

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15



STATEMENT OF ACCOUNTS
2014/15

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

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**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

INTRODUCTION

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2011. This Statement of Accounts provides information about the council's expenditure and income and the overall financial position of the council at the end of the 2014/15 financial year.

Since the Government's October 2010 spending review the council has faced a significant reduction in spending power. The council anticipates further funding reductions in the medium term and needs to ensure that it is able to deliver statutory services, meet its revenue obligations and deliver an ambitious capital programme. This programme includes the commitment to build 11,000 new council homes over the next 30 years. To support these requirements, the council has modestly increased its reserves in recent years. However, in 2014/15 reserves have reduced as planned to support the revenue budget, the services provided and the costs of modernisation.

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

It is encouraging to note that pension fund performance during the year has continued to improve as markets recover. The current strategy has seen this performance rise relative to other funds; the council's performance measurement service ranked the fund third out of 84 funds in its Local Government Pension Scheme peer group. This positive will of course need to be continually reviewed.

I certify that:

- (a) The Statement of Accounts for the year ended 31 March 2015 has been prepared in the form directed by the Code and under the accounting policies as set out in the Notes to the Accounts, and
- (b) In my opinion the Statement of Accounts gives a true and fair view of the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.

Duncan Whitfield

Strategic Director of Finance and Corporate Services

24 September 2015

**SOUTHWARK COUNCIL
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the financial statements of Southwark Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Southwark Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Finance and Corporate Services and Auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director of Finance and Corporate Services 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Southwark Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2015.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Southwark Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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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 Southwark Council 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 2015. As the Authority has not yet 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 Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Also, we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Susan M Exton
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

25 September 2015

**SOUTHWARK COUNCIL
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the pension fund financial statements of Southwark Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the Members of Southwark Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Finance and Corporate Services and Auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director of Finance and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

**SOUTHWARK COUNCIL
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Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Susan M Exton
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

25 September 2015

SOUTHWARK COUNCIL
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EXPLANATORY FOREWORD

1. INTRODUCTION

- 1.1. The foreword provides a brief explanation of the statements that comprise the Accounts and a summary of the council's overall financial position, highlighting the more significant matters reported in the Accounts. It also provides information on developments that may influence the Accounts in the future.

2. THE STATEMENT OF ACCOUNTS

- 2.1. These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.

- 2.2. 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
- The Comprehensive Income and Expenditure Statement
- The Balance Sheet
- The Cash Flow Statement.

- 2.3. In addition to the primary statements, the Accounts contain:

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

- 2.4. The Code requires local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The council does not have material interests in such bodies and accordingly is not required to prepare group financial statements.

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3. THE REVENUE BUDGET

- 3.1. The council's expenditure and income is defined as either revenue (spending on day to day services) or capital (spending on items that provide a benefit for more than one year such as major building works). Revenue expenditure and income is divided between 'General Fund' (all services excluding council housing) and the 'Housing Revenue Account' (a separate account for the council acting as a housing landlord).
- 3.2. In February 2014, Council Assembly set a net budget for the year 2014/15 of £308.230 million. The council's use of resources for the year was £306.447 million and the balance of £1.783 million was transferred to reserves.

General fund	Original budget	Budget movement	Revised budget	Spend in year	Variance before use of reserves	Net movement in reserves	Total use of resources	Variance after use of reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Children's and adults services	203,078	(9,458)	193,620	198,754	5,134	(4,996)	193,758	138
Environment and leisure	72,359	(933)	71,426	73,877	2,451	(2,451)	71,426	-
Housing and community services	36,519	3,309	39,828	39,661	(167)	135	39,796	(32)
Public Health	(264)	264	-	(228)	(228)	228	-	-
Chief executive's department	18,365	(1,254)	17,111	17,880	769	(787)	17,093	(18)
Finance and corporate services	38,342	(1,602)	36,740	30,734	(6,006)	4,135	34,869	(1,871)
Support cost recharges	(57,956)	11,448	(46,508)	(46,508)	-	-	(46,508)	-
Contingency	4,000	(1,774)	2,226	-	(2,226)	2,226	2,226	-
Total general fund services	314,443	-	314,443	314,170	(273)	(1,510)	312,660	(1,783)
Use of reserves to underwrite base budget	(6,213)	-	(6,213)	-	6,213	(6,213)	(6,213)	-
Net revenue budget	308,230	-	308,230	314,170	5,940	(7,723)	306,447	(1,783)

- 3.3. Support cost recharges (SCR) are the costs of the central departments of finance and corporate services and chief executive's departments and the customer services centre, which are recharged to service departments with accompanying budgets.

Council tax

- 3.4. As well as collecting council tax to fund its own services, the council collects on behalf of and pays over to the Greater London Authority (GLA) a sum of money for services it provides, such as policing, community support officers, fire services and transport. This is referred to as the GLA precept. This was £25.3 million in 2014/15 (£24.7 million in 2013/14). Therefore the total demand on the council taxpayer is made up of two elements; an amount for GLA services and an amount for services provided by the council. The contributions from the taxpayer, expressed as amounts charged to a Band D taxpayer, are:

	2014/15 £	2013/14 £
Southwark Council Tax requirement	912	912
GLA Precept	299	303
Total Council Tax charge (Band D equivalent)	1,211	1,215

- 3.5. In line with the corporate objectives and the council's Medium Term Resources Strategy, council tax increases have been contained within the rate of inflation (RPI), and have remained below the London average.

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Housing Revenue Account

3.6. The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The table below summarises the HRA income and expenditure and movement on balances for 2014/15.

	2014/15 £000	2013/14 £000
Income	(290,231)	(280,506)
Expenditure	267,738	144,834
Net cost of services	(22,493)	(135,672)
Non operating costs	(46,861)	(6,292)
Net statutory accounting adjustments	66,877	150,251
(Increase)/Decrease in the HRA Balance	(2,477)	8,287
HRA Balance at 1 April	(23,468)	(31,755)
(Increase)/Decrease in the HRA Balance	(2,477)	8,287
HRA Balance at 31 March	(25,945)	(23,468)

Summary of reserves and balances

3.7. In line with the Medium Term Resources Strategy (MTRS), the council has maintained appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made, and to provide resources to enable service to transform over time. The council has a target of increasing its General Fund balance to £20 million.

Reserve Group	31/03/2015 £000	31/03/2014 £000	31/03/2013 £000
General Fund	18,125	18,125	18,125
Corporate projects and priorities	16,866	11,219	11,029
Service reviews and improvements	27,922	29,816	19,257
Capital programme and other capital investment	30,345	31,898	32,249
Strategic financing, technical liabilities and future financial risks	29,645	37,785	36,304
Schools	19,292	17,290	16,245
HRA and major repairs reserve	65,486	33,737	72,919

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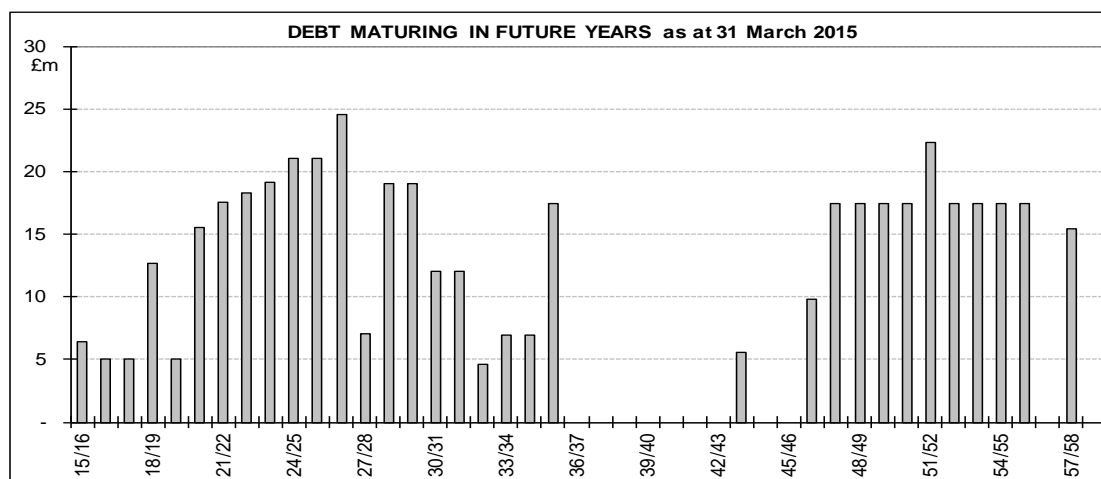
4. CAPITAL PROGRAMME

4.1. Southwark has one of the largest capital investment programmes in London, with current plans to spend £1,878 million (General Fund £508 million 2015/16 – 2023/24, Housing Investment Programme £1,370 million 2015/16 – 2021/22). The spend in 2014/15 was:

	2014/15 £000	2013/14 £000
Children's and adults' services	25,837	21,049
Environment and leisure	22,252	16,973
Housing and community services	1,974	1,308
Finance and corporate services	8,205	5,676
Chief executive's department	22,498	18,449
Total General Fund	80,766	63,455
Housing Investment Programme	168,597	117,064
Total	249,363	180,519
Financed by:		
Using capital receipts received from the sale of assets	111,525	16,398
Specific grants and other contributions	94,379	65,262
Sums set aside from revenue	24,889	34,583
Contribution from the Major Repairs Reserve	18,570	64,276
Total	249,363	180,519

5. BORROWING FACILITIES

5.1. The council borrows money to support its capital financing requirement. The borrowing outstanding as at 31 March 2015 is £469 million (£475 million at 31 March 2014). All loans are from the Public Works Loans Board (PWLB, a body operating within the UK Debt Management Office, an Executive Agency of HM Treasury) at fixed rates. The average rate of interest payable is 5.46% at 31 March 2015 (5.44% at 31 March 2014) and the average life of all loans is 21 years. The maturity profile of the debt at 31 March 2015 is set out in the chart below..

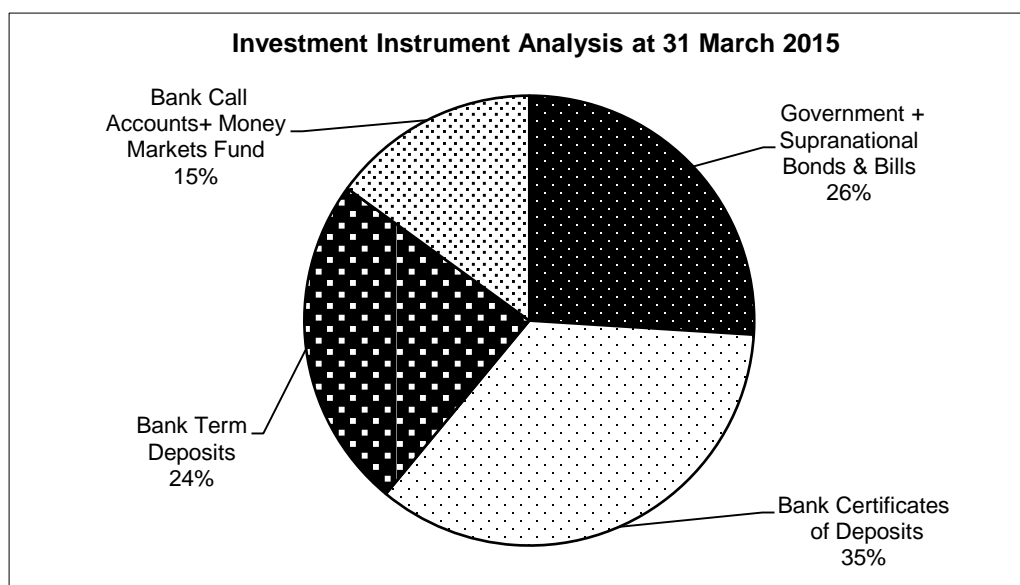


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6. INVESTMENTS

6.1. The council invests its cash in GBP bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities such as the European Investment Bank and the World Bank. The money market investments are in short term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. The cash held in investments at 31 March 2015 was £166 million (£157 million at 31 March 2014).

6.2. Investments held at 31 March 2015 can be shown by classes of instrument as follows:



6.3. The maturity and ratings of investments held at 31 March 2015 were:

INVESTMENT MATURITY PROFILE AND RATING at 31 March 2015				
Year Band	A	AA	AAA	Total
Up to 1 Year	60%	25%	9%	94%
1-2 Years	0%	0%	2%	2%
2-5Years	0%	4%	0%	4%
Total	60%	29%	11%	100%

6.4. Ratings refer to long term rating issued by Fitch rating or equivalent. Money market funds have no long term rating, but an AAA short term rating and are included under Band A.

7. PENSIONS

7.1. The council offers retirement pensions to its staff and makes contributions to pension schemes on their behalf. These pension schemes include the council's own pension fund, the accounts of which are at page 93. Other pension schemes are operated by the London Pension Fund Authority (LPFA) and the Teachers' Pensions Agency (TPA) and the National Health Service (NHS).

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- 7.2. The council's accounts are prepared in accordance with International Accounting Standard 19 – Employee Benefits (IAS 19), which requires that the accounts reflect the employees' pension rights as they are earned in a year. Each year at 31 March actuaries assess the value of assets in the pension funds, the difference between contributions made and benefits earned, and project these forward using factors, as set out in Note 40, to calculate a figure representing the outstanding liability of the council to each pension fund. These liabilities are:

	LGPS £000	LPFA £000	Total £000
Opening liability as at 1 April 2014	(484,300)	(2,762)	(487,062)
Closing liability as at 31 March 2015	(483,700)	(7,586)	(491,286)
Movement in year	(600)	4,824	4,224
Represented by:			
Remeasurements	(16,000)	4,881	(11,119)
Net difference between actuarial and actual costs charged in the year	15,400	(57)	15,343
Movement in year	(600)	4,824	4,224

- 7.3. The TPA and NHS schemes are run on a different basis from the others above, and are not required to be accounted for in this way under IAS 19. There is no separate liability included in the council's accounts.
- 7.4. The operation of the council's pension fund is regulated by statute. It is revalued every three years, and this valuation is used to set the level of contributions by the council towards the fund, rather than considering the pensions rights earned per IAS 19. The assumptions under this valuation use a longer timeframe than IAS 19, and incorporate assumptions on the plan to eliminate any outstanding liability, which also is not taken into account under IAS 19 in assessing the outstanding liability at a fixed point. The last revaluation of the council's pension fund on this basis was as at 31 March 2013, giving an actuarial present value of promised retirement benefits of £456.1 million (£612.2 million at the last valuation of 31 March 2010). From this, the actuary recommended to the council, as employer, a contribution structure, the details of which are given in Note 4 to the Pension Fund Accounts.

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STATEMENT OF RESPONSIBILITIES

The council's responsibilities

The council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Southwark that officer is the strategic director of finance and corporate services
- To manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets, and
- To approve the Statement of Accounts.

The strategic director of finance and corporate services' responsibilities

The strategic director of finance and corporate services is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code).

In preparing the Statement of Accounts, the strategic director of finance and corporate services has:

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

The strategic director of finance and corporate services has also:

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

**SOUTHWARK COUNCIL
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MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before the Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves have been undertaken by the council. Schools' balances, which form part of earmarked reserves, total £19.292 million (£17.290 million at 31/03/2014).

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MOVEMENT IN RESERVES, 2014/15

	General Fund Balance £000	Earmarked General Fund Reserves £000	Schools balances and DSG reserve £000	HRA Balance £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves of the council £000
Balance as at 1 April 2014	18,125	95,370	32,638	23,468	10,269	71,310	1,893	253,073	2,325,312	2,578,385
Movement in reserves during the year										
Surplus/(deficit) on the provision of services	(103,427)	-	-	69,354	-	-	-	(34,073)	-	(34,073)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	528,120	528,120
Total Comprehensive Income and Expenditure	(103,427)	-	-	69,354	-	-	-	(34,073)	528,120	494,047
Adjustments between accounting basis & funding basis under regulations (Note 6)	99,489	-	-	(66,877)	29,272	(28,520)	419	33,783	(33,783)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(3,938)	-	-	2,477	29,272	(28,520)	419	(290)	494,337	494,047
Transfers to/(from) earmarked reserves	3,938	(4,019)	81	-	-	-	-	-	-	-
Increase/(Decrease) in Year	-	(4,019)	81	2,477	29,272	(28,520)	419	(290)	494,337	494,047
Balance as at 31 March 2015	18,125	91,351	32,719	25,945	39,541	42,790	2,312	252,783	2,819,649	3,072,432

**SOUTHWARK COUNCIL
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MOVEMENT IN RESERVES, 2013/14

	General Fund Balance	Earmarked General Fund Reserves	Schools balances and DSG reserve	HRA Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the council
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2013	18,125	91,496	23,588	31,755	41,164	29,428	5,979	241,535	1,713,973	1,955,508
Movement in reserves during the year										
Surplus/(deficit) on the provision of services	(56,687)	-	-	141,963	-	-	-	85,276	-	85,276
Other Comprehensive Income and Expenditure									537,601	537,601
Total Comprehensive Income and Expenditure	(56,687)	-	-	141,963	-	-	-	85,276	537,601	622,877
Adjustments between accounting basis & funding basis under regulations (Note 6)	69,611	-	-	(150,250)	(30,895)	41,882	(4,086)	(73,738)	73,738	-
Net Increase/Decrease before Transfers to Earmarked Reserves	12,924	-	-	(8,287)	(30,895)	41,882	(4,086)	11,538	611,339	622,877
Transfers to/(from) earmarked reserves	(12,924)	3,874	9,050	-	-	-	-	-	-	-
Increase/(Decrease) in Year	-	3,874	9,050	(8,287)	(30,895)	41,882	(4,086)	11,538	611,339	622,877
Balance as at 31 March 2014	18,125	95,370	32,638	23,468	10,269	71,310	1,893	253,073	2,325,312	2,578,385

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

		£000	£000	2014/15 £000 Net	£000	£000	2013/14 £000 Net
	Notes	Expenditure	Income		Expenditure	Income	
Central services		22,738	(13,914)	8,824	37,667	(15,632)	22,035
Cultural and related services		28,808	(3,205)	25,603	25,798	(3,245)	22,553
Environment and regulatory services		45,370	(10,808)	34,562	51,373	(9,381)	41,992
Planning services		17,877	(4,639)	13,238	27,834	(5,673)	22,161
Children's and education services		361,626	(232,800)	128,826	338,325	(231,320)	107,005
Highways and transport services		40,100	(15,286)	24,814	38,042	(13,684)	24,358
Local authority housing (HRA)		273,084	(283,463)	(10,379)	146,056	(273,548)	(127,492)
Other housing services		261,148	(241,226)	19,922	259,563	(239,143)	20,420
Adult social care		116,197	(21,169)	95,028	114,620	(18,009)	96,611
Public health		25,767	(26,100)	(333)	23,492	(25,030)	(1,538)
Corporate and democratic core		7,943	(4,884)	3,059	8,589	(1,584)	7,005
Non distributed costs		3,069	-	3,069	1,900	-	1,900
(Surplus)/Deficit on Continuing Operations		1,203,727	(857,494)	346,233	1,073,259	(836,249)	237,010
Other Operating Expenditure	13			15,466			10,714
Financing and Investment Income and Expenditure	14			92,605			60,532
Taxation and Non-Specific Grant Income	15			(420,231)			(393,532)
(Surplus)/Deficit on Provision of Services				34,073			(85,276)
(Surplus)/deficit on revaluation of non current assets	24.5			(516,860)			(310,845)
(Surplus)/deficit on revaluation of available for sale financial assets				(141)			105
Remeasurement of the net defined benefit liability	40			(11,119)			(226,861)
Other Comprehensive Income and Expenditure				(528,120)			(537,601)
Total Comprehensive Income and Expenditure				(494,047)			(622,877)

**SOUTHWARK COUNCIL
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BALANCE SHEET

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

	Notes	31/03/2015 £000	31/03/2014 £000
Property, Plant & Equipment	16	3,869,339	3,456,253
Heritage Assets		1,187	871
Investment Property	17	126,400	121,472
Assets held for sale	21	73,500	294
Long Term Investments	18	9,942	23,009
Long Term Debtors	19	51,354	11,069
Long Term Assets		4,131,722	3,612,968
Current intangible assets		400	-
Short Term Investments	18	130,784	116,844
Inventories		684	890
Short Term Debtors	19	118,738	103,982
Cash and Cash Equivalents	20	18,955	7,783
Assets held for sale	21	22,815	75,996
Current Assets		292,376	305,495
Short Term Borrowing	18	11,763	11,113
Short Term Creditors	22	123,986	137,368
Provisions		6,113	11,301
Grants receipts in advance	33	125,218	113,376
Current Liabilities		267,080	273,158
Long Term Creditors	22	7,505	5,438
Provisions		12,492	11,388
Long Term Borrowing	18	462,851	469,235
Pension Liabilities	40	491,286	487,062
Other Long Term Liabilities	41	110,452	93,797
Long Term Liabilities		1,084,586	1,066,920
Net Assets		3,072,432	2,578,385
Usable reserves	23	252,783	253,073
Unusable Reserves	24	2,819,649	2,325,312
Total Reserves		3,072,432	2,578,385

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

CASH FLOW STATEMENT

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

	Note	2014/15 £000	2013/14 £000
Net surplus/(deficit) on the provision of services		(34,073)	85,276
Adjust net surplus/(deficit) on the provision of services for non-cash movements	25	276,177	146,462
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	25	(182,479)	(131,919)
Net cash flows from operating activities		59,625	99,819
Net cash flows from investing activities	26	(39,566)	(44,060)
Net cash flows from financing activities	27	(8,887)	(95,349)
Net increase/(decrease) in cash and cash equivalents		11,172	(39,590)
Cash and cash equivalents at the beginning of the reporting period	20	7,783	47,373
Cash and cash equivalents at the end of the reporting period	20	18,955	7,783

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

NOTES TO THE ACCOUNTS

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

- 1.1. The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 introduced a number of changes to accounting standards, set out below, that are required from 1 April 2015. The changes, if adopted in 2014/15 would have had no material impact on the accounts.

IFRS 13 Fair Value Measurement

- 1.2. The standard defines fair value; sets out a framework for measuring fair value; and requires disclosures about fair value measurements. It applies to all assets and liabilities covered by those IFRS standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.

Annual improvements to IFRS 2011-2013 cycle

- 1.3. The improvements relate specifically to IFRS 1 – First Time Adoption of IFRS, IFRS3 – Business Combinations, IFRS13 Fair Value Measurement and IAS40 – Investment Property.

IFRIC 21 Levies

- 1.4. The standard provides guidance on when to recognise a liability for a levy imposed by the government.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

St Michael's Catholic College, St Thomas the Apostle College and Sacred Heart Catholic School

- 2.1. St Michael's, St Thomas and Sacred Heart are voluntary aided secondary schools. St Michael's became operational in January 2011, St Thomas in February 2012 and Sacred Heart in September 2014. The schools have been built and operated under PFI arrangements, under 25 year contracts with 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd.
- 2.2. The assets of voluntary aided schools are deemed not to be assets of the council for reasons set out in Note 2.4 – 2.5 below. 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. In 2011/12, the assets recognised as part of the PFI arrangements for St Michael's and St Thomas were discharged from Property, Plant & Equipment to the Consolidated Income and Expenditure Statement (PFI derecognition), and then moved to the Capital Adjustment Account. Similarly, in 2014/15 the asset related to the PFI arrangement for Sacred Heart went through the same accounting treatments, i.e it was recognised and discharged, at the value of the obligation of £19.173 million, to the Consolidated Income and Expenditure Statement (PFI derecognition), and then moved to the Capital Adjustment Account.
- 2.3. Further details of the financial arrangements for St Michael's, St Thomas and Sacred Heart, and the obligations outstanding, can be found in Note 37.

Accounting for schools non-current assets

- 2.4. In 2014/15 the results of CIPFA's consultation on schools assets came into effect which meant that for the first time there was an onus on the council to consider whether the assets of foundation and voluntary aided schools in the borough should be consolidated into its accounts.
- 2.5. After an extensive assessment the council has concluded that the assets of foundation and voluntary aided schools in the borough should not be brought on to the Balance Sheet as these assets are not controlled by the council but rather by whichever trust or religious body is associated with each individual school.

SOUTHWARK COUNCIL
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Integrated waste management facility

- 2.6. 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 37.

Heat and energy supply arrangement

- 2.7. The Heat Supply PFI Arrangement with Veolia Environmental Services became operational in November 2013. It placed piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public. It has been assessed as a service concession in accordance with IFRS accounting practice. Unitary charges are payable until 2033 and allocated as charges for service, interest and principal.

Fair value of PFI liabilities

- 2.8. The council has assessed the fair value of its PFI liabilities to be a close approximate of their carrying value. The council has used present value techniques in its assessment, the details of which are disclosed in more detail at note 18.7.

HRA depreciation, impairment & valuation losses

- 2.9. Since 1 April 2012, the HRA has operated on a self-financing basis, with transitional arrangements in place for five years. Following this change, no provision exists at present to reverse out charges made to the HRA for impairment and valuation losses relating to non-dwelling assets. This is a change from previous accounting arrangements and has an impact on HRA usable reserves. There is uncertainty as to whether this is an intended consequence of the implementation of self-financing, but until clarification is provided, the council will continue to follow CIPFA advice and guidance.
- 2.10. During the transitional period, where the depreciation charge for dwellings is greater than the Notional Major Repairs Allowance, authorities are permitted to make an adjustment for the difference so that there is no impact on HRA usable reserves. In 2014/15, the council chose this option and made an adjustment of £10.706 million for excess dwellings depreciation over the Notional Major Repairs Allowance.

3. ACCOUNTING ESTIMATES

Valuation of property, plant and equipment

- 3.1. A full valuation of the council's housing stock using the Beacon method is undertaken as at 1 April each year. In 2014/15 the council's internal valuation service has assessed that significant capital growth in the value of housing stock has taken place during the year. This is attributable to the continued improving London residential market that has been widely reported in the media. A desktop valuation was undertaken with an effective revaluation date of 31 March 2015, using indices comprised of figures underpinned by a range of data from actual property sales, which were used to determine uplift factors to be applied to assets within the individual beacon groups. A full revaluation of the stock on a beacon basis will be undertaken effective 1 April 2015.
- 3.2. 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.

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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).

Financial instruments

- 3.3. All council borrowing outstanding at 31 March 2015 are from the Public Works Loans Board (PWLB). The debt is at fixed rates, with an average maturity of 21 years. There is no exposure to variable rate debt. The maturity profile of the debt is set out in the explanatory foreword and the council may draw loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £90 million and a 1% fall would raise it by £114 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such changes, unless the debt was extinguished. Legislation would then require a charge to be taken to the Financial Instruments Adjustment Account. There is no exposure to variable rate debt. The maturity profile of the debt is set out in the explanatory foreword and the council may draw loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £90 million and a 1% fall would raise it by £114 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such changes, unless the debt was extinguished. Legislation would then require a charge to be taken to the Financial Instruments Adjustment Account.
- 3.4. The overall average life of council investments is 0.5 years and the modified duration is also 0.4 years. Within that, the available-for-sale investments have an average life of 0.6 years and a modified duration of 0.6 years. A 1% change in discount rates on available-for-sale investments at Balance Sheet date would change the fair value by £1.1 million and would be reflected in the Balance Sheet in the available-for-sale reserve. There would be no impact on the comprehensive income and expenditure statement, unless the investments were realised. A 1% change in discount rates on loans and receivable investments at the Balance Sheet date would change the fair value by £0.1 million, but as these are held at amortised cost there would be no impact on the comprehensive income and expenditure statement unless the investments were extinguished.

Impairment of debtors (bad debt provisions)

- 3.5. At 31 March 2015, the council had a balance of short term debtors of £166.042 million. The different classes of debtors within this balance are individually assessed to determine any potential impairment losses as a result of not being able to collect the moneys due, and for 2014/15 this was assessed as £47.304 million, which is 28% of the total debtor balance as at 31 March 2015. If collection rates were to deteriorate, an increase of 1% in non-collection would require an additional £1.660 million to be set aside as an allowance for the impairment of debtors:

	£000
Council Tax	186
Business Rates	29
Housing Rents	174
Housing Benefit Overpayments	215
Sundry Debtors	1,056
Total	<u>1,660</u>

Long term obligations - PFI and similar schemes

- 3.6. The council has entered a number of long term contracts to provide services and assets under PFI and schemes of a similar nature, as set out in Note 37. These contracts commit the council to significant levels of contract payments over the lives of the contracts. At 31 March 2015 the future obligation to make payments was £757 million, of which £36 million falls in 2015/16.
- 3.7. The estimated payments due under each of the schemes are set out in complex models, and there are uncertainties in the prediction of total future costs due to:
- The lengths of the expected contracts (typically 25 years)
 - Variability in the indexation and discount rates to be applied during the contract
 - Changes in usage under the contracts
 - Performance by the contractor under the contract.

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- 3.8. The complexity of the payment models and the periods of time concerned mean that small changes in assumptions could lead to material changes in the estimation of total liability under the contracts. Estimates of the range of possible variations have not been costed for the purposes of the Accounts.

Defined benefit pension amounts and disclosures

- 3.9. The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2015 the outstanding liability was assessed at £491.286 million (£487.062 million 2013/14). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund. These assessments require significant estimation, and the estimates and assumptions are set out in detail in Note 40.
- 3.10. 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 pensions liability of changes in individual assumptions can be measured. A sensitivity analysis to changes in assumptions is provided at note 40.9.

Collection Fund surplus/deficit

- 3.11. As a billing authority, the council is required by law to estimate the surplus or deficit arising on the Collection Fund for the end of each financial year by January 15 of that year. Previously, the deficit or surplus was attributable solely to the council tax account, but from 2013/14 the business rates account can also generate a surplus or deficit due to the introduction of the business rates retention scheme. The council is also required to apportion the council tax surplus or deficit between authorities according to their respective proportion of the total for demands and precepts for that year, and apportion the business rates surplus or deficit between authorities and central government according to their respective shares. These apportionments are recovered in the following year. The Collection Fund Adjustment Account absorbs the effect of timing differences between statutory requirements and full accruals accounting.

4. MATERIAL ITEMS OF INCOME AND EXPENSE

- 4.1. In 2013/14, the council reduced future financing liabilities by paying off £85 million in PWLB loans, £80 million of which related to the HRA and the remainder to the General Fund. The General Fund repayment was financed out of the minimum revenue provision. £36 million of the HRA repayment was financed in 2013/14 and £19 million in 2014/15 out of provisions from balances, capital receipts and the major repairs reserve, with the remainder to be financed in the future over a number of years and in the meantime settled by drawing on cash balances.

5. EVENTS AFTER THE BALANCE SHEET DATE

- 5.1. There are no significant post balance sheet events to be disclosed at the time of preparing these statements.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

- 6.1. 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
- 6.2. The following sets out a description of the reserves that the adjustments are made against.

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STATEMENT OF ACCOUNTS 2014/15

General Fund balance

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

Housing Revenue Account balance

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

Major repairs reserve

- 6.5. 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

- 6.6. 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

- 6.7. 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.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

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

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	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2014/15	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the deferred capital receipts reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(110)	(42,412)	-	-	-	42,522
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	4,913	-	(4,913)
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(47,842)	47,842	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(18,570)	-	-	18,570
Provision to reduce the capital financing requirement	-	-	-	-	-	-
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(22)	(210)	-	-	-	232
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	46,351	7,262	-	-	-	(53,613)
Employer's pensions contributions and direct payments to pensioners payable in the year	(34,066)	(4,204)	-	-	-	38,270
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,810)	-	-	-	-	1,810
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,071)	-	-	-	-	1,071
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	486	79	-	-	-	(565)
Total adjustments	99,489	(66,877)	29,272	(28,520)	419	(33,783)

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	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2013/14	£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	21,917	52,329	-	-	-	(74,246)
Revaluation losses on property, plant and equipment	35,893	(86,180)				50,287
Movements in the market value of Investment Properties	(2,484)	(2,784)	-	-	-	5,268
Amortisation of intangible assets	-	-	-	-	-	-
Capital grants and contributions applied	(30,038)	(33,174)	-	-	-	63,212
Revenue expenditure funded from capital under statute	8,751	10,257	-	-	-	(19,008)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	37,906	33,627	-	-	-	(71,533)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	(9,251)	(20,000)	-	-	-	29,251
Lease & PFI repayment	(3,521)	(670)				4,191
Repayment of premiums	(241)	(4,495)				4,736
Capital expenditure charged against the General Fund and HRA balances	(16,941)	(18,227)	-	-	-	35,168
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(4,086)	4,086
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	(16,774)	(51,933)	-	68,707	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(17,414)	-	17,414
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	804	1,731	-	(2,535)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	3,758	-	-	(3,758)	-	-
Provision to reduce the capital financing requirement	-	-	-	(3,118)	-	3,118

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	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2013/14	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Notional Major Repairs Allowance credited to the HRA	-	(46,062)	46,062	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(64,276)	-	-	64,276
Provision to reduce the capital financing requirement	-	-	(12,681)	-	-	12,681
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	(8)	10,791	-	-	-	(10,783)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	(30,768)	(4,153)	-	-	-	34,921
Employer's pensions contributions and direct payments to pensioners payable in the year	61,404	8,719	-	-	-	(70,123)
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	(1,337)	-	-	-	-	1,337
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	10,888	-	-	-	-	(10,888)
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	(347)	(26)	-	-	-	373
Total adjustments	69,611	(150,250)	(30,895)	41,882	(4,086)	73,738

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7. CORPORATE PROJECTS AND PRIORITIES

	Balances as at 31 March 2014	Net movement in reserves	Balances as at 31 March 2015
	£000	£000	£000
Modernisation, service & operational improvement	2,287	2,823	5,110
Fair and valued treatment of staff	-	3,707	3,707
Southwark emergency support scheme	-	3,100	3,100
Contract realignment (low paid staff)	1,052	-	1,052
Welfare hardship fund	1,401	(601)	800
Business support fund	952	(227)	725
Southwark scholarship scheme	1,228	(763)	465
Community engagement & Links development	297	131	428
Voluntary sector transition fund	581	(190)	391
Internal audit & anti fraud	356	-	356
Artefacts replacement & security reserve	527	(344)	183
Revenue grants	100	64	164
Neighbourhood fund	-	149	149
Community safety schemes	750	(644)	106
DWP community budget	-	100	100
Community restoration fund	30	-	30
Employment support	1,206	(1,206)	-
London living wage	275	(275)	-
Cleaner Greener Safer	145	(145)	-
Other reserves individually less than £100k	32	(32)	-
Total	11,219	5,647	16,866

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8. SERVICE REVIEWS AND IMPROVEMENTS RESERVES

	Balances as at 31 March 2014	Net movement in reserves	Balances as at 31 March 2015
	£000	£000	£000
Dedicated schools grant reserve	15,348	(1,921)	13,427
Learning disability & social care reform	3,748	(798)	2,950
Public Health	712	277	989
Obesity	800	(48)	752
Childcare Provision for under 2 year olds	-	1,526	1,526
Organisational development	1,337	(185)	1,152
Cycling Safety	800	200	1,000
OT clients adaptations	886	-	886
Highways	-	746	746
Special Education Needs & Disabilities grants	-	739	739
Local flood risk	328	300	628
Highways winter maintenance	576	-	576
Children's Services restructure	440	-	440
HR transformation	517	(123)	394
Managed accounts	451	(100)	351
Children's & Families Bill	300	-	300
Workforce development (adults services)	222	-	222
School improvement	200	-	200
Member development	182	-	182
General litigation costs	172	-	172
Environmental health & community safety	142	-	142
Blackfriars trust allocation	138	-	138
SSF PFI equalisation St Michael's	60	60	120
Prevention of illegal tobacco distribution	120	(29)	91
Education Standards	156	(80)	76
Youth service	70	-	70
Early Years Review	300	(240)	60
Ofsted inspection	200	(150)	50
Interserve employment project	50	-	50
Street trading account	(635)	113	(522)
Other reserves individually less than £100k	15	-	15
Early intervention pilot	515	(515)	-
Management and administration of elections	409	(409)	-
Homelessness	403	(403)	-
Leisure Management	150	(150)	-
SEN/Learning difficulties	140	(140)	-
Schools condition survey	137	(137)	-
Street trading	110	(110)	-
Signage	108	(108)	-
SAP HR systems development	100	(100)	-
SALIX energy efficiency	61	(61)	-
SELHP closedown	48	(48)	-
Total	29,816	(1,894)	27,922

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9. CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES

	Balances as at 31 March 2014	Net movement in reserves	Balances as at 31 March 2015
	£000	£000	£000
Modernisation, service & operational improvement	4,132	(2,349)	1,783
Aylesbury development	6,441	-	6,441
Planned preventative maintenance & building compliance	6,948	(1,036)	5,912
IT and customer service development	3,171	-	3,171
Regeneration & development	4,345	(1,510)	2,835
Capital contingency	2,204	165	2,369
Schools capital programme contribution	-	2,193	2,193
BSF PFI transition	1,349	517	1,866
Contracts realignment (capital)	1,396	-	1,396
Schools sprinkler systems	-	750	750
New homes bonus grant capital allocation	704	-	704
Exchequer services development	550	-	550
Legal case management system	300	-	300
Canada Water	-	75	75
Parking capital projects	152	(152)	-
Carefirst procurement	125	(125)	-
Resource centre	81	(81)	-
Total	31,898	(1,553)	30,345

10. STRATEGIC FINANCING, TECHNICAL LIABILITIES AND FUTURE FINANCIAL RISKS RESERVES

	Balances as at 31 March 2014	Net movement in reserves	Balances as at 31 March 2015
	£000	£000	£000
Planned contribution to support General Fund budget 2014/15	6,213	(6,213)	-
Planned contribution to support General Fund budget 2015/16	-	6,163	6,163
Insurance	9,086	(2,637)	6,449
Interest and debt equalisation	4,000	-	4,000
Waste PFI equalisation reserve	5,501	(1,609)	3,892
Business rate retention risk	2,500	-	2,500
Future Government funding risk reserve	1,900	-	1,900
Social care demand pressures	4,617	(2,813)	1,804
Financial risk & future liabilities	320	756	1,076
Council tax and housing benefits subsidy equalisation	1,000	-	1,000
Legal and contractual risks	1,804	(1,091)	713
Schools in financial difficulties, schools closures and academies	482	(150)	332
Auto enrolment	500	(500)	-
Queen's Road lease smoothing	(138)	(46)	(184)
Total	37,785	(8,140)	29,645

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11. NOTES ON MAJOR RESERVES

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

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

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

12. SCHOOLS BALANCES

	Balances as at 31 March 2014	Net movement in reserves	Balances as at 31 March 2015
	£000	£000	£000
Funds held by schools	16,811	1,688	18,499
Funds held by nursery schools	243	(101)	142
Funds held by pupil referral units	236	415	651
Total	17,290	2,002	19,292

13. OTHER OPERATING EXPENDITURE

	2014/15 £000	2013/14 £000
Levies	1,612	1,595
Payment to the government's housing capital receipts pool	3,982	3,758
(Gains)/losses on the disposal of non-current assets	9,872	5,361
Total Other Operating Expenditure	15,466	10,714

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14. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	Note	2014/15 £000	2013/14 £000
Interest payable and similar charges		35,244	50,487
Grant contributions towards interest costs on PFI schemes		(4,464)	(3,465)
Net interest on the net defined benefit liability		20,104	28,946
Interest receivable and similar income	14.1	(2,100)	(2,293)
Income and expenditure in relation to investment properties and changes in their fair value	14.2	(17,674)	(13,143)
Loss on disposal of academies		61,495	-
Total Financing and Investment Income and Expenditure		92,605	60,532

14.1. Interest receivable and similar income includes nominal income in respect of deferred consideration for asset disposals and deferred collection of debtors, which in accordance with accounting practice are reversed out of the Comprehensive Income and Expenditure Statement.

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

15. TAXATION AND NON-SPECIFIC GRANT INCOME

	2014/15 £000	2013/14 £000
Council Tax Income	(80,055)	(76,505)
Non-domestic rates income and expenditure	(62,654)	(46,287)
Non-ringfenced government grants	(182,725)	(207,528)
Capital Grants	(94,797)	(63,212)
Total Taxation and Non-Specific Grant Income	(420,231)	(393,532)

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

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

2014/15

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

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2013/14

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	TOTAL PP&E £000	PFI Assets Included in Property, Plant and Equipment £000
Gross Book Value									
Opening balance	1,885,598	802,495	64,158	226,728	36,600	132,370	60,965	3,208,914	73,418
Additions	96,431	13,467	5,207	23,079	31	8,004	23,787	170,006	4,934
Revaluation increases/(decreases) recognised in the Revaluation Reserve	265,791	(14,420)	-	-	-	11,193	-	262,564	2,450
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	64,531	(44,430)	-	-	-	959	-	21,060	(125)
Derecognition – Disposals	(14,757)	(686)	-	-	-	(14,202)	-	(29,645)	-
Derecognition – Other	(4,638)	(13,248)	-	-	(1,225)	(59)	-	(19,170)	-
Assets reclassified (to)/from Held for Sale	5,538	(510)	-	-	-	(27,603)	-	(22,575)	-
Other movements in Cost or Valuation	(4,286)	5,152	-	15,815	(25,900)	12,503	-	3,284	(10,700)
Balance as at 31 March 2014	2,294,208	747,820	69,365	265,622	9,506	123,165	84,752	3,594,438	69,977
Depreciation and Impairment									
Opening balance	593	58,455	26,403	50,501	2,607	80	-	138,639	2,245
Depreciation charge	50,657	11,007	4,196	7,817	-	569	-	74,246	1,582
Depreciation written out on revaluations recognised in the Revaluation Reserve	(28,669)	(12,372)	-	-	-	(979)	-	(42,020)	(707)
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(21,668)	(6,926)	-	-	-	(16)	-	(28,610)	(235)
Derecognition – Disposals	(349)	(482)	-	-	-	(8)	-	(839)	-
Derecognition – Other	(497)	(2,275)	-	-	-	-	-	(2,772)	-
Other movements in Depreciation and Impairment	(67)	(1,148)	-	1,408	(1,705)	1,053	-	(459)	(1,014)
Balance as at 31 March 2014	-	46,259	30,599	59,726	902	699	-	138,185	1,871
Net Book Value At 31 March 2014	2,294,208	701,561	38,766	205,896	8,604	122,466	84,752	3,456,253	68,106

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- 16.1. The valuation of assets has been carried out by the council's internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluations and of the rolling cycle of revaluations is 1 April of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.
- 16.2. The entire housing stock is valued on an annual basis, with estates under development and other potential impairments reviewed during the year. Impairments have been charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account.
- 16.3. The council's internal valuation service has assessed that significant capital growth in the value of housing stock has taken place during the year. This is attributable to the continued increase in the London residential house prices that has been widely reported in the media. A desktop valuation was undertaken with an effective revaluation date of 31 March 2015, using indices comprised of figures underpinned by a range of data from actual property sales, which were used to determine uplift factors to be applied to assets within the individual beacon groups. A full revaluation of the stock on a beacon basis will be undertaken effective 1 April 2015.
- 16.4. At 31 March 2015, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgeted to cost £215.2 million. Similar commitments at 31 March 2014 were £148.8 million. The projects with major commitments are:
- Making all council dwellings warm, dry and safe - £69.9 million
 - Housing Direct Delivery scheme - £36.5 million
 - Four Squares Estate improvements - £13.9 million
- 16.5. Infrastructure Assets contains a balance of £76.1 million that represents the current depreciated historic cost value of capital expenditure on infrastructure up to 31 March 2007. This balance is effectively treated as a single 'consolidated' asset as we do not currently have sufficient information to disclose at the level of individual assets and obtaining such information would be impracticable. The balance is depreciated on a straight line basis over 40 years.
- 16.6. A review of PP&E Under Construction was undertaken during the year, which led to an amount of £67.4 million being either transferred to other classes of PP&E as the assets became operational (£16.6m); or written out to the capital adjustment account (£50.8m).

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

17.1. The income and expenditure on investment assets was as follows:

	2014/15	2013/14
	£000	£000
Rental income from investment property	(10,346)	(10,806)
Fair value adjustments	(10,445)	(5,268)
Direct operating expenses arising from investment property	3,117	2,931
Net (gain)/loss included in Financing & Investment Income in the CIES	(17,674)	(13,143)

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

	2014/15 £000	2013/14 £000
Balance as at 1 April	121,472	118,721
Additions:		
Subsequent expenditure	829	75
Disposals	(6,318)	(849)
Net gains/(losses) from fair value adjustments	10,445	5,268
Transfers:		
To/From Property, Plant and Equipment	(28)	(1,743)
Balance as at 31 March	126,400	121,472

Properties held under operating leases

17.3. 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 in Note 17.1, but being operating leases, are not included with property, plant & equipment.

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

18. FINANCIAL INSTRUMENTS

18.1. The following categories of financial instrument assets are carried in the Balance Sheet:

	Long Term 31/03/15 £000	Long Term 31/03/14 £000	Short Term 31/03/15 £000	Short Term 31/03/14 £000
Investments				
Available for Sale	9,942	23,009	91,414	78,024
Loans & Receivables	-	-	40,860	40,301
Less Trust Funds	-	-	(1,490)	(1,481)
Total Investments	9,942	23,009	130,784	116,844
Debtors				
Loans and receivables	51,204	11,069	114,598	100,031
Total Debtors	51,204	11,069	114,598	100,031
Cash and Cash Equivalents				
Cash and bank	-	-	(6,107)	(9,573)
Short term deposits	-	-	25,062	17,356
Total Cash and Cash Equivalents	-	-	18,955	7,783

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18.2. The following categories of financial instrument liabilities are carried in the Balance Sheet:

	Long Term 2014/15 £000	Long Term 2013/14 £000	Short Term 2014/15 £000	Short Term 2013/14 £000
Borrowings				
Financial Liabilities at Amortised Cost	(462,851)	(469,235)	(11,763)	(11,113)
Total Borrowings	(462,851)	(469,235)	(11,763)	(11,113)
Other Long Term Liabilities				
PFI and Finance Lease Liabilities	(109,315)	(92,704)		
Total Other Long Term Liabilities	(109,315)	(92,704)		
Creditors				
Financial Liabilities at Amortised Cost	(7,505)	(5,438)	(99,600)	(109,826)
Total Creditors	(7,505)	(5,438)	(99,600)	(109,826)

18.3. The following table shows income, expense, gains and losses:

	2014/15				2013/14			
	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	25,745	-	-	25,745	33,083	-	-	33,083
Other Charges	134	-	-	134	119	-	-	119
De-recognition – Premiums	-	-	-	-	9,850	-	-	9,850
Debt financing								
Total Expenses in Surplus or Deficit on the Provision of Services	25,879	-	-	25,879	43,052	-	-	43,052
Interest Income	-	(613)	(781)	(1,394)	-	(907)	(661)	(1,568)
Less Allocated to Other Funds	-	8	-	8	-	11	-	11
Total Income in Surplus or Deficit on the Provision of Services	-	(605)	(781)	(1,386)	-	(896)	(661)	(1,557)
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure	-	-	(141)	(141)	-	-	105	105
Net Gain/(Loss) for Year	25,879	(605)	(922)	24,352	43,052	(896)	(556)	41,600

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Fair values of assets and liabilities

18.4. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. The fair values of financial assets and financial liabilities are shown in the table below.

	Carrying amount £000	2014/15 Fair value £000	Carrying amount £000	2013/14 Fair value £000
Fair values of Assets and Liabilities				
Financial liabilities – long term	(462,851)	(703,629)	(469,235)	(609,768)
Financial liabilities – short term	(11,763)	(11,763)	(11,113)	(11,113)
Creditors – long term	(7,505)	(7,505)	(5,438)	(5,438)
Creditors – short term	(99,600)	(99,600)	(109,826)	(109,826)
Other long term liabilities	(109,315)	(109,315)	(92,704)	(92,704)
Investments – long term	9,942	9,942	23,009	23,009
Investments – short term	130,784	130,784	116,844	116,844
Cash and cash equivalents	18,955	18,955	7,783	7,783
Debtors – long term	51,204	51,204	11,069	11,069
Debtors – short term	114,598	114,598	100,031	100,031
Net Total	(365,551)	(606,329)	(429,580)	(570,113)

18.5. In the tables above short term - creditors and short term - debtors at 31/3/2014 have been restated following a review of their treatment.

18.6. Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. The long term financial liabilities represent loans from the Public Works Loans Board (PWLb).

18.7. Present value techniques are used to estimate the fair value of PWLB loans and the discount rate used is the premature redemption rate quoted by the PWLB at balance sheet date. The carry cost of these loans is lower than the fair value on account of the discount rate being lower than coupon rate.

18.8. Other long term liabilities include PFI liabilities at a carrying amount of £109 million at 31/03/2015 (£92 million at 31/03/2014). These liabilities are notional and need not reflect actual liability carried by the PFI provider. The council considers the carrying amount of PFI liabilities to be a close approximation to their fair value. In arriving at its assessment, the council has taken the following into account:

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

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- Given the complex nature of PFI arrangements, there are different ways to consider fair value of the liability. An alternative way to consider fair value might be to discount the liability at an entirely "risk free" rate without a credit spread. For example, this could be the rate that the council might be able to borrow at from the Public Works Loan Board. If this were used, the fair value of the PFI liability at balance sheet date would be £200m at 31/03/15 (£124 million at 31/03/14).

18.9. Available for sale assets are carried in the Balance Sheet at their fair value. These fair values are based on market quotations where there is an active market for the instrument.

18.10. Long term borrowings falling for repayment in the future:

	2014/15 £000	2013/14 £000
Less than 1 year	6,384	5,658
Between 1 and 5 Years	27,688	29,072
Between 5 and 10 Years	91,554	75,480
Between 10 and 20 Years	133,247	147,332
Over 20 Years	210,363	217,352
Total borrowings	469,236	474,894

19. DEBTORS

	Short Term Debtors £000	2014/15 Long Term Debtors £000	Short Term Debtors £000	2013/14 Long Term Debtors £000
Central government bodies	33,794	-	27,737	-
Other local authorities	29,895	-	30,867	-
NHS bodies	3,312	-	898	-
Public corporations and trading funds	330	-	43	-
Other entities and individuals	98,711	51,354	88,613	11,069
Total before impairment	166,042	51,354	148,158	11,069
Impairment	(47,304)	-	(44,176)	-
Total net of impairment	118,738	51,354	103,982	11,069

20. CASH AND CASH EQUIVALENTS

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

	2014/15 £000	2013/14 £000
Cash held by the council	10	9
Bank current accounts	(6,117)	(9,582)
Short-term funds in money markets	25,062	17,356
Total cash and cash equivalents	18,955	7,783

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21. ASSETS HELD FOR SALE

	Current 2014/15 £000	Current 2013/14 £000	Non Current 2014/15 £000	Non Current 2013/14 £000
Balance at 1 April	75,996	33,133	294	41,186
Assets newly classified as held for sale:				
Additions	1,455	-	-	-
Transfers between Non-Current Assets and Current Assets Held for Sale during the year	-	14,445	-	(14,445)
Transfers from Property, Plant & Equipment	10,745	36,778	75,000	(16,204)
Revaluation gains/(losses) taken to Surplus or Deficit on the Provision of Services	(670)	617	(1,500)	-
Other revaluation gains/(losses)	-	4,153	-	2,107
Assets sold	(64,711)	(13,130)	(294)	(12,350)
Balance at 31 March	22,815	75,996	73,500	294

21.1. Non-current Assets Held for Sale includes a balance of £75 million as at 31 March 2015, comprising two assets that constitute the council's interest in the Potters Field development, a mix of residential, commercial and cultural use property overlooking Tower Bridge. The council's interest in the development has been valued by the council's Valuer and constitutes the value of the land the council has contributed to the development plus its share of the projected net receipt of the scheme. The council's share of the net receipt will be used towards funding the council's long-term social housing and regeneration programme.

22. CREDITORS

	Short Term Creditors £000	2014/15 Long Term Creditors £000	Short Term Creditors £000	2013/14 Long Term Creditors £000
Central government bodies	12,988	-	17,181	-
Other local authorities	18,725	-	13,582	-
NHS bodies	6,287	-	8,660	-
Public corporations and trading funds	83	-	44	-
Other entities and individuals	85,903	7,505	97,901	5,438
Total	123,986	7,505	137,368	5,438

23. USABLE RESERVES

23.1. Movements in the council's usable reserves are detailed in the Movement in Reserves Statement on page 16. Reserves are set aside against the General Fund, Housing Revenue Account (HRA) and schools, each of which are subject to restrictions in their use and separate legal duties. A detailed analysis of General Fund earmarked reserves is provided in notes 7 to 11 and of schools balances in note 12. Further analysis of the HRA balance and Major Repairs Reserve is set in notes 6 and 7 to the HRA statements.

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24. UNUSABLE RESERVES

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

	2014/15 £000	2013/14 £000
Capital Adjustment Account	2,210,565	2,164,130
Financial Instruments Adjustment Account	(24,954)	(32,430)
Revaluation Reserve	1,092,764	688,181
Available for Sale Financial Instruments Reserve	133	(8)
Pensions Reserve	(491,286)	(487,062)
Deferred Capital Receipts	44,829	7,219
Collection Fund Adjustment Account	(5,341)	(8,222)
Accumulating Compensated Absences Adjustment Account	(7,061)	(6,496)
Total unusable reserves	2,819,649	2,325,312

Capital Adjustment Account

24.2. The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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	2014/15 £000	2014/15 £000	2013/14 £000	2013/14 £000
Balance at 1 April		2,164,130		1,990,254
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	(82,785)		(74,246)	
Revaluation Losses on Property Plant & Equipment	(27,787)		50,287	
Revenue expenditure funded from capital under statute	(66,928)		(19,008)	
Movements in the market value of Investment Properties	10,445		5,268	
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	(180,608)		(71,533)	
	(347,663)		(109,232)	
Adjusting amounts written out of the Revaluation Reserve re disposals	97,661		42,091	
Adjusting amounts written out of the Revaluation Reserve re the difference between fair value depreciation and historical cost depreciation	14,616		7,621	
Transfer from deferred debtors	(67)		-	
Net written out amount of the cost of non current assets consumed in the year		112,210	-	49,712
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	111,525		17,413	
Provision to reduce the capital financing requirement	19,323		35,799	
Use of the Major Repairs Reserve to finance new capital expenditure	18,570		64,276	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	94,378		63,212	
Application of grants to capital financing from the Capital Grants Unapplied Account	-		4,086	
Provision for the financing of capital investment charged against the General Fund and HRA balances	13,203		13,442	
Capital expenditure charged against the General Fund and HRA balances	24,889		35,168	
		281,888	233,396	
Balance at 31 March		2,210,565	2,164,130	

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Financial instruments adjustment account

24.3. 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.

24.4. Amongst the transactions on this Account are premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the in the Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31/03/15 includes £21.016 million premiums (£28.261 million at 31/03/14) to be discharged in future.

	2014/15 £000	2013/14 £000
Balance at 1 April	(32,430)	(26,383)
New premiums incurred in the year	-	(9,850)
Proportion of premiums to be charged against the General Fund Balance in accordance with statutory requirements	7,245	4,737
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	231	(934)
Balance at 31 March	(24,954)	(32,430)

Revaluation reserve

24.5. 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.

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

	2014/15 £000	2014/15 £000	2013/14 £000	2013/14 £000
Balance at 1 April		688,181		427,047
Upward revaluation of assets	555,467		381,796	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(38,607)		(70,951)	
Total of Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	516,860		310,845	
Adjusting amounts written to the Capital Adjustment Account re disposals and restatements		(97,661)		(42,090)
Difference between fair value depreciation and historical cost depreciation		(14,616)		(7,621)
Balance at 31 March		1,092,764		688,181

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Pensions Reserve

24.7. 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.

	2014/15 £000	2013/14 £000
Balance at 1 April	(487,062)	(678,721)
Remeasurements of the net defined benefit liability	11,119	226,861
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	(53,613)	(70,123)
Employer's pension contributions and direct payments payable to pensioners in the year	38,270	34,921
Balance at 31 March	(491,286)	(487,062)

Deferred Capital Receipts Reserve

24.8. 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.

	2014/15 £000	2013/14 £000
Balance at 1 April	7,219	7,219
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	42,522	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(4,912)	-
Balance at 31 March	44,829	7,219

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25. CASH FLOW FROM OPERATING ACTIVITIES

	2014/15 £000	2013/14 £000
Adjustment to surplus or deficit on the provision of services for non cash movements		
Depreciation	82,765	74,246
Impairment & downward valuation	66,618	(55,555)
Increase/(decrease) in impairment for bad debts	3,128	(804)
Increase/(decrease) in creditors	(10,678)	31,529
(Increase)/decrease in debtors	(58,019)	(25,974)
(Increase)/decrease in inventories	206	(53)
Movement in pension liability	15,343	35,202
Movement in provisions	(4,083)	10,763
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	180,608	71,533
Other non-cash items charged to the net surplus or deficit on the provision of services	289	5,575
	<u>276,177</u>	<u>146,462</u>
	2014/15 £000	2013/14 £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	(87,682)	(68,707)
Capital grants included in "Taxation & non-specific grant income"	(94,797)	(63,212)
Total	<u>(182,479)</u>	<u>(131,919)</u>

25.1. The cash flows from operating activities include the following amounts:

	2014/15 £000	2013/14 £000
Interest received	(1,658)	(2,239)
Interest paid	35,183	54,673
Net interest	<u>33,525</u>	<u>52,434</u>

26. CASH FLOW FROM INVESTING ACTIVITIES

	2014/15 £000	2013/14 £000
Purchase of PP&E, investment property and intangible assets	(233,014)	(170,081)
Proceeds from the sale of PP&E, investment property and intangible assets	87,682	68,707
Proceeds from sale of short term investments (not considered to be cash equivalents)	(873)	(20,548)
Capital grants and contributions received	106,639	77,862
Net cash flows from Investing Activities	<u>(39,566)</u>	<u>(44,060)</u>

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26.1. 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.

27. CASH FLOWS FROM FINANCING ACTIVITIES

	2014/15 £000	2013/14 £000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(3,153)	220
Repayments of short and long term borrowing	(5,734)	(85,719)
Other payments for financing activities		(9,850)
Net Cash flows from Financing Activities	(8,887)	(95,349)

28. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

2014/15

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

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2013/14

	Children's & Adult services £000	Environment & Leisure £000	Housing & Community Services £000	Chief executive's department £000	Finance & corporate services £000	HRA £000	Support cost recharges £000	Total £000
Fees, charges and other service income	(22,810)	(24,224)	(8,918)	(11,141)	(10,973)	(280,013)	(800)	(358,879)
Government grants	(237,991)	(13,730)	(180)	(3,547)	(249,929)	(637)	-	(506,014)
Total income	(260,801)	(37,954)	(9,098)	(14,688)	(260,902)	(280,650)	(800)	(864,893)
Employee expenses	182,362	40,186	13,992	18,739	33,233	25,098	-	313,610
Other service expenses	261,511	63,933	32,243	10,161	259,282	248,333	-	875,463
Support service recharges	14,422	11,937	2,996	1,623	4,273	15,506	(50,757)	-
Total expenditure	458,295	116,056	49,231	30,523	296,788	288,937	(50,757)	1,189,073
Net expenditure	197,494	78,102	40,133	15,835	35,886	8,287	(51,557)	324,180

28.3. The reconciliation below shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2013/14 £000
Net expenditure in the service analysis	314,170	324,180
Amounts included in the service analysis not included in Cost of Services within the Comprehensive Income and Expenditure Statement	285,719	248,642
Amounts not reported to management for decision making	(253,656)	(335,812)
Cost of Services in the Comprehensive Income and Expenditure Statement	346,233	237,010

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

2014/15	Service analysis £000	Amounts not reported to management £000	Amounts not included in the Cost of Services £000	Allocation of recharges £000	Cost of services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(405,764)	1,096	141	46,508	(358,019)	-	(358,019)
Interest and investment income	(11,413)	(1,033)	12,446	-	-	(12,446)	(12,446)
Income from council tax	-	(80,055)	80,055	-	-	(80,055)	(80,055)
Income from business rates	-	(62,654)	62,654	-	-	(62,654)	(62,654)
Government grants and contributions	(517,923)	(263,200)	281,648	-	(499,475)	(281,648)	(781,123)
Total income	(935,100)	(405,846)	436,944	46,508	(857,494)	(436,803)	(1,294,297)
Employee expenses	360,897	(4,269)	-	-	356,628	-	356,628
Other service expenses	732,853	95,525	(90,856)	(1,128)	736,394	64,274	800,668
Support service recharges	45,380	-	-	(45,380)	-	-	-
Depreciation, amortisation impairment and revaluations	82,645	17,615	10,445	-	110,705	(10,445)	100,260
Interest payments	25,882	9,362	(35,244)	-	-	35,244	35,244
Net interest on the pensions liability	-	20,104	(20,104)	-	-	20,104	20,104
Precepts and levies	1,613	-	(1,613)	-	-	1,613	1,613
Payments to the Housing Capital	-	3,982	(3,982)	-	-	3,982	3,982
Receipts Pool	-	9,871	(9,871)	-	-	9,871	9,871
Total expenditure	1,249,270	152,190	(151,225)	(46,508)	1,203,727	124,643	1,328,370
(Surplus) or deficit on the provision of services	314,170	(253,656)	285,719	-	346,233	(312,160)	34,073

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2013/14	Service analysis £000	Amounts not reported to management £000	Amounts not included in the Cost of Services £000	Allocation of recharges £000	Cost of services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(346,612)	840	9	-	(345,763)	-	(345,763)
Interest and investment income	(11,431)	(1,669)	13,100	-	-	(13,100)	(13,100)
Income from council tax	-	(76,505)	76,505	-	-	(76,505)	(76,505)
Income from business rates	-	(46,287)	46,287	-	-	(46,287)	(46,287)
Government grants and contributions	(506,050)	(258,641)	274,205	-	(490,486)	(274,205)	(764,691)
Total income	(864,093)	(382,262)	410,106	-	(836,249)	(410,097)	(1,246,346)
Employee expenses	332,162	5,546	-	(18,552)	319,156	-	319,156
Other service expenses	828,063	5,064	(76,584)	(26,394)	730,149	2,931	733,080
Support service recharges	(50,757)	-	-	50,757	-	-	-
Depreciation, amortisation impairment and revaluations	34,158	(9,660)	5,267	(5,811)	23,954	(5,267)	18,687
Interest payments	43,052	7,435	(50,487)	-	-	50,487	50,487
Pensions interest cost & expected return on assets	-	28,946	(28,946)	-	-	28,946	28,946
Precepts and levies	1,595	-	(1,595)	-	-	1,595	1,595
Payments to the Housing Capital Receipts Pool	-	3,758	(3,758)	-	-	3,758	3,758
Gain or loss on disposal of fixed assets	-	5,361	(5,361)	-	-	5,361	5,361
Total expenditure	1,188,273	46,450	(161,464)	-	1,073,259	87,811	1,161,070
(Surplus) or deficit on the provision of services	324,180	(335,812)	248,642	-	237,010	(322,286)	(85,276)

29. MEMBERS' ALLOWANCES

29.1. The amount of members' allowances and expenses paid in 2014/15 was £1,244,863 (£1,232,732 in 2013/14).

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30. OFFICERS' REMUNERATION

30.1. The council is required by the Accounts and Audit Regulations to disclose remuneration information of its senior employees. The council is required by the Accounts and Audit Regulations to disclose remuneration information of its senior employees. The following table sets out the remuneration for senior officers whose full time equivalent salary is £150,000 per year or more.

Postholder	2014/15		2013/14	
	Total remuneration	Council's contributions to the Pension Fund	Total remuneration	Council's contributions to the Pension Fund
	£	£	£	£
Chief Executive - E Kelly	214,304	30,194	173,944	24,351
Strategic Director of Environment & Leisure - D Collins	189,335	266	152,398	1,773
Strategic Director of Housing & Community Services – G Scott	180,335	532	152,398	3,547
Strategic Director of Finance & Corporate Services - D Whitfield	174,548	24,485	141,912	20,577
Strategic Director of Children's & Adult Services - R Bowen (to July 2014)	59,056	8,288	123,287	17,864
Strategic Director of Children's & Adult Services - D Quirke-Thornton (from October 2014)	55,738	7,721	-	-
Director of Public Health - Dr R Wallis	150,577	19,329	150,577	19,329

30.2. Notes to the above table:

- remuneration and pension costs reflect actual payments and contributions made in the financial year
- total remuneration figures are gross pay before individuals' contributions to the Pension Fund. They include basic salary plus any contracted additions paid during the financial year including flexible benefits and performance related pay where applicable. The award of performance related pay directly links to business outcomes. Each year work plans are agreed identifying corporate, service and personal targets from which achievements can be measured and award judged. Payment of performance related pay awarded in 2014/15 was paid in respect of the previous years during which time no performance related pay had been awarded. The distribution of this payment over three years is set out as follows:

	PRP paid in 2014/15 in respect of		
	2013/14	2012/13	2011/12
Chief Executive - E Kelly	£11,711	£11,118	£10,758
Strategic Director of Environment & Leisure - D Collins	£7,589	£7,265	£7,161
Strategic Director of Housing & Community Services – G Scott	£7,755	£7,179	£7,082
Strategic Director of Finance & Corporate Services - D Whitfield	£7,337	£7,025	£6,925
Strategic Director of Children's & Adult Services - R Bowen	£6,674	£6,079	£5,594

- the remuneration of the Strategic Director of Environment & Leisure includes a payment of £9,000 in 2014/15 for her additional duties as the council's returning officer
- the director of public health post is shared equally with the London Borough of Lambeth, and the council's share of total remuneration and contribution to the pension fund is £75,289 and £9,665 respectively

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30.3. During 2014/15 the council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000 (bands have been combined where necessary to ensure the remuneration of individual officers is not identified) :

Band (£)	Schools	Non schools	Number of employees 2014/15	Number of employees 2013/14
50,000 - 54,999	108	98	206	200
55,000 - 59,999	62	63	125	133
60,000 - 64,999	33	46	79	67
65,000 - 69,999	33	27	60	67
70,000 - 74,999	21	34	55	38
75,000 - 79,999	14	8	22	17
80,000 - 84,999	7	8	15	21
85,000 - 89,999	13	7	20	16
90,000 - 94,999	5	8	13	9
95,000 - 104,999	4	12	16	14
105,000 - 109,999	-	5	5	3
110,000 - 114,999	-	3	3	4
115,000 - 129,999	2	6	8	5
Total	302	325	627	594

31. EXTERNAL AUDIT COSTS

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

	2014/15 £000	2013/14 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year (see Note 31.2)	282	273
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	24	24
Fees payable in respect of other services provided by the appointed auditor during the year (see Note 31.3)	54	19
Total	360	316

31.2. The appointed auditor for 2014/15 was Grant Thornton UK LLP. The fee for 2014/15 above is net of a £32,000 rebate from the Audit Commission.

31.3. Other services provided by the appointed auditor include National Fraud Initiative, Legal Services Review, Accounts analysis, Housing Reviews and Financial Resilience Review.

31.4. Fees payable with regard to the audit of the Pension Fund, of £21,000 for 2014/15 (£21,000 2013/14), are met directly by the Pension Fund and are not included in the above table.

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32. DEDICATED SCHOOLS GRANT

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

32.2. Details of the deployment of DSG receivable for 2014/15 are as follows:

	Central Expenditure	Individual Schools Budgets	Total	Total
	£000	£000	2014/15 £000	2013/14 £000
Final DSG before academy recoupment	(40,273)	(201,390)	(241,663)	(239,179)
Academy figure recouped	-	47,741	47,741	43,628
Total DSG after academy recoupment	(40,273)	(153,649)	(193,922)	(195,551)
Brought forward from previous year	(7,035)	(5,868)	(12,903)	(7,343)
Carry forward agreed in advance	2,126	4,165	6,291	-
Agreed budgeted distribution	(45,182)	(155,352)	(200,534)	(202,894)
Actual central expenditure	36,520	-	36,520	36,565
Actual ISB deployed to schools	-	155,352	155,352	153,426
Carry-forward to 2015/16	(8,662)	-	(8,662)	-
Total Carry forward including agreed in advance	(10,788)	(4,165)	(14,953)	(12,903)

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33. GRANT INCOME

33.1. The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Revenue support grant	(124,281)	(152,150)
Business rates top up	(44,122)	(43,278)
New homes bonus	(11,191)	(8,919)
Autumn statement compensation grant	(1,916)	-
LACSEG refund	-	(1,195)
Other grants individually less than £1 million	(1,215)	(1,987)
Capital grants and contributions	(94,797)	(63,212)
Sub total	(277,522)	(270,741)
Credited to Provision of Services		
Dedicated Schools Grant	(193,572)	(196,001)
Housing Benefits Subsidy - rent rebates granted to HRA tenants	(109,423)	(115,391)
Housing benefits subsidy - rent allowances	(110,976)	(105,013)
Housing benefits subsidy - non HRA rent rebates	(6,387)	(5,767)
Housing benefit administration	(3,751)	(3,751)
Public health	(22,946)	(21,809)
Pupil premium grant	(14,901)	(10,039)
The private finance initiative (PFI)	(8,678)	(7,190)
Better care fund	(8,053)	
Education services grant	(3,558)	(3,588)
Reablement grant	(1,877)	(1,813)
School sixth form funding	(1,675)	(1,575)
Local welfare provision	(1,627)	-
Universal infant free school meals	(1,607)	-
Community learning grant	(1,412)	-
Southwark CCG contribution to public health	(1,337)	-
Discretionary housing payment	(1,223)	(1,870)
Tackling troubled families	(998)	(1,458)
Adoption reform grant	(413)	(1,302)
Hospital avoidance grant	-	(4,111)
Social fund grant	-	(1,651)
NHS funding to support social care	-	(1,511)
Adult safeguarded learning	-	(1,348)
Other grants individually less than £1 million	(9,326)	(8,762)
Sub total	(503,740)	(493,950)
Total	(781,262)	(764,691)

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

	2014/15 £000	2013/14 £000
Balance as at 1 April	(113,376)	(98,726)
New capital grants received in advance	(106,639)	(77,862)
Amounts released to the Comprehensive Income and Expenditure Account (conditions met)	94,797	63,212
Balance as at 31 March	(125,218)	(113,376)

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

	2014/15 £000	2013/14 £000
Planning Gains	(112,200)	(91,651)
Lottery Funds	(1,039)	(1,040)
Building Schools for the Future	-	(1,008)
Education	(10,787)	(18,592)
Other grants individually less than £1 million	(1,192)	(1,085)
Balance as at 31 March	(125,218)	(113,376)

34. RELATED PARTY TRANSACTIONS

34.1. The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. In identifying potential related party interests for councillors, the register of Members' interests has been viewed, and for chief officers, direct confirmation has been sought and obtained. Related party interests for which transactions exist in 2014/15 were declared by 23 councillors and no chief officers:

- with voluntary bodies or charitable organisations that received funding totalling £2.2 million (£1.4 million in 2013/14). The most significant organisation is Browning Estate Management Board, which was paid £1.1 million (£0.8 million in 2013/14).
- with businesses or other organisations that have contracted for goods and services with the council to the value of £3.0 million (£2.3m million in 2013/14). The most significant organisation is Fusion Lifestyle, which operates the council's leisure centres and was paid £2.9 million in 2014/15 (£2.3 million in 2013/14). The council has a related party interest through its appointment of three councillors to the management board each year.

34.2. The Government is a related party for the council, by virtue of the influence it can exert through the level of grant funding it provides. Grants received from government departments during the year and receipts outstanding at 31 March 2015 are set out in Note 33 to the accounts.

34.3. The Pension Fund is also a related party and the council charged the fund £0.9 million (£0.8 million in 2013/14) for expenses incurred in administering the Pension Fund.

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35. CAPITAL EXPENDITURE AND CAPITAL FINANCING

35.1. 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.

	2014/15 £000	2013/14 £000
Opening Capital Financing Requirement	803,997	848,305
Direct capital expenditure in year		
Non-current assets	232,549	170,081
Revenue expenditure funded from capital under statute	36,826	18,933
Municipal Bonds purchase	150	-
Total capital investment	269,525	189,014
Sources of capital finance		
Capital receipts	(111,525)	(16,398)
Government grants and other contributions	(94,378)	(67,298)
Direct revenue contributions	(24,889)	(36,109)
Major Repairs Reserve	(18,570)	(64,276)
MRP/Loans fund principal	(32,526)	(49,241)
Total capital investment financed	(281,888)	(233,322)
Closing Capital Financing Requirement	791,634	803,997
Explanation of movement		
Reduction in underlying need to borrow	(32,526)	(49,241)
Assets acquired under PFI contracts	906	4,933
New liabilities under PFI contracts	19,257	-
Net movement in year	(12,363)	(44,308)

36. LEASES

The council as Lessee – operating leases

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

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

	2014/15 £000	2013/14 £000
Minimum lease payments	1,540	1,511
Less sub-lease payments	(341)	(275)
Total	1,199	1,236

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

	2014/15 £000	2013/14 £000
Within 1 year	1,437	1,360
Within 2 to 5 years	4,978	5,114
After 5 years	23,704	21,606
Total	30,119	28,080

36.4. The 2013/14 comparatives for notes 36.2 and 36.3 have been restated and exclude immaterial minimum lease rentals on temporary housing accommodation.

The council as Lessor – operating leases

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

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

Period due	31/03/2015 £000	31/03/2014 £000
Within 1 year	9,960	9,687
Within 2 to 5 years	27,391	26,171
After 5 years	111,242	109,339
Total due	148,593	145,197

37. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

37.1. 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.

37.2. 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).

37.3. 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

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- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

37.4. The council has identified five schemes to be accounted for as PFI or similar contracts:

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

37.5. 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
Value at 1st April 2013	15,290	19,356	-	61,128	-	95,774
New liability incurred	-	259	-	-	4,934	5,193
Repayments made in year	(155)	-	-	(3,134)	(655)	(3,944)
Value at 31 March 2014	15,135	19,615	-	57,994	4,279	97,023
Value at 1 April 2014	15,135	19,615	-	57,994	4,279	97,023
New liability incurred	-	123	19,173	906	571	20,773
Repayments made in year	(136)	-	(232)	(4,045)	-	(4,413)
Value at 31 March 2015	14,999	19,738	18,941	54,855	4,850	113,383

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

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Total
	£000	£000	£000	£000
Net Book Value at 1 April 2013	52,069	19,104	-	71,173
Additions	-	-	4,934	4,934
Transfers	-	-	-	-
Depreciation & Impairment	(786)	(796)	-	(1,582)
Revaluation	3,267	-	-	3,267
Disposal	-	-	-	-
Other	(9,686)	-	-	(9,686)
Net Book Value at 1 April 2014	44,864	18,308	4,934	68,106
Net Book Value at 1 April 2014	44,864	18,308	4,934	68,106
Additions	-	906	-	906
Transfers	-	-	-	-
Depreciation & Impairment	(798)	(796)	(170)	(1,764)
Revaluation	322	-	-	322
Disposal	-	-	-	-
Other	-	-	-	-
Net Book Value at 1 April 2015	44,388	18,418	4,764	67,570

37.7. The projected payments under the agreements are as follows:

	1 year	2-5 years	5-10 years	10-15 years	15-20 years	20+ years	Total
	£000	£000	£000	£000	£000	£000	£000
St Michael's Catholic College							
Liability	149	1,182	2,206	3,672	6,111	1,679	14,999
Interest	1,918	7,379	8,173	6,559	3,374	146	27,549
Service Charges	612	2,309	3,564	4,114	5,343	576	16,518
St Thomas the Apostle College							
Liability	301	1,703	3,147	4,178	7,641	2,768	19,738
Interest	2,100	8,005	8,777	6,892	3,825	290	29,889
Service Charges	322	1,199	1,534	1,759	2,070	224	7,108
Lifecycle Payments	-	145	474	1,116	1,242	221	3,198
Sacred Heart Catholic School							
Liability	305	1,617	2,856	3,895	6,415	3,853	18,941
Interest	1,926	7,336	8,075	6,477	3,871	525	28,210
Service Charges	467	1,845	2,441	2,812	3,267	1,988	12,820
Lifecycle Payments	25	255	559	761	1,226	864	3,690
Integrated Waste Management Facility							
Liability	3,359	13,071	16,269	14,352	7,804	-	54,855
Interest	2,837	9,698	8,657	5,067	1,366	-	27,625
Service Charges	20,041	77,990	109,453	124,887	81,854	-	414,225
Lifecycle Payments	137	1,131	8,635	17,200	10,614	-	37,717
Heat Supply Arrangement							
Liability	176	388	980	1,712	1,594	-	4,850
Interest	589	2,240	2,411	1,679	441	-	7,360
Service Charges	1,141	4,854	6,783	7,674	5,080	-	25,532
Lifecycle Payments	86	368	514	581	385	-	1,934

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38. TERMINATION BENEFITS

Exit package cost band	Number of schools exit packages		Number of non schools exit packages		Total exit packages		Total cost of exit packages in each band	
	2014/15 No. staff	2013/14 No. staff	2014/15 No. staff	2013/14 No. staff	2014/15 No. staff	2013/14 No. staff	2014/15 £	2013/14 £
£0 - £20,000	11	61	67	73	78	134	723,333	1,046,955
£20,001 - £40,000	2	9	11	14	13	23	363,839	459,899
£40,001 - £60,000	-	-	3	-	3	-	133,573	263,705
Total	13	70	81	87	94	157	1,220,745	1,770,559

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

38.2. At the balance sheet date, provisions of £0.5 million have been set aside to meet termination benefits costs not yet incurred of reorganisations already in progress at 31 March 2015 (£0.8 million at 31 March 2014).

39. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

39.2. 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.

39.3. In 2014/15, the council paid £7.91 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay, (£8.16 million and 14.1% respectively in 2013/14). It also paid £0.277 million to the NHS Pension Scheme representing 14% of pensionable pay (£0.498 million 2013/14, representing 14% of pensionable pay). There were no contributions remaining payable at the year end.

39.4. 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 40 below.

40. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

40.1. 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.

40.2. 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.

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Transactions relating to post employment benefits

40.3. 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:

	2014/15			2013/14		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
<i>Cost of services:</i>						
- current service cost	30,100	382	30,482	39,100	202	39,302
- past service costs	3,000	-	3,000	1,900	-	1,900
<i>Financing and investment income and expenditure</i>						
- net interest expense	20,000	104	20,104	28,500	446	28,946
Total post employment benefit charged to the surplus or deficit on the provision of services	53,100	486	53,586	69,500	648	70,148
<i>Other post employment benefit charged to the comprehensive income and expenditure statement</i>						
Remeasurement of the net defined benefit liability comprising						
- Return on plan assets (excluding the amount included in the net interest expense)	(146,600)	(1,273)	(147,873)	(17,900)	(7,024)	(24,924)
- Actuarial gains and losses arising on changes in demographic assumptions	141,200	-	141,200	(114,500)	414	(114,086)
- Actuarial gains and losses arising on changes in financial assumptions	-	6,154	6,154	(82,300)	(3,100)	(85,400)
- Actuarial gains and losses arising on changes in liability experience	(10,600)	-	(10,600)	(2,000)	(450)	(2,450)
- Entity combination	-	-	-	-	-	-
- Other	-	-	-	-	-	-
Total post employment benefit charged to the comprehensive income and expenditure statement	37,100	5,367	42,467	(147,200)	(9,512)	(156,712)
<i>Movement in reserves statement</i>						
- reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code	53,100	486	53,586	69,500	648	70,148
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>						
- employers' contributions payable to the scheme	37,726	543	38,269	34,376	546	34,922

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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:

	Council £000	LPFA £000	2014/15 Total £000	Council £000	LPFA £000	2013/14 Total £000
Present value of defined benefit obligation	1,686,900	60,244	1,747,144	1,497,600	54,193	1,551,793
Fair value of plan assets	1,203,200	52,658	1,255,858	1,013,300	51,431	1,064,731
Net (liability) arising from defined benefit obligation	(483,700)	(7,586)	(491,286)	(484,300)	(2,762)	(487,062)

40.4. Reconciliation of present value of the scheme assets:

	Council £000	LPFA £000	2014/15 Total £000	Council £000	LPFA £000	2013/14 Total £000
Opening balance at 1 April	1,013,300	51,431	1,064,731	916,200	45,916	962,116
Interest income on assets	43,600	2,117	45,717	42,100	1,589	43,689
Remeasurement gains/(losses) on assets	146,600	1,273	147,873	17,900	7,024	24,924
Administration expenses	-	(77)	(77)	-	(69)	(69)
Employer contributions	38,900	543	39,443	35,700	547	36,247
Contribution by participants	11,400	71	11,471	10,200	69	10,269
Net benefits paid out	(50,600)	(2,700)	(53,300)	(50,900)	(2,642)	(53,542)
Settlement prices received/(paid)	-	-	-	-	(1,003)	(1,003)
Net increase in assets from disposals/acquisitions	-	-	-	42,100	-	42,100
Closing balance at 31 March	1,203,200	52,658	1,255,858	1,013,300	51,431	1,064,731

40.5. Reconciliation of present value of the scheme liabilities:

	Council £000	LPFA £000	2014/15 Total £000	Council £000	LPFA £000	2013/14 Total £000
Opening balance at 1 April	1,497,600	54,193	1,551,793	1,582,100	58,737	1,640,837
Current service cost	30,100	305	30,405	39,100	351	39,451
Interest cost	63,600	2,221	65,821	70,600	2,035	72,635
Contributions by scheme participants	12,600	71	12,671	11,500	69	11,569
Actuarial gains and losses	130,600	6,154	136,754	(198,800)	(3,136)	(201,936)
Benefits paid	(50,600)	(2,700)	(53,300)	(50,900)	(2,642)	(53,542)
Past service costs	3,000	-	3,000	1,900	-	1,900
Net increase in liabilities from disposals/acquisitions	-	-	-	42,100	-	42,100
Settlements	-	-	-	-	(1,221)	(1,221)
Closing balance at 31 March	1,686,900	60,244	1,747,144	1,497,600	54,193	1,551,793

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40.6. Scheme assets comprised:

	2014/15		2013/14	
	Council	LPFA	Council	LPFA
	£000	£000	£000	£000
Quoted				
- Equities	777,267	22,846	656,618	27,259
- Property	36,096	-	-	-
- Government bonds	131,149	-	107,410	-
- Corporate bonds	117,914	-	100,317	-
- LDI/Cashflow matching	-	3,952	-	3,086
- Target return portfolio	-	15,223	-	15,429
- Commodities	-	490	-	514
	1,062,426	42,511	864,345	46,288
Unquoted				
- Infrastructure	-	2,609	-	2,057
- Property	132,352	1,492	138,822	1,543
- Cash	8,422	6,046	10,133	1,543
	140,774	10,147	148,955	5,143
	1,203,200	52,658	1,013,300	51,431
		1,255,858		1,064,731

Basis for estimating assets and liabilities

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

40.8. The principal assumptions used by the actuaries have been:

	2014/15	Council 2013/14	2014/15	LPFA 2013/14
Mortality assumptions				
Longevity at 65 for current pensioners				
- Men (years)	21.9	21.8	20.9	20.8
- Women (years)	26.4	26.3	24.2	24.1
Longevity at 65 for future pensioners				
- Men (years)	24.0	23.9	23.3	23.2
- Women (years)	28.7	28.6	26.5	26.4
Principal financial assumptions				
Rate of inflation - RPI	2.9%	3.4%	3.0%	3.4%
Rate of inflation - CPI	1.8%	2.4%	2.2%	2.6%
Rate of increase in salaries	3.3%	3.9%	4.0%	4.4%
Rate of increase in pensions	1.8%	2.4%	2.2%	2.6%
Rate of pension accounts revaluation	1.8%	na	-	-
Rate for discounting scheme liabilities	3.2%	4.3%	3.0%	4.2%

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

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Assumption	Impact of increase			Impact of decrease		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Present value of total obligation						
Longevity (+/- 1 Year)	1,731,300	53,168	1,784,468	1,642,600	62,320	1,704,920
Rate of increase in salaries (+/- 0.1%)	1,693,500	60,297	1,753,797	1,680,300	60,192	1,740,492
Rate of increase in pensions (+/- 0.1%)	1,711,400	61,030	1,772,430	1,662,700	59,468	1,722,168
Rate for discounting scheme liabilities (+/- 0.1%)	1,656,400	59,423	1,715,823	1,718,000	61,077	1,779,077
Projected service cost						
Longevity (+/- 1 Year)	37,500	354	37,854	34,900	378	35,278
Rate of increase in salaries (+/- 0.1%)	36,200	366	36,566	36,200	366	36,566
Rate of increase in pensions (+/- 0.1%)	37,400	373	37,773	35,000	359	35,359
Rate for discounting scheme liabilities (+/- 0.1%)	35,000	359	35,359	37,400	373	37,773

Impact on the council's cash flows

40.10. The objective of the schemes is to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £1,747 million (£1,552 million 2013/14) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £491 million (£487 million 2013/14). However statutory arrangements for funding the deficit mean that the council remains healthy. The deficit on both schemes will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries.

40.11. As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Governments Pension Scheme may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2014/15 is £36.2 million for the council scheme and £0.366 million for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 18.3 years (18.3 years 2013/14) and 14 years for LPFA scheme members (14 years 2013/14).

41. OTHER LONG TERM LIABILITIES

41.1. Other long term liabilities represent the council's obligations to pay for presumed capital benefits received under long term contracts. The liabilities are:

	31/03/2015 £000	31/03/2014 £000
Payments due under finance leases	222	561
Payments due under PFI schemes and similar arrangements:		
Heat Supply Arrangement	4,674	3,811
St Michael's Catholic College	14,850	14,967
St Thomas the Apostle College	19,437	19,415
Sacred Heart Catholic School	18,636	-
Integrated Waste Management Facility	51,496	53,951
Deferred rental due on leasing of building assets	1,137	1,092
Total	110,452	93,797

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41.2. Details of payments due under finance leases and PFI schemes and similar arrangements are provided in notes 36 and 37 respectively.

42. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

42.1. The council holds financial instruments in the normal course of its operations and therefore has exposure to liquidity, credit and market risks. The council has in place arrangements to control and report key financial instrument risks at both council and operational levels, as required by statutory regulations and guidelines, as well as the Treasury Management in the Public Services Code of Practice and the Prudential Code of Capital Finance in Local Authorities, both produced by the Chartered Institute of Public Finance and Accountancy.

42.2. Investments are managed prudentially, with capital preservation and liquidity being high priorities. Cash and investments are used to finance the council's working capital. Borrowing pays for capital spend.

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

42.4. The council does not trade in financial instruments or hold derivatives.

Liquidity risk

42.5. 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.

42.6. The maturity profiles of council debt and investments at 31 March 2015 can be found in the Financial Instruments note on page 38.

Credit risk

42.7. The council draws on credit ratings published by major rating agencies in assessing counterparties in which investments may be placed. A high priority is placed on capital preservation and is reflected in the high rating demanded from investment counterparties. Credit risk is further reduced through diversification across counterparties, which include the UK government and supranational entities. The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2015 is set out below:

Period remaining	A	AA	AAA	Total
Up to 1 Year	60%	25%	9%	94%
1-2 Years	0%	0%	2%	2%
2-5Years	0%	4%	0%	4%
Total	60%	29%	11%	100%

42.8. 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.

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Market risk

- 42.9. The council has exposure to interest rate movements in its borrowing and investments.
- 42.10. All council borrowing outstanding at 31 March 2015 are from the Public Works Loans Board (PWLB). The debt is at fixed rates, with an average maturity of 21 years and a modified duration of 14 years. The maturity profile of the debt is set out in the Financial Instruments note on page 38 and the council may draw loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £90 million and a 1% fall would raise it by £114 million. As the debt is held at amortised cost there would be no impact on the comprehensive income and expenditure statement from such changes, unless the debt was extinguished. Legislation would then require a charge to be taken to the Financial Instruments Adjustment Account.
- 42.11. The overall average life of council investments is 0.5 years and the modified duration is 0.4. Within that, the available-for-sale investments have an average life of 0.6 years and a modified duration of 0.6. A 1% change in discount rates on available-for-sale investments at Balance Sheet date would change the fair value by £0.6 million and would be reflected in the Balance Sheet in the available-for-sale reserve. There would be no impact on the comprehensive income and expenditure statement, unless the investments were realised. A 1% change in discount rates on loans and receivable investments at the Balance Sheet date would change the fair value by £0.1 million, but as these are held at amortised cost there would be no impact on the comprehensive income and expenditure statement unless the investments were extinguished.
- 42.12. Investments are held in short term deposits or certificate of deposits with major banks and building societies. Money is also held in money market funds, treasury bills and bonds, and investments of more than one year are usually held in UK government gilts or supranational banks. Investments are managed by two fund managers and an in-house operation.

Foreign exchange risk

- 42.13. The council has no financial assets or liabilities denominated in foreign currencies, and therefore has no exposure to losses arising from movements in exchange rates.

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

	Note	2014/15 £000	2013/14 £000
Income			
Dwelling rents		(195,594)	(195,252)
Non dwelling rents		(11,373)	(11,651)
Charges for services and facilities		(78,289)	(68,096)
Contributions towards expenditure		(4,975)	(5,507)
Total income		<u>(290,231)</u>	<u>(280,506)</u>
Expenditure			
Repairs and maintenance		55,670	55,095
Supervision and management		110,461	112,011
Rents, rates, taxes and other charges		8,009	2,689
Depreciation and impairment of non-current assets	3	84,862	(36,635)
Debt management costs		193	181
Increase in provisions for bad debts		1,418	1,237
Revenue expenditure funded from capital under statute	4	7,125	10,257
Total expenditure		<u>267,738</u>	<u>144,835</u>
Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement		(22,493)	(135,671)
HRA share of CDC costs		1,106	1,106
Net Cost of HRA Services		<u>(21,387)</u>	<u>(134,565)</u>
Gains and losses on the sales of HRA non-current assets		(17,138)	(16,575)
Interest payable and similar charges		23,234	29,555
Premiums arising from debt refinancing		-	9,850
Interest and investment income		(918)	(733)
Pensions interest cost and expected return on pensions assets		2,895	3,679
Capital grants and contributions receivable		(56,040)	(33,174)
Total (surplus)/deficit for the year		<u>(69,354)</u>	<u>(141,963)</u>

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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	2014/15 £000	2013/14 £000
(Surplus)/deficit for the year on HRA services		(69,354)	(141,963)
Net additional amounts required by statute	5	66,877	150,250
(Increase)/decrease in the HRA Balance		<u>(2,477)</u>	<u>8,287</u>
HRA Balance brought forward		(23,468)	(31,755)
Balance carried forward	6	<u>(25,945)</u>	<u>(23,468)</u>

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NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

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

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling		Number of bedrooms				Total	
		1	2	3+	Other	31/3/15	31/3/14
Houses and bungalows	31/03/15	406	734	2,878	-	4,018	
	31/03/14	407	743	2,883	-		4,033
Low rise flats	31/03/15	2,893	631	360	-	3,884	
	31/03/14	2,925	629	365	-		3,919
Medium rise flats	31/03/15	6,768	7,234	6,195	-	20,197	
	31/03/14	6,831	7,299	6,263	-		20,393
High rise flats	31/03/15	2,979	4,785	1,821	-	9,585	
	31/03/14	3,017	4,825	1,840	-		9,682
Non permanent	31/03/15	-	-	-	3	3	
	31/03/14	-	-	-	5		5
Multi occupied	31/03/15	-	-	-	235	235	
	31/03/14	-	-	-	217		217
TOTALS	31/03/14	13,046	13,384	11,254	238	37,922	
	31/03/13	13,180	13,496	11,351	222		38,249

- 2.1. In addition to the numbers shown in the table above, as at 31 March 2015 there were also 613 void properties (814 at 31 March 2014, including demolished properties). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.
- 2.2. The vacant possession value of dwellings as at 1 April 2014 was £9.177 billion (£7.540 billion as at 1 April 2013). 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

	2014/15 £000	2013/14 £000
Dwellings depreciation	55,915	50,657
Other property depreciation	2,633	1,672
Revaluation losses on non-current assets	26,314	(88,964)
Total	84,862	(36,635)

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- 3.1. 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.
- 3.2. All depreciation and revaluation charges in respect of dwellings are reversed out of the HRA to the Capital Adjustment Account, the values consequently having no net effect on rents or other HRA income. Revaluation charges related to other HRA land and buildings are not reversed out and so consequently there is the potential for these values to have an effect on rents or other HRA income.

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

- 4.1. 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.

- 4.2. In 2014/15 £7.125 million was incurred in the HRA as REFCUS (£10.257 million in 2013/14).

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

- 5.1. 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:

	2014/15 £000	2013/14 £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	7,213	(6,296)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(79)	26
Gain or loss on sale of HRA non current assets	17,138	16,575
HRA share of contributions to or from the Pensions Reserve	(3,058)	(4,566)
Capital expenditure funded by the HRA	18,672	18,227
Transfer to/from the Major Repairs Reserve	47,842	46,062
Transfer to/from the Capital Adjustment Account	(20,851)	80,222
Net additional amount required by statute to be charged to the HRA	66,877	150,250

6. HRA BALANCE

- 6.1. HRA reserves at 31 March 2015 are £25.9 million and are allocated as follows:

	2014/15 £m	2013/14 £m
Regeneration and Development Reserve	10.0	5.6
Modernisation, Service and Operational Improvement Reserve	3.0	4.1
Financial Risk Reserve	9.4	9.8
Other earmarked reserves	3.5	4.0
Total	25.9	23.5

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- 6.2. The Regeneration and Development reserve of £10.0 million relates in part to the redevelopment of the Aylesbury Estate (£5.6 million) and also to the direct delivery of new council homes (£4.4 million).
- 6.3. The Modernisation, Service and Operational Improvement reserve of £3.0 million comprises £0.6 million for IT modernisation, including general infrastructure, and £2.4 million for investment in heating systems.
- 6.4. The Financial Risk reserve, £9.4 million, includes £5.1 million Contingency reserve, broadly representing 1.3% of gross HRA revenue spend and Housing Investment Programme spend. The Reserve also provides £2.0 million to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £2.2 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and minimise future increases in heating charges, and £0.1 million for estate parking.
- 6.5. The other earmarked reserves, £3.5 million, comprise a range of specific resources for the tenants' fund, leaseholders' fund, Browning EMB, etc, totalling £1.0 million. The balance also includes one-off (non-recurring) schemes and projects aimed at improving customer service and delivery across the housing service, and to meet specific cost pressures outside the existing revenue budget.

7. MAJOR REPAIRS RESERVE

	2014/15 £000	2013/14 £000
Balance 1 April	10,269	41,164
Transfers from the Capital Adjustment Account	58,548	52,329
Transfer to the HRA	(10,706)	(6,267)
Financing of capital expenditure	(18,570)	(64,276)
Provision to reduce the capital financing requirement	-	(12,681)
Balance 31 March	39,541	10,269

8. CAPITAL EXPENDITURE AND FINANCING

	2014/15 £000	2013/14 £000
Capital Investment		
Non current assets	161,472	111,816
REFCUS	7,125	10,257
Total	168,597	122,073
Funding Source:		
Revenue contributions	18,672	18,227
Capital receipts from the sales of assets	75,315	1,462
Grants and other contributions	56,040	33,174
Major Repairs Reserve	18,570	64,276
PFI	-	4,934
Total	168,597	122,073

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

	2014/15 £000	2013/14 £000
Council dwellings		
Right to Buy	(30,864)	(24,191)
Discounts repaid	(231)	(380)
Non Right to Buy	(4,512)	(15,058)
Other receipts		
Land sales	(59,946)	(10,546)
Mortgages	(24)	(27)
	<u>(95,577)</u>	<u>(50,202)</u>
Less: Pooled (paid to central Government)	3,982	3,758
Total	<u>(91,595)</u>	<u>(46,444)</u>

10. HOUSING TENANTS ACCOUNTS

	2014/15 £000	2013/14 £000
Gross arrears as at 1 April	17,827	17,630
Prior year payments	(7,140)	(6,401)
Arrears as at 1 April	<u>10,687</u>	<u>11,229</u>
Charges due in the year	236,491	238,294
Rent rebates	(110,667)	(114,608)
Write-offs	(1,212)	(2,705)
Adjustments	(5,292)	(5,135)
Cash collected	(119,775)	(116,388)
Net arrears as at 31 March	<u>10,232</u>	<u>10,687</u>
Payments in advance	6,857	7,140
Gross arrears as at 31 March	<u>17,089</u>	<u>17,827</u>

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

11. IMPAIRMENT OF DEBTORS

	2014/15 £000	2013/14 £000
Rents	10,745	10,152
Income from hostels	691	620
Court costs	764	772
Commercial rents	657	551
Penalty Charge Notices and parking warrants	926	269
Total	<u>13,783</u>	<u>12,364</u>

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

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12. PENSIONS COSTS

- 12.1. The HRA is charged with the costs of pensions for its employees in accordance with IAS 19. The costs are then reversed out of the HRA to the Pensions Reserve. The values have no net effect on rents or other HRA income.
- 12.2. 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.

	2014/15 £000	2013/14 £000
Current service cost	4,367	5,040
Interest on pension scheme liabilities	2,895	3,679
Actuarial (gains)/losses	(2,192)	(28,120)
Total IAS 19 charges	5,070	(19,401)
Less Pensions costs attributable to the HRA	(4,203)	(4,153)
Movement on the Pensions Reserve	867	(23,554)

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COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT

	Notes	Council Tax £000	Business Rates £000	Business Rates Supplement £000	2014/15 £000	2013/14 £000
Income						
Income from Council Tax	1	(108,221)	-	-	(108,221)	(104,419)
Income from Non Domestic Rates	2	-	(203,234)	-	(203,234)	(197,496)
Income collectable in respect of Business Rate Supplements	3	-	-	(6,171)	(6,171)	(6,192)
Total Income		(108,221)	(203,234)	(6,171)	(317,626)	(308,107)
Expenditure						
Precepts and Demands						
Greater London Authority (GLA)		25,217	-	-	25,217	24,671
London Borough of Southwark		76,928	-	-	76,928	74,267
Share of Non Domestic Rates						
Greater London Authority		-	41,049	-	41,049	38,117
London Borough of Southwark		-	61,573	-	61,573	57,176
Communities and Local Government		-	102,621	-	102,621	95,293
Transitional protection payments to CLG		-	536	-	536	1,321
Cost of collection allowance (NNDR)		-	655	-	655	656
Business Rate Supplements (BRS)	3					
Payment to GLA's BRS Revenue Account		-	-	6,151	6,151	6,168
Administrative costs		-	-	20	20	24
Council Tax Impairment of debts						
Allowance for impairment		733	-	-	733	(3,536)
Council Tax write offs		1,193	-	-	1,193	6,044
Non Domestic Rates Impairment of debts & Appeals						
Allowance for impairment & write offs		-	1,247	-	1,247	2,288
Provision for appeals	5	-	(8,051)	-	(8,051)	38,939
Contribution to preceptors from previous year's Collection Fund surplus						
Council Tax/Non Domestic Rates	4	1,752	37	-	1,789	1,203
Total Expenditure		105,823	199,667	6,171	311,661	342,631
Net deficit/(surplus) for the year		(2,398)	(3,567)	-	(5,965)	34,524
Deficit/(surplus) at 1 April		(3,545)	36,294	-	32,749	(1,775)
Deficit/(surplus) at 31 March		(5,943)	32,727	-	26,784	32,749

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NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

- 1.1. 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, of A to H, using estimated market value at 1 April 1991. The council tax charges are calculated by estimating the amount of income required from the Collection Fund by the council and preceptors for the forthcoming year, and dividing this by the council tax base, which is the total number of properties liable to tax, expressed as a band D equivalent.
- 1.2. In 2014/15 the estimated income required from the Collection Fund for all preceptors was £102.145 million (£98.938 million in 2013/14). The amount of council tax for a band D property (£1,211.14 in 2014/15 and £1,215.14 in 2013/14) is multiplied by the "ratio" specified for the particular band to give the council tax due from properties in other bands. The table below shows how the council tax base was set and the resulting band D council tax.

Band	Estimated number of properties after effect of discounts		Ratio	Equivalent number of Band D properties	
	2014/15	2013/14		2014/15	2013/14
A	6,353.25	6,037.40	6/9	4,234.92	4,024.35
B	21,533.00	21,321.25	7/9	16,747.89	16,583.20
C	23,003.25	22,378.10	8/9	20,447.33	19,891.64
D	16,533.50	15,420.71	1	16,533.50	15,420.71
E	11,807.25	11,364.10	11/9	14,431.08	13,889.45
F	5,295.25	5,148.06	13/9	7,648.69	7,436.09
G	3,768.75	3,770.27	15/9	6,281.25	6,283.78
H	536.25	532.04	18/9	1,072.50	1064.08
Total	88,830.50	85,971.93		87,397.16	84,593.30
Less adjustment for collection rate				(3,058.90)	(3,172.25)
Council Tax Base for year				84,338.26	81,421.05
Estimated Income Required from Collection Fund				£102,145,440	£98,937,975
Band D Council Tax				£1,211.14	£1,215.14

2. NATIONAL NON DOMESTIC RATES

- 2.1. National Non-Domestic Rates (NNDR) or business rates are collected from local businesses by the council. Previously, the rates collected were paid into a national pool administered by the Government, which the Government then redistributed back to local authorities on the basis of a fixed amount per head of the population. However, since 1 April 2013 the Business Rates Retention scheme was introduced, and instead of redistribution of business rates from the national pool the council keeps a proportion (LBS 30%) of the business rates revenue, and the remaining proportion is paid to the government (CLG 50%) and the Greater London Authority (GLA 20%).
- 2.2. The business rates are based on local rateable values and a multiplier set by the Government. The non-domestic rating multiplier set by the Government for 2014/15 was 48.2p and 47.1p for small business (47.1p and 46.2p respectively for 2013/14). Local businesses pay NNDR calculated by multiplying their rateable value by these rates and subject to certain reliefs and deductions.
- 2.3. The total rateable value in the council at 31 March 2015 was £526.194 million (£512.780 million at 31 March 2014).

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3. BUSINESS RATE SUPPLEMENT

- 3.1. The Business Rate Supplements (BRS) or Crossrail BRS are collected from local businesses by the council, on behalf of the Greater London Authority.
- 3.2. The BRS is based on local rateable values, as with the general business rate (NNDR), and was introduced by the Mayor of London in April 2010. The levy set for 2014/15 was 2p on non-domestic properties with a rateable value of over £55,000 in London, which has been the same since its inception in April 2010.

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

- 4.1 As a billing authority, the council is required to make an estimate of the surplus or deficit on the Collection Fund for the year, by the 15 January each year. The estimated surplus or deficit is used in setting the Council Tax for the following year, by reducing the Council Tax if there is a surplus or increasing the Council Tax if there is a deficit. In January 2014, the council estimated an accumulated collection fund surplus balance of £1,789,078 for 2013/14 as follows:

	Council Tax	Business Rates	Total
	£	£	£
Surplus as at 31 March 2013	(1,774,521)	-	(1,774,521)
Less estimated deficit/(surplus) for 2013/14	22,178	(36,735)	(14,557)
Estimated surplus as at 31 March 2014	<u>(1,752,343)</u>	<u>(36,735)</u>	<u>(1,789,078)</u>

- 4.2 The estimated surplus was apportioned between the council and the Greater London Authority based on their respective demands and precepts on the Collection Fund (74.8% and 25.2%) as follows:

Authority	Council Tax		Business Rates		Total
	%	£	%	£	£
Southwark Council	75.1	(1,316,009)	30	(11,021)	(1,327,030)
Greater London Authority	24.9	(436,334)	20	(7,346)	(443,680)
Central Government			50	(18,368)	(18,368)
Estimated surplus for 2013/14, redistributed in 2014/15		<u>(1,752,343)</u>		<u>(36,735)</u>	<u>(1,789,078)</u>

5. PROVISION FOR BUSINESS RATES APPEALS

- 5.1 As stated under note 2.1 above, since 1 April 2013 the Business Rates Retention scheme was introduced, which required a number of changes to the accounting and reporting treatment of the NNDR income and expenditure, particularly a requirement to make a provision for the NNDR appeals. Previously, the net collection fund balance for the NNDR has always been nil because the expenditure was equal to the income collected, i.e. the NNDR collected was paid over to the government in full as the council was acting as an agent for the CLG. This agency approach meant the council was not required to account for the NNDR "appeals" in the past. However, since 2013/14 the appeals had to be in the collection fund statement according to proper accounting practice and this included a provision for backlog of appeals for pre 1 April 2013.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2014/15**

ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

General Principles

1.1. The Statement of Accounts summarises the council's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice for Local Authorities (SeRCOP), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

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

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

1.3. Where the amount due is unknown then an estimated amount has been allowed for.

1.4. For year end purposes a de minimis of £20,000 applies for accruals of income and expenditure, except for capital expenditure accruals where a de minimis of £50,000 applies.

Cash and Cash Equivalents

1.5. Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

SOUTHWARK COUNCIL
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Exceptional Items

- 1.6. When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the accounts, depending on how significant the items are to an understanding of the council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

- 1.7. Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.
- 1.8. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
- 1.9. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Carbon Reduction Commitment

- 1.10. The council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

Charges to Revenue for Non-Current Assets

- 1.11. Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:
- depreciation attributable to the assets used by the relevant service
 - revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be offset
 - amortisation of intangible assets attributable to the service.
- 1.12. The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance (England and Wales), and set out in the treasury strategy report approved annually by council Assembly. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance with the Minimum Revenue Provision by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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Employee Benefits - Benefits Payable During Employment

1.13. Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. Such entitlements are expected to be taken within three months of the end of the financial year, and the accrual is made at the wage and salary rates applicable in the accounting year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Employee Benefits - Termination benefits

1.14. 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 redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

1.15. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Employment Benefits - The Local Government Pension Scheme

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

1.17. The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures on Note 40 to the Accounts set out the discount rates and assumptions applied by each fund.

1.18. 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.

1.19. The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

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- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- 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 – debited to the Pensions Reserve
- 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.

1.20. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.21. 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.

Employment Benefits - The Teachers' Pension Scheme

1.22. Teachers employed by the council are eligible to be members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

1.23. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund 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 Scheme with sufficient reliability for accounting purposes. For the purposes of the council's statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

1.24. On this basis, no liability for the future payments of benefit is recognised in the Balance Sheet. The Children's and Educational Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

Events After the Balance Sheet Date

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

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

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

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Financial Instruments

- 1.27. Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.
- 1.28. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.
- 1.29. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- 1.30. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund and the HRA Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- 1.31. Financial assets are classified into two types:
- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
 - available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.
- 1.32. Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.
- 1.33. The council has made a number of loans or agreed deferred payment arrangements with debtors at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the debtor, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Some soft loans have been grouped into portfolios and interest and amortised costs has been modelled based on portfolio characteristics. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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- 1.34. Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.
- 1.35. Financial assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:
- instruments with quoted market prices – the market price
 - other instruments with fixed and determinable payments – discounted cash flow analysis.
- 1.36. Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.
- 1.37. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).
- 1.38. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.
- 1.39. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Government Grants and Contributions

- 1.40. 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.
- 1.41. Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.
- 1.42. Moneys advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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- 1.43. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.
- 1.44. 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.

Inventories and long term contracts

- 1.45. Stocks and stores are recorded and charged in the Accounts at average price.
- 1.46. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Investment property

- 1.47. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
- 1.48. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. 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.
- 1.49. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Leases

- 1.50. 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.
- 1.51. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
- 1.52. 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

- 1.53. 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. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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1.54. Lease payments are apportioned between:

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

1.55. 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).

1.56. The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The council as Lessee - Operating Leases

1.57. 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 – finance leases

1.58. Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the council's net investment in the lease, is 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), matched by a lease (long term debtor) asset in the Balance Sheet.

1.59. Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

1.60. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

1.61. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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The council as lessor – operating leases

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

Overheads and Support Services

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

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

1.64. These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the surplus or deficit on continuing operations.

Property, plant and equipment

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

Property, plant and equipment - Recognition

1.66. 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.

1.67. The council has no de minimis for recognising capital expenditure charged to specific resources only available for capital purposes (borrowing, proceeds from the sales of assets, the receipt of specified grants). 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.

Property, plant and equipment - Measurement

1.68. 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

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

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

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

1.71. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end:

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

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

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

1.74. 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 lines in the Comprehensive Income and Expenditure Statement.

1.75. 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.

Property, plant and equipment - sites under development

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

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Property, plant and equipment - impairment

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

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

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

1.79. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Property, plant and equipment - depreciation

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

1.81. Depreciation is calculated on the following bases:

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

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

1.83. 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.

1.84. 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.

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Property, plant and equipment - disposals and non-current assets held for sale

- 1.85. 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.
- 1.86. 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.
- 1.87. Expected sales under the Right to Buy are not included in Assets Held for Sale, due to the uncertainty in achieving the sales and the number of assets that have subsequently been reclassified back to operational assets.
- 1.88. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.
- 1.89. 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.
- 1.90. 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.
- 1.91. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Private Finance Initiative (PFI) and similar contracts

- 1.92. 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.
- 1.93. 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. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council

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

Provisions, contingent liabilities and contingent assets

- 1.95. 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.
- 1.96. 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.
- 1.97. 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.
- 1.98. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.
- 1.99. Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.
- 1.100. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.
- 1.101. 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.

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1.102.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 where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

1.103.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.

1.104.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.

Revenue expenditure funded from capital under statute

1.105.Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset for the council has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

VAT

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

Acquired operations

1.107.On 1 April 2013, local authorities took over responsibility for public health services. In partnership with Lambeth Council, the council runs a shared public health service, with a single director of public health. The overall goal of the service, which is financed by a ring fenced government grant, is to:

- Protect and promote health and wellbeing
- Minimise risks to health and wellbeing
- Prevent disease and their complications
- Reduce health and healthcare inequalities.

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PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2014/15 £000	2013/14 £000
Contributions	8	(52,677)	(48,166)
Transfers in from other pension funds	9	(1,891)	(3,121)
Other income		(1)	(1)
Total income		<u>(54,569)</u>	<u>(51,288)</u>
Benefits	10	48,844	47,282
Payments to and on account of leavers	11	2,908	3,710
Other payments		49	58
Administrative expenses	12	842	899
Total expenditure		<u>52,643</u>	<u>51,949</u>
Net addition from dealing with members of the fund		(1,926)	661
Investment income	13	(12,903)	(12,345)
Profit and losses on disposal of investments and changes in market value of investments	15.2	(187,967)	(46,355)
Taxes on income	13	105	52
Investment management expenses	14	3,661	3,982
Net returns on investments		(197,104)	(54,666)
Net (increase)/decrease in the net assets available for benefits during the year		(199,030)	(54,005)
Opening net assets of the scheme		(1,048,701)	(994,696)
Net assets of the scheme available to fund benefits at 31 March		<u>(1,247,731)</u>	<u>(1,048,701)</u>

NET ASSETS STATEMENT

	Note	2014/15 £000	2013/14 £000
Investment assets	15.1	1,239,275	1,037,289
Investment liabilities	15.1	-	(19)
Current assets	16.1	12,426	17,564
Current liabilities	16.2	(3,970)	(6,133)
Net assets of the scheme available to fund benefits at 31 March		<u>1,247,731</u>	<u>1,048,701</u>

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NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

- 1.1. The Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council). The scheme is governed by the Public Services Pensions Act 2013, and administered in accordance with The Local Government Pension Scheme Regulations 2013 (as amended), The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- 1.2. It is a contributory defined benefit scheme that provides benefits for former employees of the council and other admitted organisations. The benefits provided include retirement pensions and widows' pensions, death grants and lump sum payments depending on the circumstances.
- 1.3. 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 ended 31 March 2015. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2013. Currently, employer rates range from 7.2% to 27.6% of pensionable pay, plus additional deficit payments where appropriate.
- 1.4. The overall investment strategy is the responsibility of the council. This responsibility is delegated to the strategic director of finance and corporate services, taking account of the advice of the Pensions Advisory Panel. Arrangements are expected to change with the upcoming LGPS Scheme Governance Regulations, which will require the setting up of both Local and National Pension Boards from 1 April 2015. The Pensions Regulator will also have an increased role in monitoring the operation of LGPS bodies.

2. BASIS OF PREPARATION

- 2.1. The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.2. 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 40 of the main accounts.

3. MEMBERSHIP OF THE FUND

- 3.1. Membership of the fund 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. At 31 March 2015 the membership of the Fund was as follows:

	2014/15	2013/14
Number of contributors to the Fund	7,210	6,812
Number of contributors and dependants receiving allowances	6,913	6,781
Number of contributors who have deferred their pensions	7,705	7,569

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3.2. Other organisations participating in the Pension Fund comprise:

- The following admitted bodies:
 - Southwark Law Centre
 - Fusion
 - Centre for Literacy in Primary Education
 - South London Gallery
 - APCOA
 - HATS (formerly Olympic South)
 - Veolia
 - Camden Society
 - Leather Market
 - Balfour Beatty (Cofely)
 - Browning (TMO)
 - Chequers (2)
 - Mears
 - Brandon Trust
 - Capita
 - Interserve
 - Sherman & Waterman
 - D. Brice & Co Ltd
 - Friedman (1 February 2014 until 31 August 2014)

- The following scheduled bodies:
 - Academy at Peckham
 - Ark All Saints Academy
 - Bacons College
 - Compass Free School
 - Dulwich Hamlet Junior School Academy
 - Globe Academy
 - Goose Green Academy
 - Harris Academy Bermondsey
 - Harris Girls Academy
 - Harris Boys Academy
 - Harris Primary Academy, Peckham Park
 - Harris Free School , Peckham
 - John Donne Academy
 - Judith Kerr Free School
 - Kingsdale Foundation School
 - Newlands Academy
 - Redriff Primary Academy
 - The Charter School Educational Trust
 - Walworth Academy
 - University Academy Engineering South Bank (from 1 September 2014)
 - Harris East Dulwich (from 1 September 2014)
 - The Angel Oak Academy (from 1 February 2015)
 - Southwark Free School (from 1 February 2015)

4. ACTUARIAL POSITION OF THE FUND

Introduction

- 4.1. The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.
- 4.2. The following section on the actuarial position of the fund, paragraphs 4.3 - 4.10, has been prepared by the actuary for the sole use of the council, and should not be relied upon by any other party. The statements should not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

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Actuarial Position

- 4.3. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £994.7M) covering 83% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
- 4.4. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:
- 13.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.
plus
 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2014, amounting to £12.4M in 2014/15, and increasing by 3.9% p.a. thereafter.
- 4.5. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.
- 4.6. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
- 4.7. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows:
- | | |
|---|------|
| Rate of inflation – RPI | 3.4% |
| Rate of inflation – CPI | 2.4% |
| Rate of increase in salaries | 3.9% |
| Rate of increase in pensions | 2.4% |
| Rate for discounting scheme liabilities | 4.3% |
- 4.8. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
- 4.9. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.

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Actuarial Present Value of Promised Retirement Benefits

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

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

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

- 5.1. 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 4. This estimate is subject to significant variances based on changes to underlying assumptions.

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

- 6.1. The Statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This applies particularly to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied. The actuarial position is set out in Note 4 and the critical judgements applied are explained in Note 5.

7. EVENTS AFTER THE BALANCE SHEET DATE

- 7.1. There are no significant post balance sheet events to be disclosed at the time of preparing these statements.

8. CONTRIBUTIONS

- 8.1. Contributions represent the total amount receivable from employees and employers of the scheme. Contributions to the fund are analysed as follows:

	Employees £000	Employers £000	2014/15 Total £000	Employees £000	Employers £000	2013/14 Total £000
Southwark Council	(11,061)	(37,540)	(48,601)	(9,850)	(34,370)	(44,220)
Admitted bodies	(365)	(1,161)	(1,526)	(366)	(1,299)	(1,665)
Scheduled bodies	(803)	(1,747)	(2,550)	(651)	(1,630)	(2,281)
Total Contributions	(12,229)	(40,448)	(52,677)	(10,867)	(37,299)	(48,166)

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8.2. Contributions receivable from employers are shown below:

	2014/15 £000	2013/14 £000
Normal	(23,445)	(22,006)
Early retirement strain	(2,916)	(1,992)
Deficit funding	(14,087)	(13,301)
Total contributions from employers	<u>(40,448)</u>	<u>(37,299)</u>
Contributions from employees	(12,229)	(10,867)
Total Contributions	<u>(52,677)</u>	<u>(48,166)</u>

8.3. During 2014/15 employees made Additional Voluntary Contributions (AVCs) of £465,639 (£458,254 in 2013/14). AVCs are managed by external providers who invest them separately from the rest of the Pension Fund. The main AVC provider is Scottish Equitable, with Prudential being the provider for those employees who are members of the London Pension Fund Authority. AVCs are not included in the Pension Fund Accounts in accordance with the Pension Scheme (Management and Investment of Funds) Regulations 2009, section 4(2)(b). The value of the AVCs at 31 March 2015 was £2.685 million (£2.158 million at 31 March 2014).

9. TRANSFERS IN FROM OTHER PENSION FUNDS

9.1. Transfers in from other pension funds were as follows:

	2014/15 £000	2013/14 £000
Individual transfers	(1,891)	(3,121)
Total transfers in from other pension funds	<u>(1,891)</u>	<u>(3,121)</u>

10. BENEFITS PAYABLE

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

	Pensions £000	Lump sums £000	2014/15 Total £000	Pensions £000	Lump sums £000	2013/14 Total £000
Southwark Council	39,845	7,442	47,287	38,617	6,686	45,303
Admitted bodies	1,099	160	1,259	1,134	604	1,738
Scheduled bodies	179	119	298	155	86	241
Total benefits payable	<u>41,123</u>	<u>7,721</u>	<u>48,844</u>	<u>39,906</u>	<u>7,376</u>	<u>47,282</u>

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10.2. The table below shows the types of benefit payable.

	2014/15 £000	2013/14 £000
Pensions	41,123	39,906
Commutation of pensions and lump sum retirement benefits	6,254	6,058
Lump sums – death benefits	1,467	1,318
Total benefits payable	48,844	47,282

11. LEAVERS

11.1. Payments to and on account of leavers are classified as follows:

	2014/15 £000	2013/14 £000
Refund of contributions	75	11
State Scheme Premiums	65	-
Individual transfers out to other schemes	2,768	3,699
Total payments	2,908	3,710

12. ADMINISTRATIVE EXPENSES

12.1. Administrative expenses to the fund are analysed as follows:

	2014/15 £000	2013/14 £000
Southwark Council recharges	819	881
External audit fees	23	18
Total administrative expenses	842	899

13. INVESTMENT INCOME

13.1. A break-down of the investment income shown in the accounts is as follows

	2014/15 £000	2013/14 £000
Dividends from equities	(2,200)	(2,115)
Income from pooled investment vehicles	(2,122)	(2,631)
Net rent from properties	(8,555)	(7,089)
Interest on cash deposits	(21)	-
Other income	(5)	(510)
Total investment income before taxes	(12,903)	(12,345)
Taxes on income	105	52
Total investment income after taxes	(12,798)	(12,293)

13.2. Other income includes £57,318 income received from stock lending (£7,779 in 2013/14).

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

14. INVESTMENT MANAGEMENT EXPENSES

- 14.1. A break-down of the investment management expenses shown in the accounts is as follows

	2014/15 £000	2013/14 £000
Management fees	3,353	3,695
Custody fees	94	20
Performance monitoring service	31	40
Actuarial fees	183	202
Other	-	25
Total investment expenses	3,661	3,982

15. INVESTMENT ASSETS

- 15.1. Investment assets shown in the net assets statement are analysed below:

2014/15	Total		Analysed by	
	31/03/15	Quoted (UK)	Quoted (Overseas)	Unquoted (UK)
	£000	£000	£000	£000
Fixed Interest Securities – Public Sector	40,569	32,419	8,150	-
Equities	107,586	9,352	98,234	-
Index linked securities	94,740	94,740	-	-
Managed Funds – Property (Freehold)	125,180	-	-	125,180
Managed Funds – Property (Leasehold)	11,675	-	-	11,675
Unit Trusts – Property	37,262	37,262	-	-
Unitised insurance policies	817,835	174,287	643,548	-
Cash Deposits	4,428	-	-	4,428
Total investment assets	1,239,275	348,060	749,932	141,283
2013/14	Total	Quoted (UK)	Analysed by	Unquoted
	31/03/14	Quoted (UK)	Quoted (Overseas)	(UK)
	£000	£000	£000	£000
Fixed Interest Securities – Public Sector	32,300	25,522	6,778	-
Equities	89,314	12,486	76,828	-
Index linked securities	79,319	79,319	-	-
Managed Funds – Property (Freehold)	95,500	-	-	95,500
Managed Funds – Property (Leasehold)	11,650	-	-	11,650
Unit Trusts – Property	36,183	36,183	-	-
Unitised insurance policies	693,007	152,175	540,832	-
Options	16	-	-	16
Total investment assets	1,037,289	305,685	624,438	107,166
Investment Liabilities:				
Derivatives forward currency contracts	(19)	-	-	(19)
Net Investment Assets	1,037,270	305,685	624,438	107,147

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Reconciliation of movements in investments

15.2. 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 31/03/14 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/15 £000
Fixed Interest:						
UK public sector	25,522	-	-	6,897	-	32,419
UK Equities	12,486	2,372	(4,478)	(1,028)	-	9,352
Overseas public sector	6,778	25,963	(25,459)	868	-	8,150
Overseas Equities	76,828	40,621	(38,048)	18,833	-	98,234
Index linked Securities	79,319	-	(1,400)	16,821	-	94,740
Managed Funds:						
Property (freehold)	95,500	13,968	(6,004)	21,716	-	125,180
Property (leasehold)	11,650	3,025	-	(3,000)	-	11,675
Unit Trusts – Property	36,183	-	(3,500)	4,579	-	37,262
Unitised insurance policies	693,007	23,586	(21,193)	122,435	-	817,835
Derivatives:						
Forward currency contracts	(19)	312	(282)	(11)	-	-
Options	16	276	(149)	(143)	-	-
Cash deposits	-	-	-	-	4,428	4,428
Total Net Investment Assets	1,037,270	110,123	(100,513)	187,967	4,428	1,239,275
Cash held at managers	10,186	-	-	-	(5,824)	4,362
Outstanding trades	(333)	-	-	-	647	314
Investment trade debtors	498	-	-	-	(498)	-
Total Net Investments	1,047,621	110,123	(100,513)	187,967	(1,247)	1,243,951
	Value at 31/03/13 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/14 £000
Fixed Interest:	Restated					
UK public sector	23,991	2,180	-	(649)	-	25,522
UK quoted	-	-	-	-	-	-
UK Equities	11,915	5,367	(3,276)	(1,520)	-	12,486
Overseas public sector	3,556	28,159	(24,356)	(581)	-	6,778
Overseas Equities	71,074	40,076	(41,035)	6,713	-	76,828
Index linked Securities	75,193	7,181	-	(3,055)	-	79,319
Managed Funds:						
Property (freehold)	72,230	17,818	-	5,452	-	95,500
Property (leasehold)	8,650	2,792	-	208	-	11,650
Unit Trusts – Property	40,954	-	(6,114)	1,343	-	36,183
Unitised insurance policies	662,306	16,091	(24,261)	38,871	-	693,007
Derivatives:						
Forward currency contracts	80	596	(582)	(113)	-	(19)
Options	-	321	(47)	(258)	-	16
Cash deposits	4,796	-	-	(56)	(4,740)	-
Total Net Investment Assets	974,745	120,581	(99,671)	46,355	(4,740)	1,037,270
Cash held at managers	14,081	-	-	-	(3,895)	10,186
Outstanding trades	-	-	-	-	(333)	(333)
Investment trade debtors	2,610	-	-	-	(2,112)	498
Total Net Investments	991,436	120,581	(99,671)	46,355	(11,080)	1,047,621

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- 15.3. 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.
- 15.4. TH Real Estate held cash deposits of £4.428 million at 31 March 2015. There were no cash deposits at 31 March 2014 as it was used to fund the purchase of four direct properties.
- 15.5. The valuation of direct property managed by TH Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2015. All properties have been valued at market value.
- 15.6. The Statement of Investment Principles can be found in appendix 6 of the pension fund annual report. This can be accessed on the council's website via the following link https://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report. Alternatively a copy can be obtained on request from the strategic director of finance and corporate services, Southwark Council, Finance and Corporate Services, PO Box 64529, London SE1P 5LX.
- 15.7. Investments exceeding 5% within each class of security are as follows:

Asset Class	Fund Manager	Value at 31/03/15 £000	% within asset class
Fixed interest securities			
Over 15 Year Gilts Index	Legal & General	15,773	49%
Aquila Life Over 15 Years UK Gilt Index S1	BlackRock	16,646	51%
		32,419	100%
Overseas Public Sector			
United States Government Gilts	Newton	8,150	100%
Index linked Securities			
Over 5 Year Index Linked Gilts	Legal & General	46,590	49%
Aquila Life Over 5 Years UK Gilt Index S1	BlackRock	48,150	51%
		94,740	100%
Managed Funds (Property)			
140-142 St John Street, London	TH Real Estate	6,850	5%
18-30 Clerkenwell Road, London	TH Real Estate	8,400	6%
190-208 Ingram Street, Glasgow	TH Real Estate	10,050	7%
Hope House, 45 Great Peter Street, London	TH Real Estate	13,100	10%
Rushy Platt Industrial Estate	TH Real Estate	6,850	5%
The Bridge, Clerkenwell	TH Real Estate	12,800	9%
		58,050	42%
Unit Trusts - Property			
Henderson Central London Office Fund	TH Real Estate	12,597	34%
Henderson UK Retail Warehouse Fund	TH Real Estate	7,590	20%
Henderson UK Shopping Centre Fund	TH Real Estate	14,265	38%
BlackRock UK Property Fund	TH Real Estate	2,811	8%
		37,263	100%
Unitised Insurance Policies			
Investment Grade Bonds (All Stocks)	Legal & General	63,126	8%
Europe (ex UK) Equity Index	Legal & General	42,482	5%
North America Equity Index	Legal & General	149,032	18%
BlackRock Emerging Markets GBP FLX ACC	BlackRock	45,407	6%
Aquila Life Corp BD Index All STX S1	BlackRock	59,203	7%
Aquila Life European EQ IDX FD S1	BlackRock	69,638	9%
Aquila Life US EQ Index Fund S1	BlackRock	184,674	23%
		613,562	76%
Cash Deposits			
Deutsche Global Liquidity Fund	TH Real Estate	4,428	100%

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Asset Class	Fund Manager	Value at 31/03/14 £000	% within asset class
Fixed interest securities			
United States Government Gilts	BlackRock	6,778	21%
Aquila Life Over 15 Year UK Gilt Index Series 1	BlackRock	25,522	79%
		32,300	100%
Index linked securities			
Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	79,316	100%
Managed funds (property)			
11/77 Castle Street + 10/18 Castle Meadow, Norwich	TH Real Estate	6,000	6%
190-208 Ingram Street, Glasgow	TH Real Estate	10,450	10%
9 - 11 High Street, Winchester	TH Real Estate	5,850	5%
Cathedral Park, Belmont Industrial Estate, Durham	TH Real Estate	5,600	5%
Units 1, 2, 4 and 7 Edinburgh Interchange, Newbridge	TH Real Estate	5,875	5%
Hope House, 45 Great Peter Street, London	TH Real Estate	10,250	10%
140 - 142 St John Street, London	TH Real Estate	5,500	5%
Unit 2 Rhosili road	TH Real Estate	4,850	5%
Rushy Platt Industrial Estate	TH Real Estate	6,250	6%
		60,625	57%
Unit Trusts Property			
Blackrock UK Property Fund	TH Real Estate	6,886	19%
Henderson Central London Office Fund	TH Real Estate	10,125	28%
Henderson UK Retail Fund	TH Real Estate	5,902	16%
Henderson UK Shopping Centre Fund	TH Real Estate	13,270	37%
		36,183	100%
Unitised Insurance Policies			
Aquila Life All Stocks Corporate Bond Index Fund		52,360	8%
Aquila Life Emerging Market Fund		32,290	5%
Aquila Life European Equity Index Fund		31,226	5%
Aquila life Japanese Equity Index Fund		42,774	6%
Aquila Life UK Equity Index Fund Series 1		48,882	7%
Aquila Life US Equity Index Fund series 1		160,304	23%
Europe (ex UK) Equity Index Fund		98,298	14%
Pacific Rim Equity index		42,281	6%
Investment Grade Corporate bonds All Stocks Index		50,933	7%
North America Equity Index		120,777	17%
		680,125	98%

15.8. Investments representing more than 5% of the net assets available to pay benefits are as follows:

Name of Investment	Fund Manager	Value at 31/3/15 £000	% of net assets
Investment Grade Bonds (All Stocks)	Legal & General	63,126	5%
North America Equity Index	Legal & General	149,032	12%
Aquila Life Corp BD Index All STX S1	BlackRock	59,203	5%
Aquila Life European EQ IDX FD S1	BlackRock	69,638	6%
Aquila Life US EQ Index Fund S1	BlackRock	184,674	15%
Total		525,673	43%

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Name of Investment	Fund Manager	Value at 31/3/14 £000	% of net assets
Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	79,319	8%
Aquila Life European Equity Index Fund	Blackrock and Legal & General	98,298	9%
Aquila Life US Equity Index Fund series 1	Blackrock and Legal & General	281,081	27%
Total		458,698	44%

15.9. The market value of assets managed by the investment managers at the balance sheet date has been set out in the table below.

Fund Manager	Market value of fund at 31/03/15 £000	% market value held at 31/03/15 %	Market value of fund at 31/03/14 £000	% market value held at 31/03/14 %
BlackRock	442,278	36	375,412	36
BlackRock (warehouse)	125,541	10	105,604	10
Alliance Bernstein (Growth)	-	-	27	-
Alliance Bernstein (Value)	-	-	123	0
Legal & General Investment Managers	377,204	30	317,064	30
Newton Investment Management	118,978	10	98,325	9
TH Real Estate	179,950	14	151,066	14
Total	1,243,951	100	1,047,621	100

16. CURRENT ASSETS AND LIABILITIES

16.1. The current assets of the fund are analysed as follows:

	2014/15 £000	2013/14 £000
Contribution due from employers	1,960	1,363
Other current assets	3,392	4,470
Cash at managers	4,362	10,186
Cash and bank	2,712	1,545
Total	12,426	17,564

16.2. The current liabilities of the fund are analysed as follows:

	2014/15 £000	2013/14 £000
Support services	33	131
Benefits	264	34
Professional fees	547	555
Investment fees	1,534	3,861
Taxes	607	625
Other	985	927
Total	3,970	6,133

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17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

17.1. Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. They are carried in the net assets statement at fair value and are analysed as follows:

	2014/15 £000	2013/14 £000
Financial assets		
Financial assets at fair value through profit or loss	1,102,420	930,139
Financial liabilities		
Financial liabilities at fair value through profit or loss	-	(19)
Total	1,102,420	930,120

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

- Financial instruments at 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.
- Financial instruments at 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.

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	Total £000
2014/15			
Financial assets			
Financial assets at fair value through profit or loss	1,065,158	37,262	1,102,420
Total	1,065,158	37,262	1,102,420

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	Total £000
2013/14			
Financial assets			
Financial assets at fair value through profit or loss	893,956	36,183	930,139
Financial liabilities			
Financial liabilities at fair value through profit or loss	(19)		(19)
Total	893,937	36,183	930,120

17.3. The Pension Fund's activities in relation to financial instruments expose it to a variety of financial risks. These risks and how they are managed are set out in Notes below.

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Credit Risk

- 17.4. 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 out. 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.
- 17.5. 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

- 17.6. This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However this trend has begun to change. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.
- 17.7. 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.
- 17.8. There is a strategy in place to ensure that if the Fund found itself in a position where it did not have the funds available to meet its commitments, alternative monies could be drawn down. Funds could be called back from investment managers within a short period of time. Periodic cash flow forecasts are prepared to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

Market Risk

- 17.9. 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
- 17.10. 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.
- 17.11. 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 – Sensitivity Analysis

- 17.12. 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.
- 17.13. The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.
- 17.14. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

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Price Risk – Sensitivity Analysis

17.15. Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

2014/15	Value	% Change	Value on	Value on
Asset Type	£000	%	Increase	Decrease
			£000	£000
Total Equities	803,092	8.92%	874,728	731,456
UK Govt Bonds	-	11.24%	-	-
UK Corporate Bonds	59,203	5.74%	62,601	55,805
UK Index-Linked	190,285	9.58%	208,514	172,056
Overseas Bonds	-	7.62%	-	-
Property	174,117	4.53%	182,005	166,229
Cash	16,940	0.01%	16,942	16,938
Debtors	314	0.00%	314	314
Total Assets	1,243,951		1,345,104	1,142,798

2013/14	Value	% Change	Value on	Value on
Asset Type	£000		Increase	Decrease
			£000	£000
Total Equity	679,029	12.35%	762,889	595,169
UK Govt Bonds	25,522	10.16%	28,115	22,929
UK Corp Bonds	103,292	4.61%	108,054	98,530
UK Index Linked	79,319	8.33%	85,926	72,712
Property	143,333	2.45%	146,845	139,821
Cash	16,964	0.02%	16,967	16,961
Forward Currency	(19)	0.00%	(19)	(19)
Options	16	0.00%	16	16
Investment Creditors	(1,969)	0.00%	(1,969)	(1,969)
Investment Debtors	2,134	0.00%	2,134	2,134
Total Assets	1,047,621		1,148,958	946,284

17.16. 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.

17.17. 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

17.18. The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

17.19. 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.

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Interest Rate Sensitivity Analysis

17.20. The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

17.21. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

Asset type	Carrying amount as at 31 March 2015 £000	Change in year in the net assets available to pay benefits	
		+100bps £000	-100bps £000
Cash Balances	16,940	169	(169)
Fixed Interest Securities	127,159	1,272	(1,272)
Total change in net assets available	144,099	1,441	(1,441)

Asset type	Carrying amount as at 31 March 2014 £000	Change in year in the net assets available to pay benefits	
		+100bps £000	-100bps £000
Cash Balances	10,186	102	(102)
Fixed Interest Securities	104,841	1,048	(1,048)
Total change in net assets available	115,027	1,150	(1,150)

Currency Risk

17.22. 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 the functional currency of the fund (£ Sterling). The fund holds both monetary and non-monetary assets denominated in currencies other than £ Sterling.

17.23. 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.

Currency Risk – Sensitivity Analysis

17.24. 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. This analysis assumes that all other variables, in particular interest rates, remain constant.

Assets exposed to currency risk	Value £000	Change in year in the net assets available to pay benefits	
		10% £000	-10% £000
As at 31 March 2015	749,932	824,925	674,939
As at 31 March 2014	675,370	742,907	607,833

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18. RELATED PARTY TRANSACTIONS

- 18.1. 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.
- 18.2. 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 34.
- 18.3. Management of the Pension Fund is the responsibility of the council's strategic director of finance and corporate services. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 12.
- 18.4. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)–(4) of The Accounts and Audit (England) Regulations 2011 and Regulation 7A of The Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. The Strategic Director of Finance and Corporate Services' remuneration is disclosed in Note 30 of the council's Statement of Accounts.
- 18.5. The council is also the single largest employer of members of the pension fund and contributed £37.5 million to the fund in 2014/15 (£34.4 million in 2013/14).
- 18.6. There were no related party transactions other than those disclosed elsewhere in the accounts.

19. CONTINGENT ASSETS AND LIABILITIES

- 19.1. There are no contingent assets or liabilities.

PENSION FUND ACCOUNTING POLICIES

20. Summary of significant accounting policies

Fund account – contributions income

- 20.1. 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.
- 20.2. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset.

Fund account – transfers to and from other schemes

- 20.3. 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.
- 20.4. 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.

Fund account – investment income

- 20.5. 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.
- 20.6. Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- 20.7. Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- 20.8. 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.
- 20.9. 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.

Fund account – benefits payable

- 20.10. 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

Fund account – taxation

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20.11. 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.

Fund account – administrative expenses

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

Fund account – investment management expenses

20.13. 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 assets statement – financial assets

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

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

20.15. 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.

20.16. 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.

20.17. The cost of acquisitions of investment assets including property is treated as revenue expenditure.

20.18. There are no restrictions affecting the ability of the scheme to realise its assets at the values quoted.

Net assets statement – financial liabilities

20.19. 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.

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Actuarial Present Value of Promised Retirement Benefits

20.20. 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.

Additional voluntary contributions

20.21. 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. The fund has appointed Scottish Equitable as its AVC provider. In accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093), AVCs are not included in the accounts but are disclosed as a note only.

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GLOSSARY

ACCOUNTING STANDARDS

These are the 'proper accounting practices' that the council must follow. They comprise laws and regulations, which are set out in Acts of Parliament and in codes of practice recommended by professional bodies (e.g. the Service Reporting Code of Practice). These standards ensure that all organisations within a particular sector report their financial performance the same way, which enables the financial performance to be compared with other organisations.

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.

ACTUARY

A person who assesses risks and costs, in particular those relating to investments and insurance.

AMORTISATION

The writing off of a loan or other balance to the Comprehensive Income and Expenditure Statement over a period of time.

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.

BALANCE SHEET

A statement of the council's assets and liabilities at the balance sheet date.

BALANCES

- (1) The amounts remaining at the year-end, on the various funds and accounts of the council.
- (2) Unallocated reserves held to meet future unpredictable expenditure demands.

BUDGET

Statement of the spending plans for the year.

BUSINESS RATES

See National Non Domestic Rates.

CAPITAL ADJUSTMENT ACCOUNT

An account to reflect the movements in valuations and financing transactions of the council's non current assets, arising from disposals, acquisitions, revaluations and impairments.

CAPITAL CHARGES

Depreciation charges made to service department revenue accounts, based on the value of the assets used by the service.

CAPITAL EXPENDITURE

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

CAPITALISATION

Certain items of revenue expenditure may be deemed to be of a "capital nature" and are therefore transferred to the capital accounts to be funded from capital receipts or borrowing. This normally applies to such items as salaries of staff directly working on bringing assets into being.

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CAPITAL RECEIPTS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

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

CIPFA/LASAAC

The joint committee of CIPFA and the Local Authority Scotland Accounts Advisory Committee, who together are responsible for producing the Code.

CODE

The Code of Practice on Local Authority Accounting the United Kingdom. Issued annually by CIPFA, this is a code of proper accounting practice with which local authorities in England and Wales must comply in preparing their financial statements; in particular it provides guidance on differences from Generally Accepted Accounting Practice as a result of the government's legislative requirements.

COLLECTION FUND

This is a statutory account, which records income and expenditure on Council Tax, National Non Domestic Rates, payments to the precepting authorities and transfers to the council's General Fund.

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.

CONTINGENCIES

Money set aside from a budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

CONTINGENT ASSET

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

CONTINGENT LIABILITY

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

COUNCIL TAX

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

COUNCIL TAX BENEFIT

Assistance provided by the council to adults on low incomes to help them pay their Council Tax bill. The cost to the council of Council Tax benefit is largely met by government grant.

CREDITORS

Organisations and individuals to whom the council owes money.

CURRENT LIABILITIES

Those amounts which will become payable or could be called upon in the next accounting period, e.g. creditors, debtors and cash overdrawn.

CURRENT SERVICE COST (PENSIONS)

The increase in value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

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CURTAILMENT

For a defined benefit pension scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- Termination of employees' services earlier than expected, for example, as a restructuring of operations
- Termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DCLG

Department for Communities and Local Government

DEBTORS

Organisations and individuals who owe money to the council.

DEFERRED CAPITAL RECEIPTS

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

DEFINED BENEFIT SCHEME

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

DEFINED CONTRIBUTION SCHEME

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

DEFRA

Department of Environment, Food and Rural Affairs

DEPRECIATION

- (1) A charge to the revenue account to reflect the reduction in the expected useful economic life of a non current asset.
- (2) The reduction of the value of a non current asset in the balance sheet in line with the expected useful life.

DSO (DIRECT SERVICE ORGANISATION)

A term used to cover both Direct Labour Organisations (DLO) established under the Local Government and Planning Act 1980 and DSOs set up under the Local Government Act 1988. This is a unit operating within the council on a quasi-contractual footing, which provides services won in competition with private sector firms.

EARMARKED RESERVES

Amounts set aside for specific purposes falling outside the definition of provisions.

FINANCE LEASES

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT (FIAA)

An account to reflect the movements in assets and liabilities measured at fair value, where the movement in fair value is taken to the Income and Expenditure Account but cannot be charged to Council Tax.

FINANCIAL YEAR

The period of activity represented in the annual financial statements. For local authorities, the financial year is 1 April to 31 March.

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GENERAL FUND

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

HISTORIC COST

The actual amount of money originally paid for a particular item as opposed to its current value.

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. The government defines the items of income and expenditure that must be included in the account. 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.

HOUSING SUBSIDY

A government grant paid towards the cost of providing, managing and maintaining the council's housing stock.

HRA

See Housing Revenue Account above.

IAS

See International Financial Reporting Standards

IFRS

See International Financial Reporting Standards

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

From 2010/11 local authorities are required to present their Accounts in a form consistent with IFRS as set out by the Code. IFRS is a set of accounting standards that are used consistently internationally and by organisations within the UK, that allow readers of the Accounts ease of use in comparing one set of accounts with another. IFRS is made up of set of numbered standards referenced, for example International Accounting Standard 19 (IAS 19) (Employee benefits) or International Financial Reporting Standard 5 (IFRS 5) (Non-current assets held for sale)

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.

INVESTMENT PROPERTIES

Interest in land and/or buildings, which are held for their investment potential or rental income.

LIABILITY

A liability is where the council owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A long term liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

MEMORANDUM ACCOUNT

An account that is not part of the council's formal statutory accounts and is included in the statement for added information.

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.

MRA

Major Repairs Allowance

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MRR

Major Repairs Reserve

NATIONAL NON DOMESTIC RATES (NNDR)

Another name for business rates. NNDR are collected by each council and paid into a central pool managed by the government. The government, in turn, pays back to each council their share of the pool at a standard rate per head of the local adult population.

NET BOOK VALUE

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

NET EXPENDITURE

Gross expenditure less specific service income but before deduction of Revenue Support Grant and local taxation.

NET REALISABLE VALUE

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

NON DISTRIBUTED COSTS

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

OPERATING LEASES

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

OPERATIONAL ASSETS

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

OUTTURN

The actual level of income and expenditure for the year.

PFI

Private Finance Initiative. This is a mechanism for public bodies to procure capital projects without borrowing. Under PFI schemes, the public body buys the services of a private company or consortium to design, build, finance and operate a public facility. The private sector consortium borrows the money for the scheme and the public body pays an annual fee to the consortium under a long term operating contract for the services.

PP&E

See property, plant and equipment

PRECEPT

A levy made by those authorities that do not collect local taxation themselves but require other bodies to collect the required income from local tax payers on their behalf. In London, the precepting body is the Greater London Authority (GLA).

PROPERTY, PLANT AND EQUIPMENT

Assets which provide a benefit to the council and the services it provides for more than one year.

PROVISIONS

Amounts set aside for liabilities and losses which are likely to occur but where the exact amount or timing is uncertain. Payments or contributions to provisions are counted as service expenditure when made. The provision is released into the service revenue account as income to offset the expenditure liability when it arises.

PWLB

The Public Works Loan Board, a central government agency, which is used to fund local government borrowing.

RECHARGES

The transfer of costs from one account to another.

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REFCUS

See Revenue Expenditure Funded from Capital Under Statute

RELATED PARTIES

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

- (i) one party has direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) 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
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

RELATED PARTY TRANSACTION

Is a transfer of resources or obligations between related parties, regardless of whether a charge is made. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

RESERVES

Amounts set aside to meet future costs. Payments or contributions to reserves are not counted as service expenditure when the reserve is created. Expenditure met from reserves is passed through the service accounts when incurred.

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 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.

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.

REVALUATION RESERVE

An account to reflect the changes in value of the council's assets.

SECTION 31 AGREEMENT

A partnership agreement, made under section 31 of the Health Act 1999, between a local authority and an NHS body to jointly provide certain functions of the NHS body and certain health related functions of the local authority, using a pooled funding arrangement. Now repealed and replaced by Section 75 (see below).

SECTION 75 AGREEMENT

A partnership agreement, made under section 75 of the National Health Service Act 2006, between a local authority and an NHS body to jointly provide certain functions of the NHS body and certain health related functions of the local authority, using a pooled funding arrangement.

SECTION 106 FUNDING

Payments received from developers to compensate for additional infrastructure costs required as a result of a new development.

SPECIFIC GRANTS

A term used to describe all government grants to local authorities apart from Revenue Support Grant.

WHOLE OF GOVERNMENT ACCOUNTING

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector. This requires all public sector bodies to compile and report their accounts in a consistent manner to enable consolidation in WGA.