Southwark Council
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STATEMENT OF ACCOUNTS

2018-19

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NARRATIVE REPORT

From the Strategic Director of Finance and Governance, Duncan Whitfield

Introduction

The Narrative Report provides information about Southwark including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2018-19 and of its financial position at 31 March 2019 including:

- An introduction to Southwark
- The council's performance during 2018-19
- Financial performance during 2018-19 and financial position at 31 March 2019
- 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 such as Elephant and Castle, Aylesbury, Canada Water and London Bridge Quarter, home of the Shard, being delivered, bringing thousands of new homes and jobs to Southwark.

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

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 per cent of reception-age children are from black and minority ethnic (BME) groups. Southwark is densely populated and has the ninth-highest population density in England and Wales at 10,632 residents per square kilometre compared to the London average of 5,510. In June 2018 the borough population was estimated to be 314,200, up from 256,700 in 2001. By 2030, that population is projected to increase to 374,000. The median age of Southwark residents in 2017 was 33.1 years, two years younger than the London average and almost seven years younger than the national average. Whilst our 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 significant programme of regeneration will help Southwark to meet this rising demand for homes of all kinds across a range of incomes and create new job opportunities especially for high demand jobs in the construction sector.

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

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

Council performance

The Council Plan is Southwark council's (the council's) overarching business plan setting out the programme of work that the council will achieve over the period 2018-19 to 2021-22. 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 Council Plan contains a range of promises and commitments which the council will work towards over the four-year period. 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 our Council Plan. A lead cabinet member and chief officer are identified for each commitment set out in the plan for transparency and accountability purposes.

To ensure that this plan has real impact, the measures and milestones which underpin it are monitored every three months to assess progress. An annual performance report on progress is presented to cabinet after the end of each financial year.

At the end of year 1 (2018-19) great progress has been made towards the delivery of the ambitious set of commitments set out in the Council Plan. Analysis shows that a significant majority are on track and some notable successes to date include:

• Launch of a new in-house repairs service on 1 October 2018 with resident satisfaction levels at 89% and 88% of repairs completed right first time
• So far, 1,606 people have started new jobs as a result of our employment support programmes; we have also created 706 apprenticeships
• 100 new affordable workspaces created
• 19,098 (36%) of council-owned properties have been connected to high speed internet
• Over 14,000 cultural events across the borough supported and hosted, reaching audiences of nearly 500,000 and engaging over 60,000 participants
• 3,484 adults and 1,359 children receiving Bikeability training

Financial performance

Revenue

The budget strategy is underpinned by the principles set out in the Fairer Future medium term financial strategy (FFMTFS) and integrated efficiency plan 2017-18 to 2019-20 agreed by cabinet on 20 September 2016.

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

For 2018-19, a budget of £294.3m was set, which included savings of £28.2m in response to reduced government funding and increasing cost pressures and commitments. The revenue outturn position is summarised below, and further detail can be found on the council's website (see cabinet agenda 18 June 2019):

General Fund	Original budget £000	Budget movement £000	Revised budget £000	Spend in year £000	to/(from) reserves £000	Total use of resources £000	Variance after reserves £000
Chief executive	3,202	194	3,396	3,677	(282)	3,395	(1)
Children's and adults' services (excluding DSG)	195,160	(9,055)	186,105	179,354	6,726	186,080	(25)
Dedicated Schools Grant	(11)	1,084	1,073	8,477	0	8,477	7,404
Environment and leisure	65,818	(1,190)	64,628	65,551	(471)	65,080	452
Finance and governance	(3,234)	14,811	11,577	(12,153)	19,532	7,379	(4,198)
Housing and modernisation	64,454	369	64,823	69,302	(576)	68,726	3,903
Place and wellbeing	6,144	(2,371)	3,773	3,615	27	3,642	(131)
Support cost reallocations	(37,264)	(3,842)	(41,106)	(41,106)	0	(41,106)	0
Total General Fund	**294,269**	**0**	**294,269**	**276,717**	**24,956**	**301,673**	**7,404**
DSG reserve to balance budget	0	0	0	0	0	0	(7,404)

The outturn report presents a balanced outturn position for 2018-19, after movements to and from reserves. Key messages include confirmation that the budget recovery work in children's and adults' has been effective in putting the service on a sound financial footing. However, the department remains exposed to significant risk and uncertainty in 2019-20 and beyond. In the education service, there are significant pressures on schools funding via the Dedicated Schools Grant (DSG) with demand and cost pressures particularly acute on high needs spending. There was an accumulated deficit on the DSG reserve of £11.5m at 31 March 2019. Elsewhere there continued to be sustained pressures on temporary accommodation and no recourse to public funds (NRPF) budgets.

Despite these pressures the council was able to increase reserves in closing the 2018-19 accounts, principally due to planned contributions to reserves and one-off savings on provisions and capital financing budgets.

On a further positive note, the London Devolution Deal means the additional income generated from business rates growth in 2018-19 will be retained in London. Southwark's share of the growth is estimated at £10.2m and this has been ring fenced within earmarked reserves for specific initiatives and risks approved by cabinet.

Looking forward the sector is facing a period of significant financial uncertainty from 2020-21 forward, including Brexit, a spending review, a new funding distribution module and changes and reset of business rate retention arrangements. It is therefore vital that the council ensures that rigour in financial management arrangements continues and that reserves are retained at appropriate and adequate levels to safeguard service provision and to support modernisation of the organisation and challenging regeneration projects across the borough.

Housing Revenue Account (HRA) outturn 2018-19

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 2018-19 shows income from tenants and homeowners of £254.8m and spending of £253.9m. The operating surplus of £0.9m has been taken to HRA balances. For further detail see outturn report (cabinet agenda 18 June 2019).

Capital

Southwark has one of the largest capital investment programmes in London, with current plans to spend over £2bn by 2027-28. Capital spending and financing in 2018-19 is shown in the table below (see cabinet agenda 18 June 2019).

Capital spending and financing	**2018-19 £000**	**2017-18 £000**
Spending:		
Children's and adults' services (including schools)	36,403	79,669
Environment and leisure	24,527	16,086
Housing and modernisation	8,465	16,070
Housing investment programme	143,781	167,523
Place and wellbeing	148,354	121,501
Total capital expenditure	**361,530**	**400,849**
Financed by:		
Capital receipts	162,325	69,481
Grants and other contributions	66,045	94,972
Revenue contributions and reserves	22,550	21,579
Major repairs reserve	50,752	51,000
Prudential borrowing and credit arrangements	59,858	163,817
Total	**361,530**	**400,849**

In May 2018 the council entered a master development agreement 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. It also secures the council's future options for benefiting from the proceeds of growth at Canada Water. The agreement sees the council taking a 20% ownership of the whole development. The council will have the option as each plot comes forward for development 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.

During 2018-19 the council increased its investment portfolio with the acquisition of Courage Yard for £92m. The investment case for this acquisition was underpinned by specialist advice and due consideration of relevant risks and accounted for within the purchase price. This investment will provide the council with long term, stable and sustainable income to support council operations.

Other significant property acquisitions within the borough of Southwark during the year included 585 Old Kent Road (£26m) and 14-16 Verney Road (£12m).

Capital receipts received during 2018-19 included £115m representing the final distribution to the council from the Development Agreement with Berkeley Homes plc in respect to the One Tower Bridge Partnership and the development of land at Potters Fields.

Balance Sheet

Reserves

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 revenue expenditure, or £21m for 2019-20.

The increase in earmarked reserves at 31 March 2019 is attributable to the outturn position, reported above, and the benefit arising from the London Devolution Deal business rate pooling arrangement.

The reduction in school balances reflects the deficit on the Dedicated Schools Grant reserve where £11.5m has been borrowed against future years' allocations. Schools forum has been consulted on measures to fund the carried forward deficit in future years. However given the ongoing structural pressures on the high needs block which continue into 2019-20, together with new stricter regulations on movement between blocks and pressures associated with the new national funding formula, a deficit position on the DSG is likely to persist for a number of years.

Reserves	31 March 2019 £000	31 March 2018 £000
General Fund	**21,002**	**18,803**
Earmarked Reserves		
Corporate projects and priorities	9,137	5,500
Service reviews and improvements	15,375	9,419
Capital programme and other capital investment	23,418	22,502
Strategic financing risks	36,450	14,325
Technical liabilities and smoothing reserves	27,940	18,906
Sub total	**112,320**	**70,652**
Schools (including Dedicated Schools Grant)	**1,359**	**9,857**
HRA		
HRA balance	20,833	19,959
Major repairs reserve	10,921	10,921
Sub total	**31,754**	**30,880**
Capital reserves	**52,657**	**79,849**
Total	**219,092**	**210,041**

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, since 2017-18, the council needed to borrow, either temporarily from other local authorities or long-term from the Public Works Loans Board (PWLB). During 2018-19 and in accordance with the approved Treasury Management Strategy, the council increased its long-term borrowing from the Public Works Loans Board (PWLB) by £117m. The loans were taken at fixed rates with maturities from 35 to 49 years. 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. As at 31 March 2019 outstanding debt held by the council was £677m (£563m at 31 March 2018).

The council invests its cash in GBP bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities such as the European Investment Bank and the World Bank. The money market investments are in short-term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. As at 31 March 2019 investments stood at £126m, the same as at 31 March 2018. The overall rate of return on investments during 2018-19 was 0.77% (0.34% 2017-18).

Pensions

The council has net pension liabilities of £712m (£640m at 31 March 2018) in the Balance Sheet. This reflects the value of pension liabilities which the council is required to pay in the future, offset by the value of assets invested in the Pension Fund.

The council's Pension Fund must be revalued every three years to set future contribution rates. The last valuation was in 2016 which reported that the fund's assets represented 88% of the estimated future pension liabilities. The council has a deficit recovery plan in place to make additional contributions into the Pension Fund over the next 16 years in line with the Funding Strategy Statement of the Southwark Pension Fund.

Principal risks and uncertainties

The council has an embedded process to manage risk and assist 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, assurance is given on the effectiveness of the council's system of internal control. The annual governance statement, published alongside the accounts, details the issues and areas of significant change that will require consideration and action as appropriate over the medium to long term. These include:

- continued financial uncertainty regarding future funding of local government and any transition
- ongoing information governance and data security risks which will continue to require careful management
- ongoing monitoring of compliance with the, updated, fairer futures procurement framework
- continuing to ensure business continuity plans are robust, particularly with regard to potential contractor failure

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 2018-19 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.

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

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

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

- **The Comprehensive Income and Expenditure Statement** – this records all the council's income and expenditure for the year. The top half of the statement provides an analysis by service area, the bottom half deals with corporate transactions and funding.

- **The Balance Sheet** – a snapshot of the council's assets, liabilities and reserves at the year end date.

- **The Cash Flow Statement** – shows the reason for changes in the council's cash balances during the year, and whether that change is due to operating activities, new investment or financing activities.

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

Supplementary financial statements are:

- **Housing Revenue Account (HRA)** Statements and explanatory notes. The HRA figures are included in the figures in the primary statements.

- The **Collection Fund** shows the amounts raised and collected through taxation. Only the council's entitlement to taxation is included in the primary statements. The amounts collected on behalf of the government and the Greater London Authority are not included apart from amounts owing to or from those bodies.

- The **Pension Fund** is the fund the council manages to provide future retirement benefits for its employees. The fund is not included within the primary statements.

TABLE 1 - EARMARKED RESERVES

CORPORATE PROJECTS AND PRIORITIES RESERVES

	Balances as at 31 March 2018	Net movement	Balances as at 31 March 2019
	£000	£000	£000
London Devolution reserve	-	3,686	3,686
Southwark emergency support scheme	2,483	(357)	2,126
Homelessness prevention	703	179	882
Modernisation, service and operational improvement	650	76	726
Southwark scholarship fund	402	65	467
Voluntary sector transition fund	391	-	391
Internal audit and anti fraud	200	-	200
Neighbourhood fund	206	(12)	194
Revenue grants	124	-	124
Community engagement and links development	118	-	118
Artefacts replacement and security reserve	117	-	117
Community safety schemes	106	-	106
Total	**5,500**	**3,637**	**9,137**

CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES

	Balances as at 31 March 2018	Net movement	Balances as at 31 March 2019
	£000	£000	£000
Aylesbury development	6,000	-	6,000
Planned preventative maintenance and building compliance	4,409	(105)	4,304
Regeneration and development	3,261	800	4,061
IT and customer service development	2,195	-	2,195
Building Schools for the Future (BSF) Private Finance Initiative (PFI) 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
Public realm	600	(50)	550
Legal case management system	264	100	364
Canada Water	214	-	214
Digital innovation fund	-	171	171
Total	**22,502**	**916**	**23,418**

SERVICE REVIEWS AND IMPROVEMENTS RESERVES

	Balances as at 31 March 2018	Net movement	Balances as at 31 March 2019
	£000	£000	£000
Adult Social Care resilience	-	3,000	3,000
Health and wellbeing board commitment to Mental Health	-	2,000	2,000
Southwark pioneers fund	-	-	-
Adult Social Care homes	1,500	-	1,500
New Homes Bonus funded local enterprise partnership programme	1,642	(252)	1,390
Libraries and heritage strategy	-	1,000	1,000
London counter fraud hub	-	1,000	1,000
Cycling safety	1,000	-	1,000
Highways	746	-	746
Adult Social Care transformation fund	1,500	(774)	726
Local economy	719	(30)	689
Rough sleeping initiative	-	615	615
Highways winter maintenance	576	-	576
Care leavers' innovation grant	964	(455)	509
Positive futures fund	-	500	500
Local flood risk	628	(205)	423
Organisational development	371	(47)	324
Homelessness training academy	615	(395)	220
Schools improvement - traded services	-	200	200
Blackfriars trust allocation	138	-	138
Member development	115	(18)	97
Human Resources transformation	94	-	94
Prevention of illegal tobacco distribution	91	-	91
Workforce development (adults services)	20	64	84
Youth service	70	-	70
Special educational needs internships coordination	-	57	57
Temporary accommodation strategy	98	(65)	33
Local education authority music service	63	(49)	14
Tree recovery works	216	(216)	-
Public health reserve	(1,747)	26	(1,721)
Total	**9,419**	**5,956**	**15,375**

STRATEGIC FINANCING RISK

	Balances as at 31 March 2018	Net movement	Balances as at 31 March 2019
	£000	£000	£000
Business rate retention risk	7,704	4,796	12,500
Financial risk and future liabilities	6,369	5,131	11,500
Spending review risk reserve	-	7,050	7,050
Pensions liability risk reserve	-	2,500	2,500
Brexit risk reserve	-	2,000	2,000
Schools in financial difficulties, schools closures and academies	252	648	900
Total	**14,325**	**22,125**	**36,450**

TECHNICAL LIABILITIES AND SMOOTHING RESERVES

	Balances as at 31 March 2018	Net movement	Balances as at 31 March 2019
	£000	£000	£000
Business rates pooling – adjustment reserve	-	8,726	8,726
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 reserve	2,921	-	2,921
Universal credit implementation	997	(31)	966
Election reserve	888	(111)	777
Contractual risk reserve	-	450	450
Total	**18,906**	**9,034**	**27,940**
Total	**70,652**	**41,668**	**112,320**

Independent auditor's report to the members of Southwark Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2019 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Strategic Director of Finance and Governance's 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 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 of the Authority 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 this 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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 matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement 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 more fully in the Statement of Responsibilities as set out on page 19, 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 accounting in the United Kingdom 2018/19, 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.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

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

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

Ciaran McLaughlin

Ciaran McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

31 July 2019

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

Opinion

We have audited the financial statements of Southwark Council Pension Fund (the 'pension fund') administered by Southwark Council (the 'Authority') for the year ended 31 March 2019 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 2018/19.

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 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

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's 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 this 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 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 and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's 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 more fully in the Statement of Responsibilities set out on page 19, 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 2018/19, 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 the services provided by the pension fund 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 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.

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.

Ciaran McLaughlin

Ciaran McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

31 July 2019

STATEMENT OF RESPONSIBILITIES

The Council's responsibilities

The Council is required to:

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

The Strategic Director of Finance and Governance responsibilities

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

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

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

The Strategic Director of Finance and Governance has also:

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

I certify that the Statement of Accounts presents a true and fair view of the financial position of Southwark Council as at 31 March 2019 and its income and expenditure for the financial year ended 31 March 2019.

Duncan Whitfield
Strategic Director of Finance and Governance
31 July 2019

Council approval

Councillor James McAsh
Chair of the Audit, Governance and Standards Committee
31 July 2019

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	**2018-19**				
	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	3,395	(1,160)	2,235	160	2,395
Children's and adults' (including Dedicated Schools Grant)	194,557	(15,229)	179,328	40,932	220,260
Environment and leisure	65,080	(20,392)	44,688	22,573	67,261
Finance and governance (including strategic finance)	7,379	16,135	23,514	18,979	42,493
Housing and modernisation	68,726	(32,084)	36,642	14,514	51,156
Housing Revenue Account (HRA)	-	(15,730)	(15,730)	75,041	59,311
Place and wellbeing	3,642	4,280	7,922	9,076	16,998
Support cost reallocations	(41,106)	41,106	-	-	-
Net cost of services	**301,673**	**(23,074)**	**278,599**	**181,275**	**459,874**
Other income and expenditure	(294,269)	(20,575)	(314,844)	(38,531)	(353,375)
(Surplus) or deficit	**7,404**	**(43,649)**	**(36,245)**	**142,744**	**106,499**
(Surplus) or deficit on opening General Fund (including earmarked reserves), school balances and Dedicated Schools Grant and HRA balance at 1 April			(119,271)		
(Surplus)/deficit on General Fund and HRA balance in year			(36,245)		
Closing General Fund and HRA balance at 31 March			**(155,516)**		

Note 1. EXPENDITURE AND FUNDING ANALYSIS continued

Restated

Expenditure and Funding Analysis	2017-18				
	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	3,141	(436)	2,705	157	2,862
Children's and adults' (including Dedicated Schools Grant)	183,929	(7,577)	176,352	46,157	222,509
Environment and leisure	64,560	(21,051)	43,509	20,342	63,851
Finance and governance (including strategic finance)	(9,834)	24,814	14,980	(7,672)	7,308
Housing and modernisation	70,409	(31,710)	38,699	18,703	57,402
Housing Revenue Account (HRA)	-	(21,571)	(21,571)	68,559	46,988
Place and wellbeing	8,342	(1,268)	7,074	6,413	13,487
Support cost reallocations	(42,109)	42,109	-	-	-
Net cost of services	**278,438**	**(16,690)**	**261,748**	**152,659**	**414,407**
Other income and expenditure	(274,327)	(1,778)	(276,105)	(58,486)	(334,591)
(Surplus) or deficit	**4,111**	**(18,468)**	**(14,357)**	**94,173**	**79,816**
(Surplus) or deficit on opening General Fund (including earmarked reserves), school balances and Dedicated Schools Grant and HRA balance at 1 April			(104,914)		
(Surplus)/deficit on General Fund and HRA balance in year			(14,357)		
Closing General Fund and HRA balance at 31 March			**(119,271)**		

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.

						Restated
			2018-19			**2017-18**
	Gross expenditure	**Gross income**	**Net expenditure**	**Gross expenditure**	**Gross income**	**Net expenditure**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Chief executive's	4,119	(1,724)	**2,395**	4,497	(1,635)	2,862
Children's and adults'	495,471	(275,211)	**220,260**	495,289	(272,780)	222,509
Environment and leisure	106,060	(38,799)	**67,261**	98,871	(35,020)	63,851
Finance and governance	210,266	(167,773)	**42,493**	194,079	(186,771)	7,308
Housing and modernisation	83,169	(32,013)	**51,156**	78,696	(21,294)	57,402
Housing Revenue Account (HRA)	317,083	(257,772)	**59,311**	301,615	(254,627)	46,988
Place and wellbeing	47,467	(30,469)	**16,998**	48,520	(35,033)	13,487
Net cost of services	**1,263,635**	**(803,761)**	**459,874**	**1,221,567**	**(807,160)**	**414,407**
Other operating expenditure (note 8)			(3,516)			23,900
Financing and investment income and expenditure (note 9)			22,440			36,977
Taxation and non-specific grant income (note 10)			(372,299)			(395,468)
Deficit on provision of services			**106,499**			**79,816**
(Surplus) on revaluation of non current assets (note 23)			(33,593)			(195,438)
(Surplus) or deficit on financial assets measured at fair value through other comprehensive income (note 38)			380			(40)
Remeasurement of the net defined benefit liability (note 37)			16,381			47,549
Other Comprehensive Income and Expenditure			**(16,832)**			**(147,929)**
Total Comprehensive Income and Expenditure			**89,667**			**(68,113)**

The management reporting structure was amended in September 2018 on the creation of a new directorate for place and wellbeing. 2017-18 has been restated accordingly.

MOVEMENT IN RESERVES STATEMENT

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

The net increase/decrease before the transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves have been undertaken by the council.

MOVEMENT IN RESERVES 2018-19

	General Fund balance	Earmarked General Fund reserves	School balances and DSG reserve	HRA balance	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Total unusable reserves (note 23)	Total reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April	**18,803**	**70,652**	**9,857**	**19,959**	**10,921**	**79,849**	**-**	**210,041**	**3,786,696**	**3,996,737**
Movement in reserves during 2018-19										
Total comprehensive income and expenditure	(42,985)	-	-	(63,514)	**-**	**-**	**-**	**(106,499)**	**16,832**	**(89,667)**
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	78,355	-	-	64,388	-	(27,192)	-	**115,551**	**(115,551)**	-
Net increase/decrease before transfers to earmarked reserves	**35,370**	**-**	**-**	**874**	**-**	**(27,192)**	**-**	**9,052**	**(98,719)**	**(89,667)**
Transfers to/(from) earmarked reserves	(33,171)	41,668	(8,497)	-	-	-	-	**-**	**-**	-
Increase/(decrease) in year	**2,199**	**41,668**	**(8,497)**	**874**	**-**	**(27,192)**	**-**	**9,052**	**(98,719)**	**(89,667)**
Balance as at 31 March	**21,002**	**112,320**	**1,360**	**20,833**	**10,921**	**52,657**	**-**	**219,092**	**3,687,976**	**3,907,068**

MOVEMENT IN RESERVES 2017-18

	General Fund balance	Earmarked General Fund reserves	School balances and DSG reserve	HRA balance	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Total unusable reserves (note 23)	Total reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance as at 1 April	**18,803**	**54,493**	**17,263**	**14,355**	**5,388**	**80,489**	**-**	**190,791**	**3,737,833**	**3,928,624**
Movement in reserves during 2017-18										
Total comprehensive income and expenditure	(16,397)	-	-	(63,419)	-	-	-	**(79,816)**	**147,929**	**68,113**
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	25,150	-	-	69,023	5,533	(640)	-	**99,066**	**(99,066)**	-
Net increase/decrease before transfers to earmarked reserves	**8,753**	**-**	**-**	**5,604**	**5,533**	**(640)**	**-**	**19,250**	**48,863**	**68,113**
Transfers to/(from) earmarked reserves	(8,753)	16,159	(7,406)	-	-	-	-	**-**	**-**	-
Increase/(decrease) in year	**-**	**16,159**	**(7,406)**	**5,604**	**5,533**	**(640)**	**-**	**19,250**	**48,863**	**68,113**
Balance as at 31 March	**18,803**	**70,652**	**9,857**	**19,959**	**10,921**	**79,849**	**-**	**210,041**	**3,786,696**	**3,996,737**

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category are 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 2019	31 March 2018
		£000	£000
Property, plant and equipment	13	5,054,902	5,074,856
Heritage assets		1,223	1,223
Investment property	14	334,529	232,394
Assets held for sale	15	17,150	65,339
Long-term investments	38	21,357	27,164
Long-term debtors	17	23,355	31,642
Long term assets		**5,452,516**	**5,432,618**
Current intangible assets		169	169
Short-term investments	38	57,702	51,254
Inventories		430	476
Short-term debtors	17	136,072	106,051
Cash and cash equivalents	16	35,989	39,126
Assets held for sale	15	27,454	8,854
Current assets		**257,816**	**205,930**
Short-term borrowing	38	(133,270)	(130,215)
Short-term creditors	18	(172,053)	(196,125)
Short-term provisions	19	(3,409)	(8,401)
Grants receipts in advance	21	(99,726)	(107,093)
Current liabilities		**(408,458)**	**(441,834)**
Long-term creditors	18	(10,546)	(10,944)
Long-term provisions	19	(29,099)	(13,511)
Long-term borrowing	38	(551,774)	(440,164)
Pension liabilities	37	(712,470)	(639,864)
Other long-term liabilities	35	(90,917)	(95,494)
Long-term liabilities		**(1,394,806)**	**(1,199,977)**
Net assets		**3,907,068**	**3,996,737**
Usable reserves	12	(219,092)	(210,041)
Unusable reserves	23	(3,687,976)	(3,786,696)
Total reserves		**(3,907,068)**	**(3,996,737)**

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	**2018-19**	**2017-18**
		£000	**£000**
Net surplus or (deficit) on the provision of services		(106,499)	(79,816)
Adjustment to surplus or deficit on the provision of services for non cash movements	24	314,594	352,881
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(211,189)	(173,220)
Net cash flows from operating activities		**(3,094)**	**99,845**
Net cash flows from investing activities	25	(109,074)	(211,387)
Net cash flows from financing activities	26	109,031	102,078
Net increase or (decrease) in cash and cash equivalents		**(3,137)**	**(9,464)**
Cash and cash equivalents at the beginning of the reporting period	16	39,126	48,590
Cash and cash equivalents at the end of the reporting period	16	**35,989**	**39,126**

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The Statement of Accounts summarises the council's transactions for the 2018-19 financial year and its position at the year end of 31 March 2019. 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 2018-19, 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		
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)

Category	Accounting basis in CIES	Funding basis in MiRS	Adjustment account
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 2018-19 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 2018-19 bills	Demand on the Collection Fund for 2018-19 plus share of estimated surplus for 2017-18	Collection Fund adjustment account
Business rates	Accrued income from 2018-19 bills	Budgeted income receivable from the Collection Fund for 2018-19 plus share of estimated surplus 2017-18	Collection Fund adjustment account
Holiday pay	Projected cost of untaken leave entitlements at 31 March 2019	No charge	Accumulated absence 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.

(i) 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

(ii) 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

(iii) 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

(iv) Revenue from housing rents is recognised in the year the billing amount falls due

(v) 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

(vi) 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

(vii) 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

(viii) 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

(ix) 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 places 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 – it's 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 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

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 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

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

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 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.

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:

Amendments to IAS 40 investment property: transfers of investment property	Confirmation that a property can only be transferred to/from investment property when, and only when, there is evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
Annual Improvements to IFRS standards 2014-2016 cycle	Clarification that IFRS 12 disclosure of interests in other entities requirements apply to assets held for sale, discontinued operations, etc. Clarification that elections available to venture capital organisations under IAS 28 investments in associates and joint ventures to measure investments at fair value through profit or loss is available on an investment by investment basis.
IFRIC 22 foreign currency transactions and advance consideration	Guidance on recognition of assets/liabilities and use of exchange rates when an entity receives or pays consideration in advance in a foreign currency.
IFRIC 23 uncertainty over income tax treatments	Applicable considerations where there is uncertainty over the acceptable corporation tax treatment of an item, e.g. whether an item of income is taxable or not.
Amendments to IFRS 9 financial instruments: prepayment features with negative compensation	Clarification that if a financial asset can be redeemed by the borrower in circumstances that would result in negative compensation (e.g. a discount on early repayment of a loan), this will not result in failure of the 'solely payments of principal and interest' test if it is reasonable additional compensation for cancellation of the contract.

There are no changes in accounting requirements for 2019-20 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:

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 on to the balance sheet as these assets are not controlled by the council but rather by whichever trust or religious body is associated with each individual school. The exception is Charles Dickens primary (a foundation school) where the asset is owned and controlled by the council.

	Number of schools	Value of land and buildings recognised £000
Community schools, nursery schools and special schools	47	402,225
Voluntary aided faith schools and foundation schools	29	12,670

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

The assets of voluntary aided schools are deemed not to be assets of the council. Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd. for operating the schools and reimbursement of the capital expense incurred, the council does not have an interest in the assets. Further details of the financial arrangements for the schools PFI contracts, and the obligations outstanding, can be found in note 34.

Heat and energy supply arrangements

The heat supply PFI arrangement with Veolia environmental services became operational in November 2013. It placed piping and associated facilities to deliver heating to council residents. It has been assessed as a service concession in accordance with IFRS accounting practice. Unitary charges are payable until 2033 and allocated as charges for service, interest and principal. Further details of the financial arrangements for the heat and energy supply contract, and the obligations outstanding, can be found in note 34.

Integrated waste management facility

The integrated waste management facility at the Old Kent Road became operational in February 2012. This is a facility constructed by Veolia environmental services under a 25 year PFI contract for the collection and disposal of waste in the borough. The scheme has been evaluated in accordance with IFRS accounting practices, and it is considered that the council has an interest in the asset which should be reflected in the council's Balance Sheet, with a matching liability to make capital repayments as part of the unitary charges. The council has separated waste PFI contract payments between elements that vary according to availability of the property and another element that varies according to usage or performance of services using estimation techniques in accordance with the code. The property and related liability is measured at the fair value of the asset and the payments allocated between: (a) repayment of liability, (b) finance charge and (c) service element. The council further considers that payments prior to the asset becoming operational reasonably represent the fair value of services. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in note 34.

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, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Valuation of property, plant and equipment

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

A sensitivity analysis detailing movement in valuations is as follows:

Asset category	Assets valued at 31 March 2019 £000	Increase in valuation		Decrease in valuation	
		1% £000	5% £000	1% £000	5% £000
Council dwellings	3,388,106	33,881	169,405	(33,881)	(169,405)
Other land and buildings	774,931	7,749	38,747	(7,749)	(38,747)
Surplus assets	71,656	717	3,583	(717)	(3,583)
Investment property	330,048	3,300	16,502	(3,300)	(16,502)
Assets held for sale	17,600	176	880	(176)	(880)
Total	4,582,341	45,823	229,117	(45,823)	(229,117)

Defined benefit pension amounts and disclosures

The council recognises its outstanding liabilities to meet future pension's costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2019 the outstanding net liability was assessed at £712.470m (£639.864m at 31 March 2018). 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.

Britain leaving the European Union

There is a high level of uncertainty about the implications of Britain leaving the European Union. At this time there are a number of possible scenarios for how and when Brexit will depart and it is not possible predict the impact this will have on asset values and discount rates. The assumption has been made that this will not significantly impair the value of the council's assets or change the discount rate. This assumption will be kept under regular review.

6. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Strategic Director of Finance and Governance on 31 July 2019. 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 2019, 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

				2018-19				Restated 2017-18
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	-	158	2	160	-	153	4	157
Children's and adults'	30,381	7,751	2,800	40,932	38,887	7,270	-	46,157
Environment and leisure	19,457	3,081	35	22,573	17,060	3,279	3	20,342
Finance and governance	(3,517)	22,693	(197)	18,979	1,054	(8,493)	(233)	(7,672)
Housing and modernisation	12,765	1,724	25	14,514	17,076	1,642	(15)	18,703
Housing Revenue Account (HRA)	70,108	3,911	1,022	75,041	65,706	3,018	(165)	68,559
Place and wellbeing	97	757	8,222	9,076	5,778	664	(29)	6,413
Net cost of services	**129,291**	**40,075**	**11,909**	**181,275**	**145,561**	**7,533**	**(435)**	**152,659**
Other income and expenditure from the funding analysis	(79,828)	16,149	25,148	(38,531)	(69,277)	14,330	(3,539)	(58,486)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit	**49,463**	**56,224**	**37,057**	**142,744**	**76,284**	**21,863**	**(3,974)**	**94,173**

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 2018-19. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

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

		Restated
	2018-19	**2017-18**
	£000	**£000**
Expenditure		
Employee expenses	413,265	364,808
Other services expenses	781,277	787,927
Depreciation, amortisation and impairment	90,935	99,102
Interest payments	34,874	33,968
Precepts and levies	1,973	1,938
(Gains)/losses on the disposal of assets	(9,754)	17,688
Sub-total	**1,312,570**	**1,305,431**
Income		
Fees, charges and other service income	(360,677)	(343,612)
Interest and investment income	(20,500)	(15,703)
Income from council tax and business rates (NDR)	(289,490)	(188,855)
Government grants and contributions	(535,404)	(677,445)
Sub-total	**(1,206,071)**	**(1,225,615)**
(Surplus)/deficit on the provision of services	**106,499**	**79,816**

8. OTHER OPERATING EXPENDITURE

	2018-19	2017-18
	£000	£000
Levies	1,973	1,938
Payment to the government's housing capital receipts pool	4,265	4,274
(Gain)/loss on the disposal of non-current assets	(9,754)	17,688
Total	**(3,516)**	**23,900**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018-19	2017-18
	£000	£000
Interest payable and similar charges	35,244	34,183
Grant contributions towards interest costs on PFI schemes	(7,442)	(7,478)
Net interest on the net defined benefit liability	16,149	14,330
Interest receivable and similar income	(4,256)	(2,220)
Income, expenditure and changes in the fair value of investment properties	(17,255)	(1,838)
Total	**22,440**	**36,977**

10. TAXATION AND NON-SPECIFIC GRANT INCOME

	2018-19	2017-18
	£000	£000
Council tax income	(106,873)	(97,348)
Non-domestic rates income and expenditure	(182,617)	(91,507)
Un-ringfenced government grants	(16,764)	(111,641)
Capital grants and contributions	(66,045)	(94,972)
Total	**(372,299)**	**(395,468)**

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 funding HRA services.

Major repairs reserve

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

Capital receipts reserve

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

Capital grants unapplied

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

2018-19	**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	35,690	55,245	-	-	-	(90,935)
Revaluation losses on property, plant and equipment	1,991	86,157	-	-	-	(88,148)
Movements in the fair value of investment properties	2,917	(7,586)	-	-	-	4,669
Capital grants and contributions applied	(46,199)	(19,846)	-	-	-	66,045

2018-19	**General Fund balance**	**Housing Revenue Account**	**Major repairs reserve**	**Capital receipts reserve**	**Capital grants unapplied**	**Movement in unusable reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue expenditure funded from capital under statute	25,038	2,333	-	-	-	(27,371)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	91,464	37,851	-	-	-	(129,315)
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)	(3,004)	-	-	(4,676)	-	7,680
Lease and PFI repayment	-	(216)	-	-	-	216
Repayment of premiums	(241)	(824)	-	-	-	1,065
Capital expenditure charged against the General Fund and HRA balances	(531)	(22,019)	-	-	-	22,550
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	(116,245)	(28,899)	-	145,144	-	-
Transfer from deferred debtors to usable capital receipts reserve	-	-	-	5	-	(5)
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	(162,325)	-	162,325
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	653	422	-	(1,075)	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	4,265	-	-	(4,265)	-	-
Adjustments primarily involving the deferred capital receipts reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	5,000	-	-	-	(5,000)
Adjustments primarily involving the major repairs reserve:						
MRR credited with an amount equal to the depreciation charged to the HRA	-	(50,752)	50,752	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	-	-	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	(50,752)	-	-	50,752

2018-19	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
Adjustments primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	7,002	116	-	-	-	(7,118)
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	82,735	13,309	-	-	-	(96,044)
Employer's pensions contributions and direct payments to pensioners payable in the year	(33,809)	(6,010)	-	-	-	39,819
Adjustments primarily involving the Collection Fund adjustment account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	3,237	-	-	-	-	(3,237)
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	20,455	-	-	-	-	(20,455)
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	2,937	107	-	-	-	(3,044)
Total adjustments	**78,355**	**64,388**	**-**	**(27,192)**	**-**	**(115,551)**

2017-18	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	38,937	60,165	-	-	-	(99,102)
Revaluation losses on property, plant and equipment	8,203	82,536	-	-	-	(90,739)
Movements in the fair value of investment properties	18,065	(10,660)	-	-	-	(7,405)
Capital grants and contributions applied	(85,809)	(9,163)	-	-	-	94,972

2017-18	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
Revenue expenditure funded from capital under statute	34,877	1,526	-	-	-	(36,403)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	20,825	42,810	-	-	-	(63,635)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	(1,748)	-	-	(4,244)	-	5,992
Lease and PFI repayment	-	(221)	-	-	-	221
Repayment of premiums	(241)	(824)	-	-	-	1,065
Capital expenditure charged against the General Fund and HRA balances	(414)	(21,164)	-	-	-	21,578
Adjustments primarily involving the capital grants unapplied account:						
Application of grants to capital financing transferred to the capital adjustment account	-	-	-	-		
Adjustments primarily involving the capital receipts reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(22,097)	(56,151)	-	78,248	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	11	-	(11)
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	(69,481)	-	69,481
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	147	753	-	(900)	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	4,274	-	-	(4,274)	-	-
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	-	31,400	-	-	-	(31,400)
Adjustments primarily involving the major repairs reserve:						
MRR credited with an amount equal to the depreciation charged to the HRA	-	(50,566)	50,566	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	(5,967)	5,967	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	(51,000)	-	-	51,000

2017-18	**General Fund balance**	**Housing Revenue Account**	**Major repairs reserve**	**Capital receipts reserve**	**Capital grants unapplied**	**Movement in unusable reserves**
Adjustments primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	(936)	-	-	-	936
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	48,544	9,905	-	-	-	(58,449)
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,166)	(4,420)	-	-	-	36,586
Adjustments primarily involving the Collection Fund adjustment account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,606)	-	-	-	-	1,606
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	(4,613)	-	-	-	-	4,613
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	(28)	-	-	-	-	28
Total adjustments	**25,150**	**69,023**	**5,533**	**(640)**	**-**	**(99,066)**

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 2018-19, 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
- School balances/Dedicated Schools Grant reserves – amounts required by statute to be set aside for future expenditure in schools
- Housing Revenue Account general and major repairs 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 2017	Transfer out 2017	Transfer in 2017	31 March 2018	1 April 2018	Transfer out 2018	Transfer in 2018	31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund reserve	**(18,803)**	**-**	**-**	**(18,803)**	**(18,803)**	**-**	**(2,199)**	**(21,002)**
Earmarked reserves								
Corporate projects and priorities reserves	(4,955)	2,235	(2,780)	(5,500)	(5,500)	1,287	(4,924)	(9,137)
Service improvement reserves	(2,893)	1,706	(8,232)	(9,419)	(9,419)	2,612	(8,568)	(15,375)
Capital investment reserves	(22,516)	1,787	(1,773)	(22,502)	(22,502)	221	(1,137)	(23,418)
Strategic financing, technical and risk reserves	(24,128)	8,350	(17,453)	(33,231)	-	-	-	-
Strategic financing risk reserves	-	-	-	-	(14,325)	8	(22,133)	(36,450)
Technical liabilities and smoothing reserves	-	-	-	-	(18,906)	510	(9,544)	(27,940)
Sub total	**(54,492)**	**14,078**	**(30,238)**	**(70,652)**	**(70,652)**	**4,638**	**(46,306)**	**(112,320)**
Schools reserves								
Schools - DSG reserve	(1,250)	5,361	-	4,111	4,111	7,404	-	11,515
Schools - balances	(16,013)	8,963	(6,918)	(13,968)	(13,968)	8,368	(7,275)	(12,875)
Sub total	**(17,263)**	**14,324**	**(6,918)**	**(9,857)**	**(9,857)**	**15,772**	**(7,275)**	**(1,360)**
HRA reserves								
HRA general reserve	(14,355)	71	(5,675)	(19,959)	(19,959)	5,226	(6,099)	(20,833)
Major repairs reserve	(5,389)	51,000	(56,532)	(10,921)	(10,921)	50,752	(50,752)	(10,921)
Sub total	**(19,744)**	**51,071**	**(62,207)**	**(30,880)**	**(30,880)**	**55,978**	**(56,851)**	**(31,753)**
Capital reserves								
Capital receipts reserve	(80,489)	73,725	(73,085)	(79,849)	(79,849)	179,394	(152,202)	(52,657)
Sub total	**(80,489)**	**73,725**	**(73,085)**	**(79,849)**	**(79,849)**	**179,394**	**(152,202)**	**(52,657)**
Total	**(190,791)**	**153,198**	**(172,448)**	**(210,041)**	**(210,041)**	**255,782**	**(264,833)**	**(219,092)**

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.

2018-19	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	3,480,309	1,025,447	95,094	394,029	12,395	163,779	99,221	**5,270,274**	87,160
Additions	69,878	20,273	2,570	34,549	2,770	52,175	48,049	**230,264**	503
Revaluation increases/(decreases) recognised in the revaluation reserve	(61,892)	12,604	-	-	-	6,048	8,390	**(34,850)**	-
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(58,454)	(3,005)	-	-	-	882	-	**(60,577)**	-
Derecognition – disposals	(7,079)	-	-	(1,327)	-	-	-	**(8,406)**	-
Derecognition – other	(27,884)	(28,088)	-	-	(21)	(7,026)	-	**(63,019)**	-
Assets reclassified	28,431	18,080	-	(1,788)	-	(31,487)	(87,509)	**(74,273)**	-
Other movements in cost or valuation	(293)	59	-	369	-	-	29	**164**	-
Balance as at 31 March	**3,423,016**	**1,045,370**	**97,664**	**425,832**	**15,144**	**184,371**	**68,180**	**5,259,577**	**87,663**
Depreciation and impairment									
Opening balance	1,727	27,245	56,815	105,324	901	3,118	288	**195,418**	5,809
Depreciation charge	49,303	15,336	6,789	14,654	-	361	-	**86,443**	1,937
Depreciation written out on revaluations recognised in the revaluation reserve	(50,331)	(18,100)	-	-	-	(12)	-	**(68,443)**	(840)
Depreciation written out on revaluations recognised in the surplus/deficit on the provision of services	(145)	-	-	-	-	-	-	**(145)**	-
Derecognition – disposals	(96)	-	-	(361)	-	-	-	**(457)**	-
Derecognition – other	(209)	(5,945)	-	-	-	(1,956)	-	**(8,110)**	-
Assets reclassified	89	150	-	(323)	-	(13)	-	**(97)**	-
Other movements in depreciation and impairment	7	59	-	-	-	-	-	**66**	-
Balance as at 31 March	**345**	**18,745**	**63,604**	**119,294**	**901**	**1,498**	**288**	**204,675**	**6,906**
Net book value at 31 March	**3,422,671**	**1,026,625**	**34,060**	**306,538**	**14,243**	**182,873**	**67,892**	**5,054,902**	**80,757**

2017-18	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	3,340,587	988,501	88,228	361,942	11,792	180,448	56,940	**5,028,441**	85,906
Additions	127,541	56,938	6,866	36,303	642	5,781	40,538	**274,609**	113
Revaluation increases/(decreases) recognised in the revaluation reserve	92,467	28,535	-	-	-	12,960	-	**133,962**	1,353
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of services	(92,169)	(8,299)	-	-	-	-	-	**(100,468)**	79
Derecognition – disposals	(15,269)	-	-	-	-	(140)	-	**(15,409)**	-
Derecognition – other	(1,656)	(11,865)	-	-	-	(16,357)	(385)	**(30,263)**	-
Assets reclassified	28,377	(28,545)	-	(4,216)	(39)	(20,657)	3,900	**(21,180)**	-
Other movements in cost or valuation	431	182	-	-	-	1,744	(1,772)	**582**	(291)
Balance as at 31 March	**3,480,309**	**1,025,447**	**95,094**	**394,029**	**12,395**	**163,779**	**99,221**	**5,270,274**	**87,160**
Depreciation and impairment									
Opening balance	(95)	29,942	47,253	91,945	901	3,622	(112)	**173,454**	5,806
Depreciation charge	48,937	14,321	9,562	13,651	-	3,032	-	**89,503**	1,900
Depreciation written out on revaluations recognised in the revaluation reserve	(48,400)	(13,015)	-	-	-	(61)	-	**(61,476)**	(808)
Depreciation written out on revaluations recognised in the surplus/deficit on the provision of services	(272)	-	-	-	-	-	-	**(272)**	-
Derecognition – disposals	(263)	-	-	-	-	-	-	**(263)**	-
Derecognition – other	(35)	(2,301)	-	-	-	(1,025)	-	**(3,361)**	-
Assets reclassified	1,666	(1,725)	-	(401)	-	(2,450)	400	**(2,510)**	-
Other movements in depreciation and impairment	189	23	-	129	-	-	-	**343**	(1,089)
Balance as at 31 March	**1,727**	**27,245**	**56,815**	**105,324**	**901**	**3,118**	**288**	**195,418**	**5,809**
Net book value at 31 March	**3,478,582**	**998,202**	**38,279**	**288,705**	**11,494**	**160,661**	**98,933**	**5,074,856**	**81,351**

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 2018 of the relevant accounting period. Other land and buildings (OLB) and surplus assets are valued at 31 December 2018 on a 20% rolling basis to ensure valuation of all assets in this category within 5 years. Assets held for sale and investment properties (General Fund and Housing Revenue Account) are valued at 31 March 2019.

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.

The effective date of valuations arising from in-year capital expenditure of £0.5m and above, physical impairment or material changes in the value of assets in any category is 31 March of the relevant accounting period. In 2018-19, a sum of £4.5m was charged to the Comprehensive Income and Expenditure Statement and to the capital adjustment account due to impairments to Maydew, Ledbury estates 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	34,909	53,655	97,664	425,832	15,144	47,166	68,180	**742,550**
Different valuations are applied to different valuation classes								
31 March 2019	3,388,107	774,931	-	-	-	71,656	-	**4,234,694**
31 March 2018	-	86,544	-	-	-	40,118	-	**126,662**
31 March 2017	-	29,376	-	-	-	970	-	**30,346**
31 March 2016	-	74,997	-	-	-	-	-	**74,997**
31 March 2015	-	25,867	-	-	-	24,461	-	**50,328**
Total	**3,423,016**	**1,045,370**	**97,664**	**425,832**	**15,144**	**184,371**	**68,180**	**5,259,577**

At 31 March 2019, the council has entered into a number of contracts for the construction or enhancement of non-current assets in 2018-19 and future years budgeted to cost £109.0m. Similar commitments at 31 March 2018 were £65.0m. The commitments are as below:

	£m
General Fund	13
Housing Revenue Account	96
Total	**109**

14. INVESTMENT PROPERTIES

The income and expenditure on investment assets was as follows:

	2018-19	2017-18
	£000	£000
Rental income from investment property	(16,425)	(13,608)
Fair value adjustments	(4,669)	7,405
Direct operating expenses arising from investment property	3,839	4,365
Net (gain)/loss included in financing and investment income in CIES	**(17,255)**	**(1,838)**

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:

	2018-19	2017-18
	£000	£000
Balance as at 1 April	**232,394**	**147,803**
Additions	92,095	78,623
Disposals	(681)	(5,055)
Net gains/(losses) from fair value adjustments	4,669	(7,405)
Reconciliation to current balances	(135)	(242)
Transfers (to)/from property, plant and equipment	6,187	18,670
Balance as at 31 March	**334,529**	**232,394**

Properties held under operating leases

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

15. ASSETS HELD FOR SALE

	Current		Non-current	
	2018-19	2017-18	2018-19	2017-18
	£000	£000	£000	£000
Balance at 1 April	**8,854**	**13,275**	**65,339**	**77,589**
Additions	-	-	-	-
Transfers from property, plant and equipment	18,600	-	49,369	-
Revaluation loss taken to surplus or deficit on the provision of services	-	-	(32,219)	-
Assets sold	-	(4,421)	(65,339)	(12,250)
Balance at 31 March	**27,454**	**8,854**	**17,150**	**65,339**

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 2019	31 March 2018
	£000	**£000**
Cash held by the council	7	10
Short-term funds in money markets	45,616	45,870
Sub-total	**45,623**	**45,880**
Bank current accounts (bank overdraft)	(9,634)	(6,754)
Total cash and cash equivalents	**35,989**	**39,126**

17. DEBTORS

	31 March 2019		31 March 2018	
	Short-term debtors	**Long-term debtors**	**Short-term debtors**	**Long-term debtors**
	£000	**£000**	**£000**	**£000**
Central government bodies	22,583	-	16,696	-
Other local authorities	14,784	-	3,964	-
NHS bodies	6,971	-	4,243	-
Private entities and individuals	156,125	23,355	134,231	31,642
Total before impairment	**200,463**	**23,355**	**159,134**	**31,642**
Impairment	(64,391)	-	(53,083)	-
Total net of impairment	**136,072**	**23,355**	**106,051**	**31,642**

18. CREDITORS

	Short-term creditors		Long-term creditors	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
	£000	£000	£000	£000
Central government bodies	14,329	32,703	-	-
Other local authorities	26,002	32,465	-	-
NHS bodies	5,642	6,532	-	-
Private entities and individuals	126,080	124,425	10,546	10,944
Total	**172,053**	**196,125**	**10,546**	**10,944**

19. PROVISIONS

	Short-term provisions		Long-term provisions	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
	£000	£000	£000	£000
Insurance provision	-	-	8,357	8,357
Business rates appeals	3,409	8,401	17,911	1,593
Provision for refunds - Thames Water (former tenants)	-	-	2,158	2,888
Other miscellaneous provisions (schools and motor insurance)	-	-	673	673
Total	**3,409**	**8,401**	**29,099**	**13,511**

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

The amount provided for business rate appeals (council share) has increased from £9.994m at 31 March 2018 to £21.320m at 31 March 2019 as a result of the council's share increasing from 30% to 64% as a member of the London 100% business rates retention scheme in 2018-19. The provision is based on data and trends that reflect local circumstances.

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). An element of DSG is recouped by the ESFA to fund academy schools in the council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School 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 2018-19 are as follows:

	Central expenditure	Individual schools budgets	Total 2018-19	Total 2017-18
	£000	£000	£000	£000
Final DSG before academy and high needs recoupment			**(315,133)**	(307,603)
Academy and high needs figure recouped			**118,212**	108,351
Total DSG after academy and high needs recoupment			(196,921)	(199,252)
Brought forward from previous year			**4,111**	(1,249)
Carry forward to future year agreed in advance			**-**	-
Agreed initial budgeted distribution for the year	**(27,733)**	**(165,077)**	**(192,810)**	(200,501)
In-year adjustments	-	-	-	-
Final budget distribution for the year	**(27,733)**	**(165,077)**	**(192,810)**	(200,501)
Less: actual central expenditure	39,248	-	39,248	41,516
Less: actual individual school budget (ISB) deployed to schools	**-**	**165,077**	**165,077**	**163,096**
Plus: local authority contribution	**-**	**-**	**-**	**-**
Carry-forward to subsequent year	**11,515**	**-**	**11,515**	**4,111**

There are significant pressures on schools funding via the Dedicated Schools Grant (DSG), with spending exceeding grant in both 2017-18 and 2018-19. There was an accumulated deficit on the DSG reserve of £11.515m at 31 March 2019.

21. GRANT INCOME

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

	2018-19	Restated 2017-18
	£000	£000
Credited to taxation and non specific grant income		
Revenue support grant	-	(57,790)
Business rates tariff / (top up)	5,760	(33,483)
New homes bonus	(11,398)	(13,048)
Autumn statement compensation grant	(9,453)	(7,320)
Capital grants and contributions	(66,045)	(94,972)
Sub total	**(81,136)**	**(206,613)**
Credited to provision of services		
Dedicated Schools Grant	(196,921)	(199,252)
Housing benefits subsidy - rent rebates granted to HRA tenants	(73,355)	(82,889)
Housing benefits subsidy - rent allowances	(68,752)	(78,814)
Housing benefits subsidy - non HRA rent rebates	(7,799)	(5,064)
Housing benefit / council tax administration	(2,417)	(2,572)
Public health	(27,469)	(28,194)
Better care fund	(16,066)	(15,652)
Improved better care fund	(12,584)	(9,169)
Pupil premium grant	(11,426)	(11,880)
Private finance initiative (PFI)	(9,935)	(9,935)
Universal infant free school meals	(2,838)	(2,900)
Tackling troubled families	(1,439)	(1,521)
School sixth form funding	(2,173)	(2,073)
Community learning grant	(1,434)	(1,512)
Discretionary housing payment	(1,276)	(1,233)
Unaccompanied asylum child grant	(1,344)	(1,472)
Catch 22 innovation grant	(195)	(1,580)
Flexible homelessness support grant	(3,194)	(2,670)
Adult social care support grant	(982)	(1,578)
Levy account surplus grant	(1,749)	-
Adult social care winter pressures	(1,571)	-
Physical education and sports grant	(1,224)	(978)
London crime prevention fund	(1,034)	(942)
Other grants individually less than £1 million	(7,091)	(8,952)
Sub total	**(454,268)**	**(470,832)**
Total	**(535,404)**	**(677,445)**

In 2018-19, all London boroughs entered into a pilot arrangement for 100% business rates retention, which led to a reconfiguration of the local government financial settlement. The budget for 2018-19 was reliant on local taxation, either business rates or council tax, with no government funding in the form of revenue support grant (RSG) alongside limited government grants funding.

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

	2018-19	2017-18
	£000	£000
Balance as at 1 April	(107,093)	(151,722)
New capital grants received in advance	(58,678)	(50,343)
Amounts released to the CIES (conditions met)	66,045	94,972
Balance as at 31 March	**(99,726)**	**(107,093)**

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

	2018-19	2017-18
	£000	£000
Planning gains	(91,096)	(101,322)
Education	(1,411)	(1,369)
Transport for London	(1,232)	(2,124)
Other grants individually less than £1 million	(5,987)	(2,278)
Balance as at 31 March	**(99,726)**	**(107,093)**

22. POOLED BUDGETS

Better Care Fund (BCF)

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

	2018-19		2017-18	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
· Council	13,971		10,403	
· CCG	21,450		21,050	
		35,421		**31,453**
Expenditure met from the pooled budget:				
· Council	30,028		26,046	
· CCG	5,393		5,407	
		35,421		**31,453**
Net surplus arising on the pooled budget in the year		-		-

Integrated community equipment store (ICES)

Southwark council and the CCG also operate pooled fund arrangements for an integrated community equipment service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £2.030m in 2018-19 (£1.840m in 2017-18).

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 2019	Restated 31 March 2018
	£000	£000
Capital adjustment account	2,573,777	2,498,966
Financial instruments adjustment account	(28,678)	(22,625)
Revaluation reserve	1,871,292	1,934,047
Pensions reserve	(712,470)	(639,864)
Deferred capital receipts	6,000	11,000
Collection Fund adjustment account	(11,308)	12,385
Accumulated absences adjustment account	(10,429)	(7,385)
Financial instruments revaluation reserve	(208)	-
Available for sale financial instruments reserve	-	172
Total unusable reserves	**3,687,976**	**3,786,696**

Prior year adjustment post audit between the capital adjustment account and revaluation reserve.

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.

	2018-19		Restated 2017-18	
	£000	£000	£000	£000
Balance at 1 April		**2,498,966**		**2,433,367**
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	(90,935)		(99,102)	
Revaluation losses on property, plant and equipment	(88,148)		(90,739)	
Revenue expenditure funded from capital under statute	(27,371)		(36,403)	
Movements in the market value of investment properties	4,669		(7,405)	
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	(129,315)		(63,635)	
		(331,099)		**(297,284)**
Continued				

	2018-19		2017-18	
	£000	£000	£000	£000
Adjusting amounts written to the capital adjustment account for disposals and restatements	90,737		90,820	
Adjusting amounts written out of the revaluation reserve for the difference between fair value depreciation and historical cost depreciation	5,611		28,829	
Transfer from deferred debtors	(5)		(11)	
Net written out amount of the cost of non current assets consumed in the year		**96,343**		**119,638**
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	162,325		69,481	
Use of the major repairs reserve to finance new capital expenditure	50,752		51,000	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	66,045		94,972	
Provision for the financing of capital investment charged against the General Fund and HRA balances	3,219		1,969	
Provision to reduce the capital financing requirement (minimum revenue provision)	4,676		4,244	
Capital expenditure charged against the General Fund and HRA balances	22,550		21,579	
Total		**309,567**		**243,245**
Balance at 31 March		**2,573,777**		**2,498,966**

Financial instruments adjustment account

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

Amongst the transactions on this account are premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the in the Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the account at 31 March 2019 includes £16.755m premiums (£17.820m at 31 March 2018) to be discharged in future.

	2018-19	2017-18
	£000	£000
Balance at 1 April	**(22,625)**	**(24,626)**
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	(7,118)	936
Balance at 31 March	**(28,678)**	**(22,625)**

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.

	2018-19		Restated 2017-18	
	£000	£000	£000	£000
Balance at 1 April		**1,934,047**		**1,858,258**
Upward revaluation of assets	119,302		459,021	
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(85,709)		(263,583)	
Total of surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services		33,593		195,438
Adjusting amounts written to the capital adjustment account for disposals and restatements		(90,737)		(90,820)
Difference between fair value depreciation and historical cost depreciation		(5,611)		(28,829)
Balance at 31 March		**1,871,292**		**1,934,047**

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.

	2018-19	2017-18
	£000	£000
Balance at 1 April	**(639,864)**	**(570,452)**
Remeasurements of the net defined benefit liability	(16,381)	(47,549)
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	(96,044)	(58,449)
Employer's pension contributions and direct payments payable to pensioners in the year	39,819	36,586
Balance at 31 March	**(712,470)**	**(639,864)**

Deferred capital receipts reserve

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

	2018-19	2017-18
	£000	£000
Balance at 1 April	**11,000**	**42,400**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-
Transfer to the capital receipts reserve upon receipt of cash	(5,000)	(31,400)
Balance at 31 March	**6,000**	**11,000**

Collection Fund adjustment account

	2018-19	2017-18
	£000	£000
Balance at 1 April	**12,385**	**6,166**
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	(23,693)	6,219
Balance at 31 March	**(11,308)**	**12,385**

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

Collection Fund adjustment account – council tax

	2018-19	2017-18
	£000	£000
Balance at 1 April	**7,259**	**5,653**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,237)	1,606
Balance at 31 March	**4,022**	**7,259**

Collection Fund adjustment account – business rates

	2018-19	2017-18
	£000	£000
Balance at 1 April	**5,126**	**513**
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	(20,456)	4,613
Balance at 31 March	**(15,330)**	**5,126**

24. CASH FLOW FROM OPERATING ACTIVITIES

	2018-19	2017-18
	£000	£000
Adjustment to surplus or deficit on the provision of services for non cash movement:		
Depreciation	90,935	99,102
Impairment and upward/(downward) valuations	83,479	98,144
Increase/(decrease) in impairment for bad debts	12,532	1,172
Increase/(decrease) in creditors	(23,414)	20,938
(Increase)/decrease in debtors	(45,097)	50,601
(Increase)/decrease in inventories	46	158
Movement in pension liability	56,225	21,863
Movement in provisions	10,596	(2,667)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	129,315	63,635
Other non-cash items charged to the net surplus or deficit on the provision of services	(23)	(65)
Total	**314,594**	**352,881**

	2018-19	2017-18
	£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	(145,144)	(78,248)
Capital grants included in 'taxation and non-specific grant income'	(66,045)	(94,972)
Total	**(211,189)**	**(173,220)**

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

	2018-19	2017-18
	£000	£000
Interest received	(4,009)	(2,422)
Interest paid	34,799	32,054
Net interest	**30,790**	**29,632**

25. CASH FLOW FROM INVESTING ACTIVITIES

	2018-19	2017-18
	£000	£000
Purchase of PPE, investment property and intangible assets	(312,256)	(364,614)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	145,144	78,248
Proceeds from sale of short-term investments (not considered to be cash equivalents)	(640)	24,636
Capital grants and contributions received	58,678	50,343
Net cash flows from investing activities	**(109,074)**	**(211,387)**

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

	2018-19	2017-18
	£000	£000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(4,891)	(5,230)
Cash receipts of short and long-term borrowing	261,610	112,308
Repayments of short and long-term borrowing	(147,688)	(5,000)
Net cash flows from financing activities	**109,031**	**102,078**

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 1 April	**(440,164)**	**(130,215)**	**(100,581)**	**(670,960)**
Cashflows:				
Repayment	-	147,688	4,891	152,579
Proceeds	(116,610)	(145,000)	-	(261,610)
Sub total	**(116,610)**	**2,688**	**4,891**	**(109,031)**
Non-costs:				
Acquisition	-	-	(503)	(503)
Reclassification	5,000	(5,743)	-	(743)
Sub total	**5,000**	**(5,743)**	**(503)**	**(1,246)**
Closing balance 31 March	**(551,774)**	**(133,270)**	**(96,193)**	**(781,237)**

27. EXTERNAL AUDIT COSTS

	2018-19	2017-18
	£000	**£000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year	207	237
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	29	28
Fees payable in respect of other non-audit services not covered above	10	10
Total	**246**	**275**

28. MEMBERS' ALLOWANCES

Members' allowances and expenses paid in 2018-19 totalled £1,324,831 (2017-18 was £1,307,827).

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.

				Restated
	2018-19		2017-18	
Postholder	**Total remuneration**	**Council's contributions to the Pension Fund**	**Total remuneration**	**Council's contributions to the Pension Fund**
	£000	**£000**	**£000**	**£000**
Chief Executive - E Kelly	207,988	14,631	204,031	14,344
Strategic Director of Environment and Leisure - D Collins	138,962	-	179,883	-
Strategic Director of Environment and Leisure - I Smith	141,957	17,690	-	-
Strategic Director of Place and Wellbeing - K Fenton	164,572	-	164,572	-
Strategic Director of Housing and Modernisation - G Scott	-	-	134,912	-
Strategic Director of Housing and Modernisation - M Scorer	161,031	22,509	20,382	2,955
Strategic Director of Finance and Governance - D Whitfield	183,366	12,874	179,883	12,621
Strategic Director of Children's and Adults' - D Quirke-Thornton	161,059	22,513	152,967	21,339

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

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

The last day of service for the Strategic Director of Environment and Leisure, D Collins, was 31 December 2018. The first day of service for Strategic Director of Environment and Leisure (interim acting) I Smith was 24 December 2018 with the last day of service being 31 March 2019.

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. This post incorporates the council's statutory Director of Public Health post which is currently filled on a secondment basis from Public Health England by Professor K Fenton.

During 2018-19, the total costs for the services of the Director of Public Health amounted to £164,572 which is a role also filled in by K Fenton through a secondment which commenced from 1 April 2017.

The last day of service for the Strategic Director of Housing and Modernisation, G Scott, was 31 December 2017. The first day of service for Strategic Director of Housing and Modernisation, M Scorer, was 28 February 2018.

The Strategic Director of Finance and Governance also receives payment for Returning Officer election duties which totalled £7,000 in 2018-19 (£4,029 in 2017-18).

During 2018-19 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 schools analysis		Number of employees	Number of employees
Band (£)	**Schools**	**Non schools**	**2018-19**	**2017-18**
50,000 - 54,999	112	190	302	218
55,000 - 59,999	84	80	164	144
60,000 - 64,999	47	84	131	128
65,000 - 69,999	49	21	70	47
70,000 - 74,999	22	25	47	45
75,000 - 79,999	16	17	33	34
80,000 - 84,999	6	15	21	19
85,000 - 89,999	14	11	25	18
90,000 - 94,999	6	11	17	7
95,000 - 99,999	6	3	9	9
100,000 – 104,999	4	4	8	3
105,000 - 109,999	-	1	1	5
110,000 - 114,999	1	5	6	4
115,000 – 119,999	1	3	4	2
120,000 – 124,999	-	-	-	3
125,000 – 129,999	1	2	3	6
130,000 – 134,999	-	5	5	-
135,000 – 139,999	-	-	-	-
140,000 – 144,999	-	-	-	-
145,000 – 149,999	-	-	-	-
150,000 – 154,999	-	-	-	-
155,000 – 159,999	-	-	-	-
160,000 – 164,999	-	-	-	-
165,000 – 169,999	-	-	-	-
170,000 – 174,999	-	-	-	-
175,000 – 179,999	-	-	-	-
180,000 – 184,999	-	-	-	-
185,000 – 189,999	-	1	1	-
Total	**369**	**478**	**847**	**692**

For the financial year 2018-19, the total number of non-school employees whose earnings exceeded £100,000 per annum (excluding payments on termination of employment) was 21 (17 in 2017-18). During 2018-19 there was a ruling with respect to employment law relating to holiday pay entitlement which was backdated to 1 October 2016. This resulted in an increase in the number of senior officers whose taxable remuneration was above £50,000 in 2018-19.

30. TERMINATION BENEFITS

Exit package cost band	Number of exit packages Schools		Number of exit packages Non-schools		Total number of exit packages		Total cost of exit packages by band	
	2018-19	2017-18	**2018-19**	2017-18	**2018-19**	2017-18	**2018-19**	2017-18
	No. staff	No. staff	**No. staff**	No. staff	**No. staff**	No. staff	**£000**	£000
£0 - £20,000	**17**	20	**49**	50	**66**	70	**672**	569
£20,001 - £40,000	**2**	4	**37**	52	**39**	56	**1,021**	1,738
£40,001 - £60,000	**-**	-	**10**	16	**10**	16	**485**	748
£60,001 - £80,000	**-**	-	**-**	1	**-**	1	**-**	68
Total	**19**	24	**96**	119	**115**	143	**2,178**	3,123

There was one compulsory redundancy made for a school, within the £0 to £20,000 exit package cost band, totalling £12,294 in 2018-19 (three compulsory redundancies in the £0 to £20,000 exit package cost band totalling £20,878 in 2017-18).

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 2019 are set out in note 21 to the accounts.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2018-19 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, including the register of declarations at committee meetings has been conducted. For chief officers, direct confirmation of any related party interest has been sought and obtained. Related party interests for which transactions exist in 2018-19 were declared by 35 councillors and 1 chief officer (27 and 1 respectively in 2017-18):

- with voluntary bodies or charitable organisations that received funding totalling an estimated value of £1.0m (£1.0m in 2017-18)

- with businesses or other organisations that have contracted for goods and services with the council to the estimated value of £1.4m (£4.9m in 2017-18)

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 financial or influential relationship

Pensions

The council is the administering authority of the Pension Fund. The council charged the fund £0.8m (£0.8m in 2017-18) for expenses incurred in administering the Pension Fund. The Pension Fund is included within the Statement of Accounts.

Other public bodies

The council has a pooled arrangement with Southwark clinical commissioning group (CCG), included in note 22.

Shared service

The council has entered into a shared information, communications, technology service (SICTS) with Brent and Lewisham councils from 1st November 2017. There is no defined time period for this arrangement. However, it is governed by an inter-authority agreement that makes provision for performance management, expansion and exit from the SICTS. The nature of these arrangements does mean that each borough influences the others specifically on IT spend and budget, however each borough remains sovereign.

Capital Letters (London) Limited

The council is developing a relationship with Capital Letters (London) Limited together with 12 other London boroughs and MHCLG. Capital Letters (London) Limited is in the early stages of being established with the objective of procuring accommodation for homeless households, and homelessness prevention on behalf of participating London boroughs. The articles of association have yet to be fully signed by Southwark council.

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 PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2018-19	**2017-18**
	£000	**£000**
Opening capital financing requirement	**955,914**	**798,310**
Capital investment		
Property, plant and equipment	230,264	274,609
Revenue expenditure funded from capital under statute (REFCUS)	27,371	36,403
Long-term debtors	11,800	11,214
Investment property	92,095	78,623
Total capital investment	**361,530**	**400,849**
Sources of capital finance		
Capital receipts	(162,325)	(69,481)
Government grants and other contributions	(66,045)	(94,972)
Direct revenue contributions	(22,550)	(21,579)
Major repairs reserve	(50,752)	(51,000)
Minimum revenue provision (MRP) / loans fund principal	(7,896)	(6,213)
Total capital investment financed	**(309,568)**	**(243,245)**
Closing capital financing requirement	**1,007,876**	**955,914**
Explanation of movement		
Increase in underlying need to borrow	51,459	157,491
Assets acquired under PFI contracts	503	113
Net movement in year	**51,962**	**157,604**

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 CIES during the year in the use of operating leases:

	2018-19	2017-18
	£000	£000
Minimum lease payments	2,312	2,321
Less sub-lease payments	(435)	(439)
Total	**1,877**	**1,882**

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

	31 March 2019	31 March 2018
	£000	£000
Within 1 year	1,530	1,963
Within 2 to 5 years	4,659	5,219
After 5 years	12,138	14,569
Total	**18,327**	**21,751**

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 2019	31 March 2018
	£000	£000
Within 1 year	16,450	11,873
Within 2 to 5 years	55,648	34,790
After 5 years	137,003	110,890
Total	**209,101**	**157,553**

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 Balfour Beatty Education Ltd.
- St Thomas is a new build voluntary aided secondary school, which became operational in February 2012. The school has been built and is operated over a 25 year contract by 4 Futures Ltd., the majority shareholder of which is Balfour Beatty Education Ltd.
- Sacred Heart Catholic school is a new build voluntary aided secondary school, which became operational in September 2014. The school has been built and is operated over a 25 year contract by 4 Futures Ltd., the majority shareholder of which is Balfour Beatty Education Ltd.
- on 11 February 2008 the council entered into a 25 year PFI contract with Veolia environmental services for the collection and disposal of waste in the borough. The £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, which will involve the contractor putting in place piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public

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

	St Michael's Catholic college	St Thomas the Apostle college	Sacred Heart Catholic school	Integrated waste management facility	Heating supply arrangement	Total
	£000	£000	£000	£000	£000	£000
Value at 1 April 2017	**14,594**	**19,027**	**18,273**	**48,378**	**4,660**	**104,932**
New liability incurred	-	-	-	-	113	**113**
Repayments made in year	(261)	(338)	(338)	(3,306)	(221)	**(4,464)**
Value at 31 March 2018	14,333	18,689	17,935	45,072	4,552	**100,581**
Value at 1 April 2018	14,333	18,689	17,935	45,072	4,552	**100,581**
New liability incurred	-	-	-	412	91	**503**
Repayments made in year	(244)	(350)	(356)	(3,725)	(216)	**(4,891)**
Value at 31 March 2019	**14,089**	**18,339**	**17,579**	**41,759**	**4,427**	**96,193**

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 at 1 April 2017	**56,533**	**17,157**	**4,384**	**78,074**
Additions	-	-	113	**113**
Depreciation and impairment	(808)	(922)	(170)	**(1,900)**
Revaluation	5,275	(250)	39	**5,064**
Net book value at 31 March 2018	61,000	15,985	4,366	**81,351**
Net book value at 1 April 2018	61,000	15,985	4,366	**81,351**
Additions	-	412	91	**503**
Depreciation and impairment	(840)	(922)	(175)	**(1,937)**
Revaluations	840	-	-	**840**
Net book value at 31 March 2019	**61,000**	**15,475**	**4,282**	**80,757**

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	399	1,723	3,134	5,779	3,054	**14,089**
Interest	1,792	6,659	6,978	4,124	491	**20,044**
Service charges	567	2,780	4,101	5,033	1,781	**14,262**
St Thomas the Apostle college						
Liability	480	2,380	3,917	7,048	4,514	**18,339**
Interest	1,935	7,162	7,318	4,589	726	**21,730**
Service charges	282	1,210	1,699	1,998	661	**5,850**
Lifecycle payments	101	391	970	1,069	622	**3,153**
Sacred Heart Catholic school						
Liability	429	2,141	3,588	6,085	5,336	**17,579**
Interest	1,771	6,572	6,844	4,489	1,030	**20,706**
Service charges	461	1,930	2,731	3,173	2,686	**10,981**
Lifecycle payments	137	500	741	956	1,213	**3,547**
Integrated waste management facility						
Liability	3,334	13,094	14,892	10,439	-	**41,759**
Interest	2,176	7,234	5,769	2,088	-	**17,267**
Service charges	20,595	86,298	121,037	108,860	-	**336,790**
Lifecycle payments	412	6,384	15,913	14,152	-	**36,861**
Heat supply arrangement						
Liability	140	738	1,531	2,018	-	**4,427**
Interest	538	1,975	1,860	696	-	**5,069**
Service charges	1,248	5,314	7,424	6,636	-	**20,622**
Lifecycle payments	80	402	562	503	-	**1,547**

35. OTHER LONG-TERM LIABILITIES

	31 March 2019	31 March 2018
	£000	£000
Payments due under PFI schemes and similar arrangements:		
St Michaels Catholic college	13,690	14,071
St Thomas the Apostle college	17,859	18,243
Sacred Heart Catholic school	17,149	17,497
Integrated waste management facility	38,013	41,347
Heat supply arrangement	4,206	4,336
Total	**90,917**	**95,494**

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 2018-19, the council paid £9.72m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 16.5% of pensionable pay, (£9.87m and 16.5% respectively in 2017-18). It also paid £0.052m to the NHS Pension Scheme representing 14.3% of pensionable pay (£0.057m 2017-18, representing 14.4% of pensionable pay). There were no contributions remaining payable at the year-end.

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

	2018-19			2017-18		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost of services:						
- Current service cost	47,300	295	**47,595**	43,100	419	**43,519**
- Past service costs	32,300	-	**32,300**	600	-	**600**
Financing and investment income and expenditure:						
- Net interest expense	16,200	(51)	**16,149**	14,300	30	**14,330**
Total post employment benefit charged to the surplus or deficit on the provision of services	**95,800**	**244**	**96,044**	**58,000**	**449**	**58,449**
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)	(98,100)	(4,618)	**(102,718)**	(900)	(1,036)	**(1,936)**
- Actuarial gains and losses arising on changes in demographic assumptions	-	(1,781)	**(1,781)**	-	-	**-**
- Actuarial gains and losses arising on changes in financial assumptions	113,900	2,680	**116,580**	38,000	(2,115)	**35,885**
- Actuarial gains and losses arising on changes in liability experience	4,300	-	**4,300**	13,600	-	**13,600**
Total post employment benefit charged to the comprehensive income and expenditure statement	**115,900**	**(3,475)**	**112,425**	**108,700**	**(2,702)**	**105,998**
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	95,800	244	**96,044**	58,000	449	**58,449**
Actual amount charged against the General Fund balance for pensions in the year:						
- Employers' contributions payable to the scheme	39,700	119	**39,819**	36,400	186	**36,586**

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 2019			31 March 2018		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fair value of plan assets	1,598,000	60,767	**1,658,767**	1,476,600	57,723	**1,534,323**
Present value of defined benefit obligation	2,315,600	55,637	**2,371,237**	2,118,000	56,187	**2,174,187**
Net asset / (liability) arising from defined benefit obligation	**(717,600)**	**5,130**	**(712,470)**	**(641,400)**	**1,536**	**(639,864)**

Reconciliation of present value of the scheme assets:

	2018-19			2017-18		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April	1,476,600	57,723	**1,534,323**	1,447,000	58,143	**1,505,143**
Interest income on assets	38,200	1,427	**39,627**	37,500	1,307	**38,807**
Remeasurement gains/(losses) on assets	98,100	4,618	**102,718**	900	1,036	**1,936**
Other actuarial gains/(losses)	-	-	**-**	-	-	**-**
Administration expenses	-	(76)	**(76)**	-	(76)	**(76)**
Employer contributions	40,500	119	**40,619**	37,200	186	**37,386**
Contribution by participants	11,600	40	**11,640**	11,000	44	**11,044**
Net benefits paid out	(67,000)	(3,084)	**(70,084)**	(57,000)	(2,917)	**(59,917)**
Closing balance at 31 March	**1,598,000**	**60,767**	**1,658,767**	**1,476,600**	**57,723**	**1,534,323**

Reconciliation of present value of the scheme liabilities:

	2018-19			2017-18		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April	2,118,000	56,187	**2,174,187**	2,016,100	59,495	**2,075,595**
Current service cost	47,300	219	**47,519**	43,100	255	**43,355**
Interest cost	54,400	1,376	**55,776**	51,800	1,337	**53,137**
Contributions by scheme participants	12,400	40	**12,440**	11,800	44	**11,844**
Change in financial assumptions	113,900	2,680	**116,580**	38,000	(2,115)	**35,885**
Change in demographic assumptions	-	(1,781)	**(1,781)**	-	-	**-**
Experience loss/(gain) on defined benefit obligation	4,300	-	**4,300**	13,600	-	**13,600**
Benefits paid	(67,000)	(3,084)	**(70,084)**	(57,000)	(2,917)	**(59,917)**
Past service costs	32,300	-	**32,300**	600	88	**688**
Closing balance at 31 March	**2,315,600**	**55,637**	**2,371,237**	**2,118,000**	**56,187**	**2,174,187**

Scheme assets comprised:

	31 March 2019			31 March 2018		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Quoted						
- Equities	909,262	33,060	**942,322**	846,091	35,296	**881,387**
- Government bonds	147,016	-	**147,016**	149,137	-	**149,137**
- Corporate bonds	186,966	-	**186,966**	118,128	-	**118,128**
- Target return portfolio	-	16,205	**16,205**	-	12,936	**12,936**
- Commodities	-	-	**-**	-	-	**-**
- Multi-asset pooled funds	31,960	-	**31,960**	121,081	-	**121,081**
Sub-total	**1,275,204**	**49,265**	**1,324,469**	**1,234,437**	**48,232**	**1,282,669**
Unquoted						
- Infrastructure	-	3,661	**3,661**	-	2,525	**2,525**
- Property	295,630	5,714	**301,344**	225,920	4,154	**230,074**
- Cash	27,166	2,127	**29,293**	16,243	2,812	**19,055**
Sub-total	**322,796**	**11,502**	**334,298**	**242,163**	**9,491**	**251,654**
Total	**1,598,000**	**60,767**	**1,658,767**	**1,476,600**	**57,723**	**1,534,323**

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. The value of the assets is provided by both fund actuaries originally using market values at 31 December 2018, then indexed for market movements to arrive at a valuation for 31 March 2019.

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 2016 and rolled forward.

The principal assumptions used by the actuaries have been:

	Council		LPFA	
	2018-19	**2017-18**	**2018-19**	**2017-18**
Mortality assumptions				
- Men (years)	22.6	22.5	19.5	20.5
- Women (years)	26.3	26.2	22.6	23.6
Longevity at 65 for future pensioners				
- Men (years)	24.3	24.2	21.3	22.9
- Women (years)	28.1	28.0	24.3	25.9
Principal financial assumptions				
- Rate of inflation - Retail Price Index (RPI)	3.3%	3.2%	3.5%	3.4%
- Rate of inflation - Consumer Price Index (CPI)	2.2%	2.1%	2.5%	2.4%
- Rate of increase in salaries	3.7%	3.6%	4.0%	3.9%
- Rate of increase in pensions	2.2%	2.1%	2.5%	2.4%
- Rate of pension accounts revaluation	2.2%	2.1%	0%	0%
- Rate for discounting scheme liabilities	2.4%	2.6%	2.3%	2.6%

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)	2,387,500	57,624	**2,445,124**	2,244,200	53,718	**2,297,918**
Rate of increase in salaries (+/- 0.1%)	2,323,700	55,666	**2,379,366**	2,307,500	55,608	**2,363,108**
Rate of increase in pensions (+/- 0.1%)	2,349,400	56,304	**2,405,704**	2,282,300	54,977	**2,337,277**
Rate for discounting scheme liabilities (+/- 0.1%)	2,274,300	54,948	**2,329,248**	2,357,600	56,335	**2,413,935**
Projected service cost						
Longevity (+/- 1 year)	55,400	230	**55,630**	51,400	215	**51,615**
Rate of increase in salaries (+/- 0.1%)	53,400	222	**53,622**	53,400	222	**53,622**
Rate of increase in pensions (+/- 0.1%)	55,000	226	**55,226**	51,800	218	**52,018**
Rate for discounting scheme liabilities (+/- 0.1%)	51,800	218	**52,018**	55,000	226	**55,226**

Impact on the council's cash flows

The objective of the schemes is to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £2,371m (£2,174m 2017-18) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £712m (£640m 2017-18). 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 2019-20 is £53.4m for the council scheme and £0.222m for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 18.0 years (18.0 years 2017-18) and 13 years for LPFA scheme members (13 years 2017-18).

IAS 19 / FRS102 accounting for McCloud judgement and GMP indexation / equalisation

IAS 19 / FRS102 accounting for McCloud judgement

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 2015 (with the exception of the LGPS in England and Wales which was reformed 1 year earlier), with the objective of reducing the overall cost to the taxpayer and putting schemes on a more sustainable footing.

In December 2018 the government lost a Court of Appeal case (the 'McCloud' judgement) which found that transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The Court of Appeal ruling potentially has implications for all public sector schemes due to the similarities in the way members closest to retirement were protected. This could lead to members who were discriminated against being compensated.

The government has applied to the Supreme Court for permission to appeal this judgement. On 27 June the Supreme Court denied the government's request for an appeal.

Due to the uncertainty over what the 'remedy' would be there are a range of potential interpretations of what this means but Aon Hewitt believe that employers will want to include these potential additional liabilities in the accounts as a constructive obligation and so Southwark council have followed this accounting treatment.

Aon Hewitt (the council's actuary) has calculated a potential liability in relation to the employer's membership in the Local Government Pension Scheme should the government be unsuccessful in appealing the Court of Appeal judgement.

The liability is calculated on the basis that members with service prior to 1 April 2012 will receive the better of benefits accrued in the 2014 Scheme or benefits accrued in the 2008 Scheme, backdated to 1 April 2014.

Guaranteed Minimum Pension (GMP) indexation / equalisation

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.

On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. The ruling confirmed that trustees have a duty ‘to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs.’

HM Treasury have, however, gone on record since the Lloyds judgement to say, ‘Public sector schemes have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement.’

Aon Hewitt have undertaken calculations to quantify the value of extending the interim solution indefinitely beyond April 2021, which we believe would approximately represent the cost of meeting the government's commitment to protect all public sector scheme members from the removal of additional state pension (AP), and equalising benefits.

Using the 2016 valuation data for the employer, for individuals whose state pension age (SPA) is after 6 April 2016, we have calculated the difference for each member between:

- the GMP liabilities calculated assuming pension increases at CPI, and
- the GMP liabilities calculated assuming pension increases of 0% on pre 88 GMP, and CPI capped at 3% on post 88 GMP

This additional liability has been allowed for as a past service cost in the accounting figures as at 31 March 2019. As this past service cost has been calculated as at 31 March 2019, there will be no change made to the interest cost over 2018-19.

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.

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:

Following the adoption of accounting standard IFRS 9 from 1 April 2018, financial instrument assets previously held as available for sale have been classified as fair value through other comprehensive income and financial assets held as loans and receivables have been held at amortised cost.

	Long-term	**Long-term**	**Short-term**	**Short-term**
	31 March 2019	**31 March 2018**	**31 March 2019**	**31 March 2018**
	£000	**£000**	**£000**	**£000**
Investments				
Available for sale	-	27,164	-	52,960
Fair value through other comprehensive income	21,357	-	57,924	-
Loans and receivables	-	-	-	(222)
Amortised cost	-	-	1,262	**-**
Less trust funds	-	-	(1,484)	(1,484)
Total investments	**21,357**	**27,164**	**57,702**	**51,254**
Debtors				
Amortised cost	23,355	-	111,310	-
Loans and receivables	-	31,642	-	95,198
Total debtors	**23,355**	**31,642**	**111,310**	**95,198**
Cash and cash equivalents				
Cash and bank	-	-	(9,627)	(6,744)
Short-term deposits	-	-	45,616	45,870
Total cash and cash equivalents	**-**	**-**	**35,989**	**39,126**

The council acts as trustee for a number of individuals and organisations. The funds held on trust are either invested in external market securities or held internally. As Trust Funds are not consolidated within the council's accounts, the balances are eliminated from total investments held.

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 2019	31 March 2018	31 March 2019	31 March 2018
	£000	£000	£000	£000
Borrowings				
Financial liabilities at amortised cost	(551,774)	(440,164)	(133,270)	(130,215)
Total borrowings	**(551,774)**	**(440,164)**	**(133,270)**	**(130,215)**
Other long-term liabilities				
PFI and finance lease liabilities	(90,917)	(95,494)	-	-
Total other long-term liabilities	**(90,917)**	**(95,494)**	**-**	**-**
Creditors				
Financial liabilities at amortised cost	(10,546)	(10,944)	(134,928)	(151,326)
Total creditors	**(10,546)**	**(10,944)**	**(134,928)**	**(151,326)**

Financial instruments – gains and losses

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

The adoption of IFRS 9 for the 2018-19 includes the requirement for disclosure of the expected credit loss impairment associated with financial instruments held at amortised cost or at fair value through other comprehensive income. For 2018-19 this charge is set out in the below table at £9.0m, for 2017-18 the assessed equivalent expected credit loss figure was £5.7m.

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

	2018-19				2017-18			
	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	26,281	-	-	**26,281**	25,157	-	-	**25,157**
Expected credit loss	-	8,954	33	**8,987**	-	-	-	-
Other charges	667	-	-	**667**	393	-	-	**393**
Total expenses in surplus or deficit on the provision of services	**26,948**	**8,954**	**33**	**35,935**	**25,550**	**-**	**-**	**25,550**
Interest income	-	(328)	(1,055)	**(1,383)**	-	(30)	(438)	**(468)**
Less allocated to other funds	-	180	-	**180**				
Total income in surplus or deficit on the provision of services	**-**	**(148)**	**(1,055)**	**(1,203)**	**-**	**(30)**	**(438)**	**(468)**
Surplus/(deficit) arising on revaluation of financial assets in other comprehensive income and expenditure	-	-	(380)	**(380)**	**-**	**-**	40	**40**
Net gain/(loss) for year	**26,948**	**8,806**	**(1,402)**	**34,352**	**25,550**	**(30)**	**(398)**	**25,122**

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

The treasury management strategy includes an annual investment strategy in compliance with the MHCLG guidance on local government investments. The strategy emphasises that priority is given to security and liquidity, rather than yield.

The main risks covered are:

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

Credit risk - investments

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

The council is able to utilise the expertise of external fund managers to seek to mitigate credit risk in the construction of a well diversified treasury portfolio. Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and for the 2018-19 financial year 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 the 31 March 2019 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 2019 is set out below:

	A	AA	AAA	Total
Up to 1 year	1%	17%	63%	**81%**
1 - 2 years	0%	5%	1%	**6%**
2 - 5 years	0%	0%	13%	**13%**
Total investments	**1%**	**22%**	**77%**	**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

	2018-19	2017-18
	£000	£000
Less than 1 year	125,000	122,688
Between 1 and 5 years	59,997	56,342
Between 5 and 10 years	103,275	92,952
Between 10 and 20 years	79,001	97,979
Over 20 years	309,501	192,891
Total	**676,774**	**562,852**

Market risk

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

Outstanding council debt at 31 March 2019 is from the PWLB and from short-term borrowing. The debt is at fixed rates, with an average maturity of 16 years. 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 £99m. As the debt is held at amortised cost there would be no impact on the Comprehensive Income and Expenditure Statement from such a change, unless the debt was extinguished. Legislation would then require a charge to be taken to the financial instruments adjustment account.

The overall average life of council investments is 0.6 years, within that, the available for sale investments have an average life of 1.0 years A 1% change in discount rates on available for sale investments at Balance Sheet date would change the fair value by £0.4m 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.

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

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 assets or liabilities	Fair value 31 March 2019		Fair value 31 March 2018	
	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				
Available for sale	-	-	125,794	-
Fair value through other comprehensive income	79,281	-	-	-
Amortised cost	46,878	-	-	-
Non financial assets				
Investment property	-	334,529	-	-
Assets held for sale	-	44,604	-	43,190
Surplus assets	-	182,873	-	160,661
Total	**126,159**	**562,006**	**125,794**	**203,851**
Financial liabilities				
Long term loans from Public Works Loan Board (PWLB)	-	742,681	-	624,519
Lease payable and Private Finance Initiative (PFI) liabilities	-	209,251	-	213,292
Total	**-**	**951,932**	**-**	**837,811**

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	2018-19 £000	2017-18 £000
Income			
Dwelling rents		(195,071)	(197,606)
Non-dwelling rents		(5,770)	(5,439)
Charges for services and facilities		(54,589)	(49,036)
Contributions towards expenditure		(2,342)	(2,383)
Total income		**(257,772)**	**(254,464)**
Expenditure			
Repairs and maintenance		57,477	46,670
Supervision and management		107,474	100,147
Rents, rates, taxes and other charges		7,606	7,620
Depreciation and impairment of non-current assets	3	141,402	142,698
Debt management costs		298	177
Increase in provisions for bad debts		(613)	1,508
Revenue expenditure funded from capital under statute	4	2,333	1,526
Total expenditure		**315,977**	**300,346**
Net cost of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement		**58,205**	**45,882**
HRA share of cost of democracy		1,106	1,106
Net cost of HRA services		**59,311**	**46,988**
Gains and losses on the sales of HRA non-current assets		14,374	18,812
Interest payable and similar charges		22,896	22,742
Interest and investment income		(2,325)	(2,217)
Income, expenditure and changes in the fair value of investment properties	14	(14,284)	(16,210)
Pensions interest cost and expected return on pensions assets		3,388	2,467
Capital grants and contributions receivable		(19,846)	(9,163)
Total (surplus)/deficit for the year		**63,514**	**63,419**

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	2018-19	2017-18
		£000	£000
(Surplus)/deficit for the year on HRA services		63,514	63,419
Net additional amounts required by statute	5	(64,388)	(69,023)
(Increase)/decrease in the HRA balance		**(874)**	**(5,604)**
HRA balance brought forward		(19,959)	(14,355)
Balance carried forward	6	**(20,833)**	**(19,959)**

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

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

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of Dwelling		Number of bedrooms				Total	Total
		1	2	3+	Other	31 March 2019	31 March 2018
Houses and bungalows	**31 March 2019**	**394**	**720**	**2,842**	**-**	**3,956**	
	31 March 2018	397	725	2,850	-		3,972
Low rise flats	**31 March 2019**	**2,806**	**623**	**367**	**-**	**3,796**	
	31 March 2018	2,828	622	359	-		3,809
Medium rise flats	**31 March 2019**	**6,573**	**7,123**	**6,134**	**-**	**19,830**	
	31 March 2018	6,616	7,163	6,113	-		19,892
High rise flats	**31 March 2019**	**2,853**	**4,744**	**1,792**	**-**	**9,389**	
	31 March 2018	2,980	4,776	1,824	-		9,580
Non-permanent	**31 March 2019**	-	-	-	-	**-**	
	31 March 2018	-	-	-	1		1
Multi-occupied	**31 March 2019**	-	-	-	341	**341**	
	31 March 2018	-	-	-	342		342
TOTALS	**31 March 2019**	**12,626**	**13,210**	**11,135**	**341**	**37,312**	
	31 March 2018	12,821	13,286	11,146	343		37,596

In addition to the numbers shown in the table above, as at 31 March 2019 there were also 441 void properties (556 at 31 March 2018). 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 2019 was £13.4bn (£13.5bn as at 31 March 2018). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

3. DEPRECIATION AND REVALUATION CHARGES

	2018-19	2017-18
	£000	£000
Dwellings depreciation	49,303	48,937
Other property depreciation	1,449	1,629
Revaluation losses on non-current assets	90,650	92,132
Total	**141,402**	**142,698**

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

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

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

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

In 2018-19 £2.333m was incurred in the HRA as REFCUS (£1.526m in 2017-18).

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:

	2018-19	2017-18
	£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	708	1,760
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(107)	-
Gain or loss on the sale of HRA non current assets	(14,374)	(18,812)
HRA share of contributions to or from the pension reserve	(7,299)	(5,485)
Capital expenditure funded by the HRA	22,019	21,164
Transfer to/from the major repairs reserve	50,752	56,532
Transfer to/from the capital adjustment account	(116,087)	(124,182)
Net additional amount required by statute to be charged to the HRA	**(64,388)**	**(69,023)**

6. HRA BALANCE

HRA reserves at 31 March 2019 are £20.833m (£19.959m at 31 March 2018) and are allocated as follows:

	31 March 2019	31 March 2018
	£000	£000
Modernisation, service and operational improvement reserve	4,730	4,146
Financial risk reserve	16,103	15,813
Total	**20,833**	**19,959**

The modernisation, service and operational improvement reserve of £4.7m comprises £0.8m for IT transformation, and £3.9m for investment in energy infrastructure.

The financial risk reserve, £16.1m, includes £5.8m contingency, broadly representing 1.6% 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, £1.2m for estate parking and £4.1m relating to debt financing. Reserves relating to homeowners and tenants funds remained at a combined total of £0.5m, whilst part of the repairs and maintenance transition reserve was utilised during the year, reducing to £0.8m by year-end.

7. MAJOR REPAIRS RESERVE

	2018-19	2017-18
	£000	£000
Balance 1 April	10,921	5,388
Transfers from the capital adjustment account	50,752	50,566
Transfer from / (to) the HRA	-	5,967
Financing of capital expenditure	(50,752)	(51,000)
Balance 31 March	**10,921**	**10,921**

8. CAPITAL EXPENDITURE AND FINANCING

	2018-19	2017-18
	£000	£000
Capital investment		
Non-current assets	141,448	165,997
REFCUS	2,333	1,526
Total	**143,781**	**167,523**
Funding Source:		
Revenue contributions	22,019	21,164
Capital receipts from the sales of assets	51,164	49,521
Grants and other contributions	19,846	9,162
Major repairs reserve	50,752	51,000
Borrowing	-	36,676
Total	**143,781**	**167,523**

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

	2018-19	2017-18
	£000	£000
Council dwellings		
Right to Buy	(15,555)	(33,130)
Discounts repaid	(44)	(66)
Non Right to Buy	(7,176)	(8,984)
Other receipts		
Land sales	(5,695)	(13,203)
Mortgages	(7)	(15)
Sub total	**(28,477)**	**(55,398)**
Less: pooled (paid to central government)	4,265	4,274
Total	**(24,212)**	**(51,124)**

10. HOUSING TENANTS ACCOUNTS

	2018-19	2017-18
	£000	£000
Gross arrears as at 1 April	23,787	19,382
Prior year payments	(12,009)	(10,103)
Arrears as at 1 April	**11,778**	**9,279**
Charges due in the year	225,811	227,218
Rent rebates	(73,538)	(83,662)
Write-offs	(1,367)	(1,053)
Adjustments	(5,315)	(5,393)
Cash collected	(145,026)	(134,611)
Net arrears as at 31 March	**12,343**	**11,778**
Payments in advance	12,676	12,009
Gross arrears as at 31 March	**25,019**	**23,787**

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

	2018-19	2017-18
	£000	£000
Rents	12,524	11,515
Income from hostels	1,085	1,145
Court costs	853	835
Commercial rents	1,064	1,164
Penalty charge notices and parking warrants	1,883	2,182
Total	**17,409**	**16,841**

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.

	2018-19	2017-18
	£000	£000
Current service cost	3,911	2,675
Interest on pension scheme liabilities	3,388	2,467
Actuarial (gains)/losses	3,970	8,388
Total IAS 19 charges	**11,269**	**13,530**
Less pensions costs attributable to the HRA	(6,010)	(4,420)
Movement on the pension reserve	**5,259**	**9,110**

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 2017-18 and 2018-19, 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.

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

This disclosure identifies expenditure, rental/investment income and changes in fair value for HRA shops which are classified on the Balance Sheet as investment properties held solely for capital appreciation purposes and rental income generation. The value is £14.284m (2017-18 - £16.210m).

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	2018-19	2017-18
		£000	£000	£000	£000	£000
Income						
Income from council tax	1	(137,511)			(137,511)	(126,521)
Transfer from the General Fund		(158)			(158)	(57)
Income from business rates	2		(289,666)		(289,666)	(273,161)
Transitional protection payments from MHCLG			(15,807)		(15,807)	(25,871)
Income from business rate supplement (BRS)	3			(8,963)	(8,963)	(8,323)
Contribution from preceptors towards previous years Collection Fund deficit					-	-
Total income		**(137,669)**	**(305,473)**	**(8,963)**	**(452,105)**	**(433,933)**
Expenditure						
Precepts and demands:						
Greater London Authority (GLA)		29,683			29,683	26,865
London borough of Southwark		104,446			104,446	93,715
Share of business rates:						
Greater London Authority (GLA)			118,466		118,466	101,564
London borough of Southwark			210,607		210,607	82,349
Ministry of Housing, Communities and Local Government					-	90,584
Transitional protection payment to MHCLG					-	-
Cost of collection allowance (NDR)			720		720	720
Business rate supplement:	3					
Payment to GLA				8,948	8,948	8,308
Administrative costs				15	15	15
Council tax impairment of debts:						
Allowance for impairment		219			219	206
Write-offs		201			201	1,122
NDR impairment of debts and appeals:						
Allowance for impairment and write-offs			1,444		1,444	306
Provision for appeals	5				-	(7,018)
Contribution to preceptors towards previous years Collection Fund surplus	4	7,287	13,223		20,510	17,779
Total expenditure		**141,837**	**344,460**	**8,963**	**495,259**	**416,515**
Net (surplus)/deficit for the year		4,168	38,986	-	43,154	(17,418)
(Surplus)/deficit at 1 April		(9,337)	(17,084)	-	(26,421)	(9,004)
(Surplus)/deficit at 31 March	2	**(5,169)**	**21,902**	**-**	**16,733**	**(26,422)**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

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

In 2018-19 the estimated income required from all preceptors for the Collection Fund was £134.1m (£120.6m in 2017-18). The amount of council tax for a band D property was £1,329.54 in 2018-19 inclusive of the GLA precept (£1,256.82 in 2017-18) and is multiplied by the ratio specified for the particular band to give the council tax due from properties in other bands. The 2018-19 council taxbase after allowing for adjustments for non collection (97.2% collection rate) was 100,884. 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	
	2018-19	2017-18		2018-19	2017-18
A	7,502	7,247	6/9	5,001	4,831
B	25,700	24,597	7/9	19,989	19,131
C	26,343	25,589	8/9	23,416	22,746
D	20,474	18,827	9/9	20,474	18,827
E	14,967	13,970	11/9	18,293	17,074
F	5,943	5,689	13/9	8,585	8,217
G	4,046	4,001	15/9	6,743	6,669
H	644	605	18/9	1,289	1,210
Total	**105,619**	**100,525**		**103,790**	**98,705**
Less adjustment for collection rate				(2,906)	(2,764)
Council tax base for year				**100,884**	**95,941**
Estimated income required from Collection Fund				**£ 134,129,313**	**£ 120,580,568**
Band D council tax				**£ 1,329.54**	**£ 1,256.82**

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

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 2018-19, the council entered into a 100% business rate retention pilot project for London boroughs with the City of London as lead borough, on the basis of a 'no worse off / no detriment' agreement with central government. As a member of the London boroughs 100% business rates retention scheme, the council can retain 64% business rates income, with the remainder allocated to the Greater London Authority at 36% and the Ministry of Housing, Communities and Local Government (MHCLG) 0%.

Previously in 2017-18, the council was in a London arrangement whereby the council retained 30% of business rates, with 37% paid to the Greater London Authority and MHCLG allocated 33%. Business rates are based on local rateable values set by the Valuation Office Agency (VOA) and a multiplier set by the MHCLG. The non-domestic rating multiplier and the small business non-domestic rating multiplier for England for 2018-19 were:

- non-domestic rating multiplier **49.3p** (0.493), (in 2017-18 47.9p)
- small business non-domestic rating multiplier **48.0p** (0.480), (in 2017-18 46.6p)

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 2019 was £762.5m (£755.7m at 31 March 2018) - the increase in the total RV is due to an increase in the property base.

A cumulative deficit position of £21.9m has arisen for NDR for the council for 2018-19, mainly due to an increase in reliefs for example, empty property reliefs were higher than expected. For council tax, the in year deficit was due to an increase in discounts and exemptions, and in addition, the single person discount review for 2018-19 was not completed by the end of the financial year. For council tax there is a cumulative surplus position of (£5.2m) for 2018-19.

The council has benefited from being in the London boroughs 100% business rates retention scheme for 2018-19, a business rates pooling arrangement, with a no detriment clause for being a member. At year-end, the council has gained with £10.2m being transferred to reserves. No levy is payable by the council, as a result of membership of the London business rates pool. For 2019-20, the council will be part of the London boroughs 75% business rates retention scheme.

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 2018-19, 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 (an increase from £55,000 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 2018, the council estimated an accumulated collection fund surplus balance of (£20.5m) for 2017-18, (council tax (£7.3m) and NDR (£13.2m)), as follows:

	Council tax	**Business rates**	**Total**
	£000	**£000**	**£000**
(Surplus)/deficit as at 31 March 2017	(2,628)	(15,151)	(17,779)
Estimated (surplus)/deficit for 2017-18	(4,659)	1,928	(2,731)
Estimated surplus as at 31 March 2018	**(7,287)**	**(13,223)**	**(20,510)**

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		**Council tax**		**Business rates**	**Total**
			£000	**£000**	**£000**
Southwark council	77.7	(5,663)	30.0%	(3,967)	(9,630)
Greater London Authority (GLA)	22.3	(1,624)	54.3%	(7,178)	(8,802)
Ministry of Housing, Communities and Local Government			15.7%	(2,078)	(2,078)
Estimated surplus for 2017-18 redistributed in 2018-19		**(7,287)**		**(13,223)**	**(20,510)**

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.

The provision for alteration of lists and appeals (formerly 'appeals provision') as at 31 March 2019 remains at £33.3m (no change to 31 March 2018), based on consideration of recent case law, potential unlodged appeals cases and other factors including information from the VOA.

As at 31 March 2019, approximately 618 appeals remain unsettled and outstanding with the VOA. Following the 2017 revaluation, a new check, challenge, appeals process was introduced by central government to reform the business rates appeals system applicable to the new rating list effective on 1 April 2017. The new system was designed to make the business rates appeals assessment and application process more rigorous to reduce the level of unsubstantiated appeals lodged with the VOA.

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2018-19		2017-18	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(56,129)		(51,919)	
Transfers in from other pension funds	7	(2,762)		(2,792)	
Sub total			**(58,891)**		**(54,711)**
Benefits	8	59,112		55,276	
Payments to and on account of leavers	9	4,964		4,124	
Sub total			**64,076**		**59,400**
Net reduction/(addition) from dealing with members of the fund			**5,185**		**4,689**
Management expenses	10		**7,508**		**6,422**
Returns on investments					
Investment income	11	(15,814)		(14,743)	
Taxes on income	11	382		273	
Profit and losses on disposal of investments and changes in market value of investments	12	(108,300)		(32,596)	
Net return on investments			**(123,732)**		**(47,066)**
Net (increase)/decrease in the net assets available for benefits during the year			**(111,039)**		**(35,955)**
Opening net assets of the scheme			(1,530,947)		(1,494,992)
Net assets of the scheme available to fund benefits at 31 March			**(1,641,986)**		**(1,530,947)**

NET ASSETS STATEMENT

	Note		31 March 2019 £000		31 March 2018 £000
Investment assets	12		1,631,245		1,521,727
Current assets	13		14,195		14,649
Current liabilities	13		(3,454)		(5,429)
Net assets of the scheme available to fund benefits at 31 March			**1,641,986**		**1,530,947**

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 2018-19 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 2018-19 is included within the Pension Fund Annual Report 2018-19. This is available from the council website.

	31 March 2019	**31 March 2018**
Number of contributors to the Fund	6,753	6,291
Number of contributors and dependants receiving allowances	7,594	7,620
Number of contributors who have deferred their pensions	10,723	10,269

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 2019. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2016. For the 2018-19 financial year primary employer contribution rates ranged from 7.3% to 17.8% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

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

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with consumer price index (CPI).

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2018-19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

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

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

b) Transfers to and from other schemes

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

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

c) Investment income

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

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

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

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

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

d) Fund account – benefits payable

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

e) Fund account – taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

Net Asset Statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis in accordance with the Code and with the requirements of IFRS 13 as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund. The values of investments as shown in the net assets statement have been determined as follows:

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

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by 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 as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

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

m) Additional voluntary contributions

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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.	A 1.0% change in the discount rate is estimated to change the present value of pension liability by £215m.
Freehold and leasehold property, pooled property funds	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 £16m, on a fair value of £290m.

6. CONTRIBUTIONS RECEIVABLE

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

	2018-19			2017-18		
	Employees	Employers	Total	Employees	Employers	Total
Southwark council	(11,358)	(39,932)	(51,290)	(10,603)	(36,921)	(47,524)
Admitted bodies	(273)	(921)	(1,194)	(280)	(811)	(1,091)
Scheduled bodies	(1,020)	(2,625)	(3,645)	(1,009)	(2,295)	(3,304)
Total contributions	**(12,651)**	**(43,478)**	**(56,129)**	**(11,892)**	**(40,027)**	**(51,919)**

Contributions receivable from employers are shown below:

	2018-19 £000	2017-18 £000
Normal	(28,092)	(26,136)
Early retirement strain	(3,730)	(2,225)
Deficit funding	(11,656)	(11,666)
Total contributions from employers	**(43,478)**	**(40,027)**
Contributions from employees	**(12,651)**	**(11,892)**
Total contributions	**(56,129)**	**(51,919)**

During 2018-19 employees made additional voluntary contributions (AVCs) of £214k (£165k in 2017-18).
The value of the AVCs at 31 March 2019 was £2.9m (£2.8m at 31 March 2018).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2018-19 £000	2017-18 £000
Individual transfers	(2,762)	(2,792)
Total transfers in from other pension funds	**(2,762)**	**(2,792)**

8. BENEFITS PAYABLE

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

	2018-19 £000	2017-18 £000
Pensions	51,418	47,669
Commutation of pensions and lump sum retirement benefits	6,571	6,338
Lump sums - death benefits	1,123	1,269
Total benefits payable	**59,112**	**55,276**

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

	2018-19 £000	2017-18 £000
Southwark council	56,703	53,193
Admitted bodies	1,766	1,437
Scheduled bodies	643	646
Total benefits payable	**59,112**	**55,276**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018-19 £000	2017-18 £000
Refund of contributions	246	76
Individual transfers out to other schemes	4,718	4,048
Total payments	**4,964**	**4,124**

10. MANAGEMENT EXPENSES

	2018-19 £000	2017-18 £000
Administrative costs	2,059	1,398
Investment and management expenses	4,820	4,698
Oversight and governance costs	629	326
Total management expenses	**7,508**	**6,422**

During 2018-19, the fee for external audit services for the pension fund was £21k (£23k in 2017-18).

The table below shows the total investment and management expenses.

	2018-19 £000	2017-18 £000
Management fees	3,019	3,063
Property management expenses	1,700	1,567
Custody fees	101	68
Total investment expenses	**4,820**	**4,698**

The Pension Fund incurred expenses of £0.8m in relation to services provided by the council during 2018-19 (£0.8m during 2017-18)

11. INVESTMENT INCOME

	2018-19 £000	2017-18 £000
Dividends from equities	(3,783)	(3,493)
Income from pooled investment vehicles	(2,465)	(2,904)
Rent from properties	(9,559)	(8,211)
Interest on cash deposits	(7)	(9)
Other income	-	(126)
Total investment income before taxes	**(15,814)**	**(14,743)**
Taxes on income	382	273
Total investment income after taxes	**(15,432)**	**(14,470)**

12. INVESTMENT ASSETS

	31 March 2019 £000	31 March 2018 £000
Bonds		
Quoted Overseas	7,700	8,582
Equity		
Quoted UK	23,275	17,340
Quoted Overseas	149,126	130,416
Pooled Funds		
Fixed Income Overseas	124,768	124,553
Index Linked Gilts UK	149,613	157,390
Multi Asset Overseas	167,475	127,113
Unitised Insurance Policy		
Equity Overseas	716,671	686,592
Property		
Direct Property UK	222,470	197,579
Property Unit Trust UK	67,659	68,611
Derivatives		
Forward currency contracts	90	103
Short-term cash deposits	-	1,000
London Collective Investment Vehicle	150	150
Other investment balances	2,248	2,298
Investment assets	**1,631,245**	**1,521,727**

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

	Value at 31 March 2018	Purchases	Sales	Change in market value	Cash movement	Value at 31 March 2019
	£000	£000	£000	£000	£000	£000
Bonds	8,582	34,253	(36,136)	1,001	-	7,700
Equity	147,756	83,057	(78,180)	19,768	-	172,401
Pooled funds	409,056	36,375	(17,511)	13,936	-	441,856
Unitised insurance policy	686,592	210,946	(249,884)	69,017	-	716,671
Property	266,190	27,563	(7,757)	4,133	-	290,129
Derivatives	103	1,269	(1,727)	445	-	90
Cash deposits	1,000	-	-	-	(1,000)	-
London Collective Investment Vehicle	150	-	-	-	-	150
Other investment balances	2,298	-	-	-	(50)	2,248
Investment assets	**1,521,727**	**393,463**	**(391,195)**	**108,300**	**(1,050)**	**1,631,245**

	Value at 31 March 2017	Purchase	Sales	Change in market value	Cash movement	Value at 31 March 2018
	£000	£000	£000	£000	£000	£000
Bonds	11,702	31,167	(33,065)	(1,222)	-	8,582
Equity	142,284	71,910	(63,689)	(2,749)	-	147,756
Pooled funds	387,706	11,978	-	9,372	-	409,056
Unitised insurance policy	696,217	147	(33,376)	23,604	-	686,592
Property	240,257	45,123	(22,394)	3,204	-	266,190
Derivatives	(19)	867	(1,132)	387	-	103
Cash deposits	8,100	-	-	-	(7,100)	1,000
London Collective Investment Vehicle	150	-	-	-	-	150
Other investment balances	1,445	-	-	-	853	2,298
Investment assets	**1,487,842**	**161,192**	**(153,656)**	**32,596**	**(6,247)**	**1,521,727**

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

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2019. 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.

Name of investment	Fund manager	31 March 2019	% of investment assets	31 March 2018	% of investment assets
		£000	%	£000	%
Diversified Growth Fund	Blackrock	167,474	10%	127,113	8%
Low Carbon Target	Legal and General	158,330	10%	-	-
North America Equity	Legal and General	132,081	8%	196,033	13%
Low Carbon Target	Blackrock	131,087	8%	-	-
Absolute Return Bond Fund	Blackrock	124,768	8%	124,553	8%
+5 Year Index Linked Gilt Fund	Legal and General	83,423	5%	88,823	6%
US Equity Fund	Blackrock	79,777	5%	136,998	9%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2019 has been set out in the table below.

	31 March 2019		31 March 2018	
	£000	%	£000	%
BlackRock	707,797	43%	688,588	45%
Legal and General Investment Managers	450,730	28%	407,059	27%
Nuveen	242,973	15%	219,873	15%
Newton Investment Management	180,191	11%	156,441	10%
M and G Real Estate	21,745	1%	20,938	1%
Invesco Real Estate	14,611	1%	14,541	1%
Frogmore Real Estate Partners	7,734	1%	7,791	1%
Brockton Capital LLP	3,066	0%	4,048	-
London Collective Investment Vehicle	150	0%	150	-
Total	**1,628,997**	**100%**	**1,519,429**	**100%**

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2019 £000	31 March 2018 £000
Contribution due from employers	3,175	1,211
Other current assets	2,352	1,874
Cash at managers	3,825	1,941
Cash and bank	4,843	9,623
Total	**14,195**	**14,649**

The current liabilities of the fund are analysed as follows:

	31 March 2019 £000	31 March 2018 £000
Benefits	(3)	(34)
Professional fees	(842)	(894)
Investment	(2,006)	(3,041)
Taxes	(602)	(680)
Other	(1)	(780)
Total	**(3,454)**	**(5,429)**

14. RELATED PARTY TRANSACTIONS

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

Through its administration of the fund, the council has a related party interest with the Pension Fund, and the costs charged by the council are disclosed in note 31.

Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance. No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10. The Strategic Director of Finance and Governance remuneration is disclosed in note 29 of the council's Statement of Accounts.

The Pension Advisory Panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the 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 £39.9m to the fund in 2018-19 (£36.9m in 2017-18).

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. They comprise property unit trusts.

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	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

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

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

Value as at 31 March 2019	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant un-observable inputs Level 3 £000	Total
Financial assets at fair value through profit and loss	1,046,474	292,393	67,658	**1,406,525**
Non-financial assets at fair value through profit and loss	-	-	222,470	**222,470**
Total	**1,046,474**	**292,393**	**290,128**	**1,628,995**

Value as at 31 March 2018	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant un-observable inputs Level 3 £000	Total
Financial assets at fair value through profit and loss	1,001,423	251,816	68,611	**1,321,850**
Non-financial assets at fair value through profit and loss			197,579	**197,579**
Total	**1,001,423**	**251,816**	**266,190**	**1,519,429**

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

Value as at 31 March 2018	**Value at March 18 £000**	**Purchase £000**	**Sales £000**	**Realised gain/(loss)**	**Unrealised gain/(loss)**	**Value at March 19 £000**
Property	266,190	27,563	(7,757)	1,097	3,036	290,129
Total	**266,190**	**27,563**	**(7,757)**	**1,097**	**3,036**	**290,129**

Value as at 31 March 2017	**Value at March 17 £000**	**Purchase £000**	**Sales £000**	**Realised gain/(loss)**	**Unrealised gain/(loss)**	**Value at March 18 £000**
Property	240,257	45,123	(22,394)	(5,117)	8,321	266,190
Total	240,257	45,123	(22,394)	(5,117)	8,321	266,190

The sensitivity of pricing methodology for property assets within fair value level three is considered to be +/-7%.

This equates to a pricing volatility of +/- £16m for property assets as at 31 March 2019 (£8.0m as at 31 March 2018).

16. FINANCIAL INSTRUMENTS

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

	31 March 2019 £000	**31 March 2018 £000**
Financial assets		
Fair value through profit and loss	1,431,416	1,320,850
Amortised cost	13,268	16,736
Financial liabilities		
Amortised cost	(3,454)	(5,429)
Total	**1,441,230**	**1,332,157**

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2019 totalled £21.2m (31 March 2018: £20.8m).

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

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

Market risk

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

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

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

Price risk

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

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All 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, 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 for 2018-19 reporting period:

2018-19 - asset type	31 March 2019 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	889,072	9%	969,088	809,056
Total bonds and indexed linked	282,081	7%	301,827	262,335
Multi-asset	167,475	4%	174,174	160,776
Property	290,129	3%	298,833	281,425
Cash deposits	-	-	-	-
Other assets	2,488	0%	2,488	2,488
Total investment assets	**1,631,245**			

2017-18 - asset type	31 March 2018 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	834,348	10%	917,783	750,913
Total bonds and indexed linked	290,525	8%	312,314	268,736
Multi-asset	127,113	5%	133,087	121,139
Property	266,190	3%	273,111	259,269
Cash deposits	1,000	1%	1,007	993
Other assets	2,551	0%	2,551	2,551
Total investment assets	**1,521,727**			

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

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

Interest rate risk

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

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

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2019	**124,768**	**126,016**	**123,520**
As at 31 March 2018	**133,135**	**134,466**	**131,804**

Currency risk

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

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

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

Assets exposed to currency risk	Value	Change	Value on foreign exchange rate increase	Value on foreign exchange rate decrease
	£000	%	£000	£000
As at 31 March 2019	982,765	10	1,081,042	884,489
As at 31 March 2018	892,292	12	999,002	785,583

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 POSITION OF THE FUND

Introduction

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

Actuarial position

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

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

- 15.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate).

  Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 18 years from 1 April 2017 (the secondary rate), equivalent to 5.6% of pensionable pay (or £10.7m in 2017/18, and increasing by 3.5% p.a. thereafter).

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

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

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

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

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

	Men	Women
Current pensioners aged 65 at the valuation date	22	26
Future pensioners aged 45 at the valuation date	24	28

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

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

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

Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):

Increases to GMPs:

HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.

Cost Management Process and McCloud judgement:

Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.

The actuarial valuation of the fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.

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

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

Aon does not accept any responsibility or liability to any party other than our client, London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.
The actuarial valuation report as at 31 March 2016 is available from the fund's website at the following address:
https://www.southwark.gov.uk/council-and-democracy/pensions/pension-fund

Aon Hewitt Limited

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

	31 March 2016 £000	31 March 2013 £000
Fair value of net assets	1,256	995
Actuarial present value of promised retirement benefits	(1,671)	(1,451)
Surplus/(deficit) in the fund as measured for IAS 26	**(415)**	**(456)**

McCloud Judgement

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud / Sargent' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed amounted to illegal age discrimination. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement, but the Supreme Court rejected the Government's request on 27 June 2019, and on 15 July the Chief Secretary to the Treasury announced in a written statement confirming that the Government believes that the difference in treatment will need to be remedied across all public service schemes, including the LGPS. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy, following appropriate consultation. Whilst the remedy is uncertain, a prudent approach would be to assume it is equivalent to extending the 'best of both' underpin to all members.

The Government Actuary's Department (GAD), under instruction of the LGPS Scheme Advisory Board (England and Wales) was asked to calculate the worst case scenario impact at Scheme level, and in their paper titled “Local Government Pension Scheme Potential impact of McCloud/Sargeant ruling on pension accounts disclosures” dated 10 June 2019, they state, that using an effective date of 31 March 2019, financial assumptions appropriate for accounting purposes and a salary increase assumption of CPI + 1.5% (as used for the London Borough of Southwark Pension Fund), the estimated worst case scenario impact will be a 3.2% increase in the active liabilities. This was very much an estimate, is based on the Scheme as a whole and made no allowance for ‘high fliers’ who could distort these figures. The figures for London Borough of Southwark could be different to this GAD assessment but we feel gives a reasonable indication of the increase in liabilities.

GMP Equalisation and Indexation

On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal Guaranteed Minimum Pensions (GMPs) is required. The ruling confirmed that trustees have a duty “to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs."

In March 2016 the government introduced an interim solution for members in public sector schemes with GMPs who were set to lose out from the removal of the Additional State Pension (AP). This was done by paying full increases on GMP pensions for individuals reaching State Pension Age (SPA) from 5 April 2016 through 5 December 2018 (GMP Rules do not require schemes to pay any increases on GMPs earned before April 1988, and cap increases at 3% p.a. on GMPs earned after April 1988). This additional liability was included in the liabilities disclosed.

In January 2018 the interim solution was extended for individuals reaching SPA before 5 April 2021 and this was not included in the liabilities disclosed. If HM Treasury's solution to GMP equalisation in public service schemes were to extend the interim solution indefinitely, the impact is estimated to be an increase in defined benefit obligation of 0.3% for an average mature employer in the LGPS (England and Wales) (which includes the liability for members reaching SPA after 5 December 2018 which is not included in the liabilities disclosed).

20. 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.

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.

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.

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

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

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

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

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

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

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

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

EARMARKED RESERVES
These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

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.

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 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.

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

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.

IAS 19
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 fixed asset below its carrying amount on the balance sheet.

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.

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

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

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

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

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

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

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

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

OPERATING LEASES
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.

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.

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

DISCLOSURE NOTES LIST

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