Open Agenda

Audit, Governance and Standards Committee

Monday 20 September 2021
6.30 pm
Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1 2QH

Supplemental Agenda No. 1

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Contact

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Date: 17 September 2021

Agenda Item 10

Item No. 10 and 11	Classification: Open	Date: 20 September 2021	Meeting Name: Audit, governance and standards committee
Report title:		2020-21 Statement of Accounts including the Pension Fund and Audit findings reports (ISA 260)	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee:

   a) consider the matters raised in Grant Thornton's audit findings report for 2020-21 (appendix A) before approval of the council's main accounts

   b) note the adjustments to the main accounts as set out in page 29 of the audit findings report (appendix A)

   c) approve the council's letter of representation (appendix A page 38)

   d) consider the matters raised in the Pension Fund audit findings report 2020-21 (appendix B) prior to approval of the Pension Fund accounts

   e) note the adjustments to the Pension Fund accounts as set out in page 17 of the audit findings report

   f) approve the Pension Fund letter of representation (appendix B page 23)

   g) approve the Statement of Accounts 2020-21 (appendix C), subject to any final changes required by the conclusion of the audit, being delegated to the strategic director of finance and governance in consultation with the chair of audit, governance and standards committee.

BACKGROUND INFORMATION

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

and needs to consider the auditor's reports before approving the accounts.

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

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

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

6. The principal purposes of the reports are to:
   - reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the audit, governance and standards committee;
   - share information to assist both the auditor and the committee to fulfil their respective responsibilities;
   - provide the committee with recommendations for improvement arising from the audit process.

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

KEY ISSUES FOR CONSIDERATION

Audit opinion

8. The auditor has substantially completed the audit of the financial statements and, subject to outstanding queries being resolved, anticipates issuing unqualified opinions on both the main accounts and the Pension Fund. Due to some sickness challenges in the Grant Thornton audit team, the audit will continue beyond the September deadline with the auditor hopeful of completing their work by the middle of October.

9. The purpose of Grant Thornton's Audit Findings Reports (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. The auditors will provide an update on any outstanding audit items during the presentation of their findings to this committee

10. For 2020-21 there is a revised approach to the Value for Money audit.

The main changes include a new set of key criteria covering financial sustainability, governance and improvements in economy, efficiency and effectiveness. The outcome of the auditor's VFM work will be reported in the auditor's annual report which is expected to be issued in mid January, in line with the National Audit Office's revised deadline.

11. Grant Thornton have commented on the good quality of the pre-audit statement of accounts 2020-21 including the Pension Fund, which the council were able to deliver on 8 July 2021, prior to the deadline of 31 July 2021. The audit has been complicated this year due to the challenges of remote working, "raising the bar" audit standards being elevated with more rigorous sample testing and a "hot review" from Grant Thornton's technical accounting specialists examining all aspects of the accounts (the hot review cycle is every three years). Again this year there has been an excellent working relationship between Grant Thornton and the council contributing to the successful audit.

12. There are currently no areas of dispute between the council and the auditors and no unadjusted misstatements. There will be a further quality assurance review of the accounts by the finance team before Grant Thornton's final review of the financial statements and publication of the Final 2020-21 Statement of Accounts on the council's website.

13. No objections to the draft 2020-21 accounts were received at the end of the public inspection of accounts period on 20 August 2021. All public inspection queries raised were responded to within the deadlines.

14. The 2019-20 objection to the accounts has been thoroughly investigated by the council and information requested by our auditors has been provided in full. Until the objection is completely resolved, the council will not be able to issue a notice of conclusion of the audit.

Letters of representation

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

Community impact statement

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

Resource implications

17. There are no direct resource implications arising from this report.

Consultation

18. Consultation on the accounts is carried out through public inspection. The accounts were open for public inspection from 9 July 2021 until 20 August 2021. The audit findings reports are key documents in assessing the council's progress and plans for the future, such as through the council's policy and resources strategy. The final report will be published on the council's website.

Reasons for lateness

19. The audit of the accounts is ongoing up to the date of receipt of the audit opinion. The audit findings reports were received close to the deadline for the dispatch of the audit, governance and standards committee agenda.

Reasons for urgency

20. The Accounts and Audit Regulations 2015 require the council to approve the accounts by 31 July each year. However, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021[1] revised the statutory deadline from 30 November for 2019-20 to 30 September for 2020-21.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

21. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Statement of accounts files	Finance and Governance, Second Floor, Tooley Street	Jade Cheung 07592 115556

APPENDICES

No.	Title
Appendix A	Grant Thornton - Council Audit Findings Report 2020-21
Appendix B	Grant Thornton - Pension Fund Audit Findings Report 2020-21
Appendix C	Statement of Accounts 2020-21

[1] https://www.slcc.co.uk/the-accounts-and-audit-amendment-regulations-2021/

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance
Report Author	Jade Cheung, Accountant Rob Woollatt, Interim Departmental Finance Manager
Version	Final
Dated	17 September 2021
Key Decision?	No

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Democracy	No	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		17 September 2021

Grant Thornton

The Audit Findings Report for Southwark Council

Year ended 31 March 2021

20 September 2021

Contents

Your key Grant Thornton team members are:

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

[Insert Key Audit Partner Signature]

Name : Ciaran McLaughlin

For Grant Thornton UK LLP

Date :

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was completed on remotely during June to September 2021. Our findings are summarised on pages 5 to 25. To date we have not identified any adjustments to the Council's Comprehensive Income and Expenditure Statement. Some minor audit adjustments have been identified and are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

At this stage our work is still in progress due to some sickness challenges within the audit team which were encountered during the course of the audit, meaning our work will be continuing beyond the end of September. We are hopeful of completing our work by the middle of October to keep any delay to a minimum. At this stage we have not identified any issues which may impact on our proposed audit opinion, subject to the completion of the following outstanding matters;

- completion of our outstanding testing (refer to page 5 for more details)
- receipt of management representation letter {refer to Appendix E}; and
- review of the final set of financial statements.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. Further details are set in Section 3 to this report and a audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by mid January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. No risks of significant weakness have been identified from the work performed to date. Our work in respect of the VFM arrangements is underway and an update is set out in the Value for Money arrangements section of this Report.

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report by January 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

No changes have been made to the approach set out in the Audit Plan issued on 2 June 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 20 September 2021, as detailed in Appendix E. These outstanding items include:

- completion of our outstanding testing in the following areas: Property, Plant and Equipment, Sample Testing of Income, Expenditure, Debtors and Creditors, Journals and Pension Liabilities.
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan on 2 June 2021.

We detail in the table our determination of materiality for Southwark Council.

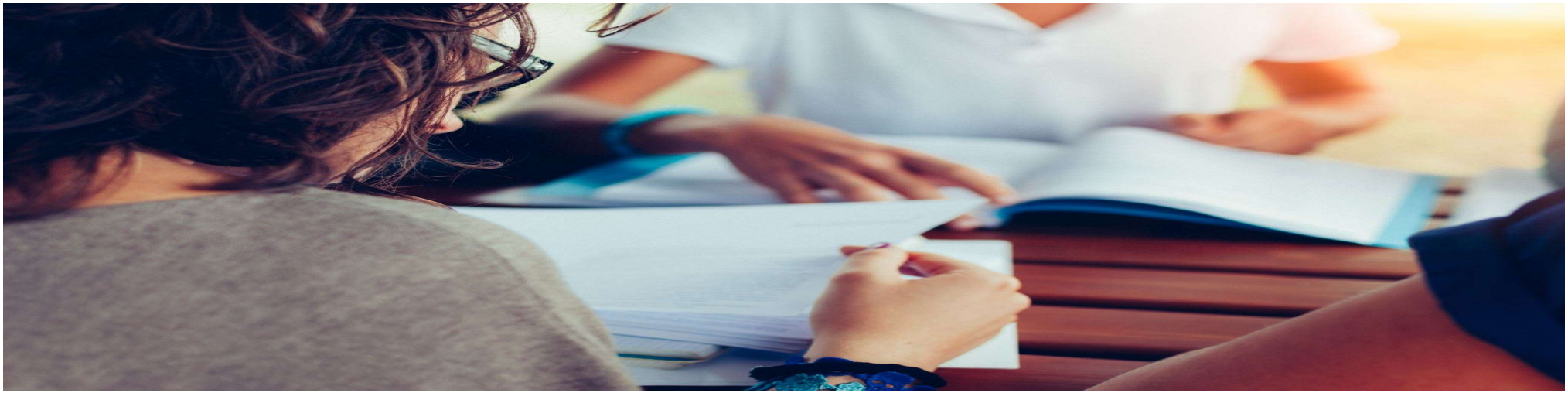
	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18,000,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
Performance materiality	12,600,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	900,000	Triviality is based on a percentage of the overall materiality.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Southwark Council.	During the audit, we have undertaken the following work: • reviewed and tested the Council's revenue recognition policies • performed testing on material revenue streams To date, our cut-off audit work has identified two items of revenue which were omitted from the Accounts despite them relating to the year of account. The total value of these errors was £376k, and both of these errors were above the Council's deminimus for accruing these as Revenue. As a result of these errors we are currently undertaking additional testing in this area to determine the total value of the potential error. We will provide an update to Management and the Audit, Governance and Standards Committee on this area, along with any other issues that are identified from our remaining testing.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets. Having considered the risk factors relevant to the Council, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 7.	During the audit, we have undertaken the following work: • obtained an understanding of the design effectiveness of controls relating to operating expenditure. • performed testing over post-year end transactions to assess completeness of expenditure recognition. • tested a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land and Buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£5.127 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.
Valuation of Investment Properties The Council revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£344 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Pension Fund Net Liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£607 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing, which includes obtaining a response from the auditor of the London Pensions Fund Authority for the element of their Fund held on behalf of the Council.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation • Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	We have continued to discuss the implementation of IFRS 16 with the Council, and there is a clear recognition that the lack of a definitive time frame in this area means it is difficult for the Council to proceed in terms of when the standard will finally be implemented.	No issues identified in respect of this area.
Recognition and Presentation of Grant Income • The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	During the course of the audit we have performed testing on the Grant Income recognised in the Accounts, including where Income has been deferred to a later year. As a result of the Covid-19 Pandemic there has been a considerable increase in the level of funding received by the Council via this route and thus this testing has been more onerous than would have been the case in previous years.	To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Redevelopment of Canada Water • During the course of the year the Council signed an Master Development Agreement with British Land in respect of the Canada Water site to lead a major redevelopment of the area over a number of the years. As part of the agreement, the Council has contributed some land, and has the option at various stages to either invest further into the scheme, or transfer its rights to British Land. The first tranche has started in 2020-21 and thus this is the first year that this transaction has featured within the Accounts.	The Council have included some detailed disclosures in the first draft of the Accounts, and to date we have requested some enhancements to these disclosures to improve the transparency of these disclosures. We are currently working through the accounting for the Scheme and discussing it with our financial reporting team and will provide further feedback to the Council once this is concluded.	Aside from the enhancements to the relevant disclosures in the Accounts, no issues have been identified in respect of the Scheme to date. We will provide a further update to Management and the Audit, Governance and Standards Committee should any further issues be identified from our remaining work.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council Dwelling valuations – £3,548 million	The Council owns 36,918 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was **£3,548 million**, a net increase of **£120 million** from 2019/20 (**£3,428 million**).	• From the work performed in this area to date, we are comfortable with the valuation of the Council Dwellings included within the Accounts. • The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work. • We have reviewed the assumptions applied by the Valuer to the valuation performed, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. This review has also been supported by our Auditor's Expert, who also did not identify any issues from their review. • At this stage the remainder of our work in this area is still in progress. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.	TBC

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £971 million	Other land and buildings comprises **£597 million** of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (**£374 million**) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis. 87% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of **£98 million**. Management have considered the year end value of non-valued properties (**£138 million**), and the potential valuation change in the assets revalued at 31 December 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other Land and Buildings was **£971 million**, a net decrease of **£61 million** from 2019/20 (**£1,032 million**).	From the work performed in this area to date, we are comfortable with the valuation of the Council's Other Land and Buildings included within the Accounts. The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work. We have reviewed the assumptions applied by the Valuer to the valuation performed, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. This review has also been supported by our Auditor's Expert, who also did not identify any issues from their review. At this stage the remainder of our work in this area is still in progress. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.	TBC

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £688 million	The Council's total net pension liability at 31 March 2020 is **£688 million** (PY **£607 million**), comprising the Southwark Council PF Local Government and unfunded defined benefit pension scheme obligations. The Council uses Aon Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a **£47 million** net actuarial gain during 2020/21.	• The Council have used Aon Hewitt as their Actuary for a number of years, and thus we are content with their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2020. • We have reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We made use of PwC, as an Auditor's Expert to obtain assurance over this area. A summary of the work performed can be seen in the table below: • Based on the table above, we are content with the assumptions applied by Aon Hewitt to value the Council's Pension Fund Liability as at the 31st of March 2021, and thus are content with the values included within the Accounts. • Our work in this area is still ongoing – should any issues be identified from our remaining work in this area then we will provide an update to Management and Audit, Governance and Standards Committee as required.	TBC

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.10%	●
Pension increase rate	2.7%	2.60% - 2.70%	●
Salary growth	4.2%	3.60% - 4.2%	●
Life expectancy – Males currently aged 45 / 65	22.8 20.9	45: 22.5 – 24.7 65: 20.9 – 23.0	●
Life expectancy – Females currently aged 45 / 65	25.6 23.7	45: 25.0 – 27.2 65: 23.5 – 25.5	●

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £773 million	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income. As a result of the Covid-19 Pandemic there has been a considerable increase in the level of funding received by the Council via this route and thus this testing has been more onerous than would have been the case in previous years.	• From the testing performed to date, we have identified that the Council has treated all grants included in the Accounts correctly, based on their assessment of whether the Council is the principal or agent in respect of the particular grant. • At this stage the remainder of our work in this area is still in progress. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.	TBC
Minimum Revenue Provision - £10 million	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was **£9.988 million**, a net increase **of £1.0 million** from 2019/20.	• From the testing performed, we can confirm the Council's MRP has been calculated in line with the statutory guidance • We can also confirm that the Council's policy on MRP complies with statutory guidance.	● Light Purple

Assessment

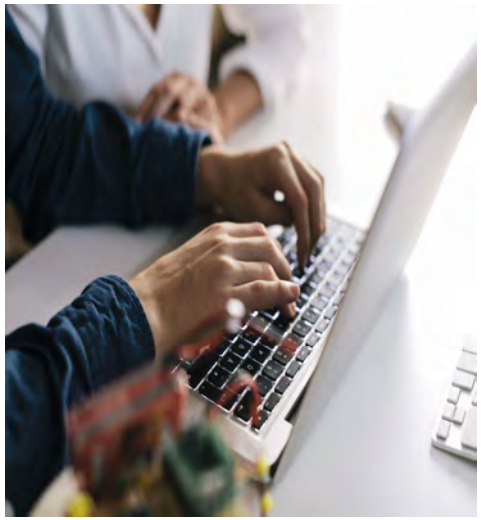
- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended to this Report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
Accounting practices	Our review identified a small number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.
Audit evidence and explanations/ significant difficulties	The Council produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management, for which we commend the Council, particularly given the challenging environment in which these Accounts have been prepared.

2. Financial Statements - other communication requirements

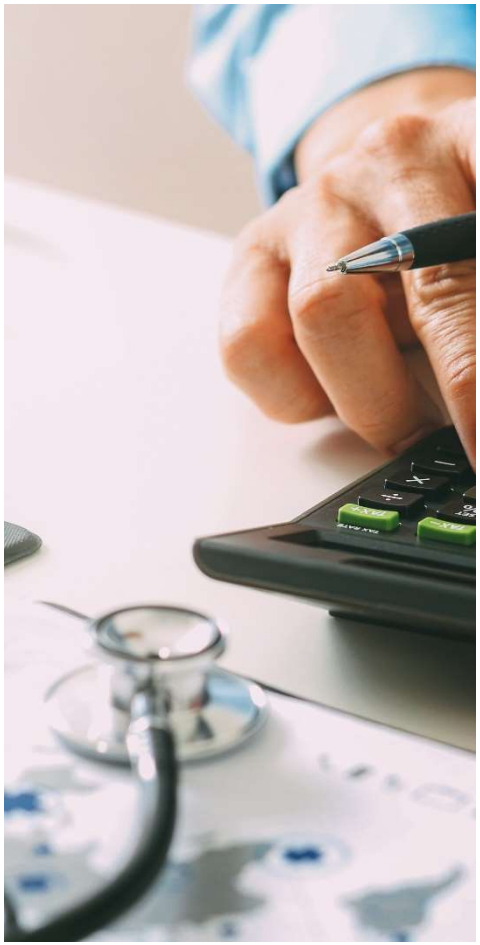
Our responsibility

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

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

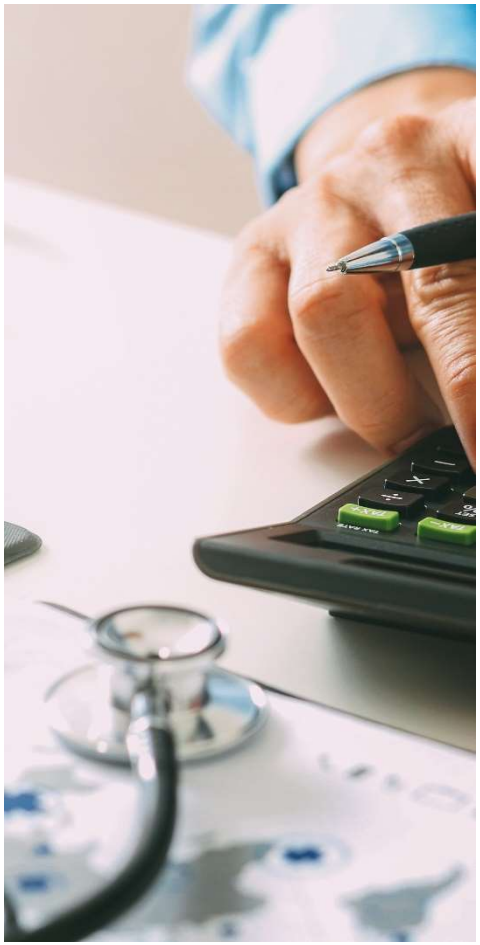
2. Financial Statements - other responsibilities under the Code

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



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the National Audit Office (NAO)) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed as the WGA Pack will not be released by the NAO until December 2021 at the earliest. We will complete this work in a timely manner as soon as the Pack is released.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Southwark Council in the audit report, as detailed in Appendix D, due to the extended timeframe for our work on the Council's Value for Money Arrangements and the Pension Fund Annual Report and the work on the Whole of Government Accounts, as mentioned above.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendices to this report. We expect to issue our Auditor's Annual Report by mid January 2021, which is in line with the National Audit Office's revised deadline of the same date.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date no risks of significant weakness have been identified, but we have identified some areas of focus for our work, which are documented below, along with details of the work performed to date.

Areas of focus	Work performed to date
Delivery of the planned financial performance in 2020-21, along with the future plans of the Council in 2021-22 and beyond	To date we have: - reviewed the Council's outturn position at the end of the 2020-21 Financial Year; and - considered the main drivers for this position.
Managing the continued impact of Covid-19 on the Council's Service Delivery and Governance Arrangements	To date we have: - reviewed the governance arrangements which have been in place since the initial outbreak of Covid-19; - considered how these have evolved over the course of the year; and - started to consider how these will evolve further as part of returning the Council to some degree of normality over the course of the next 12 months.
What arrangements the Council is looking to implement post Pandemic to build on some of the changes which have taken place over the course of the past 18 months	To date we have: - reviewed the Council's forward plans for 2021-22 and beyond - considered some of the wider Policy impacts and what these may mean for the services being delivered by the Council.

4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Pooling of Housing Capital Receipts	7,000	Self-Interest (because this is a recurring fee) Self review (because Grant Thornton UK LLP provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

4. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Audit related (continued)			
Certification of Teachers Pension Return	8,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	32,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £32,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Self-Authorisation of Journals** During our detailed journals testing in 2019/20, we identified two users who had posted and authorised their own journals. We subsequently undertook further testing on the journals posted by these two users, which identified further self-authorised journals by one of the users. Whilst we were content with the sufficiency and appropriateness of the journals selected, this gap in the control environment does increase the potential for inappropriate journals to be posted without this being picked up. We understand the potential challenges over the practicality of implementing a control in this area, but the Council needs to weigh up the risks of what could occur without a control of this type. We recommend that there are appropriate controls in place to prevent the self-authorisation of journals to reduce the risk of inappropriate journals being posted. If journal specific controls cannot be introduced, higher level controls should be considered to provide some assurance in this area.	From the testing performed in 2020-21, we identified one further journal which was self-authorised. This was discussed with Management, who confirmed that this Journal was posted in October 2020, which was before the Policy in this area was tightened on the back of the findings from the work performed in the prior year. The Council should look to ensure that all Journals are subject to appropriate review and approval ahead of being posted.

Assessment

✓ Action completed

X Not yet addressed

A. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**Reporting of in-Year Budget Monitoring** During our Value for Money Work, we have identified the in-year reporting of the Council's Budget Monitoring has been irregular, with no consistent pattern of reports going to Cabinet or other Committees. Whilst there has been clear evidence of things strengthening in this area since the onset of Covid-19, the Council should look to ensure more regular report is maintained once things return to normal to enable issues to be challenged in a timely manner and remedial action to be put in place promptly. We recommended that the Council ensure that there is a clear timetable for reporting in-year financial performance to Cabinet and that this is done with sufficient regularity to allow Members to have a clear handle on the position during the year.	To be updated following the completion of our Value for Money Work.

Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Cash and Cash Equivalents The Council had historically set off its Bank Overdraft against the positive cash balances on the Balance Sheet, which is only permitted by the Code where there is a legal right of offset. Thus the Overdraft has now been moved from a Current Asset to a Current Liability, but this has no impact on the Net Assets of the Council.	n/a – no impact on the CIES	Dr Cash and Cash Equivalents £16,620 Cr Bank Overdraft £16,620	n/a – no impact on total net expenditure, this is purely a presentational change to the Balance Sheet
Overall impact	Nil	Nil	Nil

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B. Audit Adjustments

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

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Note 11 – Adjustments between Funding and Accounting Basis	We identified that the Council has incorrectly transposed the figures relating to Employers Contributions and IAS19 Costs in this Note, which has been subsequently updated in the revised Accounts.	✓
Note 38 – Financial Instruments and Note 40 – Fair Value Assets and Liabilities	A number of enhancements were made to these Notes to increase the transparency of the disclosures relating to the Council's Financial Instruments and Fair Value Disclosures.	✓
Minor Disclosure Issues	A number of other minor disclosure amendments have been processed. None of these are individually significant enough to warrant separate disclosure.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

No unadjusted misstatements have been identified from the 2020-21 Accounts Audit to date.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Overstatement of Housing Benefits Debtors During our testing of the Council's Housing Benefit Debtors included within the Accounts, we identified four cases, with a total value of £5,696, where the Debtor Balance included within the Accounts did not tie back to the Housing Benefit System, when we would have expected it to. We have extrapolated these errors over the population, which indicates that the balance could be overstated by **£1.004 million.**	Dr Expenditure 1,004	Cr Debtors 1,004	An increase of 1,004	2019-20 narrative - This is an extrapolated error and not reflective of the full population. We are liaising with Northgate, our Housing Benefit System Supplier, to understand these issues and identify other cases affected in this way. There is no known system solution fix or any Northgate means to isolate affected cases. *2020-21 Update – we are still undertaking our testing in this area and will confirm whether a similar issue has been identified as part of this year's work.*
Overall impact	£1,004	£1,004	£1,004	

C. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	£257,718	TBC
Total audit fees (excluding VAT)	£257,718	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Pooling of Housing Capital Receipts	7,000	TBC
Certification of Teachers Pension Return	8,000	TBC
Certification of Housing Benefit Claim	32,000	TBC
Non-Audit Services		
CFO Insights subscription	10,000	TBC
Total non-audit fees (excluding VAT)	£57,000	TBC

D. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Southwark Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2021, which 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 Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance and Governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Strategic Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Strategic Director of Finance and Governance with respect to going concern are described in the 'Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements' section of this report.

D. Audit opinion

Our audit opinion is included below.

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

Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

• we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority 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 authority, that officer is the Strategic Director of Finance and Governance. 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

D. Audit opinion

Our audit opinion is included below.

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

accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planed and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

• In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and data protection.

• We enquired of senior officers and the Audit, Governance and Standards Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Audit, Governance and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

D. Audit opinion

Our audit opinion is included below.

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

- Journal entries posted which met a range of criteria determined during the course of the audit

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Strategic Director of Finance and Governance has in place to prevent and detect fraud;

- journal entry testing, with a focus on those journals we have determined to be most risky based on our risk scoring;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does

D. Audit opinion

Our audit opinion is included below.

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

not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Southwark Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our 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.

Signature:

Ciaran McLaughlin, Key Audit Partner

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

London

xx October 2021

E. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

xx October 2021

Dear Sirs

Southwark Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Southwark Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

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

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

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

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

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

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

E. Management Letter of Representation

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

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

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

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

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

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

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

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

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

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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

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

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

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

a. management;

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

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

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

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

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

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

E. Management Letter of Representation

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 20 September 2021

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Signed on behalf of the Council

F. Audit letter in respect of delayed VFM work

Our ref:

Your ref:

Chair of Audit, Governance and Standards Committee

Southwark Council

160 Tooley Street

London

SE1 2QH

24 September 2021

Dear Chair of Audit, Governance and Standards Committee

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than the end of December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Ciaran McLaughlin

Key Audit Partner

Grant Thornton

grantthornton.co.uk

Grant Thornton

The Audit Findings Report for the London Borough of Southwark Pension Fund

Year ended 31 March 2021

20 September 2021

Contents

Your key Grant Thornton team members are:

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

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed remotely during June to September 2021. Our findings are summarised on pages 4 to 13. To date we have not identified any adjustments to the Pension Fund's reported financial position. We have identified some minor presentational issues which are documented in Appendix B. Our follow up of the recommendation from the prior year's audit is detailed in Appendix A. At this stage our work is still in progress due to some sickness challenges which were encountered during the course of the audit, meaning our work will be continuing beyond the end of September. We are hopeful of completing our work by the middle of October to keep any delay to a minimum. To date we have not identified any issues which may impact on our proposed audit opinion, subject to the completion of the following outstanding matters; there are no matters of which we are aware that would require modification of our audit opinion [Refer to Appendix D] or material changes to the financial statements, subject to the following outstanding matters; • completion of our outstanding testing – refer to Page 4 for more details • receipt of management representation letter {Refer to Appendix E}; and • receipt and review of the Annual Report • review of the final set of financial statements We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. During the course of our work we identified that the Fund reported itself to the Pensions Regulator in April 2021 due to a delay in being able to process the Annual Pensions Uplift within the Pensions Payroll System. This error was subsequently corrected by the Fund in July 2021, and all pensioners received their arrears in the following month. No action was taken by the Pensions Regulator in respect of this issue, and this will not impact on our audit report in any way. Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

No changes have been made to the approach set out in the Audit Plan issued on 2 June 2021.

Conclusion

At this stage our work is still in progress due to some sickness challenges which were encountered during the course of the audit, meaning our work will be continuing beyond the end of September. We are hopeful of completing our work by the middle of October to keep any delay to a minimum. These outstanding items include:

- completion of our outstanding testing in the following areas: Investments, Contributions, Benefits Payable, Financial Instruments.
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Financial Statements

Our approach to materiality

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

We have revised the performance materiality due to the Net Assets of the Fund changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for the London Borough of Southwark Pension Fund.

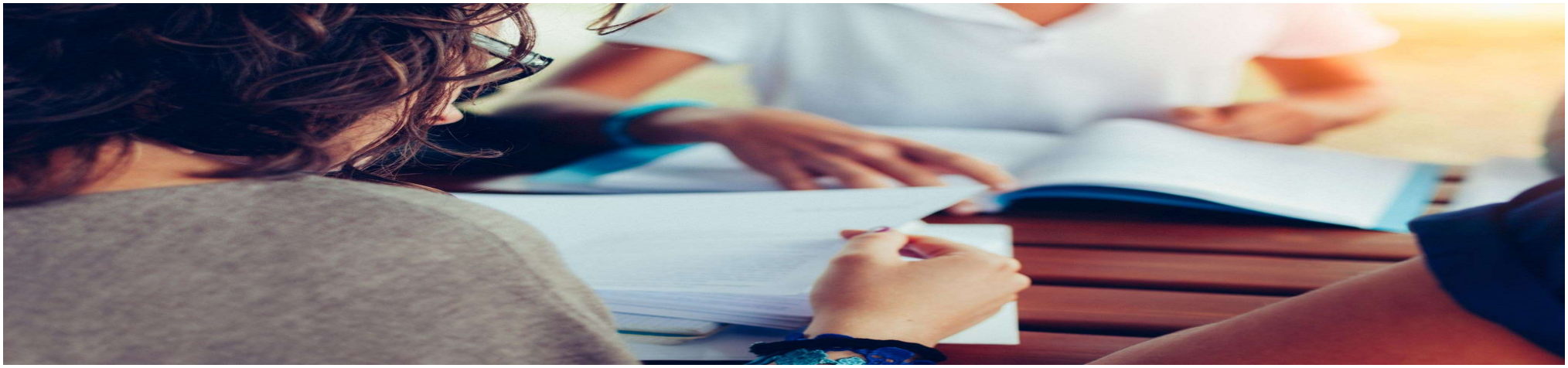
	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	19,000,000	Our Headline Materiality is based on the Net Assets of the Fund. Due to the considerable increase in the value from the prior year, we have revised this figure upwards ahead of the Final Accounts Audit.
Performance materiality	14,250,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	950,000	Triviality is based on a percentage of the overall materiality.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the London Borough of Southwark Pension Fund.	During the audit, we have undertaken the following work: • reviewed and tested the Fund's revenue recognition policies • performed testing on material revenue streams To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets. Having considered the risk factors relevant to the Pension Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 6.	During the audit, we have undertaken the following work: • obtain an understanding of the design effectiveness of controls relating to operating expenditure. • perform testing over post-year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The valuation of Direct Property is incorrect (Level 3) The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£255 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and custodian, and assessed their responses as part of our work. • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records • where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls. To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Audit, Governance and Standards Committee should any issues be identified from our remaining testing.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – Direct Property - £255m	The Pension Fund has investments in Direct Property that in total are valued on the Net Asset Statement as at 31 March 2021 at £255 million. These properties are valued by a RICS Qualified Valuer as at 31 March 2021. The Valuer is employed by the Fund Manager on behalf of the Fund to provide valuations in line with the CIPFA Code of Practice guidance in this area.	At the current date our work in this area is ongoing, which includes our Auditor's Expert reviewing the work of the Valuer to help provide us with assurance over the assumptions and judgements made in respect of these valuations as at 31 March 2020.	TBC
Level 3 investments (excluding Direct Property)	The Pension Fund has investments in Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2021 at £41 million. These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2020, with the valuation then rolled forward to March 2021, considering any cash movements which have taken place in the intervening period.	Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts. We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. To date, no issues have been identified from the work performed in this area.	● Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £329m	The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2021 at **£329 million**. Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2021, or the closest trade date to year end. The valuation of these investments has decreased by **£45 million** from their value at 31 March 2020 (**£284 million**).	• Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts. • We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area.	● Light Purple

Assessment

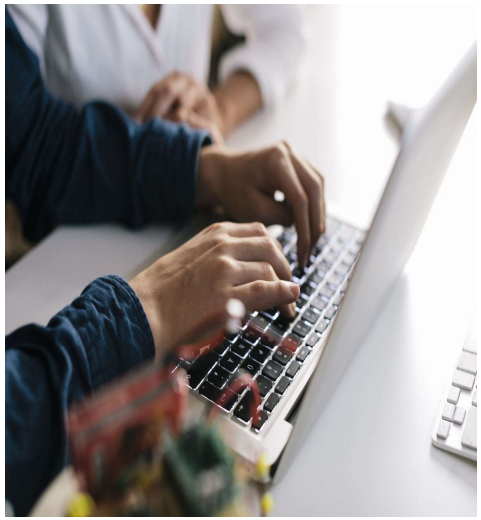
- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	During the course of our work we identified that the Fund reported itself to the Pensions Regulator in April 2021 due to a delay in being able to process the Annual Pensions Uplift within the Pensions Payroll System. This error was subsequently corrected by the Fund in July 2021, and all pensioners received their arrears in the following month. No action was taken by the Pensions Regulator in respect of this issue.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended to this Report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	The Fund produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.
Disclosures	Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

2. Financial Statements - other communication requirements

Our responsibility

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

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

3. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to the current date.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Southwark Pension Fund's 2019/20 financial statements, which resulted in one recommendations being reported in our 2019/20 Audit Findings Report. Our work in respect of this recommendation is still in progress and we will provide an update to Management and the Audit, Governance and Standards Committee once this work is complete.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In Progress	Issues in Member Data In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This then could have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low. The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in. However we continued to find issues of this type in the three years since then, hence why it has been carried forward to 2020/21.	TBC – once our testing in this area is complete.

Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

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

Impact of adjusted and unadjusted misstatements

To date, no adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

Misclassification and disclosure changes

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

Disclosure omission	Impact on the Accounts	Adjusted?
Minor Disclosure Issues	A number of other minor disclosure amendments have been processed. None of these are individually significant enough to warrant separate disclosure.	✓

C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	36,170	TBC
Total audit fees (excluding VAT)	£36,170	TBC

We can confirm no non-audit services have been delivered in respect of the Pension Fund.

The fees reconcile to the financial statements – refer to Note 10 of the Pension Fund Accounts for confirmation of this.

D. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Southwark Council on the pension fund financial statements of the London Borough of Southwark Pension Fund

Opinion

We have audited the financial statements of the London Borough of Southwark Pension Fund (the 'Pension Fund') administered by Southwark Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities,

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance and Governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Strategic Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Strategic Director of Finance and Governance with respect to going concern are described in the 'Responsibilities of the Authority, the Strategic

D. Audit opinion

Our audit opinion is included below.

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

Director of Finance and Governance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority 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 authority, that officer is the Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that

D. Audit opinion

Our audit opinion is included below.

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

the services provided by the Pension Fund will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

• We enquired of senior officers and the Audit, Governance and Standards Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Audit, Governance and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- the journals posted by relevant officers during the course of the year, taking into account a range of different criteria to focus our testing on the most risky journals.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Strategic Director of Finance and Governance has in place to prevent and detect fraud;

- journal entry testing, with a focus on those journals that have been deemed risky via our assessment based on a range of criteria;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments; and

D. Audit opinion

Our audit opinion is included below.

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

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our 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.

[Signature]

Ciaran McLaughlin, Key Audit Partner

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

London

xx October 2021

E. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

xx September 2021

Dear Sirs

London Borough of Southwark Pension Fund

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of the London Borough of Southwark Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Level 3 Investments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

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

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

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

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

E. Management Letter of Representation – Pension Fund

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

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

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

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

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

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

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

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

Information Provided

xiii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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

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

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

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

a. management;

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

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

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

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

xx. We have drawn to your attention all correspondence and notes of meetings with regulators, in particular our correspondence with the Pensions Regulator in respect of the delay in processing the Pensions Uplift on the Pensions Payroll System.

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

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

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

E. Management Letter of Representation – Pension Fund

Approval

The approval of this letter of representation was minuted by the Fund's Audit, Governance and Standards Committee at its meeting on 20 September 2021

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Signed on behalf of the Fund

Grant Thornton

grantthornton.co.uk

STATEMENT OF ACCOUNTS

2020-21

DRAFT VERSION SUBJECT TO AUDIT

Duncan Whitfield CPFA OBE
Strategic Director of Finance and Governance

20 September 2021

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TABLE OF CONTENTS

NARRATIVE REPORT

2020-21

NARRATIVE REPORT

From Duncan Whitfield CPFA OBE
Strategic Director of Finance and Governance

Introduction

The Narrative Report provides information about the borough of Southwark including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2020-21 and of its financial position at 31 March 2021 including:

- An introduction to Southwark
- Covid-19 pandemic
- The council's performance during 2020-21
- Financial performance during 2020-21 and financial position at 31 March 2021
- Principal risks and uncertainties
- An explanation of accounting 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 a significant programme of regeneration in Southwark, with some of Europe's most exciting and complex schemes being delivered, such as Elephant and Castle, Aylesbury, Canada Water, Old Kent Road and London Bridge Quarter, home of the Shard, bringing thousands of new homes and jobs to Southwark.

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

In economic terms Southwark has been a net importer of labour in London, powering the jobs market across the city. The borough has a rich mix of employers, including internationally renowned names such as PwC, Ernst and 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, including the impact of leaving the European Union.

Southwark is one of the most densely populated and diverse boroughs in the country, with a young, growing and mobile population. Over 120 languages are spoken in local schools, 66% of the under-20 population and 75% of reception-age children are from black and minority ethnic groups. Southwark is densely populated and has the ninth-highest population density in England and Wales at 11,082 residents per square kilometre compared to the London average of 5,727. In June 2021 the borough population was estimated to be 320,000, up from 256,700 in 2001. By 2030, that population is projected to increase to 355,800. The median age of Southwark residents in 2021 was 33.9 years, two years younger than the London average and almost seven years younger than the national average. Whilst the borough's population is comparatively young, this is not driven by a large number of children and young people. It is primarily a result of the large number of young adults in their 20s and 30s. 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 Office for National Statistics (ONS) population estimates cover the period up to 30 June 2020 and so only describe some of the impacts of the early part of the pandemic. The ONS will update its population estimates, following the publication of the Census 2021 results for England and Wales.

Covid-19 Pandemic

Since the virus first struck the borough in March 2020, it has required a phenomenal response; one that has mobilised the resources, skills and good faith of many across the borough to ensure all, especially the most vulnerable, stay safe, well and protected.

The pandemic response and government's lockdowns have had a significant impact for council services and major financial implications. The council has had to put considerable additional resources into services to ensure that the most vulnerable in our community are protected and that the local economy is protected. The economic impact has been profound, and there have been substantial losses across many of the council's income streams.

Covid-19 has had differential impact across the council's operation, although all council services (other than those required to close) continued to operate safely and effectively. The closure of libraries, leisure centres and outdoor sports took place in line with government direction. Other services, such as housing repairs and maintenance were modified to focus on essential works and support to the most vulnerable / at risk. In areas such as street sweeping and waste management rotas have been amended. Supporting staff wellbeing and safety whilst continuing to deliver services to residents was the key priority.

The Covid-19 pandemic exacerbated the financial challenges of declining central government resources together with significant extra demand for services. In the financial year 2020-21 the government provided extra support for the additional costs and income losses resulting from the impact of the pandemic. The council maintained a log of all spending commitments and income losses to enable full accountability and reported this financial impact on a monthly basis to the Ministry of Housing, Communities and Local Government (MHCLG). The audit, standards and governance committee received reports at all meetings in 2020-21, reviewing these returns and monitoring the impact on council finances against central government grants.

The statement of accounts quantifies the financial impact of Covid-19 through measuring the levels of additional grants the council has received from government, and reporting income and expenditure through the main accounts, Collection Fund, Housing Revenue Account and Pension Fund which all reveal evidence of the financial effects of Covid-19. The uncertainty and financial pressure on the council due to Covid-19 has been substantial, even after the government's emergency Covid-19 funding for local authorities is taken into account. The council has sought in recent years to build up its general reserve and financial risk reserves to ensure it is financially resilient. The government has promised to cover the costs to councils of the pandemic and 75% of income losses. Any shortfall will need to be met by the council through using finite reserves and these will, in any event, need to be replenished in future years.

Council Performance

During 2020-21 the council refreshed its Borough Plan (previously known as the Council Plan) in recognition of the role the council has to play in a post Covid-19 and Brexit world. The Covid-19 pandemic and other events have created new demands and priorities for the council, including tackling the huge public health challenge of the pandemic, supporting Southwark's local economy to recover from the significant financial impact of lockdown, responding to the prevalent issues of racism and inequality that have resulted in the Southwark Stands Together work and tackling the climate emergency. The refreshed plan sets out a range of promises and commitments which the council will deliver in the period to May 2022.

The Borough Plan is the council's overarching business plan setting out the programme of work that the council will achieve over the period to 2022. It is a clear statement to the residents, businesses, local voluntary/community sector organisations and other stakeholders of that programme and how the council will continue to deliver a fairer future for all in Southwark. The Borough Plan contains a range of promises and commitments which the council has worked towards since 2018. Underpinning these is a set of detailed performance schedules, with responsibility for each commitment apportioned across the cabinet portfolios.

Starting with cabinet and working through to individual members of staff, the process ensures that the whole organisation is working towards delivering the Borough Plan. A lead cabinet member and chief officer are identified for each commitment set out in the plan for transparency and accountability purposes. Although a challenging year the council can also reflect on 2020-21 being a successful one, particularly the way in which Southwark responded to the pandemic. The annual performance report will be presented to cabinet in July 2021.

Financial Performance

Revenue

For 2020-21, a net budget of £294.3m was approved by council assembly in February 2020. This included savings of £8.7m through a combination of efficiency savings, income generation and service reviews. Council assembly also agreed a 3.99% increase in council tax. The revenue outturn position is summarised below:

General Fund	Original budget £000	Budget movement £000	Revised budget £000	Spend in Year £000	Year-end reserve transfers £000	Total use of resources £000	Variance after using reserves £000
Children's and adults	182,380	(3,972)	178,408	183,003	-	183,003	**4,595**
Dedicated schools grant (DSG)	150	(150)	-	2,070	-	2,070	**2,070**
Environment and leisure	69,624	17,250	86,874	102,820	-	102,820	**15,946**
Housing and modernisation	69,789	(10,628)	59,161	73,659	-	73,659	**14,498**
Chief executive's	3,140	(1,611)	1,529	5,888	-	5,888	**4,359**
Finance and governance	9,949	565	10,514	4,235	10,349	14,584	4,070
Support cost reallocations	(40,740)	(1,454)	(42,194)	(42,194)	-	(42,194)	**-**
Net revenue budget	**294,292**	**-**	**294,292**	**329,481**	**10,349**	**339,830**	**45,538**
DSG overspend taken to DSG adjustment account				-	(2,070)	(2,070)	**(2,070)**
Covid-19 emergency funding support				(43,468)	-	(43,468)	**(43,468)**
Outturn after reserve movement				**286,013**	**8,279**	**294,292**	**-**

Despite the additional costs and income losses as a consequence of the Covid-19 pandemic, a balanced revenue outturn was reported for 2020-21 after movements to and from reserves. This reflects the strong financial management arrangements in place through monthly budget monitoring and challenge process which ensures budget managers are held accountable for variances to budgets.

Within the overall position, additional costs and lost income due to the pandemic amounted to £43.5m which has been met by emergency funding support (including sales, fees and charges compensation).

In 2020-21 the council has also had to implement national Covid-19 support schemes such as the business grant support schemes; the council tax hardship support schemes; test and trace payments; the winter support payments scheme; infection control schemes; and contain outbreak management schemes as well as dealing with and implementing a range of supplier relief schemes and addressing increased demand for support to vulnerable households whilst accommodating new ways of working in response to the pandemic.

Key messages from the revenue outturn position include:

- A balanced general fund outturn position for 2020-21 after the application of reserves and emergency Covid-19 funding income
- Application of £43.5m general Covid-19 emergency grant funding
- Underlying demand led pressures continue in several areas such as high needs, children's social care, temporary accommodation and welfare support
- Covid-19 has impacted on business as usual expenditure in some areas where spending has been delayed or deferred creating in year savings, for example in adult social care
- The accumulated deficit on the dedicated schools grant reserve increased by £2m from £18.5m to £20.5m - mainly due to levels of funding for Education, Health and Care Plans (EHCP's) to support high needs services
- Utilisation of £4m contingency to offset adverse variances

During 2020-21 the council received and recognised income from central government as part of the government's Covid-19 funding support for local government. Whilst the income was recognised in the Comprehensive Income and Expenditure Statement in 2020-21, it was necessary for some to be carried forward in earmarked reserves to meet liabilities in future years. For example, the council received £26m of section 31 grants and £11m through the tax income guarantee scheme to cover losses on the Collection Fund. These losses will be charged to the general fund in 2021-22 and future years.

Housing Revenue Account (HRA) outturn 2020-21

The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The revenue outturn for 2020-21 shows income from tenants and homeowners of £259.9m and spending of £254.6m. Whilist there has been some volatility and variation in certain areas during the year, costs have been contained within the outturn position. The operating surplus of £5.3m has been taken to HRA balances.

Future Financial Outlook

The impact of the pandemic on the council's finances extends into 2021-22, where the council will face further significant challenges and budget pressures in relation to the continuing response to the pandemic and the restoration of services and supporting the post-pandemic recovery. Whilst some funding has been made available by the government in 2021-22 to help with these challenges, it is far from certain whether this will be sufficient. There will potentially be a range of interventions required by the council and other measures to facilitate recovery that will have as yet unquantified costs. Throughout the emergency, financial management and governance processes have continued to be paramount.

An update on the council's medium term financial strategy along with further analysis of the impact on the council of Covid-19 will be provided to cabinet during the year. This will also need to reflect the government's announcement that the Fair Funding Review (FFR) and changes to Business Rate Retention (BRR) arrangements will not be implemented in April 2021 as originally planned. A new medium term financial plan for 2022-23 to 2024-25 will be submitted to cabinet and council assembly for approval in February 2022.

Capital

Southwark has one of the largest capital investment programmes in London, with current plans to spend over £2.7 billion by 2029-30. Capital spending and financing in 2020-21 is shown in the following table.

	2020-21 £000	2019-20 £000
Children's and adults' services (including schools)	16,044	18,716
Environment and leisure	20,573	19,656
Housing and modernisation	11,912	8,680
Chief Executive's	69,431	56,686
Housing investment programme	215,478	157,283
Total spending	**333,438**	**261,021**
Financed by:		
Capital receipts	(12,912)	(35,527)
Government grants and other contributions	(100,798)	(56,636)
Direct revenue contributions	(21,465)	(24,423)
Major repairs reserve	(52,726)	(59,092)
Prudential borrowing and credit arrangements	(145,537)	(85,343)
Total financing	**(333,438)**	**(261,021)**

There was an adverse impact on the delivery of the 2020-21 capital programme due to the Covid-19 pandemic. The council has reviewed the entirety of the capital programme, to consider those projects which are to be prioritised and those areas where adjustments to timescales are required. In addition, the council renewed the asset management plan in January 2021 which reset the policy framework to align with the council's strategic corporate priorities reflecting the impact of the Covid-19 pandemic as well as the recovery from it.

Canada Water development

In May 2018 the council entered a master development agreement (MDA) at Canada Water with British Land to enable the comprehensive redevelopment of the area. This agreement will underpin the delivery of around 3,000 new homes, up to 20,000 new jobs, significant improvements to the public realm and a new council leisure centre. Planning consent for the Canada Water Masterplan was granted in May 2020 and, with all pre-conditions being met, a 500-year headlease was granted to British Land on 16 December 2020, enabling British Land to deliver the regeneration project.

Balance Sheet

Reserves

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

	31 March 2021 £000	31 March 2020 £000	Movement £000
General Fund Balance	**(21,002)**	**(21,002)**	**-**
Earmarked Reserves			
Corporate projects and priorities	(22,803)	(19,541)	(3,262)
Service reviews and improvement	(30,144)	(19,350)	(10,794)
Capital programme and capital investment	(24,497)	(23,247)	(1,250)
Strategic financial risk	(54,324)	(50,506)	(3,818)
Technical liabilities and smoothing reserves	(19,420)	(34,430)	15,010
Subtotal	**(151,188)**	**(147,074)**	**(4,114)**
Covid-19 reserves	(53,425)	-	(53,425)
Subtotal	**(53,425)**	**-**	**(53,425)**
School reserves			
Schools - dedicated schools grant (DSG) reserve	-	18,525	(18,525)
School balances	(13,813)	(11,085)	(2,728)
Subtotal	**(13,813)**	**7,440**	**(21,253)**
Housing Revenue Account (HRA)			
HRA balance	(28,346)	(23,012)	(5,334)
Major repairs reserve	(3,500)	(2,268)	(1,232)
Subtotal	**(31,846)**	**(25,280)**	**(6,566)**
Total revenue usable reserves	**(271,274)**	**(185,916)**	**(85,358)**
Capital reserves	**(71,771)**	**(49,676)**	**(22,095)**

The general fund balance represents reserves set aside to mitigate and manage financial shocks and is a key financial resilience indicator. The Strategic Director of Finance and Governance has reviewed the level of this unallocated reserve and recommends it should be maintained at a minimum of 2.5% of gross general fund revenue expenditure, or £21m for 2021-22.

The significant increase in earmarked reserves at 31 March 2021 is mainly attributable to the requirement to carry forward Covid-19 funding to meet liabilities in future years.

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

The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years. At 31 March 2021 the HRA balance stood at £28.3m (£23.0m at 31 March 2020). The reserve is largely committed for specific purposes with the balance held as contingency against unforeseen events, in line with the council's medium term resource strategy.

Borrowing and Lending

The council borrows money to support its ambitious capital programme. Since 2011-12 the council has been using internal cash balances to temporarily fund its capital expenditure over that period, rather than taking new external debt. This policy has minimised borrowing costs over the years. However, as planned, since 2017-18, the council has needed to borrow, either temporarily from other local authorities or long-term from the public works loans board (PWLB). As at 31 March 2021 outstanding debt held by the council was £886m (£810m at 31 March 2020). The timing of long-term borrowing needs to be weighed against the risk that interest rates will increase in the future with a view to keeping future interest rate costs low. During 2020-21, and in accordance with the approved treasury management strategy, the council increased its long-term borrowing from the PWLB by £50m and also drew £7m from the mayor's energy efficiency fund (MEEF).

The council invests its surplus cash in bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities. The money market investments are in short-term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. As at 31 March 2021 investments stood at £145m (£133m at 31 March 2020). The overall rate of return on investments during 2020-21 was 0.56% (0.77% in 2019-20).

Pension Fund

The council's Pension Fund must be revalued every three years to set future contribution rates. This valuation is undertaken by an external actuarial firm, Aon Hewitt. The latest valuation, as at 31 March 2019, showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 covering 103% of the liabilities.

As assessed by the actuary on an IAS 19 basis, the council had net pension liabilities of £688m at 31 March 2021 (£607m at 31 March 2020). 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 future value of pension liabilities is determined by the discount rate, which is based on the yield on investment grade corporate bonds. As the spread on corporate bonds has decreased, it has led to a decrease in the discount rate which increases the future value of liabilities. The value of future pension liabilities increased by £464m in year, from £2,185m at 31 March 2020 to £2,649m at 31 March 2021.

The overall deficit grew despite the Pension Fund's assets performing well and increasing beyond their pre-pandemic highs. Pension Fund assets increased by £383m in year from £1,579m to £1,962m. Whilst the council is a member of the London collective investment vehicle (CIV), investment performance has been achieved without any direct investment in the CIV.

The Pension Fund is underpinned by an investment strategy last updated in 2017. This strategy committed to a reduction in carbon exposure over a period of time linked to short, medium and long-term plans. The short and medium-term objectives have largely been achieved and the investment strategy will be reviewed during 2021-22 with the target of achieving net zero carbon by 2030.

The ongoing impact of the pandemic continues to create uncertainty surrounding asset values and estimates of future liabilities. The council, in conjunction with the actuary, will continue to monitor the position on a regular basis and take any necessary action.

Principal Risks and Uncertainties

The council has an embedded process to manage risk and assist in the achievement of its objectives. The corporate risk register captures the key departmental and corporate risks to the council, 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 (AGS), assurance is given on the effectiveness of the council's system of internal control.

The pandemic and the resultant imposition of lockdowns have had a fundamental impact on the council's services, priorities and resources. The council has prioritised the health and wellbeing of Southwark residents and incorporated revised expenditure and income budgets into the 2021-22 council budget.

Despite the challenges, the council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible. The council's strong collaborative approach has been effective at achieving a unified response, working with key partners in the NHS, police and voluntary and community sectors. The response to the crisis has added assurance to the effectiveness of the council's business continuity plans, communications strategy and governance arrangements.

The AGS, 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. In financial terms these are to some extent set-off against the general fund balance.

Specific actions for 2021-22 and the medium-term include:

- impact of the Coronavirus pandemic on council services, priorities and resources
- continuing financial uncertainty regarding future funding arrangements and any transition
- ongoing uncertainty about the medium to longer-term implications of leaving the European Union
- the implementation of the council's climate change strategy to adapt to the climate emergency
- continuing to ensure business continuity plans are robust, particularly with regard to potential contractor failure
- deliverability and financial risk of the Southwark housing strategy with plans to deliver 11,000 new council homes by 2043
- dedicated schools grant £20.5m deficit plus 2021-22 in year position requires close monitoring
- increasing need for and cost of demand led services such as social care, social housing, temporary accommodation and welfare support creates significant pressures on budgets. Areas of demand will need to be closely monitored in 2021-22

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 2020-21 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS).

Core financial statements

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

Movement in Reserves Statement
A summary of the changes to the council's reserves over the course of the year. Reserves are divided into 'usable', which can be invested in capital projects or service improvements, and 'unusable' which must be set aside for specific purposes.

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

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

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

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

Supplementary financial statements

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

Collection Fund
The Collection Fund reports the amounts raised and collected through local taxation for council tax and business rates. Only the council's entitlement to taxation income and expenditure is included in the primary statements. The amounts collected on behalf of the government and the Greater London Authority are not included apart from amounts owing to or from those organisations.

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

TABLE 1 - EARMARKED RESERVES

COVID-19 RESERVES	1 April 2020	Net movement	31 March 2021
	£000	£000	£000
Covid-19 - Business rate retail relief section 31 grant	-	25,903	25,903
Covid-19 - Council tax & NDR collection fund deficit	-	16,459	16,459
Covid-19 - Additional restrictions grant	-	4,148	4,148
Covid-19 - Contain outbreak management	-	2,815	2,815
Covid-19 - Welfare support	-	2,200	2,200
Covid-19 - Tackling health inequalities	-	500	500
Covid-19 - Recovery and renewal	-	500	500
Covid-19 - Town centres and high streets	-	500	500
Covid-19 - Statutory services reserve	-	400	400
Total	**-**	**53,425**	**53,425**

CORPORATE PROJECTS AND PRIORITIES RESERVES	1 April 2020	Net movement	31 March 2021
	£000	£000	£000
Planned contribution to 2021-22 revenue budget	-	5,000	5,000
Planned contribution to 2022-23 revenue budget	-	2,500	2,500
Southwark emergency support scheme	2,126	914	3,040
Modernisation, service and operational improvement	1,399	800	2,199
Southwark scholarship scheme	467	1,689	2,156
Southwark pioneers fund	-	1,950	1,950
Climate change emergency	2,000	(213)	1,787
London devolution reserve	1,086	(350)	736
Food poverty	-	500	500
Neighbourhood fund	270	229	499
Voluntary sector small grant support scheme	391	-	391
Data strategy	-	343	343
Southwark Stands Together	-	300	300
Internal audit and anti-fraud	200	100	300
Anti-fraud activity	-	250	250
Revenue grants	124	-	124
Community engagement and links development	118	-	118
Artefacts replacement and security	117	-	117
Community safety schemes	106	-	106
Youth review	-	100	100
Youth parliament	-	100	100
Community hub - voluntary sector	-	100	100
Laptops for Southwark school children	-	87	87
Emergency grant funding	11,137	(11,137)	-
Total	**19,541**	**3,262**	**22,803**

CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES

	1 April 2020	Net movement	31 March 2021
	£000	£000	£000
Aylesbury development	6,000	-	6,000
Regeneration and development	3,688	800	4,488
Planned preventative maintenance and building compliance	4,087	-	4,087
Information technology and customer services development	2,195	-	2,195
Building schools for the future private finance initiative transition	1,623	-	1,623
Modernisation, service and operational improvement	1,356	-	1,356
Schools capital programme contribution	1,293	-	1,293
Capital contingency	1,287	-	1,287
Digital innovation fund	408	200	608
Public realm	500	-	500
Law and democracy business change management	346	250	596
Canada Water regeneration	214	-	214
Gym and fitness facilities	150	-	150
Black cultural centre	100	-	100
Total	**23,247**	**1,250**	**24,497**

SERVICE REVIEWS AND IMPROVEMENTS RESERVES

	1 April 2020 £000	Net movement £000	31 March 2021 £000
Adult social care resilience	4,500	4,839	9,339
Low traffic neighbourhoods	-	1,852	1,852
Schools de-delegated funds	-	1,811	1,811
Rough sleeping initiative	1,567	-	1,567
Adult social care homes	1,500	-	1,500
Children's and adults transformation	-	1,444	1,444
Health and wellbeing commitment to mental health	1,624	(200)	1,424
Human resources transformation action plan	50	1,250	1,300
Cycling safety	1,000	-	1,000
New homes bonus GLA funded programme	1,286	(372)	914
Temporary accommodation strategy	915	-	915
Libraries and heritage strategy	864	-	864
Highways	746	-	746
Local flood risk	680	-	680
Local economy	681	(9)	672
Environment and Leisure change programme	-	594	594
Highways winter maintenance	576	-	576
Troubled families	-	496	496
Recycling fund	-	477	477
Positive futures fund	538	(228)	310
Regional adoption agency	158	92	250
Workforce development (children's services)	267	(64)	203
Schools improvement traded service	200	-	200
Workforce development (adults' services)	84	73	157
Blackfriars trust allocation	138	-	138
Public health	(1,812)	1,944	132
Special educational needs and disability transformation fund	340	(230)	110
Southwark renters union	100	-	100
Member development	97	-	97
Prevention of illegal tobacco distribution	91	-	91
Youth service	70	-	70
Special educational needs and disability internships coordination	57	-	57
Human resources transformation	44	-	44
Local education authority music service	14	-	14
Small business support fund	1,975	(1,975)	-
London counter fraud hub	1,000	(1,000)	-
Total	**19,350**	**10,794**	**30,144**

TECHNICAL LIABILITIES AND SMOOTHING RESERVES

	1 April 2020	Net movement	31 March 2021
	£000	£000	£000
Insurance	7,600	-	7,600
Interest and debt equalisation	3,500	-	3,500
Council tax and housing benefits subsidy equalisation	3,000	-	3,000
Waste private finance initiative equalisation	2,921	-	2,921
Universal credit implementation	966	-	966
Election reserve	809	174	983
Contractual risk	450	-	450
Business rates pooling – balance budget 2020-21	15,184	(15,184)	-
Total	**34,430**	**(15,010)**	**19,420**

STRATEGIC FINANCIAL RISK RESERVES

	1 April 2020	Net movement	31 March 2021
	£000	£000	£000
Spending review risk	20,917	-	20,917
Business rate retention risk	12,889	1,625	14,514
Financial risk and future liabilities	11,300	1,893	13,193
Pension liability risk	2,500	-	2,500
Leaving European Union risk	2,000	300	2,300
Schools in financial difficulties and school closures	900	-	900
Total	**50,506**	**3,818**	**54,324**

Earmarked Reserves (excluding Covid-19 reserves)	**147,074**	**4,114**	**151,188**

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

- 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 accounts in accordance with proper practices as set out in the Chartered Institute for Public Finance and Accountancy (CIPFA) 2020-21 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement 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
- 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 2021 and its income and expenditure for the financial year ended 31 March 2021.

Duncan Whitfield CPFA OBE
Strategic Director of Finance and Governance
XX September 2021

CORE FINANCIAL STATEMENTS

2020-21

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

MOVEMENT IN RESERVES STATEMENT

BALANCE SHEET

CASHFLOW STATEMENT

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

			2020-21			2019-20
	Gross expenditure £000	Gross income £000	Net expenditure £000	Gross expenditure £000	Gross income £000	Net expenditure £000
Chief executive's	43,853	(17,024)	**26,829**	33,606	(12,059)	21,547
Children's and adults	518,894	(325,056)	**193,838**	503,869	(288,034)	215,835
Environment and leisure	166,171	(65,223)	**100,948**	162,497	(68,726)	93,771
Finance and governance	181,225	(168,246)	**12,979**	175,395	(159,323)	16,072
Housing and modernisation	88,908	(33,925)	**54,983**	66,770	(28,178)	38,592
Housing Revenue Account (HRA)	279,677	(268,115)	**11,562**	327,023	(264,407)	62,616
Net cost of services	**1,278,728**	**(877,589)**	**401,139**	**1,269,160**	**(820,727)**	**448,433**
Other operating income and expenditure (note 8)			(19,433)			9,492
Financing and investment income and expenditure (note 9)			51,312			19,361
Taxation and non-specific grant income and expenditure (note 10)			(440,716)			(375,073)
(Surplus) / deficit on provision of services			**(7,698)**			**102,213**
(Surplus) on revaluation of non-current assets (note 23)			(98,194)			(89,710)
(Surplus) / deficit on financial assets measured at fair value through other comprehensive income (note 38)			(460)			170
Remeasurement of the net defined benefit liability (note 23)			46,724			(149,737)
Other Comprehensive Income and Expenditure (surplus) / deficit			**(51,930)**			**(239,277)**
Total Comprehensive Income and Expenditure (surplus) / deficit			**(59,628)**			**(137,064)**

The department for place and wellbeing ceased existence on 31 March 2020 and services moved into environment and leisure, chief executive's and finance and governance. Housing and Modernisation also reorganised with services moving to environment and leisure, chief executive's and finance and governance. 2019-20 net cost of services has been restated to reflect the new organisational structure.

MOVEMENT IN RESERVES STATEMENT 2020-21

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.

	General Fund balance										
	General Fund balance	**Earmarked General Fund reserves**	**Earmarked schools balances reserve**	**Earmarked Dedicated schools grant deficit reserve**	**Total General Fund balance**	**Housing Revenue Account (HRA) balance**	**Major repairs reserve**	**Capital receipts reserve**	**Total usable reserves**	**Total unusable reserves (note 23)**	**Total reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April	**(21,002)**	**(147,074)**	**(11,085)**	**18,525**	**(160,636)**	**(23,012)**	**(2,268)**	**(49,676)**	**(235,592)**	**(3,787,042)**	**(4,022,634)**
Movement in reserves during year											
Total comprehensive income and expenditure (surplus) / deficit	**44,831**	-	-	-	**44,831**	(52,529)	-	-	**(7,698)**	**(51,930)**	**(59,628)**
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	(123,623)	-	-	-	**(123,623)**	47,195	(1,232)	(22,095)	**(99,755)**	**99,755**	**-**
Net increase/decrease before transfers to earmarked reserves	**(78,792)**	**-**	**-**	**-**	**(78,792)**	**(5,334)**	**(1,232)**	**(22,095)**	**(107,453)**	**47,825**	**(59,628)**
Transfers (to)/from earmarked reserves	78,792	(57,539)	(2,728)	(18,525)	**-**	-	-	-	**-**	**-**	**-**
(Increase)/decrease in year	**-**	**(57,539)**	**(2,728)**	**(18,525)**	**(78,792)**	**(5,334)**	**(1,232)**	**(22,095)**	**(107,453)**	**47,825**	**(59,628)**
Balance as at 31 March	**(21,002)**	**(204,613)**	**(13,813)**	**-**	**(239,428)**	**(28,346)**	**(3,500)**	**(71,771)**	**(343,045)**	**(3,739,217)**	**(4,082,262)**

In the 2019-20 MIRS, schools balances and Dedicated schools grant reserve were combined (£7.440m). In 2020-21 the balances have been disaggregated to show that the deficit arising from schools expenditure exceeding DSG funding is now held separately from the general fund in an unusable reserve.

MOVEMENT IN RESERVES STATEMENT 2019-20

	General Fund balance										
	Unearmarked General Fund balance	Other earmarked General Fund reserves	Earmarked Schools balances and DSG deficit reserves	Earmarked DSG deficit reserves	Total General Fund balance	Housing Revenue Account (HRA) balance	Major repairs reserve	Capital receipts reserve	Total usable reserves	Total unusable reserves (note 23)	Total reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April	**(21,002)**	**(112,320)**	**(12,875)**	**11,515**	**(134,682)**	**(20,833)**	**(10,921)**	**(52,657)**	**(219,093)**	**(3,666,477)**	**(3,885,570)**
Movement in reserves during year											
Total comprehensive income and expenditure (surplus) / deficit	60,567	-	-	-	**60,567**	41,646	-	-	**102,213**	**(239,277)**	**(137,064)**
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	(86,521)	-	-	-	**(86,521)**	(43,825)	8,653	2,981	**(118,712)**	**118,712**	-
Net (increase)/decrease before transfers to earmarked reserves	**(25,954)**	**-**	**-**	**-**	**(25,954)**	**(2,179)**	**8,653**	**2,981**	**(16,499)**	**(120,565)**	**(137,064)**
Transfers (to)/from earmarked reserves	25,954	(34,754)	1,790	7,010	**-**	-	-	-	**-**	**-**	-
(Increase)/decrease in year	**-**	**(34,754)**	**1,790**	**7,010**	**(25,954)**	**(2,179)**	**8,653**	**2,981**	**(16,499)**	**(120,565)**	**(137,064)**
Balance as at 31 March	**(21,002)**	**(147,074)**	**(11,085)**	**18,525**	**(160,636)**	**(23,012)**	**(2,268)**	**(49,676)**	**(235,592)**	**(3,787,042)**	**(4,022,634)**

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date 31 March of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

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

	Notes	31 March 2021	31 March 2020
		£000	£000
Property, plant and equipment	13	5,336,990	5,127,169
Heritage assets		1,223	1,223
Investment property	14	381,110	343,805
Assets held for sale	15	3,920	22,320
Long-term investments	38	29,597	40,776
Long-term debtors	17	24,017	23,899
Long term assets		**5,776,857**	**5,559,192**
Short-term investments	38	76,160	63,985
Inventories		1,031	438
Short-term debtors	17	233,800	160,168
Cash and cash equivalents	16	38,992	26,651
Assets held for sale	15	11,344	19,654
Current assets		**361,327**	**270,896**
Short-term borrowing	38	(207,370)	(190,805)
Short-term creditors	18	(271,947)	(159,302)
Short-term provisions	19	(1,221)	(3,874)
Grants receipts in advance	21	(75,473)	(99,604)
Bank overdraft	16	(16,620)	(8,616)
Current liabilities		**(572,631)**	**(462,201)**
Long-term creditors	18	(8,248)	(9,288)
Long-term provisions	19	(23,585)	(15,716)
Long-term borrowing	38	(683,989)	(627,634)
Pension liabilities	37	(687,568)	(606,640)
Other long-term liabilities	35	(79,901)	(85,975)
Long-term liabilities		**(1,483,291)**	**(1,345,253)**
Net assets		**4,082,262**	**4,022,634**
Usable reserves	12	(343,045)	(235,592)
Unusable reserves	23	(3,739,217)	(3,787,042)
Total reserves		**(4,082,262)**	**(4,022,634)**

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	2020-21	2019-20
		£000	£000
Net surplus or (deficit) on the provision of services		7,698	(102,213)
Adjustment to surplus or (deficit) on the provision of services for non cash movements	24	270,544	215,909
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(140,527)	(93,860)
Net cash flows from operating activities		**137,715**	**19,836**
Net cash flows from investing activities	25	(201,256)	(168,358)
Net cash flows from financing activities	26	67,878	130,568
Net increase or (decrease) in cash and cash equivalents		**4,337**	**(17,954)**
Cash and cash equivalents at the beginning of the reporting period	16	18,035	35,989
Cash and cash equivalents at the end of the reporting period	16	**22,372**	**18,035**

DISCLOSURE NOTES TO THE ACCOUNTS

2020-21

Note 1. EXPENDITURE AND FUNDING ANALYSIS

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

Expenditure and Funding Analysis	**2020-21**				
	As reported for resource management (Narrative report)	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	**£000**	**£000**	**£000**	**£000**
Chief executive's	5,888	4,403	10,291	16,538	26,829
Children's and adults (including dedicated schools grant)	185,073	(50,873)	134,200	59,638	193,838
Environment and leisure	102,820	(26,253)	76,567	24,381	100,948
Finance and governance	14,584	13,133	27,717	(14,738)	12,979
Housing and modernisation	73,659	(31,913)	41,746	13,237	54,983
Housing Revenue Account (HRA)	-	(21,897)	(21,897)	33,459	11,562
Support cost reallocations	(42,194)	42,194	-	-	-
Net cost of services	**339,830**	**(71,206)**	**268,624**	**132,515**	**401,139**
Other income and expenditure	(337,760)	(14,990)	(352,750)	(56,087)	(408,837)
(Surplus)/deficit	**2,070**	**(86,196)**	**(84,126)**	**76,428**	**(7,698)**
Opening General Fund and HRA balance at 1 April			(183,648)		
(Surplus) on General Fund and HRA balance in year			(84,126)		
Closing General Fund and HRA balance as at 31 March			**(267,774)**		

Note 1. EXPENDITURE AND FUNDING ANALYSIS continued

Expenditure and Funding Analysis	2019-20				
	As reported for resource management (Narrative report)	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	**£000**	**£000**	**£000**	**£000**
Chief executive's	2,212	7,641	9,853	11,694	21,547
Children's and adults	185,552	(12,045)	173,507	42,328	215,835
Environment and leisure	85,553	(19,644)	65,909	27,862	93,771
Finance and governance	5,223	22,378	27,601	(11,529)	16,072
Housing and modernisation	59,826	(33,111)	26,715	11,877	38,592
Housing Revenue Account (HRA)	-	(18,256)	(18,256)	80,872	62,616
Support cost reallocations	(40,932)	40,932	-	-	-
Net cost of services	**297,434**	**(12,105)**	**285,329**	**163,104**	**448,433**
Other income and expenditure	(290,424)	(23,038)	(313,462)	(32,758)	(346,220)
(Surplus)/deficit	**7,010**	**(35,143)**	**(28,133)**	**130,346**	**102,213**
Opening General Fund and HRA balance at 1 April			(155,515)		
(Surplus) on General Fund and HRA balance in year			(28,133)		
Closing General Fund and HRA balance as at 31 March			**(183,648)**		

2019-20 expenditure and funding analysis has been restated to reflect the new organisational structure as presented in the comprehensive income and expenditure statement.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The Statement of Accounts summarises the council's transactions for the 2020-21 financial year and its position at the year-end of 31 March 2021. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices, under section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, supported by International Financial Reporting Standards (IFRS).

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

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

2.2 Adjustments between accounting basis and funding basis

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

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

The material adjustments are:

Category	Accounting basis in 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		

Category	Accounting basis in CIES	Funding basis in MiRS	Adjustment account
Capital grants and contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital grants unapplied reserve (unapplied at 31 March) Capital adjustment account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital adjustment account (carrying amount) Capital receipts reserve (sale proceed and cost of disposal) Deferred capital receipts reserve (sale proceeds not yet received)
Financial instruments	Premiums payable and discounts receivable on early repayment of borrowing in 2020-21 Losses on soft loans and interest receivable on an amortised cost basis Movements in the fair value of money market fund investments	Deferred debits/credits of premiums/discounts from earlier years Interest due to be received on soft loans in year Historical cost gains/losses for money market fund investments disposed of in year	Financial instruments adjustment account
Pension costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions reserve
Council tax	Accrued income from 2020-21 bills	Demand on the Collection Fund for 2020-21 plus share of estimated surplus/deficit for 2019-20	Collection Fund adjustment account
Business rates	Accrued income from 2020-21 bills	Budgeted income receivable from the Collection Fund for 2020-21 plus share of estimated surplus/deficit 2019-20	Collection Fund adjustment account
Holiday pay	Projected cost of untaken leave entitlements at 31 March 2021	No charge	Accumulated absence adjustment account
Dedicated schools grant (DSG)	Expenditure incurred in 2020-21 to be met from Dedicated Schools Grant	Expenditure incurred up to the amount of the grant receivable for 2020-21	Dedicated schools grant adjustment account

2.3 Accruals of income and expenditure

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

2.3.1 Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.

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

2.3.3 Other revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.

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

2.3.5 Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as it is a non-contractual, non-exchange transaction with no difference between the delivery and payment dates. It is recognised in the financial statements when it is probable that the economic benefits associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.

2.3.6 Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories in the Balance Sheet.

2.3.7 Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

2.3.8 Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

2.3.9 Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2.4 Business improvement districts

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

2.5 Employee benefits

Termination benefits

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

Post employment benefits

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

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

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

However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Within the Comprehensive Income and Expenditure Statement the Children's and adults' and Place and wellbeing 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 in note 37 to the Statement of Accounts set out the discount rates and assumptions applied by each fund.

The assets of funds attributable to the council are included in the Balance Sheet at their fair value:
• quoted securities – current bid price
• unquoted securities – professional estimate
• unitised securities – current bid price
• property – market value

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

• Service cost comprising
- current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of finance and governance
- net interest on the net defined benefit liability (asset) - charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement

• Remeasurements comprising
- the return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset); charged to the pensions reserve, as other comprehensive income and expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; charged to the pensions reserve as other comprehensive income and expenditure

• Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

Discretionary benefits

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

2.6 Financial instruments

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

Financial liabilities

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

Financial assets

Financial assets are subsequently measured in one of two ways:

• Amortised cost – assets whose contractual terms are basic lending arrangements (i.e. they give rise on specified dates to cash flows that are solely payments of principal or interest on the principal amount outstanding, which the council holds under a business model whose objective is to collect those cash flows
• Fair value – all other financial assets

Amortised cost assets are measured in the balance sheet at the outstanding principal repayable plus accrued interest. Annual credits to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. Any gains or losses in fair value that may arise are not accounted for until the instrument matures or is sold.

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

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

2.7 Government grants and contributions

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

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

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

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

2.8 Investment property

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

2.9 Leases

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

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

The council as lessee - finance leases

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

• a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
• a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement)

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

The council as lessee - operating leases

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

The council as lessor - operating leases

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

2.10 Overheads and support services

The costs of overheads and support services are charged to those 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 executive's, finance and governance, housing and modernisation and HRA services contain costs relating to the council's status as a multi-functional, democratic organisation
• The finance and governance directorate contains the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale

2.11 Private finance initiative (PFI) and similar contracts

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

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

2.12 Property, plant and equipment (PPE)

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. If the amount of expenditure on an individual asset within other land and buildings is above £0.4m, details of the works are provided to the valuer with a request to revalue the asset.

Assets are initially measured at cost, comprising:

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

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

Where decreases in value are identified, they are accounted for as follows:
• where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
• where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

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

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

Useful lives are assessed on the following bases:

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

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

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

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

Sites under development

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

Disposals and non-current assets held for sale

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

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

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

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

2.13 Provisions, contingent liabilities and contingent assets

Provisions

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

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

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

Contingent liabilities

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

Contingent assets

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

2.14 Reserves

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

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

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

2.15 Schools

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

2.16 Value added tax (VAT)

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

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

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

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

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

2.18 Accounting for schools non-current assets

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

	Number of schools	**Value of land and buildings recognised £000**
Community schools, nursery schools and special schools	47	426,112
Voluntary aided faith schools and foundation schools	28	-

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

Definition of a Business: Amendments to IFRS 3 Business Combinations	IFRS 3 has been amended to clarify the definition of a business, with the intention of making it easier to determine whether an acquisition should be accounted for as a business combination or as an acquisition of miscellaneous assets. A business will now be defined as an integrated set of activities and assets that must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output. As the amendment is wholly prospective from the date of application, it will not entail any restatement of 2020-21 transactions.
Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7	Pre-IBOR replacement issues. These amendments are intended to ensure that hedge accounting will not be impacted unduly by the replacement of Inter-Bank Offer Rates (IBORs). Only relevant where hedge accounting is being applied and IBORs are currently part of a forecast transaction that is currently being treated as highly probable.
Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Issues arising when an IBOR benchmark is actually replaced. The amendments introduce a practical expedient for modifications of financial assets and liabilities that would arise from IBOR reform, allowing the updating of the effective interest rate. Hedge accounting will not be discontinued solely because of the IBOR reform. Hedging relationships must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk and the amended relationships tested against the qualifying criteria for hedge accounting.
IFRS 16 Leases (deferral to 1 April 2022)	IFRS 16 Leases will require local authorities to review all their lessor and lessee accounting arrangements to comply with the new financial reporting standard, with potential balance sheet implications, and the initial assessment should be completed by the council during 2021-22. The key aspect is for lessees to recognise appropriate leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition of deminimus thresholds for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2022 (from 1 April 2020). As IFRS16 is effective on or after 1 April 2022, there will be no impact on 2021-22 comparatives.

There are no changes in accounting requirements for 2021-22 that are anticipated to have a material impact on the council's financial performance or financial position.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 2, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in preparing the Statement of Accounts are as follows:

4.1 Accounting for Canada Water development

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

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

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

The first plot proposals came forward from BL in January 2021. In March 2021 Cabinet decided that the council would retain its 20% interest in project land but make no new additional capital investment in these plot proposals.

In terms of the classification of the councils land interest, the essence of the MDA is that the council is entitled to an income stream from the land and its subsequent development. The asset is therefore in the nature of an investment property. The constituent freeholds the council has traded into the MDA - the printworks, shopping centre, land adjacent to the police station - have been derecognised and the council's 20% share of the project land is recognised as an investment asset.

The council has previously decided to investment up to £35 million in a new leisure centre, which will be housed on the development. In January 2021 the council decided to buy the 79 affordable homes to be built in the first phase of the development. These will be operated and managed as council homes. Both of these investments are budgeted for and included in existing council programmes.

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

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

The items in the council's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

5.1 Valuation of property, plant and equipment (PPE)

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).

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

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

5.2 Valuation of HRA Dwellings (part of PPE)

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

5.3 Movement in property valuations analysis

A sensitivity analysis detailing movement in valuations is as follows:

Asset category	Assets valued at 31 March 2021 £000	Increase in valuation		Decrease in valuation	
		1% £000	5% £000	1% £000	5% £000
Council dwellings	3,540,550	35,406	177,028	(35,406)	(177,028)
Other land and buildings	841,053	8,411	42,053	(8,411)	(42,053)
Surplus assets	85,150	852	4,258	(852)	(4,258)
Investment property	381,110	3,811	19,056	(3,811)	(19,056)
Assets held for sale	15,264	153	763	(153)	(763)
Total	4,863,127	48,633	243,158	(48,633)	(243,158)

5.4 Defined benefit pension liability

The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2021 the outstanding net pensions liability was assessed at £687.6m (£606.6m at 31 March 2020). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund.

Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension's liability of changes in individual assumptions can be measured. The estimates, assumptions and sensitivity of changes in assumptions are provided in note 37.

5.5 Impairment allowance for doubtful debt

As at 31 March 2021, the council had an outstanding balance of short-term debtors totalling £311.5m. Against this debtors' balance, there is an impairment allowance of £77.7m. It is not certain that this impairment allowance would be sufficient as the council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.

6. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Strategic Director of Finance and Governance on 8 July 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the balance sheet date.

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

				2020-21				2019-20
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total adjustments	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total adjustments
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Chief executive's	10,684	2,106	3,748	16,538	8,247	2,051	1,396	11,694
Children's and adults	25,814	12,805	21,019	59,638	29,627	15,700	(2,999)	42,328
Environment and leisure	16,785	7,059	537	24,381	19,484	8,373	5	27,862
Finance and governance	(6,339)	(8,433)	34	(14,738)	(3,899)	(7,346)	(284)	(11,529)
Housing and modernisation	11,390	1,703	144	13,237	9,714	2,183	(20)	11,877
Housing Revenue Account (HRA)	26,252	5,423	1,784	33,459	74,314	6,365	193	80,872
Net cost of services	**84,586**	**20,663**	**27,266**	**132,515**	**137,487**	**27,326**	**(1,709)**	**163,104**
Other income and expenditure from the funding analysis	(102,204)	13,541	32,576	(56,087)	(59,539)	16,580	10,201	(32,758)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit	**(17,618)**	**34,204**	**59,842**	**76,428**	**77,948**	**43,906**	**8,492**	**130,346**

2019-20 expenditure and funding analysis has been restated to reflect the new organisational structure as presented in the comprehensive income and expenditure statement.

Adjustments for capital purposes

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

Net change for the pensions adjustments

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

Other differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute. For services, this represents removal of the annual leave accrual adjustment. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the CIPFA Code of Accounting Practice for Local Authorities 2020-21. This is a timing difference as any difference will be brought forward in future surpluses or deficits in the Collection Fund.

An analysis of the nature of expenditure and income:

	2020-21	2019-20
	£000	£000
Expenditure		
Employee expenses	402,463	421,748
Other services expenses	837,653	748,382
Depreciation, amortisation and impairment	94,112	119,039
Interest payments	29,825	37,060
Precepts and levies	2,012	1,993
Net losses on the disposal of assets	-	3,232
Subtotal	**1,366,065**	**1,331,454**
Income		
Fees, charges and other service income	(374,477)	(345,350)
Interest and investment income	(22,277)	(26,125)
Income from council tax and business rates (NDR)	(178,055)	(288,232)
Government grants and contributions	(773,242)	(569,534)
Net (gains) on the disposal of assets	(25,712)	-
Subtotal	**(1,373,763)**	**(1,229,241)**
(Surplus) / deficit on the provision of services	**(7,698)**	**102,213**

8. OTHER OPERATING INCOME AND EXPENDITURE

	2020-21	2019-20
	£000	£000
Levies	2,012	1,993
Payment to the government's housing capital receipts pool	4,267	4,267
(Gain) / loss on the disposal of non-current assets	(25,712)	3,232
Total	**(19,433)**	**9,492**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2020-21	2019-20
	£000	£000
Interest payable and similar charges	37,594	37,617
Grant contributions towards interest costs on PFI schemes	(7,363)	(7,412)
Net interest on the net defined benefit liability	13,541	16,580
Interest receivable and similar income	(3,399)	(5,806)
Income, expenditure and changes in the fair value of investment properties	10,939	(21,618)
Total	**51,312**	**19,361**

10. TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

	2020-21	2019-20
	£000	£000
Council tax income	(115,213)	(109,082)
Non-domestic rates income and expenditure	(62,842)	(179,150)
Un-ringfenced government grants	(161,863)	(30,205)
Capital grants and contributions	(100,798)	(56,636)
Total	**(440,716)**	**(375,073)**

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

General Fund balance

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

Major repairs reserve

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

Capital receipts reserve

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

Capital grants unapplied

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

2020-21	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	(36,676)	(57,436)	-	-	-	94,112
Revaluation losses on property, plant and equipment	(21,067)	(38,833)	-	-	-	59,900
Movements in the fair value of investment properties	(7,457)	(16,849)	-	-	-	24,306
Capital grants and contributions applied	25,772	75,026	-	-	-	(100,798)
Revenue expenditure funded from capital under statute	(11,153)	(4,832)	-	-	-	15,985
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	-	(13,562)	-	-	-	13,562
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement (minimum revenue provision MRP)	4,563	-	-	-	-	(4,563)
Lease and PFI repayment	5,173	252	-	-	-	(5,425)
Repayment of premiums	241	824	-	-	-	(1,065)
Capital expenditure charged against the General Fund and HRA balances	825	20,640	-	-	-	(21,465)
Adjustments primarily involving the capital receipts reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,022	37,707	-	(39,729)	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	12,912	-	(12,912)
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	(12)	(443)	-	455	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(4,267)	-	-	4,267	-	-
Adjustments primarily involving the major repairs reserve:						
MRR credited with an amount equal to the depreciation charged to the HRA	-	50,458	(50,458)	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	3,500	(3,500)	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	52,726	-	-	(52,726)

2020-21	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the financial instruments adjustment account:						
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	(3,709)	(603)	-	-	-	4,312
Adjustments primarily involving the pensions reserve (note 37):						
Employer's pensions contributions and direct payments to pensioners payable in the year	34,785	6,263	-	-	-	(41,048)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(60,961)	(14,291)	-	-	-	75,252
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	(4,060)	-	-	-	-	4,060
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(25,431)	-	-	-	-	25,431
Adjustment primarily involving the accumulated absences account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,616)	(626)	-	-	-	2,242
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(20,595)	-	-	-	-	20,595
Total adjustments	**(123,623)**	**47,195**	**(1,232)**	**(22,095)**	**-**	**99,755**

2019-20	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	(35,341)	(83,698)	-	-	-	119,039
Revaluation losses on property, plant and equipment	(17,907)	(60,309)	-	-	-	78,216
Movements in the fair value of investment properties	514	6,540	-	-	-	(7,054)
Capital grants and contributions applied	30,008	26,628	-	-	-	(56,636)
Revenue expenditure funded from capital under statute	(19,509)	(5,381)	-	-	-	24,890
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	(16,966)	(17,079)	-	-	-	34,045
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	3,593	-	-	-	-	(3,593)
Lease and PFI repayment	5,064	221	-	-	-	(5,285)
Repayment of premiums	241	824	-	-	-	(1,065)
Capital expenditure charged against the General Fund and HRA balances	665	23,758	-	-	-	(24,423)
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	7,944	29,280	-	(37,224)	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	35,527	-	(35,527)
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	(60)	(351)	-	411	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(4,267)	-	-	4,267	-	-
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	-	(6,000)	-	-	-	6,000

2019-20	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the major repairs reserve:						
MRR credited with an amount equal to the depreciation charged to the HRA	-	50,439	(50,439)	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	-	-	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	59,092	-	-	(59,092)
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	(244)	422	-	-	-	(178)
Adjustments primarily involving the pensions reserve (note 37):						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(68,762)	(13,869)	-	-	-	82,631
Employer's pensions contributions and direct payments to pensioners payable in the year	34,051	4,673	-	-	-	(38,724)
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	(5,310)	-	-	-	-	5,310
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	(3,342)	-	-	-	-	3,342
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	3,107	77	-	-	-	(3,184)
Total adjustments	**(86,521)**	**(43,825)**	**8,653**	**2,981**	**-**	**118,712**

12. USABLE RESERVES

Reserves represent the authority's net worth and show its spending power. Usable reserves result from the authority's activities and can be spent in the future. This note sets out the amounts set aside and posted back to usable reserves in 2020-21, they include:

- **General Fund reserve** - to cushion the impact of unexpected events or emergencies
- **Earmarked reserves** - to provide financing to meet known or predicted future general fund expenditure plans
- **Schools reserves** - amounts set aside for future expenditure in schools
- **HRA 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 2020	Transfer out 2020	Transfer in 2020	31 March 2021	1 April 2019	Transfer out 2019	Transfer in 2019	31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund reserve	**(21,002)**	**-**	**-**	**(21,002)**	**(21,002)**	**-**	**-**	**(21,002)**
Earmarked reserves								
Corporate projects and priorities reserves	(19,541)	12,975	(16,237)	**(22,803)**	(9,137)	3,803	(14,207)	**(19,541)**
Service reviews and improvement reserves	(19,350)	4,078	(14,872)	**(30,144)**	(15,375)	3,037	(7,012)	**(19,350)**
Capital programme and other capital investment reserves	(23,247)	-	(1,250)	**(24,497)**	(23,418)	1,868	(1,697)	**(23,247)**
Strategic financial risk reserves	(50,506)	107	(3,925)	**(54,324)**	(36,450)	487	(14,543)	**(50,506)**
Technical liabilities and smoothing reserves	(34,430)	15,184	(174)	**(19,420)**	(27,940)	168	(6,658)	**(34,430)**
Covid-19 reserves	-	-	(53,425)	**(53,425)**	-	-	-	**-**
Subtotal	**(147,074)**	**32,344**	**(89,883)**	**(204,613)**	**(112,320)**	**9,363**	**(44,117)**	**(147,074)**
Schools reserves								
Schools - DSG reserve	18,525	(18,525)	-	**-**	11,515	7,010	-	**18,525**
Schools - balances	(11,085)	3,735	(6,463)	**(13,813)**	(12,875)	4,022	(2,232)	**(11,085)**
Subtotal	**7,440**	**(14,790)**	**(6,463)**	**(13,813)**	**(1,360)**	**11,032**	**(2,232)**	**7,440**
HRA reserves								
HRA general reserve	(23,012)	841	(6,175)	**(28,346)**	(20,833)	4,154	(6,333)	**(23,012)**
Major repairs reserve	(2,268)	52,726	(53,958)	**(3,500)**	(10,921)	59,092	(50,439)	**(2,268)**
Subtotal	**(25,280)**	**53,567**	**(60,133)**	**(31,846)**	**(31,754)**	**63,246**	**(56,772)**	**(25,280)**
Capital reserves								
Capital receipts reserve	(49,676)	17,699	(39,794)	**(71,771)**	(52,657)	48,777	(45,796)	**(49,676)**
Subtotal	**(49,676)**	**17,699**	**(39,794)**	**(71,771)**	**(52,657)**	**48,777**	**(45,796)**	**(49,676)**
Total	**(235,592)**	**88,820**	**(196,273)**	**(343,045)**	**(219,093)**	**132,418**	**(148,917)**	**(235,592)**

The dedicated schools grant reserve negative opening balance of £18.525m (deficit) has been moved from the usable earmarked reserves category to a new unusable reserve - DSG adjustment account - to clearly identify the historical and in-year DSG deficits in accordance with government regulations.

13. PROPERTY, PLANT AND EQUIPMENT (PPE)

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.

2020-21	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total	PFI assets included in property, plant and equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross book value									
Opening balance	3,428,265	1,041,314	99,400	450,559	16,672	155,104	150,422	**5,341,736**	86,877
Additions	78,164	13,459	7,631	24,369	1,479	14,554	169,358	**309,014**	509
Revaluation increases/(decreases) recognised in the revaluation reserve	81,379	(37,210)	-	-	-	1,957	-	**46,126**	(714)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(52,096)	(21,405)	-	-	-	(4,197)	-	**(77,698)**	-
Derecognition – disposals	(6,652)	-	-	-	-	-	-	**(6,652)**	-
Derecognition – other	(43)	(343)	-	-	-	(91)	-	**(477)**	-
Assets reclassified	19,111	(16,151)	-	-	-	(41,891)	119	**(38,812)**	-
Balance as at 31 March	**3,548,128**	**979,664**	**107,031**	**474,928**	**18,151**	**125,436**	**319,899**	**5,573,237**	**86,672**
Depreciation and impairment									
Opening balance	61	9,556	68,986	134,655	901	372	36	**214,567**	8,033
Depreciation charge	48,882	15,419	5,353	17,425	-	55	-	**87,134**	1,998
Depreciation written out on revaluations recognised in the revaluation reserve	(39,782)	(11,966)	-	-	-	(320)	-	**(52,068)**	(847)
Depreciation written out on revaluations recognised in the (surplus)/deficit on the provision of services	(9,057)	(3,086)	-	-	-	(755)	-	**(12,898)**	-
Derecognition – disposals	(91)	-	-	-	-	-	-	**(91)**	-
Derecognition – other	-	(343)	-	-	-	-	-	**(343)**	-
Assets reclassified	-	(796)	-	-	-	742	-	**(54)**	-
Balance as at 31 March	**13**	**8,784**	**74,339**	**152,080**	**901**	**94**	**36**	**236,247**	**9,184**
Net book value at 31 March	**3,548,115**	**970,880**	**32,692**	**322,848**	**17,250**	**125,342**	**319,863**	**5,336,990**	**77,488**

13. PROPERTY, PLANT AND EQUIPMENT (PPE)

2019-20	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total	PFI assets included in property, plant and equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross book value									
Opening balance	3,423,016	1,045,370	97,664	425,832	15,144	162,871	68,180	**5,238,077**	87,663
Additions	96,524	11,654	1,736	31,413	415	1,833	84,768	**228,343**	492
Revaluation increases/(decreases) recognised in the revaluation reserve	14,804	6,233	-	-	-	12,049	790	**33,876**	(1,534)
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of services	(92,103)	(18,256)	-	(6,686)	1,113	(1,311)	-	**(117,243)**	-
Derecognition – disposals	(7,683)	-	-	-	-	-	-	**(7,683)**	-
Derecognition – other	(8,430)	(6,753)	-	-	-	(7,641)	-	**(22,824)**	-
Assets reclassified	2,118	3,066	-	-	-	(12,697)	(3,316)	**(10,829)**	-
Other movements in cost or valuation	19	-	-	-	-	-	-	**19**	256
Balance as at 31 March	**3,428,265**	**1,041,314**	**99,400**	**450,559**	**16,672**	**155,104**	**150,422**	**5,341,736**	**86,877**
Depreciation and impairment									
Opening balance	345	18,745	63,604	119,294	901	1,498	288	**204,675**	6,906
Depreciation charge	48,845	15,504	5,382	15,846	-	203	-	**85,780**	2,004
Depreciation written out on revaluations recognised in the revaluation reserve	(39,799)	(14,723)	-	-	-	(897)	(415)	**(55,834)**	(875)
Depreciation written out on revaluations recognised in the (surplus)/deficit on the provision of services	(9,100)	(4,367)	-	(485)	-	-	-	**(13,952)**	-
Derecognition – disposals	(108)	-	-	-	-	-	-	**(108)**	-
Derecognition – other	(122)	(4,218)	-	-	-	(436)	-	**(4,776)**	-
Assets reclassified	-	(1,385)	-	-	-	4	163	**(1,218)**	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	**-**	(2)
Balance as at 31 March	**61**	**9,556**	**68,986**	**134,655**	**901**	**372**	**36**	**214,567**	**8,033**
Net book value at 31 March	**3,428,204**	**1,031,758**	**30,414**	**315,904**	**15,771**	**154,732**	**150,386**	**5,127,169**	**78,844**

13. PROPERTY, PLANT AND EQUIPMENT (PPE) 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 revaluation of council dwellings is 31 December of the relevant accounting period. Other land and buildings (OLB) and surplus assets are valued at 31 December on a 20% rolling basis to ensure valuation of all assets in this category within five years. Assets held for sale and investment properties (General Fund and Housing Revenue Account) are valued at 31 March of the relevant accounting period.

The entire housing stock, assets held for sale and investment properties are valued on an annual basis. Review of assets under construction as well as general impairments to assets are also carried out on an annual basis.

During 2020-21 there were a number of asset recategorisations arising from revaluations and the annual review of assets under construction. These are summarised in the table below.

	Property Plant and Equipment					Investment Property (note 14)	Assets Held for Sale (note 15)
	Council Dwellings	Other Land and Buildings	Surplus Assets	Assets Under Construction	Total		
	£000	£000	£000	£000	£000	£000	£000
Land at Harmsworth Quay, Quebec Way, SE16	-	-	(57,630)	-	(57,630)	57,630	-
Aylesbury Estate, Site 1b & 1c	-	-	-	21,214	21,214	-	(21,214)
Willow Walk Temporary Accommodation	11,466	(11,466)	-	-	-	-	-
593-613 Old Kent Road	-	-	10,936	(10,936)	-	-	-
Pelier Street	5,618	-	-	(5,618)	-	-	-
Other transfers	2,027	(3,889)	4,061	(4,541)	(2,342)	3,591	(1,249)
Net book value	**19,111**	**(15,355)**	**(42,633)**	**119**	**(38,758)**	**61,221**	**(22,463)**

The effective date of valuations arising from in year capital expenditure of £0.4m and above, physical impairment or material changes in the value of assets in any category is 31 March of the relevant accounting period. In 2020-21, a sum of £10.6 m was charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account largely due due to impairments to Maydew, Ledbury and Tustin Estates (council dwellings).

Further details on the gross book value of PPE assets and the year of valuations are detailed as follows:

	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets		Community assets	Surplus assets	Asset under construction	Total
	£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
Held at historic cost and at depreciated historic cost	7,578	1,195	107,031	474,928		18,151	21,604	319,899	**950,386**
Different valuations are applied to different valuation classes									
31 March 2021	3,540,550	841,053	-	-		-	85,150	-	**4,466,753**
31 March 2020	-	43,182	-	-		-	2,741	-	**45,923**
31 March 2019	-	40,437	-	-		-	12,461	-	**52,898**
31 March 2018	-	30,186	-	-		-	2,510	-	**32,696**
31 March 2017	-	23,611	-	-		-	970	-	**24,581**
Total	**3,548,128**	**979,664**	**107,031**	**474,928**		**18,151**	**125,436**	**319,899**	**5,573,237**

At 31 March 2021, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2020-21 and future years budgeted to cost £127m. Similar commitments at 31 March 2020 were £93.1m.

The commitments are as below:

	£m
General Fund	55
Housing Revenue Account	72
Total	**127**

14. INVESTMENT PROPERTIES

The income and expenditure on investment assets was as follows:

	2020-21	2019-20
	£000	£000
Rental income from investment property	(19,189)	(20,649)
Fair value adjustments	24,306	(7,054)
Direct operating expenses arising from investment property	5,822	6,085
Net (gain)/loss included in financing and investment income in CIES	**10,939**	**(21,618)**

Fair value adjustments: negative figure equals upwards revaluation; positive figure equals downwards revaluation.

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

	2020-21	2019-20
	£000	£000
Opening balance	**343,805**	**334,529**
Additions	390	824
Disposals	-	(623)
Net gains/(losses) from fair value adjustments	(24,306)	7,054
Transfers (to)/from property, plant and equipment	61,221	2,021
Balance as at 31 March	**381,110**	**343,805**

As at 31 March 2021 there were a number of downward valuations of investment properties with the most significant adjustment being due to legislative changes aimed at facilitating electronic connectivity reducing future income potential. The transfer from property, plant and equipment in 2020-21 is principally in respect of the Canada Water development, with the councils land interest being recategorised from surplus assets to investment properties.

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

15. ASSETS HELD FOR SALE

	Current		Non-current	
	2020-21	2019-20	2020-21	2019-20
	£000	£000	£000	£000
Opening balance	**19,654**	**27,454**	**22,320**	**17,150**
Additions	636	964	4,063	4,816
Transfers (to)/from property, plant and equipment	-	-	(22,463)	7,590
Revaluation loss taken to surplus or deficit on the provision of services	(2,079)	(964)	-	(7,236)
Assets sold	(6,867)	(7,800)	-	-
Balance as at 31 March	**11,344**	**19,654**	**3,920**	**22,320**

16. CASH AND CASH EQUIVALENTS

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

	31 March 2021	31 March 2020
	£000	£000
Cash held by the council	-	6
Short-term funds in money markets	38,992	26,645
Subtotal	**38,992**	**26,651**
Bank current accounts (bank overdraft)	(16,620)	(8,616)
Total cash and cash equivalents	**22,372**	**18,035**

17. DEBTORS

	31 March 2021		31 March 2020	
	Short-term debtors	Long-term debtors	Short-term debtors	Long-term debtors
	£000	£000	£000	£000
Central government bodies	76,019	-	58,426	-
Other local authorities	67,176	-	13,194	-
National Health Service bodies	8,622	-	6,587	-
Public corporation and trading funds	320	-	-	-
Private entities and individuals	159,365	24,017	152,457	23,899
Subtotal before impairment	**311,502**	**24,017**	**230,664**	**23,899**
Impairment	(77,702)	-	(70,496)	-
Total debtors net of impairment	**233,800**	**24,017**	**160,168**	**23,899**

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

18. CREDITORS

	31 March 2021		31 March 2020	
	Short-term creditors	Long-term creditors	Short-term creditors	Long-term creditors
	£000	£000	£000	£000
Central government bodies	(98,931)	-	(27,031)	-
Other local authorities	(27,360)	-	(23,413)	-
NHS bodies	(10,177)	-	(6,745)	-
Public corporation and trading funds	(356)	-	-	-
Private entities and individuals	(135,123)	(8,248)	(102,113)	(9,288)
Total	**(271,947)**	**(8,248)**	**(159,302)**	**(9,288)**

The council was given GLA and government's share of the section 31 grant to help with cashflow related to business rates reliefs but the grant needs to be returned to government. The grant owed is £61.8m.

19. PROVISIONS

	1 April 2019	(Increase) / decrease in year	Utilised during year	31 March 2020
	£000	£000	£000	£000
Long term-provisions				
Insurance provision	(9,030)	-	-	(9,030)
Water refund provision	(2,158)	522	-	(1,636)
Business rates appeals	(17,911)	12,861	-	(5,050)
Total	**(29,099)**	**13,383**	**-**	**(15,716)**
Short-term provisions				
Business rates appeals	(3,409)	(465)	-	(3,874)
Total	**(3,409)**	**(465)**	**-**	**(3,874)**

	1 April 2020	(Increase) / decrease in year	Utilised during year	31 March 2021
	£000	£000	£000	£000
Long term-provisions				
Insurance provision	(9,030)	-	-	(9,030)
Water refund provision	(1,636)	-	-	(1,636)
Business rates appeals	(5,050)	(693)	(5,470)	(11,213)
Employee remuneration related	-	(878)	-	(878)
Southwark Business Services employment terms	-	(828)	-	(828)
Total	**(15,716)**	**(2,399)**	**(5,470)**	**(23,585)**
Short-term provisions				
Business rates appeals	(3,874)	3,007	-	(867)
Southwark Business Services employment terms	-	(354)	-	(354)
Total	**(3,874)**	**2,653**	**-**	**(1,221)**

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.

20. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant provided by the education and skills funding agency (ESFA), the dedicated schools grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School and Early Years 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 2020-21 are as follows:

	Central expenditure	Individual schools budgets	Total 2020-21	Total 2019-20
	£000	£000	£000	£000
Final DSG before academy and high needs recoupment			**(332,614)**	(320,245)
Academy and high needs figure recouped			**135,552**	126,700
Total DSG after academy and high needs recoupment			**(197,062)**	(193,545)
Brought forward from previous year			**18,525**	11,515
Agreed initial budgeted distribution for the year	**(22,137)**	**(156,400)**	**(178,537)**	(182,030)
In year adjustments	89	-	89	612
Final budget distribution for the year	**(22,048)**	**(156,400)**	**(178,448)**	(181,418)
Less: actual central expenditure	42,643	-	42,643	42,052
Less: actual individual school budget (ISB) deployed to schools	**-**	156,400	156,400	157,891
Plus: local authority contribution	**-**	**-**	**-**	**-**
Carry-forward deficit	**20,595**	**-**	**20,595**	**18,525**

The final DSG before academy recoupment figure includes a provision for the early years block. Final DSG allocations are announced in June following the end of each financial year based on census figures at the preceding January. The 2020-21 early years block adjustment, estimated at £0.6m, will be treated as an 'in year adjustment' for 2021-22.

The in year deficit of £2.1m, and the opening deficit of £18.5m has been transferred to the dedicated schools grant adjustment account (an unusable reserve).

21. GRANT INCOME

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

	2020-21 £000	2019-20 £000
Credited to taxation and non-specific grant income		
Revenue support grant	(36,448)	-
Business rates (top up)/tariff	(35,854)	(23,903)
Covid-19 general funding	(33,913)	(11,137)
Autumn statement compensation grant (section 31 grants - business rates)	(33,758)	(11,186)
New homes bonus	(14,359)	(12,830)
Covid-19 tax income guarantee (TIG)	(10,959)	-
Other non-specific grants individually less than £1 million	-	(389)
Capital grants and contributions	(100,798)	(56,636)
Subtotal	**(266,089)**	**(116,081)**
Credited to provision of services		
Dedicated schools grant	(197,062)	(192,650)
Housing benefits subsidy - rent rebates granted to HRA tenants	(68,072)	(69,946)
Housing benefits subsidy - rent allowances	(57,956)	(61,207)
Public health grant	(28,289)	(26,744)
Improved better care fund	(17,323)	(15,752)
Better care fund (BCF)	(17,218)	(16,332)
Housing benefits subsidy - non HRA rent rebates	(16,673)	(11,526)
Private finance initiative (PFI) grant	(9,935)	(9,935)
Social care support grant	(9,161)	(2,683)
Pupil premium grant	(8,916)	(9,435)
Covid-19 contain outbreak management fund	(7,697)	-
Teachers grant	(6,234)	(4,058)
Covid-19 local restrictions support grant	(5,463)	-
Covid-19 additional restrictions grant	(5,060)	-
Flexible homelessness support grant	(3,616)	(3,616)
Covid-19 hardship fund	(3,476)	-
Covid-19 discretionary grant fund	(3,421)	-
Universal infant free school meals	(2,324)	(2,425)
Covid-19 infection control grant	(2,259)	-
Housing benefit / council tax administration	(2,223)	(2,247)
Rough sleeper	(1,896)	(1,599)
School sixth form funding	(1,800)	(1,749)
Unaccompanied asylum child grant	(1,616)	(1,856)
Adult education budget (GLA)	(1,409)	-
Tackling troubled families	(1,379)	(1,551)
Public sector decarbonisation scheme	(1,304)	-
Physical education and sports grant	(1,172)	(1,191)
Discretionary housing payment	(1,157)	(1,188)
Covid-19 self-isolation payments funding	(1,156)	-
Homeless reduction act new burdens	(1,127)	-
Next steps accommodation programme	(1,019)	-
Community learning grant	-	(1,487)
Adult social care winter pressures	-	(1,571)
Other specific grants individually less than £1 million	(19,740)	(12,705)
Subtotal	**(507,153)**	**(453,453)**
Total	**(773,242)**	**(569,534)**

The council has received additional grant income from central government in 2020-21 to partly compensate for additional costs and lost income related to the Covid-19 pandemic.

The council has also administered the distribution of a number of Covid-19 business support grants on behalf of the Department of Business, Energy and Industrial Strategy (BEIS). The council was fully reimbursed for delivering that funding. As the council was acting as an agent of BEIS, the grant has not been reported in this note or within income and expenditure.

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

	2020-21	**2019-20**
	£000	**£000**
Opening balance	(99,604)	(99,726)
New capital grants received in advance	(76,667)	(56,514)
Amounts released to the Comprehensive Income and Expenditure Statement (conditions met)	100,798	56,636
Balance as at 31 March	**(75,473)**	**(99,604)**

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

	2020-21	**2019-20**
	£000	**£000**
Planning gains	(53,998)	(86,756)
New homes	(8,305)	(3,090)
Schools	(5,541)	(3,848)
Education	(1,860)	(1,841)
Disabled facilities grant (MHCLG)	(1,454)	-
Transport for London (TFL)	(1,224)	(1,303)
Other grants individually less than £1 million	(3,091)	(2,766)
Balance as at 31 March	**(75,473)**	**(99,604)**

22. POOLED BUDGETS

Better Care Fund (BCF)

Southwark council and NHS South East London Clinical Commissioning Group (CCG) (formerly Southwark Clinical Commissioning Group) 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.

	2020-21		2019-20	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
Council	19,009		18,809	
Clinical commissioning group	23,883		22,655	
		42,892		**41,464**
Expenditure met from the pooled budget:				
Council	36,227		35,142	
Clinical commissioning group	6,665		6,322	
		42,892		**41,464**
Net (surplus)/deficit arising on the pooled budget		-		-

Integrated community equipment store (ICES)

Southwark council and the CCG also operate pooled fund arrangements for an integrated community equipment service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £2.21m in 2020-21 (£2.15m in 2019-20).

NHS South East London Clinical Commissioning Group (CCG)

On 1 April 2020, NHS South East London Clinical Commissioning Group (CCG) was established. The new CCG is made up of the previous six south east London CCGs in Bexley, Bromley, Greenwich, Lambeth, Lewisham and Southwark.

23. UNUSABLE RESERVES

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

	31 March 2021 £000	31 March 2020 £000
Capital adjustment account	(2,583,391)	(2,555,432)
Revaluation reserve	(1,953,526)	(1,893,268)
Pensions reserve	687,568	606,640
Collection Fund adjustment account	49,450	19,959
Financial instruments adjustment account	30,681	27,434
Dedicated schools grant adjustment account	20,595	-
Accumulated absences adjustment account	9,488	7,246
Financial instruments revaluation reserve	(82)	379
Total unusable reserves	**(3,739,217)**	**(3,787,042)**

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.

	2020-21		2019-20	
	£000	£000	£000	£000
Opening balance		**(2,555,432)**		**(2,573,777)**
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	94,112		119,039	
Revaluation losses on property, plant and equipment and AHFS	59,900		78,216	
Revenue expenditure funded from capital under statute	15,985		24,890	
Movements in the market value of investment properties	24,306		(7,054)	
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	13,562		34,045	
		207,865		**249,136**
Continued				

	2020-21		2019-20	
	£000	£000	£000	£000
Adjusting amounts written to the capital adjustment account for disposals and restatements	(10,091)		(19,070)	
Adjusting amounts written out of the revaluation reserve for the difference between fair value depreciation and historical cost depreciation	(27,844)		(27,165)	
Net written out amount of the cost of non-current assets		**(37,935)**		**(46,235)**
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	(12,912)		(35,527)	
Use of the major repairs reserve to finance new capital expenditure	(52,726)		(59,092)	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(100,798)		(56,636)	
Provision for the financing of capital investment charged against the General Fund and HRA balances	(9,988)		(8,878)	
Capital expenditure charged against the General Fund and HRA balances	(21,465)		(24,423)	
Total		**(197,889)**		**(184,556)**
Balance as at 31 March		**(2,583,391)**		**(2,555,432)**

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.

Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out in the Movement in Reserves Statement. Over time the expense is posted back through the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the account at 31 March 2021 includes £14.623m premiums (£15.689m at 31 March 2020) to be discharged in future.

	2020-21	2019-20
	£000	£000
Opening balance	**27,434**	**28,678**
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	4,312	(179)
Balance as at 31 March	**30,681**	**27,434**

Revaluation reserve

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

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

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the revaluation reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

	2020-21		2019-20	
	£000	£000	£000	£000
Opening balance		**(1,893,268)**		**(1,849,792)**
Upward revaluation of assets	(153,987)		(146,447)	
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	55,793		56,737	
Total of surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services		(98,194)		(89,710)
Adjusting amounts written to the capital adjustment account for disposals and restatements		10,091		19,070
Difference between fair value depreciation and historical cost depreciation		27,845		27,164
Balance as at 31 March		**(1,953,526)**		**(1,893,268)**

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.

	2020-21	2019-20
	£000	£000
Opening balance	**606,640**	**712,470**
Remeasurements of the net defined benefit liability	46,724	(149,737)
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	75,252	82,631
Employer's pension contributions and direct payments payable to pensioners in the year	(41,048)	(38,724)
Balance as at 31 March	**687,568**	**606,640**

Collection Fund adjustment account

	2020-21	2019-20
	£000	£000
Opening balance	**19,959**	**11,308**
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	29,491	8,651
Balance as at 31 March	**49,450**	**19,959**

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

Collection Fund adjustment account – council tax

	2020-21	2019-20
	£000	£000
Opening balance	**1,288**	**(4,022)**
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	4,060	5,310
Balance as at 31 March	**5,348**	**1,288**

Collection Fund adjustment account – business rates

	2020-21	2019-20
	£000	£000
Opening balance	**18,671**	**15,330**
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	25,431	3,341
Balance as at 31 March	**44,102**	**18,671**

Due to the impact of Covid-19, the Collection Fund has a higher in year deficit for 2020-21 resulting in higher values in the Collection Fund adjustment account (refer to the Collection Fund).

Dedicated schools grant adjustment account

	2020-21	2019-20
	£000	£000
Opening balance	**-**	**-**
Transfer of the opening dedicated schools grant deficit from the DSG reserve (earmarked usable reserve) to the DSG adjustment account.	18,525	-
In year dedicated schools grant deficit	2,070	-
Balance as at 31 March	**20,595**	**-**

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

24. CASH FLOW FROM OPERATING ACTIVITIES

	2020-21	2019-20
	£000	£000
Adjustment to surplus or deficit on the provision of services for non-cash movement		
Depreciation	94,112	119,039
Impairment and upward/(downward) valuations	84,206	71,162
Increase/(decrease) in impairment for bad debts	6,312	6,105
Increase/(decrease) in creditors	113,784	(15,077)
(Increase)/decrease in debtors	(80,062)	(30,743)
(Increase)/decrease in inventories	(594)	(7)
Movement in pension liability	34,204	43,907
Movement in provisions	5,216	(12,918)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	13,562	34,045
Other non-cash items charged to the net surplus or deficit on the provision of services	(196)	396
Total	**270,544**	**215,909**

	2020-21	2019-20
	£000	£000
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(39,729)	(37,224)
Capital grants included in 'taxation and non-specific grant income'	(100,798)	(56,636)
Total	**(140,527)**	**(93,860)**

The cash flows from operating activities include the following interest amounts:

	2020-21	2019-20
	£000	£000
Interest received	(3,656)	(5,136)
Interest paid	38,275	40,177
Net interest	**34,619**	**35,041**

25. CASH FLOW FROM INVESTING ACTIVITIES

	2020-21	2019-20
	£000	£000
Purchase of PPE, investment property and intangible assets	(316,656)	(236,393)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	39,729	37,224
Proceeds from sale of short-term investments (not considered to be cash equivalents)	(996)	(25,702)
Capital grants and contributions received	76,667	56,513
Net cash flows from investing activities	**(201,256)**	**(168,358)**

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

26. CASH FLOW FROM FINANCING ACTIVITIES

	2020-21	2019-20
	£000	£000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on Balance Sheet PFI contracts	(5,042)	(5,285)
Cash receipts of short and long-term borrowing	315,617	347,360
Repayments of short and long-term borrowing	(242,697)	(211,507)
Net cash flows from financing activities	**67,878**	**130,568**

RECONCILIATION BETWEEN OPENING AND CLOSING LIABILITIES ARISING FROM FINANCING ACTIVITIES (IAS 7)

	Long-term borrowings	Short-term borrowings	Lease liabilities	Total
	£000	£000	£000	£000
Opening balance	**(627,634)**	**(190,805)**	**(91,400)**	**(909,839)**
Cash flows:				
Repayment	15,645	227,052	5,425	248,122
Proceeds	(72,000)	(244,000)	-	(316,000)
Subtotal	**(56,355)**	**(16,948)**	**5,425**	**(67,878)**
Non-costs:				
Acquisition	-	-	(509)	(509)
Reclassification	-	383	-	383
Subtotal	**-**	**383**	**(509)**	**(126)**
Balance as at 31 March	**(683,989)**	**(207,370)**	**(86,484)**	**(977,843)**

27. EXTERNAL AUDIT COSTS

	2020-21	2019-20
	£000	£000
Fees payable for external audit services carried out by the appointed auditor for the year	258	215
Additional fees payable for external audit services carried out by the appointed auditor for 2019-20	32	-
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	47	41
Addiitonal fees payable to the appointed auditor for the certification of grant claims and returns for 2019-20	8	-
Fees payable in respect of other non-audit services not covered above	10	10
Total	**355**	**266**

28. MEMBERS' ALLOWANCES

Members' allowances and expenses paid in 2020-21 was £1,386,140 (£1,342,944 in 2019-20).

29. OFFICER REMUNERATION

In accordance with regulations, 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 2020-21 and 2019-20.

	2020-21		2019-20	
Postholder	**Remuneration**	**Council's contributions to the Pension Fund**	**Remuneration**	**Council's contributions to the Pension Fund**
	£	**£**	**£**	**£**
Chief Executive - E Kelly	217,687	15,783	212,026	15,372
Strategic Director of Environment & Leisure - C Bruce	168,492	24,431	119,187	17,282
Strategic Director of Place and Wellbeing - K Fenton	-	-	164,572	-
Strategic Director of Housing and Modernisation - M Scorer	179,778	26,068	169,530	24,582
Strategic Director of Finance and Governance - D Whitfield	191,901	13,913	186,918	13,552
Strategic Director of Children's and Adults - D Quirke-Thornton	179,778	26,068	169,530	24,582

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 the same year.

Remuneration figures represent gross pay for the postholder before that individual's personal contributions to the Southwark Pension Fund. They include basic salary plus any contracted additions paid during the financial year.

The first day of service for the Strategic Director of Environment and Leisure C Bruce was 1 July 2019 (last day of service for the previous post-holder was 31 March 2019) with a vacancy during 1 April 2019 to 30 June 2019.

For 2020-21, the post of Strategic Director of Place and Wellbeing did not exist. Cabinet agreed in July 2018 the creation of a post titled Strategic Director of Place and Wellbeing for the period 1 September 2018 to 30 September 2020 only. This post incorporated the council's statutory Director of Public Health post which was filled on a secondment basis until 31 March 2020. From 1 April 2020 to 31 March 2021, a member of staff within the Public Health division acted as the Director of Public Health for the London Borough of Southwark. A permanent Director of Public Health started her role on 29 March 2021; this role is not within the Chief Officer Team.

The Strategic Director of Finance and Governance performs Returning Officer duties for elections; there were no elections during 2020-21 so nil remuneration. Chief Executive, E Kelly was asked on a temporary basis to join the national programme to roll out the Covid-19 vaccine, as the Local Authority Chief Executive Officer Adviser; the council is being compensated for this secondment which lasted approximately 3 months.

During 2020-21 the council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

	Schools and non-school analysis		Number of employees	Number of employees
Band (£)	**Schools**	**Non-school**	**2020-21**	**2019-20**
50,000 - 54,999	168	234	402	315
55,000 - 59,999	120	77	197	136
60,000 - 64,999	52	60	112	123
65,000 - 69,999	43	80	123	86
70,000 - 74,999	25	18	43	50
75,000 - 79,999	14	36	50	42
80,000 - 84,999	22	7	29	18
85,000 - 89,999	10	5	15	17
90,000 - 94,999	8	14	22	19
95,000 - 99,999	7	12	19	18
100,000 - 104,999	5	4	9	5
105,000 - 109,999	1	4	5	4
110,000 - 114,999	2	3	5	2
115,000 - 119,999	-	-	-	6
120,000 - 124,999	1	5	6	3
125,000 - 129,999	2	2	4	2
130,000 - 134,999	1	1	2	6
135,000 - 139,999	-	6	6	-
Total	**481**	**568**	**1,049**	**852**

For the financial year 2020-21, the total number of non-school employees whose earnings exceeded £100,000 per annum (excluding payments on termination of employment) was 25 (17 in 2019-20).

30. 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-school					
	2020-21	2019-20	**2020-21**	2019-20	**2020-21**	2019-20	**2020-21**	2019-20
	No. staff	No. staff	**No. staff**	No. staff	**No. staff**	No. staff	**£000**	£000
£0 - £20,000	**72**	60	**42**	17	**114**	77	**828**	466
£20,001 - £40,000	**4**	3	**4**	2	**8**	5	**204**	134
£40,001 - £60,000	**1**	1	**-**	-	**1**	1	**47**	45
£60,001 - £80,000	**-**	-	**1**	-	**1**	-	**62**	-
£80,001 - £100,000	**-**	-	**1**	-	**1**	-	**90**	-
Total	**77**	64	**48**	19	**125**	83	**1,231**	645

23 compulsory redundancies were made by schools in 2020-21, all within the £0 to £20,000 exit package band and totalling £103,033 (2019-20 11 compulsory redundancies, all within the £0 to £20,000 exit package cost band, £36,242).

31. RELATED PARTY TRANSACTIONS

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

Central government
Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding. Grants received from government departments during the year and receipts outstanding at 31 March 2021 are set out in note 21 to the accounts.

Members and chief officers
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2020-21 is shown in note 28. Information regarding reportable transactions has been collated by requiring all members and chief officers to declare any related party transactions. A review of the register of members' interests has been conducted, including the register of declarations at committee meetings. For chief officers, direct confirmation of any related party interests has been sought and obtained.

Related party interests for which transactions exist in 2020-21 were declared by 21 councillors and one submission from one chief officer (21 and nil respectively in 2019-20):

- with voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.2m (£0.6m in 2019-20)

- with businesses or other organisations that have contracted for goods and services with the council to the estimated value of £1.6m (£1.2m in 2019-20)

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

Pensions
The council is the administering authority of the Pension Fund. The council charged the fund £0.9m (£0.9m in 2019-20) for expenses incurred in administering the Pension Fund which is included within the Statement of Accounts.

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2020-21	2019-20
	£000	£000
Opening capital financing requirement	**1,084,341**	**1,007,876**
Capital investment		
Property, plant and equipment (including assets held for sale)	313,713	234,123
Revenue expenditure funded from capital under statute (REFCUS)	15,985	24,890
Long-term debtors	3,350	1,185
Investment property	390	823
Total capital investment	**333,438**	**261,021**
Sources of capital finance		
Capital receipts	(12,912)	(35,527)
Government grants and other contributions	(100,798)	(56,636)
Direct revenue contributions	(21,465)	(24,423)
Major repairs reserve	(52,726)	(59,092)
Minimum revenue provision (MRP) / loans fund principal	(9,988)	(8,878)
Total capital investment financed	**(197,889)**	**(184,556)**
Closing capital financing requirement	**1,219,890**	**1,084,341**
Explanation of movement		
Increase in underlying need to borrow	135,040	75,973
Assets acquired under private finance initiative (PFI) contracts	509	492
Net movement in year	**135,549**	**76,465**

33. LEASES

The council as lessee – operating leases

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

Expenditure charged to services in the Comprehensive Income and Expenditure Statement (CIES) during the year in the use of operating leases:

	2020-21	2019-20
	£000	£000
Minimum lease payments	2,628	2,510
Less sub-lease payments	(425)	(274)
Total	**2,203**	**2,236**

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

	31 March 2021	31 March 2020
	£000	£000
Within 1 year	2,502	1,900
Within 2 to 5 years	6,452	5,392
After 5 years	9,448	10,377
Total	**18,402**	**17,669**

The council as lessor – operating leases

The council has industrial and commercial units which it lets out. It also lets out workshops and property for shops, community and commercial use.

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

	31 March 2021	31 March 2020
	£000	£000
Within 1 year	17,904	18,630
Within 2 to 5 years	57,853	61,579
After 5 years	58,883	169,596
Total	**134,640**	**249,805**

The significant reduction in future rental income is due to the termination of the lease agreement for Harmsworth Quay shopping centre, part of the Canada Water Development.

34. 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 Education Investments Holdings Limited.
- 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 Education Investments Holdings Limited.
- 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 Education Investments Holdings Limited.
- 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 £682m 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 with Veolia, which will involve the contractor putting in place piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public.

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

	St Michael's Catholic college	St Thomas the Apostle college	Sacred Heart Catholic school	Integrated waste management facility	Heating supply arrangement	Total
	£000	£000	£000	£000	£000	£000
Opening balance	**14,089**	**18,339**	**17,579**	**41,759**	**4,427**	**96,193**
New liability incurred	-	-	-	412	80	**492**
Repayments made in year	(400)	(485)	(433)	(3,746)	(221)	**(5,285)**
Balance as at 31 March 2020	**13,689**	**17,854**	**17,146**	**38,425**	**4,286**	**91,400**
Opening balance	**13,689**	**17,854**	**17,146**	**38,425**	**4,286**	**91,400**
New liability incurred	-	-	-	412	97	**509**
Repayments made in year	(369)	(534)	(513)	(3,757)	(252)	**(5,425)**
Balance as at 31 March 2021	**13,320**	**17,320**	**16,633**	**35,080**	**4,131**	**86,484**

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

	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Total
	£000	£000	£000	£000
Net book value as at 1 April 2019	**61,000**	**15,475**	**4,282**	**80,757**
Additions	-	412	80	**492**
Depreciation and impairment	(875)	(940)	(189)	**(2,004)**
Revaluations	(659)	-	-	**(659)**
Other	-	-	258	**258**
Net book value as at 31 March 2020	**59,466**	**14,947**	**4,431**	**78,844**
Net book value as at 1 April 2020	**59,466**	**14,947**	**4,431**	**78,844**
Additions	-	412	97	**509**
Depreciation and impairment	(847)	(957)	(194)	**(1,998)**
Revaluations	133	-	-	**133**
Net book value as at 31 March 2021	**58,752**	**14,402**	**4,334**	**77,488**

The projected payments under the agreements are as follows:

	1 year	2-5 years	6-10 years	11-15 years	16-20 years	Total
	£000	£000	£000	£000	£000	£000
St Michael's Catholic college						
Liability	471	1,599	4,446	6,804	-	**13,320**
Interest	1,690	6,205	6,063	2,554	-	**16,512**
Service charges	646	3,224	4,143	5,007	-	**13,020**
St Thomas the Apostle college						
Liability	551	2,648	5,037	8,336	748	**17,320**
Interest	1,825	6,621	6,425	2,991	45	**17,907**
Service charges	297	1,272	1,812	2,143	(243)	**5,281**
Lifecycle payments	135	535	929	1,378	(36)	**2,941**
Sacred Heart Catholic school						
Liability	526	2,466	4,498	6,762	2,380	**16,632**
Interest	1,673	6,105	6,058	3,201	167	**17,204**
Service charges	483	2,018	2,900	3,381	1,265	**10,047**
Lifecycle payments	125	488	747	1,504	440	**3,304**
Integrated waste management facility						
Liability	3,293	12,700	13,754	5,333	-	**35,080**
Interest	1,886	6,078	4,342	781	-	**13,087**
Service charges	21,294	89,842	129,935	53,660	-	**294,731**
Lifecycle payments	1,469	9,991	17,501	7,076	-	**36,037**
Heat supply arrangement						
Liability	173	923	1,915	1,120	-	**4,131**
Interest	505	1,791	1,476	235	-	**4,007**
Service charges	1,312	5,582	7,800	3,400	-	**18,094**
Lifecycle payments	99	423	591	257	-	**1,370**

35. OTHER LONG-TERM LIABILITIES

	31 March 2021 £000	31 March 2020 £000
Payments due under Private Finance Initiative (PFI) schemes and similar arrangements:		
St Michaels Catholic college	(12,849)	(13,320)
St Thomas the Apostle college	(16,769)	(17,320)
Sacred Heart Catholic school	(16,106)	(16,632)
Integrated waste management facility	(30,318)	(34,668)
Heat supply arrangement	(3,859)	(4,035)
Total	**(79,901)**	**(85,975)**

36. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES (NHS AND TEACHERS)

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

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

In 2020-21 the council paid £13.7m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.6% of pensionable pay (£12.1m and 20.7% respectively in 2019-20). It also paid £0.046m to the NHS Pension Scheme representing 14.4% of pensionable pay (£0.044m 2019-20, representing 14.4% of pensionable pay). In 2020-21 the employer contribution rate was 20.7% of pensionable pay (including levy). Employers are responsible for paying 14.4% of contributions, with the remaining 6.3% being funded by government. There were no contributions remaining payable at the year-end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 37.

37. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

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

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

	2020-21			2019-20		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Cost of services						
- Current service cost	60,700	311	**61,011**	64,800	451	**65,251**
- Past service costs	700	-	**700**	800	-	**800**
Financing and investment income and expenditure						
- Net interest expense/(income)	13,600	(59)	**13,541**	16,700	(120)	**16,580**
Total post employment benefit charged to the surplus or deficit on the provision of services	**75,000**	**252**	**75,252**	**82,300**	**331**	**82,631**
Other post employment benefit charged to the comprehensive income and expenditure statement						
Remeasurement of the net defined benefit liability comprising						
- Return on plan assets (excluding amount included in the net interest expense)	(347,000)	(8,439)	**(355,439)**	102,500	2,714	**105,214**
- Actuarial gains and losses arising on changes in demographic assumptions	-	(533)	**(533)**	(196,000)	955	**(195,045)**
- Actuarial gains and losses arising on changes in financial assumptions	421,600	7,827	**429,427**	(43,000)	(3,755)	**(46,755)**
- Actuarial gains and losses arising on changes in liability experience	(26,000)	(731)	**(26,731)**	(13,800)	(1,533)	**(15,333)**
- Other actuarial gains and losses on assets	-	-	**-**	-	2,182	**2,182**
Total post employment benefit charged to the comprehensive income and expenditure statement	**123,600**	**(1,624)**	**121,976**	**(68,000)**	**894**	**(67,106)**
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	75,000	252	**75,252**	82,300	331	**82,631**
Actual amount charged against the General Fund balance for pensions in the year						
- Employers' contributions payable to the scheme	40,900	148	**41,048**	38,600	124	**38,724**

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:

	31 March 2021			31 March 2020		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Fair value of plan assets	1,901,000	61,349	**1,962,349**	1,524,000	54,712	**1,578,712**
Less present value of defined benefit obligation	2,594,700	55,217	**2,649,917**	2,135,000	50,352	**2,185,352**
Net asset / (liability) arising from defined benefit obligation	**(693,700)**	**6,132**	**(687,568)**	**(611,000)**	**4,360**	**(606,640)**

Reconciliation of present value of the scheme assets

	2020-21			2019-20		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Opening balance	1,524,000	54,712	**1,578,712**	1,598,000	60,767	**1,658,767**
Interest income on assets	35,000	1,075	**36,075**	38,300	1,370	**39,670**
Remeasurement gains/(losses) on assets	347,000	8,439	**355,439**	(102,500)	(2,714)	**(105,214)**
Other actuarial gains/(losses)	-	-	**-**	-	(2,182)	**(2,182)**
Administration expenses	-	(71)	**(71)**	-	(79)	**(79)**
Employer contributions	41,700	148	**41,848**	39,300	124	**39,424**
Contribution by participants	12,700	46	**12,746**	12,100	42	**12,142**
Net benefits paid out	(59,400)	(3,000)	**(62,400)**	(61,200)	(2,616)	**(63,816)**
Closing balance as at 31 March	**1,901,000**	**61,349**	**1,962,349**	**1,524,000**	**54,712**	**1,578,712**

Reconciliation of present value of the scheme liabilities

	2020-21			2019-20		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Opening balance	2,135,000	50,352	**2,185,352**	2,315,600	55,637	**2,371,237**
Current service cost	60,700	238	**60,938**	64,800	232	**65,032**
Interest cost	49,400	1,016	**50,416**	55,000	1,250	**56,250**
Contributions by scheme participants	12,700	46	**12,746**	12,800	42	**12,842**
Change in financial assumptions	421,600	7,827	**429,427**	(43,000)	(3,755)	**(46,755)**
Change in demographic assumptions	-	(533)	**(533)**	(196,000)	955	**(195,045)**
Experience loss/(gain) on defined benefit obligation	(26,000)	(731)	**(26,731)**	(13,800)	(1,533)	**(15,333)**
Benefits paid	(59,400)	(3,000)	**(62,400)**	(61,200)	(2,616)	**(63,816)**
Past service costs	700	2	**702**	800	140	**940**
Balance as at 31 March	**2,594,700**	**55,217**	**2,649,917**	**2,135,000**	**50,352**	**2,185,352**

Scheme assets comprised

	31 March 2021			31 March 2020		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Quoted						
- Equities	1,152,006	33,332	**1,185,338**	925,068	29,634	**954,702**
- Government bonds	171,090	-	**171,090**	286,512	-	**286,512**
- Corporate bonds	193,902	-	**193,902**	-	-	**-**
- Target return portfolio	-	14,439	**14,439**	-	13,335	**13,335**
- Multi-asset pooled funds	38,020	-	**38,020**	25,908	-	**25,908**
Subtotal	**1,555,018**	**47,771**	**1,602,789**	**1,237,488**	**42,969**	**1,280,457**
Unquoted						
- Infrastructure	-	5,199	**5,199**	-	3,840	**3,840**
- Property	239,526	5,583	**245,109**	251,460	4,997	**256,457**
- Cash	60,832	2,796	**63,628**	24,384	2,906	**27,290**
- Multi-asset pooled funds	45,624	-	**45,624**	10,668	-	**10,668**
Subtotal	**345,982**	**13,578**	**359,560**	**286,512**	**11,743**	**298,255**
Total	**1,901,000**	**61,349**	**1,962,349**	**1,524,000**	**54,712**	**1,578,712**

Basis for estimating assets and liabilities

The scheme assets, as shown above, are those attributable to the council from its membership of the Local Government Pension Scheme (LGPS) for both the London borough of Southwark Pension Fund and the London Pension Fund Authority (LPFA). The value of the assets is provided by fund actuaries. The LGPS valuation is based on asset values at 31 March 2021. The LPFA actuary uses market values at 31 December 2020, then indexed for market movements to arrive at a valuation for 31 March 2021.

Liabilities for the council and LPFA schemes have been assessed by Aon Hewitt and Barnett Waddingham respectively. Both have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on data relating to the latest full valuations as at 31 March 2019 and rolled forward.

Principal assumptions used by the actuaries

	Council		LPFA	
	2020-21	**2019-20**	**2020-21**	**2019-20**
Mortality assumptions				
Longevity at 65 for current pensioners				
Men (years)	20.9	20.8	21.2	20.4
Women (years)	23.7	23.6	23.8	23.4
Longevity at 45 for future pensioners				
Men (years)	22.8	22.7	22.8	21.9
Women (years)	25.6	25.5	25.7	25.0
Principal financial assumptions				
Rate of inflation - consumer price index (CPI)	2.7%	2.0%	2.9%	2.0%
Rate of increase in salaries	4.2%	3.5%	3.9%	3.0%
Rate of increase in pensions	2.7%	2.0%	2.9%	2.0%
Rate of pension accounts revaluation	2.7%	2.0%		
Rate for discounting scheme liabilities	2.1%	2.3%	1.9%	2.3%

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

Assumption	**Impact of increase**			**Impact of decrease**		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Present value of total obligation						
Longevity (+/- 1 year)	2,688,100	59,184	**2,747,284**	2,503,900	51,540	**2,555,440**
Rate of increase in salaries (+/- 0.1%)	2,599,900	55,247	**2,655,147**	2,589,500	55,187	**2,644,687**
Rate of increase in pensions (+/- 0.1%)	2,641,400	55,881	**2,697,281**	2,550,600	54,561	**2,605,161**
Rate for discounting scheme liabilities (+/- 0.1%)	2,545,400	54,525	**2,599,925**	2,646,600	55,918	**2,702,518**
Projected service cost						
Longevity (+/- 1 year)	89,400	290	**89,690**	82,300	264	**82,564**
Rate of increase in salaries (+/- 0.1%)	85,800	277	**86,077**	85,800	276	**86,076**
Rate of increase in pensions (+/- 0.1%)	88,700	282	**88,982**	83,000	272	**83,272**
Rate for discounting scheme liabilities (+/- 0.1%)	83,000	271	**83,271**	88,700	282	**88,982**

Impact on the council's cash flows

The objective of the schemes are to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £2,650m (£2,185m at 31 March 2020) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £688m (£606m at 31 March 2020). However, statutory arrangements for funding the deficit mean that the council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government's Pension Scheme may not provide benefits in relation to service after 31 March 2014. The act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2021-22 is £85.8m for the council scheme and £0.3m for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 19.5 years (19.5 years 2019-20) and 13 years for LPFA scheme members (13 years 2019-20).

IAS 19 / FRS102 accounting for McCloud judgement and Guaranteed Minimum Pension (GMP) indexation / equalisation

Following a review of public service pension schemes in 2012 by Lord Hutton (the Hutton Report) all public service pension schemes were reformed with effect from 1 April 2014 in England and Wales. The reforms included transitional protections for those members who were closest to retirement. In December 2018 the government lost a Court of Appeal case (the McCloud/Sargent judgement) that found that the transitional protection arrangements put in place amounted to illegal age discrimination.

MHCLG published its McCloud consultation for the LGPS in England and Wales on 16 July 2020, setting out proposed changes aimed at removing the unlawful age discrimination in the LGPS.

The figures in the accounts provided by the actuary include a McCloud 'underpin' liability within the current service cost, together with an allowance within the balance sheet reflecting service since the scheme reforms in 2014. This method for valuing the McCloud remedy is closely aligned with the method proposed by MHCLG in its consultation.

GMP Equalisation and indexation

Guaranteed minimum pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. The rate at which GMP was accrued, and the date it is payable, is different for men and women, meaning there is an inequality for male and female members who have GMP.

Allowance has been made for full indexation on all GMPs for members whose state pension age is on or after 6 April 2016. This additional liability has been allowed for as a past service cost in the accounting figures as at 31 March 2021.

38. 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.

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

	Long-term	Long-term	Short-term	Short-term
	31 March 2021	31 March 2020	31 March 2021	31 March 2020
	£000	£000	£000	£000
Investments				
Fair value through other comprehensive income	29,597	40,776	76,072	64,968
Amortised cost	-	-	1,575	501
Less trust funds	-	-	(1,487)	(1,484)
Total investments	**29,597**	**40,776**	**76,160**	**63,985**
Debtors				
Amortised cost	24,017	23,899	137,914	140,273
Total debtors	**24,017**	**23,899**	**137,914**	**140,273**
Cash and cash equivalents				
Cash and bank	-	-	(16,620)	(8,616)
Short-term deposits	-	-	38,992	26,651
Total cash and cash equivalents	**-**	**-**	**22,372**	**18,035**

Financial liabilities

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

	Long-term	Long-term	Short-term	Short-term
	31 March 2021	31 March 2020	31 March 2021	31 March 2020
	£000	£000	£000	£000
Borrowings				
Financial liabilities at amortised cost	(683,989)	(627,634)	(207,370)	(190,805)
Total borrowings	**(683,989)**	**(627,634)**	**(207,370)**	**(190,805)**
Other long-term liabilities				
Private finance initiative (PFI) liabilities	(79,901)	(85,975)	-	-
Total other long-term liabilities	**(79,901)**	**(85,975)**	**-**	**-**
Creditors				
Financial liabilities at amortised cost	(8,248)	(9,288)	(245,323)	(131,039)
Total creditors	**(8,248)**	**(9,288)**	**(245,323)**	**(131,039)**

Financial instruments – gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items.

	2020-21				2019-20			
	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	29,179	-	-	**29,179**	28,729	-	-	**28,729**
Expected credit loss	-	6,312	(96)	**6,216**	-	2,225	63	**2,288**
Other charges	716	-	-	**716**	660	-	-	**660**
Total expenses in surplus or deficit on the provision of services	**29,895**	**6,312**	**(96)**	**36,111**	**29,389**	**2,225**	**63**	**31,677**
Interest income	-	(13)	(442)	**(455)**	-	(515)	(936)	**(1,451)**
Less allocated to other funds	-	29	-	**29**	-	173	-	**173**
Total income in surplus or deficit on the provision of services	**-**	**16**	**(442)**	**(426)**	**-**	**(342)**	**(936)**	**(1,278)**
Surplus/(deficit) arising on revaluation of financial assets in other comprehensive income and expenditure	-	-	460	**460**	**-**	**-**	(170)	**(170)**
Net gain/(loss) for year	**29,895**	**6,328**	**(78)**	**36,145**	**29,389**	**1,883**	**(1,043)**	**30,229**

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

The main risks covered are:

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

Credit risk - investments

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

The council is able to utilise the expertise of external fund managers to seek to mitigate credit risk in the construction of a well diversified treasury portfolio. Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and no more than 50% of total investments can be for a period longer than one year.

The council's exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally, as the risk of any institution failing to make interest repayments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at 31 March 2021 that this was likely to crystallise.

The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2021 is set out below:

	A	AA	AAA	Total	A	AA	AAA	Total
	£000	£000	£000	£000	%	%	%	%
Up to 1 year	38,032	11,213	63,664	**112,909**	27%	8%	45%	**80%**
1 - 2 years	5,216	5,706	6,268	**17,190**	4%	4%	4%	**12%**
2 - 5 years	3,154	228	8,826	**12,208**	2%	0%	6%	**8%**
Total investments	**46,402**	**17,147**	**78,758**	**142,307**	**33%**	**12%**	**55%**	**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

	2020-21	2019-20
	£000	£000
Less than 1 year	209,418	177,052
Between 1 and 5 years	59,565	63,060
Between 5 and 10 years	66,609	79,189
Between 10 and 20 years	105,035	110,024
Over 20 years	445,361	380,361
Total	**885,988**	**809,686**

Market risk

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

Outstanding long-term council debt at 31 March 2021 is primarily from the PWLB with short-term borrowing from other local authorities. The debt is at fixed rates, with an average maturity of 21 years (20 years at 31 March 2020). The maturity profile of the debt is shown in the table above. The council may draw further loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £140m. 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 0.8 years. A 1% change in discount rates on available for sale investments at the Balance Sheet date would change the fair value by £0.8m and would be reflected in the Balance Sheet in the available for sale reserve. There would be no impact on the Comprehensive Income and Expenditure Statement, unless the investments were realised.

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

40. FAIR VALUE - ASSETS AND LIABILITIES

Fair value - basis of valuation

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

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

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date

- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly

- Level 3 inputs – unobservable inputs for the asset

The following table provides an analysis of the financial assets, non-financial assets, and financial liabilities grouped into the level at which fair value is observable. The fair value of certain assets and liabilities, including debtors, creditors and cash balances is approximate to the carrying value, and is therefore excluded.

Description of asset or liability	Fair value 31 March 2021		Fair value 31 March 2020	
	Quoted market price	Using observable inputs	Quoted market price	Using observable inputs
	Level 1	Level 2	Level 1	Level 2
	£000	£000	£000	£000
Financial assets				
Fair value through other comprehensive income	105,669	-	105,745	-
Amortised cost	40,568	-	27,147	-
Investment property	-	381,110	-	343,805
Assets held for sale	-	15,264	-	41,974
Surplus property	-	125,342	-	154,732
Total	**146,237**	**521,716**	**132,892**	**540,511**
Financial liabilities				
Long term loans from public works loan board (PWLB)	-	860,780	-	813,256
Long term loan from mayors energy efficiency fund (MEEF)	-	6,538	-	-
Lease payable and private finance initiative (PFI) liabilities	-	174,352	-	170,884
Total	**-**	**1,041,670**	-	**984,140**

SUPPLEMENTARY FINANCIAL STATEMENTS

2020-21

HOUSING REVENUE ACCOUNT

COLLECTION FUND

PENSION FUND

HOUSING REVENUE ACCOUNT

2020-21

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	2020-21 £000	2019-20 £000
Income			
Dwelling rents		(197,353)	(196,676)
Non-dwelling rents		(5,665)	(6,007)
Charges for services and facilities		(62,562)	(59,012)
Contributions towards expenditure		(3,146)	(2,712)
Total income		**(268,726)**	**(264,407)**
Expenditure			
Repairs and maintenance		54,116	52,758
Supervision and management		113,547	114,545
Rents, rates, taxes and other charges		9,137	8,685
Depreciation, impairment and revaluation losses of non-current assets	3	96,270	144,006
Debt management costs		329	275
Increase in provisions for bad debts		951	267
Revenue expenditure funded from capital under statute	4	4,832	5,381
Total expenditure		**279,182**	**325,917**
Net cost of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement		**10,456**	**61,510**
HRA share of corporate and democratic core		1,106	1,106
Net cost of HRA services		**11,562**	**62,616**
Gains and losses on the sales of HRA non-current assets		(23,702)	(5,850)
Interest payable and similar charges		22,924	23,168
Interest and investment income		(2,198)	(2,590)
Income, expenditure and changes in the fair value of investment properties	14	11,307	(11,901)
Pensions interest cost and expected return on pensions assets		2,604	2,831
Capital grants and contributions receivable		(75,026)	(26,628)
Total (surplus)/deficit for the year		**(52,529)**	**41,646**

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	2020-21	2019-20
		£000	£000
(Surplus)/deficit for the year on HRA services		(52,529)	41,646
Net additional amounts required by statute	5	47,195	(43,825)
(Increase)/decrease in the HRA balance		**(5,334)**	**(2,179)**
HRA balance brought forward		(23,012)	(20,833)
Balance carried forward	6	**(28,346)**	**(23,012)**

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 'ringfenced' and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the General Fund) are limited to special circumstances.

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of Dwelling		Number of bedrooms				Total	Total
		1	2	3+	Other	31 March 2021	31 March 2020
Houses and bungalows	**31 March 2021**	**378**	**720**	**2,838**	**-**	**3,936**	
	31 March 2020	381	720	2,840	-		3,941
Low rise flats	**31 March 2021**	**2,801**	**614**	**365**	**-**	**3,780**	
	31 March 2020	2,811	617	368	-		3,796
Medium rise flats	**31 March 2021**	**6,527**	**7,097**	**6,104**	**-**	**19,728**	
	31 March 2020	6,563	7,116	6,118	-		19,797
High rise flats	**31 March 2021**	**2,730**	**4,708**	**1,757**	**-**	**9,195**	
	31 March 2020	2,784	4,707	1,781	-		9,272
Non-permanent	**31 March 2021**	**-**	**-**	**-**	**-**	**-**	
	31 March 2020	-	-	-	-		-
Multi-occupied	**31 March 2021**	-	-	-	**279**	**279**	
	31 March 2020	-	-	-	341		341
TOTALS	**31 March 2021**	**12,436**	**13,139**	**11,064**	**279**	**36,918**	
	31 March 2020	12,539	13,160	11,107	341		37,147

In addition to the numbers shown in the table above, as at 31 March 2021 there were also 678 void properties (532 at 31 March 2020). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.

The vacant possession value of buildings as at 31 March 2021 was £13.9bn (£13.5bn as at 31 March 2020). 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.

The reduction in multi-occupied properties was partly a result of the council's on-going redevelopment policies, but was also accelerated in 2020-21 due to the Covid-19 pandemic.

3. DEPRECIATION, IMPAIRMENT AND REVALUATION LOSSES OF NON-CURRENT ASSETS

	2020-21	2019-20
	£000	£000
Dwellings depreciation	48,882	48,845
Other property depreciation	1,576	1,593
Revaluation losses on non-current assets	45,812	93,568
Total	**96,270**	**144,006**

Revaluation charges arise from the writing out of components of dwellings when they are replaced or upgraded by new ones, 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 2020-21 £4.832m was incurred in the HRA as REFCUS (£5.381m in 2019-20).

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:

	2020-21	2019-20
	£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	221	1,246
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(626)	77
Gain or loss on the sale of HRA non-current assets	23,702	5,850
HRA share of contributions to or from the pension reserve	(8,028)	(9,196)
Capital expenditure funded by the HRA	20,640	23,758
Transfer to/from the major repairs reserve	53,958	50,439
Transfer to/from the capital adjustment account	(42,672)	(115,999)
Net additional amount required by statute to be charged to the HRA	**47,195**	**(43,825)**

6. HRA BALANCE

HRA reserves at 31 March 2021 are £28.346m (£23.012m at 31 March 2020) and are allocated as follows:

	31 March 2021	31 March 2020
	£000	£000
Modernisation, service and operational improvement reserve	(3,849)	(3,848)
Financial risk reserve	(24,497)	(19,164)
Total	**(28,346)**	**(23,012)**

The modernisation, service and operational improvement reserve of £3.8m comprises £0.8m for IT transformation, and £3.0m for investment in energy infrastructure.

The financial risk reserve, £24.5m, includes £7.5m contingency, broadly representing 2.3% of gross HRA revenue spend and housing investment programme spend. The reserve also provides £1.3m to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £2.4m heating account reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, £1.0m for estate parking and £5.6m relating to debt financing. In 2019-20 reserves relating to homeowners and tenants funds were merged into a new residents participation reserve of £0.2m. The repairs and maintenance transition reserve remains at £2.5m. A new great estates reserve was also established during 2019-20, which currently stands at £1.1m. In 2020-21 two new reserves were created relating to service charges at £1.9m and a HRA operational reserve of £1.0m.

From 1 April 2020 the homeowners fund and tenants fund were combined into a new residents participation fund, as part of the implementation of proposals relating to reforming resident participation agreed by the council's cabinet on 4 February 2020. Within the HRA Income and Expenditure Account, the new earmarked residents participation fund also encompasses tenant and resident special interest grants (TRSIG).

7. MAJOR REPAIRS RESERVE

	2020-21	2019-20
	£000	£000
Balance 1 April	(2,268)	(10,921)
Transfers from the capital adjustment account	(50,458)	(50,439)
Transfer (from) / to the HRA	(3,500)	-
Financing of capital expenditure	52,726	59,092
Balance as at 31 March	**(3,500)**	**(2,268)**

8. CAPITAL EXPENDITURE AND FINANCING

	2020-21	2019-20
	£000	£000
Capital investment		
Non-current assets	210,549	151,902
REFCUS	4,832	5,381
Total	**215,381**	**157,283**
Funding Source:		
Direct revenue contributions	20,640	23,758
Capital receipts	10,904	27,614
Government grants and other contributions	75,025	26,628
Major repairs reserve	52,726	59,092
Borrowing	56,086	20,191
Total	**215,381**	**157,283**

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

	2020-21	2019-20
	£000	£000
Council dwellings		
Right to Buy	(15,129)	(18,757)
Non Right to Buy	(22,117)	(3,916)
Other receipts		
Land sales	(13)	(6,251)
Mortgages	(5)	(5)
Subtotal	**(37,264)**	**(28,929)**
Less: pooled (paid to central government)	4,267	4,267
Total	**(32,997)**	**(24,662)**

10. HOUSING TENANTS ACCOUNTS

	2020-21	2019-20
	£000	£000
Gross arrears as at 1 April	24,819	25,019
Prior year payments	(13,053)	(12,676)
Arrears as at 1 April	**11,766**	**12,343**
Charges due in the year	227,856	229,244
Rent rebates	(66,770)	(71,370)
Write-offs	(1,162)	(2,056)
Adjustments	(5,699)	(5,618)
Cash collected	(152,451)	(150,777)
Net arrears as at 31 March	**13,540**	**11,766**
Payments in advance	14,038	13,053
Gross arrears as at 31 March	**27,578**	**24,819**

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

11. IMPAIRMENT OF DEBTORS

	2020-21	2019-20
	£000	£000
Rents	12,978	12,601
Income from hostels	1,304	1,316
Court costs	846	853
Commercial rents	3,150	2,093
Penalty charge notices and parking warrants	2,572	2,303
Total	**20,850**	**19,166**

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 pension 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.

	2020-21	2019-20
	£000	£000
Current service cost	5,423	6,365
Interest on pension scheme liabilities	2,604	2,831
Actuarial (gains)/losses	9,189	(25,512)
Total IAS 19 charges	**17,216**	**(16,316)**
Less pensions costs attributable to the HRA	6,263	4,673
Movement on the pension reserve	**23,479**	**(11,643)**

13. WATER CHARGES

In March 2016, the High Court (Chancery Division) found that the council had been overcharging a tenant for water supplies via Thames Water, contrary to the Water Resale Order 2006. Refunds to current and former tenants commenced in 2016-17, and the council made appropriate provision in its accounts for this purpose. This process has continued during subsequent years, with the amount provided for reduced accordingly.

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.

In 2020, the Court of Appeal also found in favour of a water refund petitioner against another London borough, restating the findings of the 2016 case. In consideration of the publicity that this appeal is likely to generate, the council has decided to hold the above provision at the 2019-20 level, and is seeking further legal advice regarding the limitation timescales previously assumed.

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

This disclosure identifies expenditure, rental/investment income and changes in the fair value of HRA shops and other HRA assets classified on the balance sheet as investment properties.

The net loss included in the HRA Income and Expenditure Statement in 2020-21 is £11.307m compared to a net gain in 2019-20 of £11.901m. The major reason for the loss reported in 2020-21 is due to legislative changes aimed at facilitating electronic connectivity. The Digital Economy Act 2017 and Electronic Communications Code 2017 has significantly reduced the rents the council as landlord might obtain from the operation of digital communication equipment on its land, which also results in corresponding reductions in capital values.

COLLECTION FUND

2020-21

COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT

	Notes	Council tax	Business rates	Business rate supplement	2020-21	2019-20
		£000	£000	£000	£000	£000
Income						
Income from council tax	1	(150,926)			(150,926)	(147,710)
Transfer from the General Fund		(3,175)			(3,175)	(185)
Income from business rates	2		(224,183)		(224,183)	(317,267)
Transitional protection payments from MHCLG			(4,368)		(4,368)	(6,846)
Income from business rate supplement (BRS)	3			(6,969)	(6,969)	(9,329)
Contribution from preceptors towards previous years Collection Fund deficit			(26,127)		(26,127)	-
Total income		**(154,101)**	**(254,678)**	**(6,969)**	**(415,748)**	**(481,337)**
Expenditure						
Precepts and demands:						
Greater London Authority (GLA)		35,294			35,294	33,225
London borough of Southwark		117,849			117,849	110,532
Share of business rates:						
Greater London Authority (GLA)			124,970		124,970	91,019
London borough of Southwark			101,327		101,327	161,811
Ministry of Housing, Communities and Local Government (MHCLG)			111,460		111,460	84,277
Transitional protection payment to MHCLG					-	-
Cost of collection allowance (NDR)			769		769	757
Business rate supplement (BRS):	3					
Payment to GLA				6,953	6,953	9,314
Administrative costs				16	16	15
Council tax impairment of debts:						
Increase/(decrease) allowance for non-collection		994			994	3,519
Write-offs		3,384			3,384	2,502
NDR impairment of debts / appeals / refunds:						
Increase/(decrease) allowance for non-collection			7,581		7,581	4,573
Write-offs	5		1,084		1,084	945
Appeals / change in provision for alteration of VoA list and appeals			21,672		21,672	(14,721)
Interest on refunds					-	1
Contribution to preceptors towards previous years Collection Fund surplus	4	1,853			1,853	8,818
Total expenditure		**159,374**	**368,863**	**6,969**	**535,206**	**496,587**
Net (surplus)/deficit for the year		5,273	114,185	-	119,458	15,250
(Surplus)/deficit at 1 April		1,672	30,311	-	31,983	16,733
(Surplus)/deficit at 31 March	2	**6,945**	**144,496**	**-**	**151,441**	**31,983**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

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

In 2020-21 the estimated income required from all preceptors for the Collection Fund was £153.1m (2019-20 £143.8m). The amount of council tax for a band D property was £1440.88 in 2020-21 inclusive of the GLA precept (2019-20 £1,386.78) and is multiplied by the ratio specified for the particular band to give the council tax due from properties in other bands. The 2020-21 council taxbase after allowing for adjustments for non-collection (97.2% collection rate) was 106,284. 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	
	2020-21	**2019-20**		**2020-21**	**2019-20**
A	7,666	7,459	6/9	5,110	4,972
B	26,416	26,237	7/9	20,546	20,407
C	27,342	26,830	8/9	24,304	23,849
D	21,721	20,969	9/9	21,721	20,969
E	16,185	15,673	11/9	19,782	19,156
F	6,431	6,250	13/9	9,289	9,028
G	4,241	4,133	15/9	7,068	6,889
H	763	689	18/9	1,526	1,378
Total	**110,765**	**108,240**		**109,346**	**106,648**
Less adjustment for collection rate				(3,062)	(2,986)
Council taxbase for year				**106,284**	**103,662**
Estimated income required from Collection Fund				**£ 153,142,490**	**£ 143,756,388**
Band D council tax				**£ 1,440.88**	**£ 1,386.78**

Council tax receivable is net of benefits, any discounts for prompt payments, and any transitional relief.

The in year deficit of £5.3m was largely due to factors related to the Covid-19 pandemic, with a higher volume of write-offs at £3.4m and increase in bad debt provisions by £1m. The council tax position is a cumulative deficit of £6.9m for 2020-21 (2019-20 £1.7m).

2. NON-DOMESTIC RATES

Non-domestic rates (NDR), known as business rates are collected from local businesses by the council. From 1 April 2013 the business rates retention scheme was introduced nationally.

For 2020-21, the council entered into a 67% business rate retention pilot project for London boroughs with the City of London as lead authority, on the basis of a 'no worse off / no detriment' agreement with central government. As a member of the London business rates retention scheme, the council can retain 30% business rates income, with the remainder allocated to the Greater London Authority at 37% and the Ministry of Housing, Communities and Local Government (MHCLG) 33%.

Previously in 2019-20, the council was in a 75% Business Rates Retention London arrangement whereby the council retained 48% of business rates, with 27% paid to the Greater London Authority and MHCLG allocated 25%.

Business rates are based on local rateable values set by the Valuation Office Agency (VOA) and a multiplier set by central government (MHCLG). The non-domestic rating multiplier and the small business non-domestic rating multiplier for England in 2020-21 were:

- non-domestic rating multiplier **51.2p (0.512)**, (2019-20 50.4p)
- small business non-domestic rating multiplier **49.9p** (0.499), (2019-20 49.1p)

Local businesses pay NDR calculated by multiplying their rateable value (RV) by the appropriate multiplier and subtracting any relevant reliefs. The total VOA rateable value in Southwark at 31 March 2021 was £770.9m.

An NDR cumulative deficit of £144.5 million has arisen in the Collection Fund for 2020-21 (2019-20 £30.3m deficit), mainly due to the financial consequences of the impact of Covid-19 pandemic in 2020-21. The government supported businesses with 100% relief from business rates. The in year deficit of £140.3m can be accounted for due to lower levels of NDR income, an increase in reliefs, write-offs £1m, an increase in bad debt provisions by £7.5m and increase in appeals provisions by £21.7m. Notes 6, 7 and 8 explain how the Collection Fund deficit is partially met by government grants.

The council has benefited from membership of the London boroughs 67% business rates retention scheme for 2020-21, a business rates pooling arrangement, with a no detriment / no worse-off clause for being a member. At 31 March 2021 the council has gained with a benefit of £0.2m; however there is also a deficit of £1.7m payable to the London pool (2019-20 £4.8m benefit gain) with final pool NNDR3 results being available later in the autumn. No levy is payable by the council, as a result of membership of the London business rates pool. For 2021-22 the London pool no longer exists.

3. BUSINESS RATE SUPPLEMENT

Business rate supplements (BRS) are collected from local businesses by the council, on behalf of the GLA for the Crossrail project in London. For 2020-21, the levy remains set at **2p** per pound of rateable value (RV), (unchanged since its inception in 2010) on non-domestic properties with a rateable value greater than £70,000. The last rateable value change from £55,000 to £70,000 occurred in 2016-17).

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

As a billing authority, the council is required to make an estimate of the surplus or deficit on the Collection Fund for council tax by the 15 January and for non-domestic rates by 31 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing council tax if there is a surplus or increasing council tax if there is a deficit. In January 2020, the council estimated an accumulated collection fund deficit balance of £24.3m for 2019-20, (council tax (£1.9m) surplus and NDR £26.1m deficit), as follows:

	Council tax	Business rates	Total
	£000	£000	£000
(Surplus) / deficit as at 31 March 2019	(4,957)	(3,861)	(8,818)
Estimated (surplus) / deficit for 2019-20	3,104	29,988	33,092
Estimated (surplus) / deficit as at 31 March 2020	**(1,853)**	**26,127**	**24,274**

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 surplus for business rates was apportioned between the council, the GLA and MHCLG as follows:

Authority	Overall %	Council tax	Overall % (2019-20 / 2018-19)	Business rates	Total
		£000	%	£000	£000
Southwark council	76.89%	(1,425)	48% / 64%	16,663	**15,238**
Greater London Authority (GLA)	23.11%	(428)	27% / 36%	9,373	**8,945**
Ministry of Housing, Communities and Local Government (MHCLG)			25% / 0%	91	**91**
Estimated (surplus) / deficit for 2019-20 redistributed in 2020-21		**(1,853)**		**26,127**	**24,274**

5. PROVISION FOR ALTERATION OF LISTS AND APPEALS

The introduction of the business rates retention scheme in 2013 allows the council to retain a share of any growth in non-domestic rates (NDR) income, but also transfers some of the risks of non collection of business rates. Accordingly the council must provide for potential losses resulting from the alteration of Valuation Office Agency (VOA) rateable value assets lists and appeals for business rates.

As at 31 March 2021, 265 appeals cases remain unsettled and outstanding with the VOA. Following the 2017 revaluation, a check, challenge, and appeals policy was introduced by central government to reform the business rates appeals system applicable to the new rating list effective on 1 April 2017. The check and challenge system is designed to make the business rates appeals assessment and application process more rigorous to reduce the level of unsubstantiated appeals lodged with the VOA.

The provision for alteration of lists and appeals as at 31 March 2021 is £40.3m (18.6m at 31 March 2020), an increase of £21.7m based on consideration of recent case law, potential unlodged appeals cases and other factors including check and challenge cases information from the VOA - Southwark council's share being £12.1m.

Share of provision	Southwark council	GLA	MHCLG	Total
	£m	£m	£m	£m
2020-21	(12.1)	(14.9)	(13.3)	**(40.3)**
2019-20	(8.9)	(5.0)	(4.6)	**(18.6)**

6. 75% TAX INCOME GUARANTEE (TIG) FOR IN YEAR COLLECTION FUND DEFICITS

As part of its Covid-19 funding for local government, the government implemented the local tax income guarantee (TIG) scheme. Under the TIG scheme the government will compensate local authorities for 75% of in scope irrecoverable losses in respect of 2020-21. The tax income guarantee section 31 grant will be reported in 2020-21 and is not accounted for in the Collection Fund. The grant is approximately £9.1m for business rates and £1.9m for council tax, a total of £11m.

Tax income guarantee (TIG)	**£m**
Business rates	(9.1)
Council tax	(1.9)
Total	**(11.0)**

7. SECTION 31 GRANTS FOR IN YEAR NON DOMESTIC RATES COLLECTION FUND DEFICIT

At the beginning of the Covid-19 pandemic in March 2020, the council issued Covid-19 non-domestic rates (NDR) discretionary reliefs for 2020-21 funded by the government through section 31 grants. These grants are not accounted for within the Collection Fund, but accounted for in the general fund.

	£m
Retail discount grant	(88.9)
Nursery discount grant	(0.7)
	(89.6)
Less: adjustment for retail discount relief	(3.3)
Total	**(86.3)**

8. IMPACT OF TAX INCOME GUARANTEE (TIG) / SECTION 31 GRANTS FOR IN YEAR NON-DOMESTIC RATES (NDR) COLLECTION FUND DEFICIT

Both the 75% tax income guarantee (note 6) and section 31 grants (note 7) above are ring-fenced for reducing the level of the 2020-21 NNDR3 (statutory business rates return) in year business rates deficit by £95.4m (£86.3m + £9.1m). This leaves a remaining NNDR3 in year deficit of £44.9m. For Collection Fund account purposes the in year NDR deficit is £18.8m; since £26.1m was contributed by preceptors for the 2019-20 NDR deficit.

	£m
NNDR3 in year deficit	140.3
NDR TIG and other S31 grants	(95.4)
	45.0

	£m
NDR in year deficit	114.2
NDR TIG and other S31 grants	(95.4)
	18.8

Contribution from preceptors towards previous years Collection Fund deficit	**(26.1)**

Regulations requiring 2020-21 Collection Fund in year deficits to be spread over three years came into force in December 2020.

PENSION FUND

2020-21

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2020-21		2019-20	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(60,237)		(55,151)	
Transfers in from other pension funds	7	(9,475)		(10,636)	
Subtotal			**(69,712)**		**(65,787)**
Benefits	8	61,446		59,692	
Payments to and on account of leavers	9	6,134		11,692	
Subtotal			**67,580**		**71,384**
Net reduction/(addition) from dealing with members of the fund			**(2,132)**		**5,597**
Management expenses	10		10,838		8,881
Net additions plus management expenses			**8,706**		**14,478**
Returns on investments					
Investment income	11	(13,175)		(15,578)	
Taxes on income	11	539		291	
Profit and losses on disposal of investments and changes in market value of investments	12	(363,153)		61,254	
Net return on investments			**(375,789)**		**45,967**
Net (increase)/decrease in the net assets available for benefits during the year			**(367,083)**		**60,445**
Opening net assets of the scheme			(1,581,541)		(1,641,986)
Net assets of the scheme available to fund benefits as at 31 March			**(1,948,624)**		**(1,581,541)**

NET ASSETS STATEMENT

	Note		31 March 2021 £000		31 March 2020 £000
Investment assets	12		1,928,101		1,542,755
Current assets	13		24,693		44,238
Current liabilities	13		(4,170)		(5,452)
Net assets of the scheme available to fund benefits as at 31 March			**1,948,624**		**1,581,541**

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

NOTES TO THE PENSION FUND STATEMENTS

1.INTRODUCTION

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

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report 2020-21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

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

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

The overall investment strategy is the responsibility of the council. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

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

Organisations participating in the fund include:

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

A list of participating organisations and their contributions for the financial year 2020-21 is included within the pension fund annual report 2020-21. This is available from the council website.

	31 March 2021	31 March 2020
Number of contributors to the fund	7,126	6,888
Number of contributors and dependants receiving allowances	7,988	7,887
Number of contributors who have deferred their pensions	9,883	10,932

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2019. For the 2020-21 financial year primary employer contribution rates ranged from 7.3% to 18.4% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

	Service pre 1 April 2008	**Service post 31 March 2008**	**From 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2020-21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. The employer payroll contribution percentage rates are set by the fund based on advice of the fund actuary. Employee rates are set in Regulations.

Deficit funding contributions as advised by the fund actuary are accounted for on an accruals basis.

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

b) Transfers to and from other schemes

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

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

c) Investment income

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

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

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

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

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

d) Fund account – benefits payable

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

e) Fund account – taxation

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

f) Management expenses

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

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

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

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

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13.

Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

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

i) Derivatives

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

j) Cash and cash equivalents

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

m) Additional voluntary contributions

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in Note 3 the council has to make critical judgements about complex transactions. The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The actuarial revaluations are used to set future contribution rates and underpin the fund's investment management policies.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 7% would be an increase or decrease in the value of property of £18m, on a fair value of £255m.

6. CONTRIBUTIONS RECEIVABLE

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

	2020-21			2019-20		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark council	(12,463)	(42,334)	(54,797)	(11,904)	(38,308)	(50,212)
Admitted bodies	(315)	(884)	(1,199)	(270)	(805)	(1,075)
Scheduled bodies	(1,229)	(3,012)	(4,241)	(1,128)	(2,736)	(3,864)
Total	**(14,007)**	**(46,230)**	**(60,237)**	**(13,302)**	**(41,849)**	**(55,151)**

Contributions receivable from employers are shown below:

	2020-21 £000	2019-20 £000
Normal	(36,416)	(29,475)
Early retirement strain	(2,221)	(356)
Deficit funding	(7,593)	(12,018)
Total contributions from employers	**(46,230)**	**(41,849)**
Contributions from employees	(14,007)	(13,302)
Total	**(60,237)**	**(55,151)**

During 2020-21 employees made additional voluntary contributions (AVCs) of £0.3m (£0.3m in 2019-20). The value of the AVCs at 31 March 2021 was £3.6m (£2.8m at 31 March 2020).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2020-21 £000	2019-20 £000
Individual transfers	(9,475)	(10,636)
Total	**(9,475)**	**(10,636)**

8. BENEFITS PAYABLE

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

	2020-21 £000	2019-20 £000
Pensions	53,003	50,347
Commutation of pensions and lump sum retirement benefits	7,147	8,108
Lump sums - death benefits	1,296	1,237
Total	**61,446**	**59,692**

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

	2020-21 £000	2019-20 £000
Southwark council	58,722	56,682
Admitted bodies	2,106	2,049
Scheduled bodies	618	961
Total	**61,446**	**59,692**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020-21 £000	2019-20 £000
Refund of contributions	121	430
Individual transfers out to other schemes	6,013	11,262
Total	**6,134**	**11,692**

10. MANAGEMENT EXPENSES

	2020-21 £000	2019-20 £000
Administrative costs	3,690	2,677
Investment and management expenses	6,661	5,632
Oversight and governance costs	487	572
Total	**10,838**	**8,881**

The 2020-21 fee for external audit services for the pension fund is £36,170 (£32,396 in 2019-20). Revised fees for both 2019-20 and 2020-21 are as agreed with the external auditor and the public sector audit appointments (PSAA).

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2020-21 (£0.9m during 2019-20).

The table below provides an analysis of investment and management expenses by fund manager:

	2020-21			2019-20		
	Fees £000	Transaction costs £000	Total £000	Fees £000	Transaction costs £000	Total £000
Nuveen	626	3,139	3,765	1,243	1,618	2,861
Newton Investment Management	1,038	-	1,038	1,019	-	1,019
BlackRock	702	-	702	473	-	473
Brockton Capital LLP	144	214	358	59	-	59
M and G Real Estate	205	-	205	201	-	201
London collective investment vehicle	205	-	205	89	-	89
Invesco Real Estate	158	-	158	167	-	167
Frogmore Real Estate Partners	65	-	65	130	-	130
Legal and General Investment Managers	53	-	53	73	-	73
Glenmont	-	-	-	470	-	470
Temporis	-	-	-	7	-	7
	3,196	**3,353**	**6,549**	**3,931**	**1,618**	**5,549**
Custody costs			112			83
Total			**6,661**			**5,632**

Performance fees in 2020-21 were nil (nil in 2019-20). Transaction costs include property management expenses.

11. INVESTMENT INCOME

	2020-21 £000	2019-20 £000
Dividends from equities	(4,278)	(4,533)
Income from pooled investment vehicles	(1,061)	(1,963)
Rent from properties	(7,814)	(9,069)
Interest on cash deposits	(22)	(13)
Total before taxes	**(13,175)**	**(15,578)**
Taxes on income	539	291
Total after taxes	**(12,636)**	**(15,287)**

12. INVESTMENT ASSETS

	31 March 2021 £000	31 March 2020 £000
Bonds		
Quoted overseas	-	6,177
Equity		
Quoted UK	34,648	25,195
Quoted overseas	198,877	140,725
Pooled Funds		
Fixed income overseas	135,739	120,788
Index linked gilts UK	159,852	153,575
Multi asset overseas	192,740	163,023
Unitised Insurance Policy		
Equity overseas	907,070	651,416
Property		
Direct property UK	252,952	189,550
Property unit trust UK	2,302	56,420
Infrastructure	41,247	31,803
Derivatives		
Forward currency contracts	-	222
London collective investment vehicle	150	150
Other investment balances	2,524	3,711
Total	**1,928,101**	**1,542,755**

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

	Opening balance	Purchases	Sales	Change in market value	Cash movement	Value as at 31 March 2021
	£000	£000	£000	£000	£000	£000
Bonds	6,177	-	(7,024)	847	-	-
Equity	165,920	55,973	(49,117)	60,749	-	233,525
Pooled funds	437,386	(11,563)	(8,658)	71,166	-	488,331
Unitised insurance policy	651,416	31,785	(11,040)	234,909	-	907,070
Property	245,970	19,777	(5,523)	(4,970)	-	255,254
Infrastructure	31,803	10,549	(2,031)	926	-	41,247
Derivatives	222	1,051	(799)	(474)	-	-
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	3,711	-	-	-	(1,187)	2,524
Total	**1,542,755**	**107,572**	**(84,192)**	**363,153**	**(1,187)**	**1,928,101**

	Opening balance	Purchase	Sales	Change in market value	Cash movement	Value as at 31 March 2020
	£000	£000	£000	£000	£000	£000
Bonds	7,700	32,410	(34,393)	460	-	6,177
Equity	172,401	52,712	(47,120)	(12,073)	-	165,920
Pooled funds	441,856	383	-	(4,853)	-	437,386
Unitised insurance policy	716,671	122,200	(151,564)	(35,891)	-	651,416
Property	290,129	6,182	(41,289)	(9,052)	-	245,970
Infrastructure	-	32,454	(426)	(225)	-	31,803
Derivatives	90	3,101	(3,349)	380	-	222
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	2,248	-	-	-	1,463	3,711
Total	**1,631,245**	**249,442**	**(278,141)**	**(61,254)**	**1,463**	**1,542,755**

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

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2021. All properties have been valued at market value.

The investment strategy statement can be accessed on the council’s website. Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark council, finance and governance, PO Box 64529, London SE1P 5LX.

The following investments represent more than 5% of investment assets at 31 March 2021.

Name of investment	Fund manager	31 March 2021	% of investment assets	31 March 2020	% of investment assets
		£000	%	£000	%
Low Carbon Target	Legal and General	365,710	19%	263,047	17%
Diversified Growth Fund	BlackRock	192,740	9%	163,023	11%
Low Carbon Target	BlackRock	167,117	9%	123,200	8%
Absolute Return Bond Fund	BlackRock	135,739	7%	120,788	8%
US Equity Fund	BlackRock	107,691	6%	77,284	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2021 has been set out in the table below.

	31 March 2021		31 March 2020	
	£000	%	£000	%
BlackRock	852,375	44%	673,584	44%
Legal and General Investment Managers	546,514	27%	415,217	27%
Nuveen	189,772	13%	195,651	13%
Newton Investment Management	233,526	11%	172,320	11%
M and G Real Estate	22,421	1%	22,358	1%
Invesco Real Estate	30,271	1%	14,953	1%
Glennmont	13,940	1%	11,700	1%
Temporis	23,818	1%	20,103	1%
Frogmore Real Estate Partners	7,365	1%	8,822	1%
Brockton Capital LLP	5,425	0%	4,186	0%
London collective investment vehicle	150	0%	150	0%
Total	**1,925,577**	**100%**	**1,539,044**	**100%**

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2021 £000	31 March 2020 £000
Contribution due from employers	5,789	1,116
Other current assets	3,149	2,717
Cash at managers	10,568	18,448
Cash and bank	5,187	21,957
Total	**24,693**	**44,238**

The current liabilities of the fund are analysed as follows:

	31 March 2021 £000	31 March 2020 £000
Benefits	-	(15)
Professional fees	(1,964)	(2,283)
Investment	(1,518)	(2,072)
Taxes	(687)	(604)
Other	(1)	(478)
Total	**(4,170)**	**(5,452)**

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as relationships that might materially prevent the fund from pursuing its separate interests or that might allow the fund to prevent another party from pursuing its interests independently, with material effect for the fund.

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 2020-21 (£0.9m in 2019-20). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10.

The Pension Advisory Panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the PAP make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the Pension Fund and contributed £42.3m to the fund in 2020-21 (£38.3m in 2019-20).

15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

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

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

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

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Infrastructure funds	Level 3	Valued at fund manager at the lower of fair value and cost	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates

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

Value as at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,300,447	328,629	43,549	**1,672,625**
Non-financial assets at fair value through profit and loss	-	-	252,952	**252,952**
Total	**1,300,447**	**328,629**	**296,501**	**1,925,577**

Value as at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	977,310	283,961	88,223	**1,349,494**
Non-financial assets at fair value through profit and loss	-	-	189,550	**189,550**
Total	**977,310**	**283,961**	**277,773**	**1,539,044**

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

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2021 £000
Property	245,970	19,777	(5,523)	1,936	(6,906)	**255,254**
Infrastructure	31,803	10,549	(2,031)	(260)	1,186	**41,247**
Total	**277,773**	**30,326**	**(7,554)**	**1,676**	**(5,720)**	**296,501**

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2020 £000
Property	290,129	6,182	(41,289)	5,001	(14,053)	**245,970**
Infrastructure	-	32,454	(426)	-	(225)	**31,803**
Total	**290,129**	**38,636**	**(41,715)**	**5,001**	**(14,278)**	**277,773**

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2021	Assessed valuation range	Valuation as at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Property	7%	255,254	273,122	237,386
Infrastructure funds	5%	41,247	43,309	39,185
Total		**296,501**	**316,431**	**276,571**

16. FINANCIAL INSTRUMENTS

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

	31 March 2021 £000	31 March 2020 £000
Financial assets		
Fair value through profit and loss	1,672,624	1,349,494
Amortised cost	21,429	46,833
Financial liabilities		
Amortised cost	(3,587)	(5,452)
Total	**1,690,466**	**1,390,875**

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2021 totalled £62.8m (31 March 2020: £76.8m).

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

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

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

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

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

Price risk

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

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

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

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

2020-21 - asset type	31 March 2021 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	1,140,745	13%	1,290,923	990,567
Total bonds and indexed linked	295,591	6%	312,883	278,299
Multi-asset	192,740	6%	204,316	181,164
Alternatives	41,247	3%	42,480	40,014
Property	255,254	2%	260,970	249,538
Other assets	2,524	0%	2,524	2,524
Total	**1,928,101**			

2019-20 - asset type	31 March 2020 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	817,707	11%	904,377	731,079
Total bonds and indexed linked	280,541	5%	294,894	266,188
Multi-asset	163,023	5%	171,686	154,361
Alternatives	31,803	3%	32,672	30,933
Property	245,970	3%	253,766	238,172
Other assets	3,711	0%	3,711	3,711
Total	**1,542,755**			

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

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

Interest rate risk

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

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

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2021	**135,739**	**137,096**	**134,382**
As at 31 March 2020	**126,966**	**128,236**	**125,696**

Currency risk

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

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

Assets exposed to currency risk	**Value**	**Change**	**Value on foreign exchange rate increase**	**Value on foreign exchange rate decrease**
	£000	**%**	**£000**	**£000**
As at 31 March 2021	1,239,367	10	1,363,304	1,115,430
As at 31 March 2020	912,962	10	1,004,258	821,666

Analysis by currency	**31 March 2021 £000**	**31 March 2020 £000**
GB pound sterling (GBP)	1,035,079	762,109
US dollar (USD)	111,500	77,694
Euro (EUR)	36,173	32,335
Japanese yen (JPY)	16,070	8,817
Hong Kong dollar (HKD)	13,216	5,391
Swiss franc (CHF)	9,918	12,843
South Korean won (KRW)	5,958	2,874
Swedish krona (SEK)	4,377	2,757
Thai baht (THB)	4,065	1,826
Danish krone (DKK)	3,011	-
Canadian dollar (CAD)	-	3,637
Norwegian krone (NOK)	-	2,679
Total	**1,239,367**	**912,962**

Credit risk

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

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

Liquidity risk

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

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2019.

	31 March 2019 £m	31 March 2016 £m
Fair value of net assets	1,642	1,256
Actuarial present value of promised retirement benefits	(2,192)	(1,671)
Surplus/(deficit) in the fund as measured for IAS 26	**(550)**	**(415)**

20. ACTUARIAL POSITION OF THE FUND

Statement of the Actuary for the year ended 31 March 2021

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £1,642.0m) covering 103% of the liabilities allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   18.3% p.a. of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

   Plus

   an allowance of 1.5% p.a. of pensionable pay for McCloud and Cost Management – see paragraph 9 below,

   Less

   1.5% p.a. of pensionable pay to remove surplus, over a recovery period of 20 years from 1 April 2020 (which together with the allowance above for McCloud and Cost Management comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities such as those arising from early retirements and ill-health retirements will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	21.8	0.03
2021	21.6	-
2022	21.1	-

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate and stepping of contribution changes and grouping of employer contributions as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).

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

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.60% p.a.
Rate of increase to pension accounts	2.10% p.a.
(in excess of Guaranteed Minimum Pension)	2.10% p.a.

   The assets were valued at market value.

   Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2 Heavy mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic HorizonsTM longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	20.7	23.5
Future pensioners aged 45 at the valuation date	22.5	25.4

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

Increases to Guaranteed Minimum Pensions (GMPs):

The 2019 valuation allows for the extension of the ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer-term solution to achieve equalisation for GMPs as required by the High Court Judgement in the Lloyds Bank case. The response set out its proposed longer-term solution, which is to extend the interim solution further to those reaching SPA after 1 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer-term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

Cost Management Process and McCloud judgement:

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements/ member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which did not take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now started, and it is possible that further changes to benefits and/or contributions may ultimately be required under the process, although the outcome is not expected to be known for some time.

Goodwin

An Employment Tribunal ruling relating to Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

11. The report on the actuarial valuation as at 31 March 2019 is available on request from the London Borough of Southwark, the Administering Authority of the Fund.

    Aon Hewitt Limited
    May 2021

21. POST BALANCE SHEET EVENTS

No such material events have occurred.

GLOSSARY

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

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

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

AMORTISED COST
A way of measuring financial instruments that ignores changes in fair value. Defined as the amount at which a financial instrument is measured when it is first brought onto the Balance Sheet, adjusted for:

- repayments of principal (minus), and
- cumulative amortisation of any difference between the initial amount and the maturity amount (using the effective interest method) (plus or minus).

These differences might arise (eg) from transaction costs being set off against the principal amount of a loan or interest being payable at less than market rates.

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

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

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

BUDGET
A forecast of the council's planned expenditure and income, either over a set period or for a specific project.

CAPITAL ADJUSTMENT ACCOUNT
An account recording financing and disposals transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CARRYING AMOUNT
Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

CASH EQUIVALENTS
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CAPITAL EXPENDITURE
Expenditure on the purchase, construction and enhancement of council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

CAPITAL FINANCING
Capital financing is the process which occurs after capital expenditure has been incurred. There are a number of different sources of capital funding such as government capital / revenue grants, non-government grants, contributions from private developers, capital receipts and unsupported borrowing. Various funding sources are applied to capital spend to ensure that a project is fully financed from approved finance sources.

CAPITAL FINANCING REQUIREMENT (CFR)
The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION
Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CIPFA
The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

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

COLLECTION FUND
This is a statutory account, which records income and expenditure on council tax, National Non Domestic Rates and the sums paid to precepting authorities.

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

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

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

CONTRACT ASSET
An asset arising from a contract for the purchase of goods and/or services from the council, where the council has met some of its performance obligations but is not yet entitled unconditionally to receive payment.

CONTRACT LIABILITY
A liability arising from a contract for the purchase of goods and/or services from the council, where the council has received payment but has yet to meet the performance obligations relating to that payment.

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

CREDIT LOSSES
A measure of how much the council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the council under a financial asset and those that it actually expects to receive (discounted using the investment's effective interest rate).

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

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

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

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

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

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

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

EARMARKED RESERVES
These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

EXPECTED CREDIT LOSSES
Weighted average of credit losses with the respective risks of a default occurring as the weights.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable.

FAIR VALUE
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS
Investments for which gains and losses in fair value are recognised on the Balance Sheet but do not impact on the council's income as they arise but only when the investment matures or is sold. Defined as financial assets:

- held within a business model whose objective is achieved by both collecting contractual cash flows and selling investments, and
- which have the form of a basic lending arrangement (ie, contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS
Defined as financial assets that do not qualify for measurement at amortised cost or fair value through other comprehensive income.

FINANCE AND OPERATING LEASES
A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

FINANCIAL ASSET
A financial asset is any asset that is:
a) cash
b) an equity instrument of another entity
c) a contractual right:
i) to receive cash or another financial asset from another entity, or
ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the authority
d) a contract that will or may be settled in the entity's own equity instruments and is:
i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice d) is not applicable to local authorities as they do not issue equity instruments. However, it may apply to an authority's group accounts.

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

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

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

IAS19 EMPLOYEE BENEFITS
International Accounting Standard 19 is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

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

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS.

INVESTMENT PROPERTIES
Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

LEVIES
Payments to levying bodies such as the London Pension Fund Authority, Lee Valley Park Authority and Environment agency. The cost of these bodies is borne by local authorities in the area concerned, based on their council tax base and is met from the General Fund.

LOSS ALLOWANCE
An allowance made by setting funds aside to cover the expected credit losses calculated for a financial asset.

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

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

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

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

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

OPERATING LEASES
Refer to finance and operating leases.

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

PERFORMANCE OBLIGATION
A promise in a contract with a service recipient for the council to deliver goods and/or services.

PRIVATE FINANCE INITIATIVE (PFI)
A government initiative that enables authorities to carry out capital projects through partnership with the private sector.

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

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
Expenditure that is not related to the council's non-current assets but statutory regulations allow the cost to be funded from capital resources. The expenditure is recorded in the Comprehensive Income and Expenditure Statement as it arises.

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

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

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

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

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

SERVICE RECIPIENT
A person or an organisation that has contracted with the council (as part of the council's normal business) to obtain goods and/or services in return for payment (or in exchange of goods/services to the council).

TRANSACTION PRICE
The amount the council expects to be entitled to under contract in exchange for transferring promised goods and/or services to a service recipient.

USEFUL LIFE
The period over which the council will derive benefits from the use of a fixed asset.

WRITE-OFFS
Income is recorded in the council's accounts on the basis of amounts due. When money owing to the council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

APPENDIX 1

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MUNICIPAL YEAR 2021-22

COMMITTEE: **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)**
NOTE: Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or virginia.wynn-jones@southwark.gov.uk

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