus estimated surplus/ deficit from previous year	Collection Fund Adjustment Account
Business Rates	Accrued income from 2016/17 bills	Budgeted income receivable from the Collection Fund for the year plus estimated surplus/ deficit from previous year	Collection Fund Adjustment Account
Holiday Pay	Projected cost of untaken leave entitlements at 31 March	No charge	Accumulated absence adjustment account

iv. BUSINESS IMPROVEMENT DISTRICTS

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

v. *EMPLOYEE BENEFITS*

Employee Benefits - Termination benefits

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

Post-employment Benefits

Employees of the council can be members of one of three separate pension schemes:

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

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

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

Employment Benefits - The Local Government Pension Scheme

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

The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures on Note 35 to the Accounts set out the discount rates and assumptions applied by each fund.

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

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

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

- Service cost comprising
 - current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Finance and Governance.
 - net interest on the net defined benefit liability (asset) - charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

Discretionary Benefits

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

vi. EVENTS AFTER THE REPORTING PERIOD

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

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

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

vii. FAIR VALUE

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

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

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

viii. FINANCIAL INSTRUMENTS

Financial Liabilities

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available for sale assets

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

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

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

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

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

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

ix. *GOVERNMENT GRANTS AND CONTRIBUTIONS*

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

x. *INVESTMENT PROPERTY*

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

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

xi. *LEASES*

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

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

The council as Lessee – Finance leases

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

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

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

The council as Lessee - Operating Leases

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

The council as lessor – operating leases

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

xii. OVERHEADS AND SUPPORT SERVICES

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

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

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

xiii. PRIVATE FINANCE INITIATIVE AND SIMILAR CONTRACTS

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

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

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

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

xiv. PROPERTY PLANT AND EQUIPMENT

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

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

- HRA Dwellings are revalued on an annual basis using the Beacon method
High value assets, assets held for sale and investment properties are valued on an annual basis
- All other fair value assets are valued at least once every 5 years as part of a rolling cycle
- Individual assets or classes of assets may be revalued outside the 5 year cycle, for reasons of significant capital expenditure incurred, physical impairment, or material changes in the value of assets in a sector.

The effective date of annual revaluations for HRA Dwellings, assets held for sale and investment properties is 31st March, all other rolling cycle of revaluations has a 31st December effective date of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.

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

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

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

Impairment

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

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

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

Sites under development

Where the council is holding land for the purpose of constructing dwellings the land is held in Surplus Assets until the construction work commences. Once construction work commences and is anticipated to last longer than 12 months,

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Depreciation

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

Depreciation is calculated on the following bases:

- Council dwellings, 15-40 years
- Other operational buildings, 10-60 years
- Surplus assets, 9-40 years
- Vehicles, furniture & IT hardware, 5-8 years
- Plant, fittings & play equipment, 7-15 years
- Infrastructure assets, 5 - 50 years
- Community assets, 100 years
- Intangible assets, 3 years.

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

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

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

Disposals and non-current assets held for sale

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

xv. *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS*

Provisions

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

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

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

Contingent Liability

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

Contingent Assets

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

xvi. *RESERVES*

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

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

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

xvii. *SCHOOLS*

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

xviii. *VAT*

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Customs. VAT receivable is excluded from income.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Accounting for schools non-current assets

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

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

The assets of voluntary aided schools are deemed not to be assets of the council. Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd for operating the schools and reimbursement of the capital expense incurred, the council does not have an interest in the assets. Further details of the financial arrangements for the schools PFI contracts, and the obligations outstanding, can be found in Note 32.

Integrated waste management facility

The integrated waste management facility at the Old Kent Road became operational in February 2012. This is a facility constructed by Veolia Environmental Services under a 25 year PFI contract for the collection and disposal of waste in the borough. The scheme has been evaluated in accordance with IFRS accounting practices, and it is considered that the council has an interest in the asset which should be reflected in the council's Balance Sheet, with a matching liability to make capital repayments as part of the unitary charges. The council has separated Waste PFI contract payments between elements that vary according to availability of the property and another element that varies according to usage or performance of services using estimation techniques in accordance with the code. The property and related liability is measured at the fair value of the asset and the payments allocated between: (a) repayment of liability, (b) finance charge and (c) service element. The council further considers that payments prior to the asset becoming operational reasonably represent the fair value of services. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 32.

Heat and energy supply arrangement

The Heat Supply PFI Arrangement with Veolia Environmental Services became operational in November 2013. It placed piping and associated facilities to deliver heating to council residents. It has been assessed as a service concession in accordance with IFRS accounting practice. Unitary charges are payable until 2033 and allocated as charges for service, interest and principal. Further details of the financial arrangements for the heat and energy supply contract, and the obligations outstanding, can be found in Note 32.

Fair value of PFI liabilities

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

HRA depreciation, impairment & valuation losses

Since 1 April 2012, the HRA has operated on a self-financing basis, with transitional arrangements in place for five years. Following this change, no provision exists at present to reverse out charges made to the HRA for impairment and valuation losses relating to non-dwelling assets. This is a change from previous accounting arrangements and has an impact on HRA usable reserves.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

During the transitional period, where the depreciation charge for dwellings is greater than the Notional Major Repairs Allowance, authorities are permitted to make an adjustment for the difference so that there is no impact on HRA usable reserves. In 2016/17, the council chose this option and made an adjustment of £29.894 million for excess dwellings depreciation over the Notional Major Repairs Allowance.

Review of Minimum Revenue Provision Policy

The council is required to make a minimum revenue provision (MRP) towards the repayment of debt in each financial year. During 2015/16 an MRP review was undertaken by the council which resulted in a revision to the MRP policy which was approved at council Assembly on 20 February 2016. The change in policy resulted in a change in the council's estimation technique for the provision against the borrowing element, supported and unsupported, element of the capital financing requirement. The impact in the 2016/17 financial statements was a revenue provision of £7.544m charged to the CIES under the revised policy.

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

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

The items in the council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Valuation of property, plant and equipment

A full valuation of the council's housing stock using the Beacon method was undertaken as at 31 March.

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

A sensitivity analysis detailing movement in valuations is as follows:

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

Defined benefit pension amounts and disclosures

The council recognises its outstanding liabilities to meet future pension's costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2017 the outstanding liability was assessed at £570.542 million (£450.096 million 2015/16). For two of the pension funds the council contributes to, its own and that of the London Pension Fund

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Authority, the council's outstanding liability is assessed by consulting actuaries to each fund. These assessments require significant estimation, and the estimates and assumptions are set out in detail in Note 35.

Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension's liability of changes in individual assumptions can be measured. A sensitivity analysis to changes in assumptions is provided at note 35.

4. EVENTS AFTER THE BALANCE SHEET DATE

This note considers events that arise after the balance sheet date of 31 March 2017, which concerns conditions that did not exist at that time and are of such materiality that their disclosure is required for the fair presentation of the final statements. The council purchased investment assets, with completion taking place after the balance sheet date. Further details of these purchases can be found at Cabinet Committee on 21 March 2017, item 25.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

5. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

General Fund balance

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

Housing Revenue Account balance

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

Major repairs reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2016/17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	33,292	78,484	-	-	-	(111,779)
Revaluation losses on Property, Plant and Equipment	14,783	62,413	-	-	-	(77,196)
Movements in the fair value of Investment Properties	(1,938)	(656)	-	-	-	2,594
Capital grants and contributions applied	(39,053)	(5,169)	-	-	-	44,223

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Capital grants and contributions applied	(38,300)	(73,939)	-	-	-	112,239
Revenue expenditure funded from capital under statute	9,344	1,871	-	-	-	(11,215)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	8,535	24,402	-	-	-	(32,937)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	(2,689)	(5,163)	-	-	-	7,852
Lease & PFI repayment	(3,952)	(184)	-	-	-	4,136
Repayment of premiums	(244)	(824)	-	-	-	1,068
Capital expenditure charged against the General Fund and HRA balances	(6,782)	(35,763)	-	-	-	42,545
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(2,312)	2,312
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(25,078)	(64,074)	-	89,152	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	326	-	(326)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(75,302)	-	75,302
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	324	1,073	-	(1,397)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	4,581	-	-	(4,581)	-	-
Provision to reduce the capital financing requirement	-	-	-	(2,667)	-	2,667
Adjustments primarily involving the deferred capital receipts reserve:						
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	2,429	-	(2,429)
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(48,919)	48,919	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(84,883)	-	-	84,883

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

2015/16	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(42)	1,001	-	-	-	(959)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	47,630	7,939	-	-	-	(55,569)
Employer's pensions contributions and direct payments to pensioners payable in the year	(35,465)	(4,895)	-	-	-	40,360
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	758	-	-	-	-	(758)
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(5,722)	-	-	-	-	5,722
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(19)	3	-	-	-	16
Total adjustments	(48,230)	(74,224)	(35,964)	7,960	(2,312)	152,770

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

6. USABLE RESERVES

Reserves represent the authority's net worth and show its spending power. Usable reserves result from the authority's activities and can be spent in the future. This note sets out the amounts set aside and posted back to Usable Reserves in 2016/17, they include:

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

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

Modernisation, service and operational improvement reserve

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

Regeneration and development reserve

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

Financial risk and future liabilities reserve

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

7. OTHER OPERATING EXPENDITURE

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

8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

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

9. TAXATION AND NON-SPECIFIC GRANT INCOME

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

2016/17	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value									
Opening balance	3,125,482	875,032	82,092	333,939	11,219	168,196	65,529	4,661,489	73,461
Additions	120,324	51,372	3,934	28,003	546	3,078	23,074	230,331	307
Revaluation increases/(decreases) recognised in the Revaluation Reserve	188,413	81,637	-	-	27	398	-	270,476	12,852
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(75,741)	(17,207)	-	-	-	-	-	(92,947)	(714)
Derecognition – Disposals	(24,100)	-	-	-	-	-	-	(24,100)	-
Derecognition – Other	(15,256)	-	-	-	-	(254)	(7,995)	(23,505)	-
Assets reclassified	21,465	(2,333)	2,202	-	-	9,030	(23,668)	6,696	-
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-	-
Balance as at 31 March 2017	3,340,587	988,501	88,228	361,942	11,792	180,448	56,940	5,028,441	85,906
Depreciation and Impairment									
Opening balance	383	34,935	41,296	79,593	902	2,807	-	159,916	5,531
Depreciation charge	75,724	14,719	5,957	12,352	-	3,027	-	111,779	1,884
Depreciation written out on revaluations recognised in the Revaluation Reserve	(61,222)	(17,426)	-	-	(1)	(2,187)	-	(80,836)	-
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(13,378)	(2,139)	-	-	-	-	-	(15,518)	(1,609)
Derecognition – Disposals	(568)	-	-	-	-	-	-	(568)	-
Derecognition – Other	(1,034)	-	-	-	-	(25)	(112)	(1,172)	-
Other movements in Depreciation and Impairment	-	(147)	-	-	-	-	-	(147)	-
Balance as at 31 March 2017	(95)	29,942	47,253	91,945	901	3,622	(112)	173,454	5,806
Net Book Value at 31 March 2017	3,340,682	958,559	40,975	269,997	10,891	176,826	57,052	4,854,987	80,100

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

2015/16	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	TOTAL PP&E £000	PFI Assets Included in Property, Plant and Equipment £000
Gross Book Value									
Opening balance	2,699,929	780,745	77,490	304,688	10,689	109,795	26,477	4,009,813	70,419
Additions	201,866	23,420	4,602	29,251	530	260	45,544	305,473	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	332,546	51,515	-	-	-	65,175	-	449,236	3,042
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(72,909)	104	-	-	-	-	-	(72,805)	-
Derecognition – Disposals	(20,229)	-	-	-	-	(510)	-	(20,739)	-
Derecognition – Other	(3,873)	(10)	-	-	-	(249)	-	(4,132)	-
Assets reclassified (to)/from Held for Sale	(13,018)	-	-	-	-	-	-	(13,018)	-
Other movements in Cost or Valuation	1,170	19,258	-	-	-	(6,275)	(6,492)	7,661	-
Balance as at 31 March 2016	3,125,482	875,032	82,092	333,939	11,219	168,196	65,529	4,661,489	73,461
Depreciation and Impairment									
Opening balance	213	32,252	35,799	68,746	902	2,562	-	140,474	2,849
Depreciation charge	65,705	12,753	5,497	10,847	-	1,452	-	96,254	1,884
Depreciation written out on revaluations recognised in the Revaluation Reserve	(52,565)	(8,683)	-	-	-	-	-	(61,248)	798
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(12,510)	(1,253)	-	-	-	(112)	-	(13,875)	-
Derecognition – Disposals	(441)	-	-	-	-	(18)	-	(459)	-
Derecognition – Other	(93)	(7)	-	-	-	(19)	-	(119)	-
Other movements in Depreciation and Impairment	74	(127)	-	-	-	(1,058)	-	(1,111)	-
Balance as at 31 March 2016	383	34,935	41,296	79,593	902	2,807	-	159,916	5,531
Net Book Value at 31 March 2016	3,125,099	840,097	40,796	254,346	10,317	165,389	65,529	4,501,573	67,930

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

PP&E (continued)

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

The entire housing stock is valued on an annual basis, with estates under development and other potential impairments reviewed during the year. No impairments have been charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account for the 2016/17

The council's internal valuation service has assessed that significant capital growth in the value of housing stock has taken place during the year. This is attributable to the continued improving London residential market that has been widely reported in the media. A full beacon valuation was undertaken with an effective revaluation date of 31 March 2017. At 31 March 2017, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £95 million. Similar commitments at 31 March 2016 were £253 million. The commitments are as below:

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

The income and expenditure on investment assets was as follows:

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

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

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

Properties held under operating leases

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

12. FINANCIAL INSTRUMENTS

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

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Financial Instruments – Gains and Losses

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

	2016/17				2015/16			
	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	25,185	-	-	25,185	25,521	-	-	25,521
Other Charges	366	-	-	366	330	-	-	330
Total Expenses in Surplus or Deficit on the Provision of Services	25,551	-	-	25,551	25,851	-	-	25,851
Interest Income	-	(131)	(860)	(991)	-	(520)	(1,303)	(1,823)
Less Allocated to Other Funds	-	-	-	-	-	-	-	-
Total Income in Surplus or Deficit on the Provision of Services	-	(131)	(860)	(991)	-	(520)	(1,303)	(1,823)
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure	-	-	(163)	(163)	-	-	164	164
Net Gain/(Loss) for Year	25,551	(131)	(1,023)	24,397	25,851	(520)	(1,139)	24,192

Financial Instruments - Fair values

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

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31st March 2017. Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2017, using the following methods and assumptions:

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Other long-term liabilities include PFI liabilities at a carrying amount of £100 million as at 31/03/2017 (£105 million at 31/03/2016). These liabilities are notional and need not reflect the actual liability carried by the PFI provider. The council considers the carrying amount of PFI liabilities to be a close approximation to their fair value. In arriving at its assessment, the council has considered the following:

- The PFI liability is a division of the unitary payments which are payable over the life of the PFI schemes. At inception, the unitary payments are assessed and separated for the accounting purposes between the service element and financing element, but are not separable contractually. The financing element includes a credit spread over the risk free rate to take account of the uncertainty inherent in these projects over the project lifetime.
- The council has used present value techniques in accordance with accounting standards to confirm its assessment that the carrying amount of PFI liabilities is a close estimate of fair value. As this technique is applied under condition of uncertainty (the unitary payments are for example subject to non-performance risk), it recognises that market participants generally seek compensation (i.e. a risk premium) for bearing the uncertainty inherent in the cash flows.
- In applying the technique and in the interest of consistency, the council ensured that the technique was calibrated to the fair value assessed at initial recognition. The council considered no material changes were needed for example from any:
 - new market developments
 - new information
 - improvements in valuation technique, or
 - market condition changes

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

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

13. DEBTORS

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

14. CASH AND CASH EQUIVALENTS

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

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

15. ASSETS HELD FOR SALE

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

16. CREDITORS

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

17. PROVISIONS

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

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

The amount provided for business rate appeals (council share) has increased from £5.778m at 31 March 2016 to £14.113m at 31 March 2017. The provision is now based on data and trends that more accurately reflect local circumstances.

18. UNUSABLE RESERVES

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Capital Adjustment Account

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

	2016/17		2015/16	
	£000	£000	£000	£000
Balance at 1 April		2,410,004		2,210,565
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(111,777)		(96,254)	
Revaluation Losses on Property Plant & Equipment	(77,196)		(60,086)	
Revenue expenditure funded from capital under statute	(19,119)		(11,215)	
Movements in the market value of Investment Properties	2,594		34,201	
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(61,761)		(32,937)	
		(267,259)		(166,291)
Adjusting amounts written out of the Revaluation Reserve re disposals	28,020		9,918	
Adjusting amounts written out of the Revaluation Reserve re the difference between fair value depreciation and historical cost depreciation	33,976		24,199	
Transfer from deferred debtors	(99)		(323)	
Net written out amount of the cost of non current assets consumed in the year		61,897		33,794
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	71,137		75,302	
Provision to reduce the capital financing requirement	-		7,509	
Use of the Major Repairs Reserve to finance new capital expenditure	46,778		84,883	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	44,223		112,239	
Application of grants to capital financing from the Capital Grants Unapplied Account	-		2,312	
Provision for the financing of capital investment charged against the General Fund and HRA balances	7,546		7,146	

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Financial instruments adjustment account

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

Amongst the transactions on this Account are premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the in the Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31/03/17 includes £18.885 million premiums (£19.951 million at 31/03/16) to be discharged in future.

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

Revaluation reserve

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Pensions Reserve

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

	2016/17	2015/16
	£000	£000
Balance at 1 April	(450,096)	(491,286)
Remeasurements of the net defined benefit liability	(104,976)	56,399
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(52,506)	(55,569)
Employer's pension contributions and direct payments payable to pensioners in the year	37,126	40,360
Balance at 31 March	(570,452)	(450,096)

Deferred Capital Receipts Reserve

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

19. CASH FLOW FROM OPERATING ACTIVITIES

	2016/17	2015/16
	£000	£000
Adjustment to surplus or deficit on the provision of services for non cash movement:		
Depreciation	111,779	96,254
Impairment & downward valuation	74,602	25,885
Increase/(decrease) in impairment for bad debts	(1,061)	1,197
Increase/(decrease) in creditors	18,244	34,965
(Increase)/decrease in debtors	1,822	(10,703)
(Increase)/decrease in inventories	74	(26)
Movement in pension liability	15,380	15,209
Movement in provisions	5,517	456
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	61,761	32,937
Other non-cash items charged to the net surplus or deficit on the provision of services	1,039	253
	289,155	196,427
	2016/17	2015/16
	£000	£000
Adjustment for items included in the net surplus or deficit on the provision of services that		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(106,397)	(89,152)
Capital grants included in "Taxation & non-specific grant income"	(44,223)	(112,239)
Total	(150,620)	(201,391)

The cash flows from operating activities include the following amounts:

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

20. CASH FLOW FROM INVESTING ACTIVITIES

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

21. CASH FLOW FROM FINANCING ACTIVITIES

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

Adjustments for Capital purposes

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

Net change for the pensions adjustments

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

Other differences

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

23. POOLED BUDGETS

Better Care Fund (BCF)

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

	2016/17		2015/16	
	£000	£000	£000	£000
Funding Provided to the Pooled Budget:				
· Council	1,149		1,489	
· CCG	20,679		20,478	
		21,828		21,967
Expenditure met from the pooled budget:				
· Council	15,335		16,218	
· CCG	6,493		5,749	
		21,828		21,967
Net surplus arising on the pooled budget in the year		-		-

Integrated Community Equipment Store (ICES)

Southwark Council and the CCG also operate pooled fund arrangements for an Integrated Community Equipment Service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £1.948m in 2016/17 (£2.088m in 2015/16).

24. MEMBERS' ALLOWANCES

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

25. OFFICERS' REMUNERATION

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

The following table sets out this information for both 2016/17 and 2015/16 and provides a number of notes in support.

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

Notes to the above table:

- Total remuneration reflects actual payments made to the postholders in the financial years and the related pension fund contributions made in respect of the Local Government Pension Scheme (LGPS) during that same year
- Total remuneration figures represent gross pay for the postholder before that individual's personal contributions to the Southwark Pension Fund. They include basic salary plus any contracted additions paid during the financial year. For 2015/16, this includes performance related pay for both 2014/15 and 2015/16. No performance related pay was awarded in 2016/17 as the scheme has been ended.
- The post of Director of Public Health was employed on NHS terms and conditions and was shared equally with the London Borough of Lambeth. The Council's share of the total remuneration, severance and contribution to the pension fund was £43,643, £142,663 and £4,255 respectively for the post in 2016/17.

During 2016/17 the council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown on the following page in bands of £5,000:

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

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

26. EXTERNAL AUDIT COSTS

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

27. DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2016/17 are as follows:

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

28. GRANT INCOME

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

29. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. In identifying potential related party interests for councillors, the register of Members' interests has been viewed, and for chief officers, direct confirmation has been sought and obtained. Related party interests for which transactions exist in 2016/17 were declared by 20 councillors and no chief officers (19 and nil respectively in 2015/16):

- with voluntary bodies or charitable organisations that received funding totalling £1.6 million (£0.5 million in 2015/16)
- with businesses or other organisations that have contracted for goods and services with the council to the value of £1.9 million (£3.0 million in 2015/16).

The Government is a related party for the council, by virtue of the influence it can exert through the level of grant funding it provides. Grants received from government departments during the year and receipts outstanding at 31 March 2017 are set out in Note 28 to the accounts. The Pension Fund is also a related party and the council charged the fund £1.0 million (£0.9 million in 2015/16) for expenses incurred in administering the Pension Fund.

30. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

31. LEASES

The council as Lessee – operating leases

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

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

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

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

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

The council as Lessor – operating leases

The council has industrial and commercial units which it lets out. It also lets out workshops and property for shops, community, and commercial use, including the Surrey Quays Shopping Centre.

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

32. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

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

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

	St Michael's Catholic College £000	St Thomas the Apostle College £000	Sacred Heart Catholic School £000	Integrated Waste Management Facility £000	Heating Supply Arrangement £000	Total £000
Value at 1 April 2015	14,999	19,738	18,941	54,855	4,850	113,383
New liability incurred	-	-	-	137	85	222
Repayments made in year	(163)	(348)	(317)	(3,359)	(175)	(4,362)
Value at 31 March 2016	14,836	19,390	18,624	51,633	4,760	109,243
New liability incurred	-	-	-	307	86	393
Repayments made in year	(242)	(363)	(351)	(3,562)	(186)	(4,704)
Value at 31 March 2017	14,594	19,027	18,273	48,378	4,660	104,932

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

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Total £000
Net Book Value at 1 April 2015	44,388	18,418	4,764	67,570
Additions	-	137	85	222
Depreciation & Impairment	(798)	(796)	(295)	(1,889)
Revaluation	-	-	-	-
Net Book Value at 1 April 2016	43,590	17,759	4,554	65,903
Additions	-	307	-	307
Depreciation & Impairment	805	(909)	(170)	(274)
Revaluations	12,138	-	-	12,138
Net Book Value at 1 April 2017	56,533	17,157	4,384	78,074

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

The projected payments under the agreements are as follows:

	1 year	2-5 years	5-10 years	10-15 years	15-20 years	20+ years	Total
	£000	£000	£000	£000	£000	£000	£000
St Michael's Catholic							
Liability	269	1,485	2,074	4,921	5,747	-	14,496
Interest	1,861	7,042	7,628	5,494	1,756	-	23,781
Service Charges	576	2,445	4,027	4,291	3,808	-	15,147
St Thomas the Apostle							
Liability	419	1,998	3,531	5,534	7,527	-	19,009
Interest	2,010	7,554	8,018	5,816	2,090	-	25,488
Service Charges	305	1,187	1,625	1,887	1,519	-	6,523
Lifecycle Payments	7	386	552	1,076	1,180	-	3,201
Sacred Heart Catholic							
Liability	406	1,895	3,005	5,018	7,924	-	18,248
Interest	1,842	6,927	7,410	5,539	2,451	-	24,169
Service Charges	458	1,886	2,557	2,981	3,997	-	11,879
Lifecycle Payments	35	416	754	775	1,651	-	3,631
Integrated Waste							
Liability	3,306	13,285	15,676	13,378	2,733	-	48,378
Interest	2,496	8,412	7,250	3,628	324	-	22,110
Service Charges	19,392	83,114	113,572	135,293	24,572	-	375,943
Lifecycle Payments	-	2,705	13,611	17,419	3,538	-	37,273
Heat Supply Arrangement							
Liability	109	591	1,225	2,143	592	-	4,660
Interest	570	2,122	2,166	1,249	86	-	6,193
Service Charges	1,169	4,974	6,949	7,862	1,692	-	22,646
Lifecycle Payments	113	377	526	594	128	-	1,738

33. TERMINATION BENEFITS

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

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

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

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 35 below.

35. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the council provides access to a pension scheme. Although these benefits will not actually be payable until employees retire, the council has to make and disclose at the time that employees earn their future entitlement.

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Transactions relating to post employment benefits

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

Pensions assets and liabilities recognised in the balance sheet

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

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

Reconciliation of present value of the scheme assets:

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

Reconciliation of present value of the scheme liabilities:

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

Scheme assets comprised:

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

The principal assumptions used by the actuaries have been:

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17*Impact on the council's cash flows*

The objective of the schemes is to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £2,076 million (£1,713 million 2015/16) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £570 million (£450 million 2015/16). However statutory arrangements for funding the deficit mean that the council remains healthy. The deficit on both schemes will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. The anticipated service cost in 2017/18 is £45.7 million for the council scheme and £0.332 million for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 18.0 years (18.3 years 2015/16) and 13 years for LPFA scheme members (14 years 2015/16).

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

36. OTHER LONG-TERM LIABILITIES

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

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

The main risks covered are:

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

Credit risk - investments

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

	A	AA	AAA	Total
Up to 1 year	18%	11%	51%	80%
1 - 2 years	0%	2%	11%	13%
2 - 5 years	0%	1%	6%	7%
Total investments	18%	14%	68%	100%

Credit risk - receivables

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

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

Liquidity risk

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

The council is exposed to the risk that refinancing of maturing debt may occur at times of unfavourable external borrowing rates. To mitigate this risk the Council has a diversified debt maturity profile limiting the amount of debt required to be refinanced in the course of any one financial year.

The maturity analysis of principal sums borrowed is as follows:

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

Market risk

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

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

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

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

In addition to the numbers shown in the table above, as at 31 March 2017 there were also 637 void properties (676 at 31 March 2016). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.

The vacant possession value of buildings as at 1 April 2017 was £13.3 billion (£12.4 billion as at 1 April 2016). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

3. DEPRECIATION AND REVALUATION CHARGES

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

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

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

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

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

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

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

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

6. HRA BALANCE

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

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

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

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

The Financial Risk reserve, £11.1 million, includes £4.5 million Contingency reserve, broadly representing 1.1% of gross HRA revenue spend and Housing Investment Programme spend. The Reserve also provides £1.3 million to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £2.4 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, and £0.7 million for estate parking. In 2016-17 a new reserve of £2.2 million was established relating to debt equalisation and refinancing.

7. MAJOR REPAIRS RESERVE

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

8. CAPITAL EXPENDITURE AND FINANCING

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

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

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

10. HOUSING TENANTS ACCOUNTS

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

11. IMPAIRMENT OF DEBTORS

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

12. PENSIONS COSTS

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

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

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

13. WATER CHARGES

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

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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 government of council tax and non-domestic rates.

INCOME AND EXPENDITURE ACCOUNT

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

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

In 2016/17 the estimated income required from the Collection Fund for all preceptors was £110.1m (£105.9m in 2015/16). The amount of council tax for a band D property (£1,206.38 in 2016/17 and £1,207.14 in 2015/16) is multiplied by the ratio specified for the particular band to give the council tax due from properties in other bands. The table below shows how the council tax base was set and the resulting band D council tax.

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

2. NON-DOMESTIC RATES

Non-Domestic Rates (NDR) or business rates are collected from local businesses by the council. From 1 April 2013 the Business Rates Retention scheme was introduced. The council keeps 30% of the business rates income, with the remainder being paid to the Greater London Authority (20%) and the Department for Communities and Local Government (DCLG) (50%).

The business rates are based on local rateable values set by the Valuation Office Agency and a multiplier set by the DCLG. The non-domestic rating multiplier for 2016/17 was 49.7p with a lower rate of 48.4p for small businesses (49.3p and 48.0p respectively for 2015/16). Local businesses pay NDR calculated by multiplying their rateable value by the appropriate multiplier and subtracting any relevant reliefs.

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

3. BUSINESS RATE SUPPLEMENT

The Business Rate Supplements (BRS) is collected from local businesses by the council, on behalf of the Greater London Authority. The levy set for 2016/17 was 2p per pound of rateable value (RV) on non-domestic properties with a rateable value of over £55,000. The rate has remained unchanged since its inception in 2010.

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

As a billing authority, the council is required to make an estimate of the surplus or deficit on the Collection Fund for the year, by the 15 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing the council tax if there is a surplus or increasing the council tax if there is a deficit. In January 2016, the council estimated an accumulated collection fund deficit balance of £11.4m for 2015/16 as follows:

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

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

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

Authority	Council Tax		Business Rates		Total
	%	£000	%	£000	£000
Southwark Council	75	(2,404)	30	4,382	1,978
Greater London Authority	25	(776)	20	2,921	2,145
Central Government			50	7,304	7,304
Estimated surplus for 2015/16 redistributed in 2016/17		(3,180)		14,607	11,427

5. PROVISION FOR BUSINESS RATE APPEALS

Historically, the balance on the NDR element of the Collection Fund has always been nil, reflecting the council's agency status in collecting the tax. However, the introduction of the Business Rates Retention scheme passed some risks and rewards to the local authority. This allows the council to retain a share of any growth in NDR income, but also transfers some of the risk of non-collection. Accordingly the council must now provide for potential losses on appeal. The provision as at 31 March 2017 is £40.3m (£19.3m at 31 March 2016).

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

GLOSSARY

ACCOUNTING STANDARDS

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

ACCRUAL

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

ACTUARIAL GAINS AND LOSSES

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

ASSET

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

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

BALANCES (OR RESERVES)

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

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

COLLECTION FUND

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

COMMUNITY ASSETS

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

CONTINGENT ASSET

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

CONTINGENT LIABILITY

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

COUNCIL TAX

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

CREDITORS

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

CURRENT SERVICE COST

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

DEBTORS

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

DEFERRED CAPITAL RECEIPTS

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

DEFINED BENEFIT SHEME

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

DEFINED CONTRIBUTION SCHEME

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

DEPRECIATION

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

FINANCE LEASES

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

GENERAL FUND

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

HOUSING REVENUE ACCOUNT (HRA)

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

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

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

MINIMUM REVENUE PROVISION (MRP)

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

NATIONAL NON DOMESTIC RATES (NNDR)

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

NET BOOK VALUE

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

NET REALISABLE VALUE

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

NON OPERATIONAL ASSETS

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

OPERATING LEASES

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2016/17

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

OPERATIONAL ASSETS

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

PRIVATE FINANCE INITIATIVE (PFI)

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

PRECEPT

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

PROVISIONS

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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

RELATED PARTIES

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

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.
- the parties, or any member of a group of which it is a part, provides key management personnel services to the other, or to the parent of the other, reporting entity.

RELATED PARTY 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.