Southwark Council

STATEMENT OF ACCOUNTS

2010/11

TABLE OF CONTENTS

Introduction	2
Independent auditor's report to the members of the London Borough of Southwark	4
Explanatory Foreword	7
Statement of Responsibilities	14
Movement in Reserves Statement	15
Comprehensive Income and Expenditure Statement	18
Balance Sheet	19
Cash Flow Statement	20
Notes to the Accounts including Accounting Policies	21
Housing Revenue Account	91
Collection Fund	101
Trust Funds & Other Third Party Funds	104
Pension Fund Accounts	106
Glossary	119

LONDON BOROUGH OF SOUTHWARK
STATEMENT OF ACCOUNTS 2010/11

INTRODUCTION

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2011. For the first time, the 2010/11 accounts are presented on the basis of International Financial Reporting Standards. The 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 financial year.

The Comprehensive Spending Review in 2010 has heralded for Local Government the most significant changes to the funding of Council services in a generation. This has been no less true for Southwark Council with reduced spending power in 2011/12 of more than £30m. While budget targets have been agreed and service plans are either in place or being put in place to achieve these savings, the financial risk to the Council will remain extremely high. Balances and reserves must be preserved through this period to safeguard against any delay in the delivery of some fundamental changes in Council services.

In addition, interest rates have been sustained at very low rates and inflation rates continue to reach levels that are much higher than those estimated by Government. These circumstances, alongside continued funding and demand pressures on local services that may increase as a consequence of recession, require the Council to continually review key priorities and supporting financial plans.

Despite the continued pressures on world financial markets, it is encouraging that the triennial review has confirmed that the Council's Pension Fund continues to sustain a reasonable position for schemes of this type. However, the fund will continue to need close monitoring and management by the Pensions Advisory Panel.

It remains essential that the Council continues to work to promote and enhance the financial management and standing of the Council. This will enable the Council to maintain the quality and value of the services that it provides and to continue to deliver a major regeneration programme.

The Council will continue to be guided by the advice offered by the District Auditor and especially her comments and observations contained in the Annual Audit Letter. The Council respects the importance and the rigour of the external audit process.

We again look forward to continuing to work closely with the Audit Commission in the coming months, and will continue to plan for new external audit arrangements as the future of the Commission becomes clearer. The Council has committed to creating action plans to meet recommendations of the District Auditor and these will be monitored through the Audit and Governance Committee.

I certify that:

(a) The Statement of Accounts for the year ended 31 March 2011 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
Finance Director
23 September 2011

Approved by the Audit and Governance Committee on 27 September 2011

Councillor Renata Hamvas
Chair of the Audit and Governance Committee
27 September 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF SOUTHWARK

Opinion on the Authority accounting statements

I have audited the accounting statements of the London Borough of Southwark for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting 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 HRA Statement and Collection Fund Revenue Account Income and Expenditure Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in note 2 to the Core Financial Statements (Accounting Policies).

This report is made solely to the members of the London Borough of Southwark 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.

Respective responsibilities of the Finance Director and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Finance Director is responsible for the preparation of the Authority'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 2010/11. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority; and the overall presentation of the accounting statements. I read all the information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of the London Borough of Southwark's affairs as at 31 March 2011 and of its income and expenditure 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 2010/11.

Opinion on other matters

In my opinion, the information given in the Explanatory Foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in note 3 to the Pension Fund Accounts (Accounting Policies).

This report is made solely to the members of the London Borough of Southwark 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.

Respective responsibilities of the Finance Director and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Finance Director is responsible for the preparation of the pension fund'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 2010/11. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion, the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matters

In my opinion, the information given in the Explanatory Foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

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.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, 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 me to consider under the Code of Audit Practice in satisfying myself 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 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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 my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, the London Borough of Southwark put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

Delay in certification of completion of the audit

I am required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of the London Borough of Southwark. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2011. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements.

Furthermore, I have not yet completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements or a significant impact on my value for money conclusion.

Until I have completed the above, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Susan M Exton
District Auditor
Audit Commission, 1st Floor Millbank Tower, Millbank, London, SW1P 4HQ
29 September 2011

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 2010/11 (the Code). 2010/11 is the first year that local authorities have been required to produce accounts compliant with International Financial Reporting Standards (IFRS) as set out by the Code. IFRS has changed the form of the primary financial statements of the Council, and requires the adoption of a number of different accounting policies. Some of the accounting polices make material changes to the figures presented in the Accounts, and these changes are reported in Note 1 to the Accounts. The accounting policies applied under IFRS are set out in Note 2.

2.2. The comparative figures for 2009/10 have all been restated as if IFRS had applied to the 2009/10 Accounts. Any comparative figures for 2008/09 presented in these Accounts have also been restated as if IFRS had applied to the 2008/09 Accounts.

2.3. 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.

2.4. 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.

2.5. 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.

3. SIGNIFICANT EVENTS

3.1. On 20 October 2010 the Chancellor of the Exchequer announced the Spending Review (SR) 2010, covering the period from 2011/12 to 2014/15. He announced that funding to local government will be reduced by 7.1% for each year to 2014/15. On the same day 'SR 2010' (published by HM Treasury) stated 'overall resource savings in Local Government departmental expenditure limits (DEL) to councils of 28 per cent over the four years'. Also on the 20 October 2010, the Secretary of State for Communities and Local Government (CLG) wrote to all councils explaining that 'councils will face an average loss of grant of 7.25%, in real terms, in each of the next four years'.

3.2. This has meant that Southwark faces a cut in its budget settlement from government for 2011/12, with £34m being removed. Once inflation, unavoidable budget pressures and all resource reductions are accounted for, this amounts to a budget gap for 2011/12 of some £60m: almost a sixth of the Council's total budget. The Government has informed the Council of its intention to take away a further £17m in 2012/13 and has also indicated further, as yet unquantified, cuts in 2013/14.

4. THE REVENUE BUDGET

4.1. 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).

4.2. For General Fund services, in February 2010 the Council set a net budget for 2010/11 of £319.909 million. The Council's net expenditure for the year was £316.003 million and the balance of £3.906 million was transferred to reserves.

General Fund	2010/11 Original budget £000	Budget movements £000	2010/11 revised budget £000	2010/11 outturn £000	Variance - over/ (under) £000
Children's Services	99,674	1,371	101,045	101,084	39
Health and Community Services	118,810	(1,484)	117,326	117,670	344
Environment and Housing	76,074	427	76,501	76,432	(69)
Regeneration and Neighbourhoods and Major Projects	30,296	(6,029)	24,267	24,228	(39)
Deputy Chief Executive	46,271	5,933	52,204	52,113	(91)
Communities, Law and Governance	13,070	(317)	12,753	12,601	(152)
Finance and Resources & Strategic Financing	32,333	2,547	34,880	34,942	62
Support Cost Reallocations (Note 4.3)	(58,858)	84	(58,774)	(58,774)	0
Total General Fund before appropriations	**357,670**	**2,532**	**360,202**	**360,296**	**94**
Contingency	4,000	0	4,000	0	(4,000)
Appropriations to/(from) reserves	2,195	(5,334)	(3,139)	(3,139)	0
General Fund total	**363,865**	**(2,802)**	**361,063**	**357,157**	**(3,906)**
Area based grant	(43,956)	2,802	(41,154)	(41,154)	0
Net General Fund total	**319,909**	**0**	**319,909**	**316,003**	**(3,906)**

4.3. Support cost reallocations are the costs of the central departments (Finance and Resources, Deputy Chief Executive, Communities, Law and Governance) which are recharged to service departments with accompanying budgets.

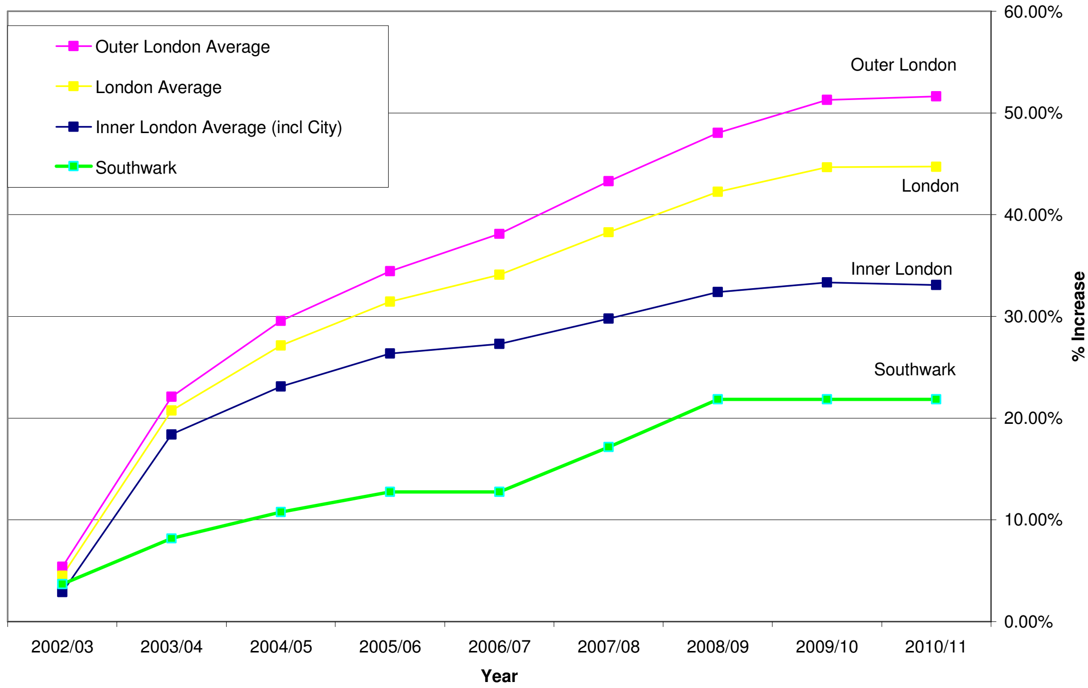
Council Tax

4.4. 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 £29.9 million in 2010/11 (£29.3 million in 2009/10). 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. In 2010/11 there were no changes in the council tax demand on the taxpayer. The contributions from the taxpayer, expressed as amounts charged to a Band D taxpayer, are:

	2010/11 £	2009/10 £
Southwark Council Tax requirement	912	912
GLA Precept	310	310
Total Council Tax charge (Band D equivalent)	**1,222**	**1,222**

4.5. 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.

Cumulative Council Tax % increase since 2002/03



Housing Revenue Account

4.6. 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 2010/11.

	2010/11 £000	2009/10 £000
Income	(264,210)	(263,036)
Expenditure	690,290	282,661
Net cost of services	426,080	19,625
Non operating costs	39,693	38,788
Net statutory accounting adjustments	(472,226)	(54,361)
(Increase)/Decrease in the HRA Balance	**(6,453)**	**4,052**
HRA Balance at 1 April	(14,124)	(18,176)
(Increase)/Decrease in the HRA Balance	(6,453)	4,052
HRA Balance at 31 March	**(20,577)**	**(14,124)**

4.7. HRA gross expenditure in 2010/11 of £690.290 million includes impairments in the values of Council dwellings of £485.437 million, arising mainly from a change by the Government in the use of discount factors in arriving at the valuation of dwellings. This is set out in more detail in Note 6 to the Accounts. The charge is a technical adjustment, included in gross expenditure and then reversed out within the statutory accounting adjustments section, and has no overall effect on the resources available to the HRA.

Summary of reserves and balances

4.8. In line with the Medium Term Resources Strategy (MTRS), the Council has maintained appropriate earmarked reserves, and has a target of increasing its General Fund balance to £20 million.

Reserve Group	31/3/2011 £000	31/3/2010 £000	31/3/2009 £000
General Fund	18,196	18,196	18,271
Earmarked	73,025	68,894	71,683
Schools	10,754	10,114	14,087
HRA incl MRR	28,773	25,505	22,856
Total	**130,748**	**122,709**	**126,897**

4.9. Earmarked reserves have been restated on an IFRS basis for all years shown. IFRS requires certain revenue grant balances, previously held in receipts-in-advance within creditors, to be recorded in earmarked reserves.

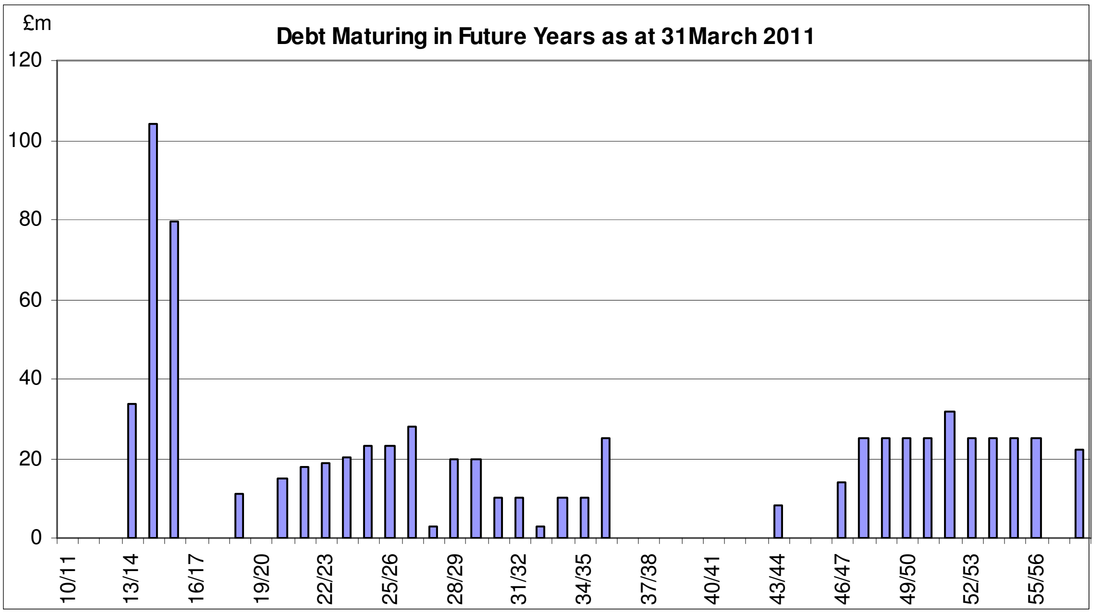
5. CAPITAL PROGRAMME

5.1. Southwark has one of the largest capital investment programmes in London, with current plans to spend £802 million (General Fund £351 million 2011/12 – 2020/21, HRA £452 million 2011/12 – 2015/16). The spend in 2010/11 was:

	2010/11 £000
Children’s Services	52,127
Environment and Housing (excluding HRA)	20,433
Housing General Fund	5,235
Regeneration and Major Projects	16,696
Deputy Chief Executive’s Department	1,519
Health and Community Service	7,836
Total General Fund	103,846
HRA	70,535
Total	**174,381**
Financed by:	
Revenue contributions	12,745
Using supported borrowing approvals	20,660
Using capital receipts received from the sale of assets	15,242
Specific grants and other contributions	84,974
Major Repairs Allowance	40,760
Total	**174,381**

6. BORROWING FACILITIES

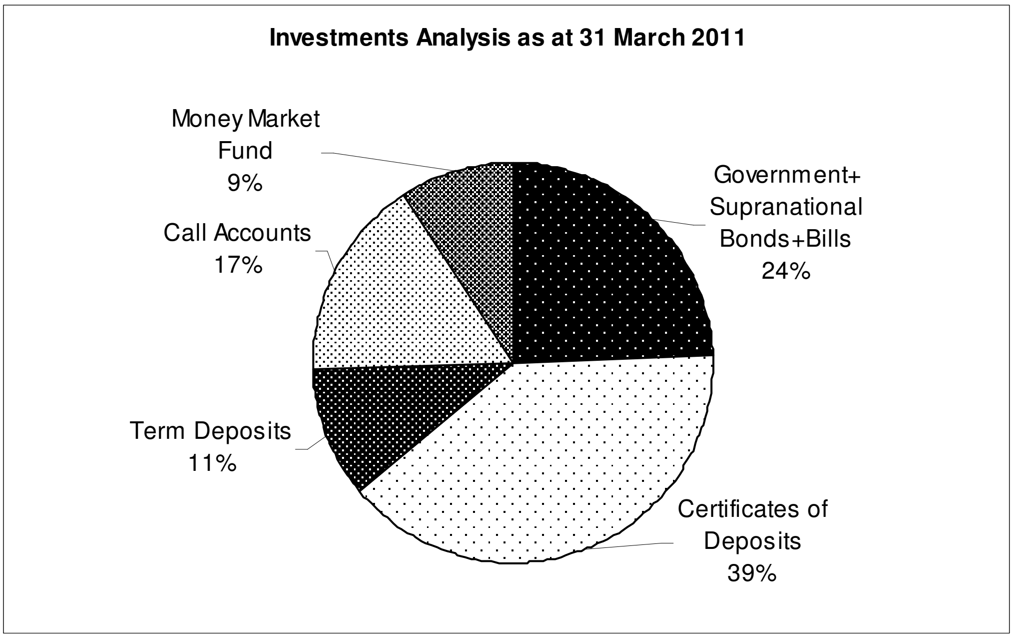
6.1. The Council borrows money to pay for capital expenditure that is not otherwise met from capital receipts, revenue, grants or other contributions. The level of debt outstanding as at 31 March 2011 for current and past capital expenditures is £762 million. No loans were taken out or repaid in 2010/11. All debt is from the Public Works Loans Board (PWLB, an Executive Agency of HM Treasury). The average life of all loans is 21 years and the average rate of interest payable is 6.94% (6.94% 2009/10). Interest payable attracts Government Grants and Housing subsidies. The maturity profile of the debt at 31 March 2011 is set out in the chart below.



7. INVESTMENTS

7.1. The Council invests its cash in interest earning call accounts, money market funds, term deposits, certificates of deposits, and bonds. The bonds are issued by the UK Government or Supranational entities such as the European Investment Bank and the World Bank. The other investments are with major UK and international banks, building societies or money market funds. The cash held in investments at the end of March 2011 was £236m (£212m at March 2010). The average return for 2010/11 was 1.08% (1.57% in 2009/10), reflecting the prolonged period of very low money market rates.

7.2. Investments held at 31 March 2011 can be shown by classes of instrument as follows:



7.3. The maturity and ratings of investments held at 31 March 2011 are:

	Fitch Long Term Rating at 31 March 2011			
Period remaining	AAA	AA+ to AA-	A+	Total
2-5 years	11%			11%
1-2 years	3%			3%
Less than 1 year	20%	57%	9%	86%
Total	34%	57%	9%	100%

7.4. Where the investment is guaranteed by the UK Government, it is treated as having the same rating as the Government. As there are no long term ratings for Money Market Funds, the Funds' short term ratings are used instead.

8. PENSIONS

8.1. 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 106. Other pension schemes are operated by the London Pension Fund Authority (LPFA) and the Teachers' Pensions Agency (TPA).

8.2. 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 44 page 81, to calculate a figure representing the outstanding liability of the Council to each pension fund. These liabilities are:

- For the Council's own pension fund, the liability of the Council to its fund at 31 March 2011 was £447.5 million, a reduction of £205.7 million from £653.2 million as at 31 March 2010. The reduction is due to the effect of the Government requiring future pensions' increases to rise in line with CPI rather than RPI, £152.0 million (see Note 6 page 40), actuarial gains of £68.8 million, offset by £15.1 million from costs required under IAS 19 being higher than the actual level of contributions made in the year

- The liability of the Council to the LPFA reduced by £21.6million, from £25.4 million to £3.8 million at 31 March 2011, as advised by the LPFA's actuary. The reduction is also due to the Government requiring future pensions' increases to rise in line with CPI rather than RPI, £4.2 million, actuarial gains of £17.9 million, offset by £0.5 million from costs required under IAS 19 being higher than the actual level of contributions made in the year
- The TPA is run on a different basis from the others above, and is not required to be accounted for in this way under IAS 19. There is no separate liability included in the Council's accounts.

8.3. 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 2010, giving an actuarial present value of promised retirement benefits to be £612.2 million (£330.1 million at the last valuation of 31 March 2007. From this, the actuary recommended to the Council, as employer, a revised contribution structure, the details of which are given in the Pension Fund Accounts, Note 5 page 109.

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 Finance Director

- 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 Finance Director's responsibilities

The Finance Director 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 2010/11 (the Code).

In preparing the Statement of Accounts, the Finance Director has:

- Selected suitable accounting policies and then applied them consistently

- Made judgements and estimates that were reasonable and prudent

- Complied with the local authority Code

The Finance Director 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.

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 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 undertaken by the Council.

MOVEMENT IN RESERVES, 2009/10

	General Fund Balance £000	Earmarked General Fund Reserves £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 2009	**18,271**	**85,771**	**18,176**	**4,680**	**37,988**	**9,605**	**174,491**	**2,001,579**	**2,176,070**
Movement in reserves during the year									
Surplus/(deficit) on the provision of services	(19,985)		(58,413)				(78,398)		(78,398)
Other Comprehensive Income and Expenditure								(7,220)	(7,220)
Total Comprehensive Income and Expenditure	**(19,985)**		**(58,413)**	**0**	**0**	**0**	**(78,398)**	**(7,220)**	**(85,618)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	13,147		54,361	6,701	(32,346)	6,240	48,103	(48,103)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	**(6,838)**	**0**	**(4,052)**	**6,701**	**(32,346)**	**6,240**	**(30,295)**	**(55,323)**	**(85,618)**
Transfers to/(from) earmarked reserves	6,763	(6,763)	0	0	0	0	0	0	0
Increase/(Decrease) in Year	**(75)**	**(6,763)**	**(4,052)**	**6,701**	**(32,346)**	**6,240**	**(30,295)**	**(55,323)**	**(85,618)**
Balance as at 31 March 2010	**18,196**	**79,008**	**14,124**	**11,381**	**5,642**	**15,845**	**144,196**	**1,946,256**	**2,090,452**

MOVEMENT IN RESERVES, 2010/11

	General Fund Balance £000	Earmarked General Fund Reserves £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 2010	**18,196**	**79,008**	**14,124**	**11,381**	**5,642**	**15,845**	**144,196**	**1,946,256**	**2,090,452**
Movement in reserves during the year									
Surplus/(deficit) on the provision of services	107,433		(465,773)				(358,340)		(358,340)
Other Comprehensive Income and Expenditure								17,684	17,684
Total Comprehensive Income and Expenditure	**107,433**	**0**	**(465,773)**	**0**	**0**	**0**	**(358,340)**	**17,684**	**(340,656)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	(102,662)	0	472,226	(3,185)	30,237	(6,922)	389,694	(389,694)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	**4,771**	**0**	**6,453**	**(3,185)**	**30,237**	**(6,922)**	**31,354**	**(372,010)**	**(340,656)**
Transfers to/(from) earmarked reserves	(4,771)	4,771	0	0	0	0	0	0	0
Increase/(Decrease) in Year	**0**	**4,771**	**6,453**	**(3,185)**	**30,237**	**(6,922)**	**31,354**	**(372,010)**	**(340,656)**
Balance as at 31 March 2011	**18,196**	**83,779**	**20,577**	**8,196**	**35,879**	**8,923**	**175,550**	**1,574,246**	**1,749,796**

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.

				2010/11			2009/10
		£000	£000	£000	£000	£000	£000
	Notes	Expenditure	Income	Net	Expenditure	Income	Net
Central services		73,623	(42,081)	31,542	59,928	(40,811)	19,117
Cultural, environmental, regulatory and planning services		122,828	(18,271)	104,557	130,978	(21,091)	109,887
Children And Educational Services		393,124	(253,687)	139,437	361,471	(245,963)	115,508
Highways and transport services		33,769	(13,577)	20,192	28,849	(13,320)	15,529
Local authority housing (HRA)		203,527	(257,675)	(54,148)	208,525	(256,575)	(48,050)
Impairment of HRA assets	6	485,437	0	485,437	69,991	0	69,991
Other housing services		228,821	(202,597)	26,224	224,846	(215,421)	9,425
Adult Social Care		114,744	(15,236)	99,508	115,802	(15,105)	100,697
Corporate and democratic core		9,835	(1,442)	8,393	14,194	(1,351)	12,843
Non distributed costs	6	(156,170)	0	(156,170)	7,141	0	7,141
(Surplus)/Deficit on Continuing Operations		**1,509,538**	**(804,566)**	**704,972**	**1,221,725**	**(809,637)**	**412,088**
Other Operating Expenditure	12			29,591			(1,761)
Financing and Investment Income and Expenditure	13			66,406			80,075
Taxation and Non-Specific Grant Income	14			(442,629)			(412,004)
(Surplus)/Deficit on Provision of Services				**358,340**			**78,398**
(Surplus)/deficit on revaluation of non current assets	15			68,920			(193,400)
(Surplus)/deficit on revaluation of available for sale financial assets	25.9			137			1,021
Actuarial (gain)/losses on pension assets/liabilities	44			(86,741)			199,599
Other Comprehensive Income and Expenditure				**(17,684)**			**7,220**
Total Comprehensive Income and Expenditure				**340,656**			**85,618**

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	**31/3/2011**	**31/3/2010**	**1/4/2009**
		£000	£000	£000
Property, Plant & Equipment	15	2,633,606	3,174,947	3,019,100
Investment Property	16	97,420	93,214	96,128
Intangible Assets	17	1,445	1,561	2,829
Assets held for sale	21	88,605	114,076	74,624
Long Term Investments	18	32,917	23,507	65,139
Long Term Debtors	19	2,822	2,413	2,122
Long Term Assets		**2,856,815**	**3,409,718**	**3,259,942**
Short Term Investments	18	141,354	146,696	154,332
Inventories		946	1,046	1,135
Short Term Debtors	19	98,958	111,866	106,906
Cash and Cash Equivalents	20	47,036	15,166	26,596
Assets held for sale	21	30,707	39,062	47,961
Current Assets		**319,001**	**313,836**	**336,930**
Short Term Borrowing	18	9,081	9,081	9,081
Short Term Creditors	22	103,333	94,411	117,680
Provisions	23	2,328	4,126	241
Grants receipts in advance	36	46,108	49,443	45,939
Current Liabilities		**160,850**	**157,061**	**172,941**
Long Term Creditors	22	9,185	6,026	5,557
Provisions	23	7,176	6,544	14,472
Long Term Borrowing	18	761,709	761,709	761,709
Pension Liabilities	44	456,274	682,744	450,262
Other Long Term Liabilities	45	30,826	19,018	15,861
Long Term Liabilities		**1,265,170**	**1,476,041**	**1,247,861**
Net Assets		**1,749,796**	**2,090,452**	**2,176,070**
Usable reserves	24	175,550	144,196	174,491
Unusable Reserves	25	1,574,246	1,946,256	2,001,579
Total Reserves		**1,749,796**	**2,090,452**	**2,176,070**

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	2010/11 £000	2009/10 £000
Net surplus/(deficit) on the provision of services		(358,340)	(78,398)
Adjustment to surplus/(deficit) on the provision of services for noncash movements	26	458,059	162,071
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	26	(124,066)	(124,556)
Net cash flows from operating activities		(24,347)	(40,883)
Net cash flows from investing activities	27	57,718	31,331
Net cash flows from financing Activities	28	(1,501)	(1,878)
Net increase/(decrease) in cash and cash equivalents		**31,870**	**(11,430)**
Cash and cash equivalents at the beginning of the reporting period		15,166	26,596
Cash and cash equivalents at the end of the reporting period		**47,036**	**15,166**

NOTES TO THE ACCOUNTS

1. FIRST-TIME ADOPTION OF IFRS

1.1. These are the Council's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 April 2009.

1.2. The Council's IFRS accounting policies presented in Note 2 have been applied in preparing the financial statements for the year ended 31 March 2011, the comparative information and the opening statement of financial position at the date of transition.

1.3. The Council has applied the IFRS 1 First-time Adoption of International Financial Reporting Standards in preparing these first IFRS compliant financial statements, except in cases where interpretations or adaptations to fit the public sector, have been prescribed by the Code of Practice on Local Authority Accounting (The Code). Material differences between amounts presented under the SORP 2009 and the IFRS-based Code are explained below.

Government grants

1.4. Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised (amortised) as income over the life of the assets which they were used to fund.

1.5. As a result of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures
- In the case of a grant received in 2009/10 but not used - previously, no income was recognised in respect of this grant, which was shown in the Government Grants Deferred Account within the liabilities section of the balance sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.

1.6. These have resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Grants Deferred Account	113,597	(113,597)
Capital Adjustment Account	2,148,098	113,597
Capital Grants Unapplied (liabilities)	55,545	(9,605)
Capital Grants Unapplied Account (reserves)	0	9,605
31 March 2010 Balance Sheet		
Grants Deferred Account	151,012	(37,415)
Capital Adjustment Account	2,122,012	37,415
Capital Grants Unapplied (liabilities)	65,288	(6,240)
Capital Grants Unapplied Account (reserves)	0	6,240
2009/10 General Fund Summary		
Central services to the public	19,276	2,380
Cultural, environmental, regulatory & planning services	102,735	5,223
Education and children's services	109,105	6,866
Highways and transport services	13,332	2,189
Local authority housing (HRA)	7,990	9,692
Adult social care	101,023	805
Taxation and non-specific grant income	341,214	70,790

1.7. There is no change to the General Fund balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

Short Term Accumulating Absences

1.8. Short-term accumulating compensated absences refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

1.9. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

1.10. Regulations have been issued that mean councils are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

1.11. Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Short Term Creditors	110,845	6,907
Accumulated Absences Account	0	6,907
31 March 2010 Balance Sheet		
Short Term Creditors	87,443	352
Accumulated Absences Account	0	352
2009/10 General Fund Summary		
Central services to the public	19,276	94
Cultural, environmental, regulatory & planning services	102,735	(1)
Education and children's services	109,105	232
Highways and transport services	13,332	6
Local authority housing (HRA)	7,990	3
Other housing services	8,303	12
Adult social care	101,023	(2)
Corporate and democratic core	12,844	6
Trading undertakings not included in Net Cost of Services	122	1

Finance leases-Plant & Equipment (Council is Lessee)

1.12. Under previous accounting arrangements certain leases of equipment were classified as operating leases. These leases are finance leases under the IFRS Code. The effect is to increase property, plant and equipment at the date of transition by £3.951 million, and by £3.775 million at 31 March 2010, and to increase Deferred Liabilities by £3.951 million at the date of transition, and by £3.817 million at 31 March 2010. The effect on the CIES for 2009/10 is to increase depreciation charges by £1.050 million, increase finance costs by £504,000 and decrease service expenditure by £1.964 million (with the lease repayments previously accounted for as operating leases).

2. ACCOUNTING POLICIES

General Principles

2.1. The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, 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 2010/11 and the Best Value Accounting Code of Practice 2010/11, 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

2.2. 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
- 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 on 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.

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

2.4. For year-end purposes a de minimis of £5,000 applies for accruals of income and expenditure, except for capital expenditure accruals where a de minimis of £50,000 applies.

Cash and Cash Equivalents

2.5. 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.

Exceptional Items

2.6. 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

2.7. 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

2.8. 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.

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

Charges to Revenue for Non-Current Assets

2.10. 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 written off
- amortisation of intangible assets attributable to the service.

2.11. 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.

Employee Benefits - Benefits Payable During Employment

2.12. 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

2.13. Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy 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.

2.14. 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

2.15. 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 Find Authority.

2.16. 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 44 to the Accounts set out the discount rates and assumptions applied by each fund.

2.17. The assets of fund 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.

2.18. 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
- 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

2.19. 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.

2.20. 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

2.21. 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.

2.22. 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.

2.23. On this basis, no liability for the future payments of benefit is recognised in the Balance Sheet. The Children's and Education 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

2.24. 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.

2.25. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Instruments

2.26. 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.

2.27. 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.

2.28. 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/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.

2.29. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. 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.

2.30. 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.

2.31. 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.

2.32. However, the Council has made a number of loans 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 voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. 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.

2.33. 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, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. 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.

2.34. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2.35. 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.

2.36. 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.

2.37. 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.

2.38. 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).

2.39. 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.

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

Foreign Currency Translation

2.41. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Government Grants and Contributions

2.42. 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.

2.43. Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account 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.

2.44. 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.

2.45. 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.

2.46. Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

2.47. 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.

Intangible Assets

2.48. Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

2.49. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

2.50. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

2.51. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

2.52. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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.

Inventories and Long Term Contracts

2.53. Stocks and stores are recorded and charged in the Accounts at average price.

2.54. 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

2.55. 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.

2.56. 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.

2.57. 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.

Jointly Controlled Operations and Jointly Controlled Assets

2.58. Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

2.59. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Leases

2.60. 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.

2.61. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

2.62. 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

2.63. 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.

2.64. 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).

2.65. 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).

2.66. 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

2.67. 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

2.68. 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.

2.69. 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).

2.70. 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.

2.71. 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.

The Council as Lessor – Operating Leases

2.72. 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

2.73. The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). 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.

2.74. These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Property, Plant and Equipment

2.75. 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

2.76. 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.

2.77. 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). However, the value of General Fund assets and HRA non-dwellings is deemed not to have been enhanced if the value of capital works on an individual asset is less than £10,000. This expenditure is written out to the Income and Expenditure Account. If the amount of expenditure on an individual asset is above £100,000, details of the works are provided to the Valuer with a request to revalue the asset. As the majority of non-dwelling assets are valued at Depreciated Historic cost (DHC), assets where there is spend between £10,000 and £100,000 are deemed to have been enhanced to this value and are revalued as part of the rolling programme.

Property, Plant and Equipment - Measurement

2.78. 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

2.79. 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.

2.80. 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).

2.81. 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:

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

2.82. The effective date of annual revaluations and of the rolling cycle of revaluations is 01 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.

2.83. 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.

2.84. Where decreases in value are identified, they are accounted for by:

- 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.

2.85. 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 - Impairment

2.86. 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.

2.87. Where impairment losses are identified, they are accounted for by:

- 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.

2.88. 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

2.89. 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).

2.90. Deprecation is calculated on the following bases:

- Council housing – based on the Government assessed value for the Major Repairs Allowance, otherwise 40 years
- Other land and buildings, 24 – 100 years
- Vehicles, plant and equipment, 7 years
- Infrastructure assets, 40 years
- Community assets, 10 – 100 years
- Intangible assets 3 years.

2.91. Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Code of Practice requires that this accounting practice applies from 2010/11 only, and be applied incrementally as components are replaced, which is a departure from other changes to accounting practice which would require the accounting practice be applied retrospectively to comparative periods (see Note 2.8). In 2010/11 land and building components have been separated for all assets apart from HRA dwellings, and incrementally componentised as a result of material capital expenditure incurred.

2.92. 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.

Property, Plant and Equipment - Disposals and Non-Current Assets Held for Sale

2.93. 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 previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

2.94. 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.

2.95. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

2.96. 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.

2.97. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

2.98. 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

2.99. 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.

2.100. 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

2.101. 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

2.102. 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.

2.103. 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.

2.104. 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.

2.105. 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.

2.106. 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.

2.107. 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.

2.108. 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.

2.109. 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

2.110. 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.

2.111. 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

2.112. 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 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

2.113. 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.

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

3.1. In 2011/12 the Code will require a change in accounting policy to comply with the accounting standard FRS 30, Heritage Assets. The change will introduce a new asset class in the Balance Sheet of heritage assets. Heritage assets held by the Council are not currently included in the Accounts.

Heritage assets held by the Council

3.2. The Council's heritage assets comprise some 50,000 items in three main collections. They are managed and cared for by the Cuming Museum and Southwark Local History Library, and are known as; the Cuming Museum collection, the Southwark Art collection, and the Local History Library image collection.

3.3. The Cuming Collection has at its core the Cuming Family Bequest collection including many special objects from all over the world, curiosities, ancient history, archeology, social history, 19th century English popular art and natural history. It is an intact 19th century 'Cabinet of Curiosities' collection, one of very few still in existence.

3.4. The Southwark Art Collection, which was formally housed at the South London Gallery, contains a variety of fine art including approximately 250 Victorian oil and water-colour paintings and around 2000 works on paper, including prints. The works on paper are mainly local and topographical. The prints are particularly important, being a largely unique collection of contemporary British print making from the 1950s and 1960s. The collection also includes contemporary art by artists connected with South London.

3.5. The Southwark Local History Library's collection features images of the history of Southwark of 20,000 photographs, watercolours and prints. They provide a vivid visual record of Southwark over the last 200 years. Southwark's range of historical experience is a story vividly told through surviving historical documents, maps, books, photographs, and illustrations.

Valuation

3.6. The assets are not currently valued separately, and are not included within the Balance Sheet. However, the portfolio it is estimated at £9.6 million for insurance purposes.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

St Michael's Catholic College

4.1. St Michael's is a new build voluntary-aided secondary school, that 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.

4.2. The asset of St Michael's has been recognised in the Council's Balance Sheet in 2010/11 on becoming operational, as a leased asset within Property, Plant and Equipment, in a value of £17.026 million. A matching long term liability has been recognised, which will be reduced by the capital components within the unitary payments for services to 4 Futures Ltd over the life of the contract.

4.3. Under the Code, the assets of voluntary aided schools are deemed not to be assets of the Council. However, under the PFI arrangement to deliver the new school, the Council is deemed to be the principal in the arrangement, and on that basis the asset has been recognised in the Council's Accounts, accounted for as a finance lease arrangement. See Note 40 for further information.

5. ACCOUNTING ESTIMATES

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

Property, Plant & Equipment

5.2. Assets held in Property, Plant & Equipment are measured at fair value, except for the categories of infrastructure, community assets and assets under construction which are held at depreciated historical cost. Assets held at fair value are therefore subject to judgements which could change the value of assets in the Balance Sheet:

- Valuation methodologies. The Council adopts the valuation methodologies as recommended by the Code, and these are applied by a fully RICS qualified valuer, following professional standards as set out in the RICS Red Book
- Currency of valuations. HRA stock and other assets are valued annually. General Fund assets are valued on a 5 year rolling cycle. General Fund assets are valued earlier than required in the cycle in the event of capital works enhancing an asset, a change of use of the asset, a movement between categories (e.g. to Held for Sale), or in the case of physical impairment
- Market factors. Fair value reflects movements in the property market. If the property market changes in a sector or as a whole, then additional valuations are carried out to ensure fair value is maintained
- External influence over valuation methodologies. The selection of valuation methodologies can be changed or influenced by external bodies or actions, e.g. changes in accounting standards (see Note 3), or changes in the basis of the valuation methodology, e.g. see Note 6 where the Government has changed discount factors in assessing the fair value of council dwellings.

5.3. Changes in the fair value of assets do not have an effect on the resources of the Council, as any movement in value charged to the CIES is reversed out to Capital Adjustment Account.

5.4. Assets are depreciated over useful lives that are dependent on a number of assumptions which include the valuation methodologies applied by the professional valuer, the level of usage of an asset, and assumptions about the ability to maintain and repair the asset. Changes estimate of useful life and the resulting depreciation charges to the do not have an effect on the resources of the Council, as all depreciation charges to the CIES are reversed out to Capital Adjustment Account. The size of change that could arise as a result of changes in estimates include:

- HRA dwelling depreciation is calculated using the Government's assessment of Major Repairs Allowance, being their estimate of the spend needed to preserve the stock in its current condition. With the HRA moving to a self-financing in 2012/13, the MRA basis will no longer apply. The Borough Valuer estimates that the housing dwelling stock has an average life of 40 years, which would give a difference in depreciation charge at current levels of an additional £7.686 million. A reduction in the estimate of useful life by 1 year to 39 years would increase depreciation by a further £1.160 million.
- The average life of HRA non-dwelling assets is 27.7 years. If the assumptions were to reduce the average life by 1 year, the depreciation charge to the HRA would increase by £68,000.
- General Fund assets are depreciated over a variety of periods, as set out in the accounting policies. The weighted average is 34.9 years. If this average was reduced by one year, the depreciation charge to the General Fund is estimated to increase by £195,000.

Financial Instruments

5.5. All Council borrowing outstanding at 31 March 2011 is at fixed rates, with an average maturity of 21 years and a modified duration of 11 (modified duration is a number which includes interest rate risk in its calculation, and is used in making risk assessments in treasury management decisions). No debt falls for refinance until 2014 (see the debt maturity chart in the Explanatory Foreword, page 11) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £86 million, a 1% fall raises it by £126 million. As debt is held at amortised cost there would be no impact on the Income and Expenditure Account from such changes, unless the debt is extinguished. Legislation would then require the charge to be taken to the Financial Instruments Adjustment Account.

5.6. The overall average life of financial assets (i.e. the Council's investments) is 0.70 years and the modified duration is 0.70. Within that, the available-for-sale investments have an average life of 0.8 years and a modified duration of 0.8. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £1.20 million, which is reflected in the Balance Sheet in the available-for-sale reserve. There is no impact on the Income and Expenditure Account, unless the investment is realised. A 1% change in rates on loans and receivable investments at the Balance Sheet date changes the fair value by £0.03 million, but as these are held at amortised cost there is no impact on the Balance Sheet or Income and Expenditure Account unless the investment is extinguished.

Impairment of debtors (Bad Debt Provisions)

5.7. At 31 March 2011, the Council had a balance of short term debtors of £145.562 million. The different classes of debtors within that balance are individually assessed to determine any potential impairment losses as a result of not being able to collect the moneys due, and the balance of debtors at 31 March 2011 was reduced by £46.604 million, an average of 32% of the total debtor balance. If collection rates were to deteriorate, an increase of 1% in non-collection would require an additional £1.456 million to be set aside as an allowance for the impairment of debtors:

	£000
Council Tax	272
Housing Rents	149
Housing Benefit Overpayments	155
Sundry Debtors	880
	1,456

Long term obligations - PFI and similar schemes

5.8. The Council has entered a number of long term contracts to provide services and assets under PFI and scheme of a similar nature, as set out in Note 40. These contracts commit the Council to significant levels of contract payments over the lives of the contracts. At 31 March 2011, the future obligation to make payments totals £933 million, of which £30.489 million falls in 2011/12.

5.9. 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 contacts (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.

5.10. 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

5.11. The Council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2011 the outstanding liability was assessed at £456 million. For the two 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 44.

5.12. The estimates can be affected by a number of factors:

- Changes in accounting standards. IAS 19 sets out the framework for the calculation of the estimation of liability. Changes in the standard, or the introduction of new standards, can change the framework and therefore the liability to be recognised in the Accounts
- The Government can influence or prescribe factors to be taken into account in implementing IAS 19 as interpreted by the Code. Note 6 sets out how the Government has moved future pension increases from being based on RPI to CPI. This has the effect of reducing the estimate in the growth of pension payments and therefore reduced the amounts to be recognised as the outstanding liability to meet those payments
- Actuarial assumptions in assessing the growth in pension fund assts and liabilities. The assumptions are set out in Note 44.

5.13. For the outstanding liability towards the London Borough of Southwark pension fund (£453 million of the total £456 million liability), the actuary to the fund has assessed that the effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £101.5 million. However, the assumptions interact in complex ways. During 2010/11, the actuaries advised that the net pensions liability had decreased by £93.6 million as a result of estimates being corrected as a result of experience and increased by £4.3 million attributable to updating of the assumptions.

Council tax surplus/deficit

5.14. 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. It is also required to apportion the surplus or deficit between authorities according to their respective proportion of the total for demands and precepts for that year. 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.

Landfill Allowances Trading Scheme (LATS)

5.15. The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) such as the Council to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS). The Government allocates an allowance each year to each council for landfill. If more landfill is needed in a year, a WDA must purchase an allowance from other authorities or pay a penalty. Any allowances not used in a year can be carried forward or sold within the trading scheme. The scheme came into effect for the first time in 2005/06.

5.16. The value of a LATS unit has been assessed at £nil in 2010/11 (£nil in 2009/10) due the lack of regular trades in the year through DEFRA, and the inability to dispose of surplus LATS at the year end. Despite being valued at £nil, there were 15,045 LATS units unapplied at 31 March 2011 (14,377 at 31 March 2010).

Rental income from Council dwellings

5.17. In 2010/11 the Council changed the estimation in calculating dwelling rental income attributable to the year. Previously, the last rent run of the financial year was analysed to determine how many days of the rent run fell into which financial year. In 2010/11 the basis of estimation was moved to recognising the rent run in period the debtors are raised. This is more consistent with accruals accounting and the calculation of housing benefits paid housing benefit subsidy received. The impact of this change in estimation in 2010/11 was £311,000 reduction in rent debtors and £311,000 reduction in the HRA balance carried forward. There will be no material effects in later years as a result of this change.

6. MATERIAL ITEMS OF INCOME AND EXPENSE

6.1. The Council follows the Government's prescribed methodology in the valuation of council dwellings, as set out in guidance issued by the Department of Communities and Local Government. This methodology applies a regional discount factor to the market value of the dwellings to arrive at the valuation of the stock, representing the Existing Use Value – Social Housing (EUV-SH).

6.2. In 2010/11 the Government changed the discount rate to be applied to dwellings valuations, from 37% of market value to 25%. This has had a material impact (reduction) on the value of council dwellings, leading to an overall impairment charge £485.437 million (£69.991 million 2009/10). Under the Code this value is required to be included in the Comprehensive Income and Expenditure Statement, within the HRA Surplus/Deficit on Continuing Operations. As this is a significant item of expenditure, impairments of housing assets have been disclosed separately in the CIES statement.

6.3. This charge to the HRA is reversed in the Movement in Reserve Statement to the Capital Adjustment Account within Unusable reserves, and has no effect on the Council's resources. As this is a change in accounting estimates, prior periods are not required to be adjusted; impairments in the comparative figures for 2009/10 reflect other impairment consequences, e.g. changes in market values within the reporting year, or the change in the condition of assets within the year.

6.4. On 22 June 2010 the Government announced that increases to local government pensions in payment and deferred pensions will be linked to annual increases in the Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI). Since, over the long term, CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the defined benefit obligation on the Balance Sheet. The change also reduces this (and future) periods' current service cost and interest cost.

6.5. The Council contributes to two pension funds, the Council's own and that of the London Pension Fund Authority. In both cases, the actuaries to each fund assessed the liabilities in the Accounts with the change effective from the date of the Government's announcement. The impact of the change to CPI indexation of pension increases is recognised this as a (negative) past service cost reflecting the reduction in the constructive obligation. The past service cost appears in the charges to Surplus or Deficit on the Provision of Services for the accounting period. In 2010/11 the Past Service Cost is a net income of £156.2 million (expense of £7.1 million in 2009/10). The Council does not benefit from this income from the reduction in outstanding liability, as it is reversed in the Movement in Reserves Statement to the Pension Reserve in Unusable Reserves.

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 the draft statements.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2009/10	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	43,601	111,608				(155,209)
Movements in the market value of Investment Properties	124	(644)				520
Amortisation of intangible assets	1,334					(1,334)
Capital grants and receipts applied	(55,931)	(8,618)				64,549
Revenue expenditure funded from capital under statute	7,578	2,017				(9,595)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	21,648	27,660				(49,308)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(5,644)	(84)				5,728
Capital expenditure charged against the General Fund and HRA balances	(692)	(9,050)				9,742
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(6,240)				6,240	0
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(23,203)	(30,563)		53,766		0
Use of the Capital Receipts Reserve to finance new capital expenditure				(85,473)		85,473
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		607		(607)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	32			(32)		0
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(37,106)	37,106			0
Use of the Major Repairs Reserve to finance new capital expenditure			(30,405)			30,405
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	(34)	(5,673)				5,707

2009/10	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
statutory requirements						
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 44)	55,240	7,926				(63,166)
Employer's pensions contributions and direct payments to pensioners payable in the year	(26,561)	(3,722)				30,283
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	1,546					(1,546)
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	349	3				(352)
Total adjustments	**13,147**	**54,361**	**6,701**	**(32,346)**	**6,240**	**(48,103)**

2010/11	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	67,940	525,231				(593,171)
Movements in the market value of Investment Properties	2,812	(513)				(2,299)
Amortisation of intangible assets	705					(705)
Capital grants and contributions applied	(73,896)	(4,156)				78,052
Revenue expenditure funded from capital under statute	17,356	1,601				(18,957)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	52,596	23,987				(76,583)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(5,017)	(79)				5,096
Capital expenditure charged against the General Fund and HRA balances	(6,197)	(7,020)				13,217
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0			(6,922)	6,922
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	(17,601)	(29,078)		46,679		0
Use of the Capital Receipts Reserve to finance new capital expenditure				(15,242)		15,242
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		665		(665)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		535		(535)		0
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(37,575)	37,575			0
Use of the Major Repairs Reserve to finance new capital expenditure			(40,760)			40,760

2010/11	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(204)	(3,542)				3,746
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 44)	(115,915)	6,813				109,102
Employer's pensions contributions and direct payments to pensioners payable in the year	(25,957)	(4,670)				30,627
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	819					(819)
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	(103)	27				76
Total adjustments	**(102,662)**	**472,226**	**(3,185)**	**30,237**	**(6,922)**	**(389,694)**

9. RESERVES INTENDED TO SUPPORT REVENUE COMMITMENTS, PROJECTS AND ACTIVITIES

	Balances as at 01 April 2009	Transfers In	Transfers Out	**Balances as at 31 March 2010**	Transfers In	Transfers Out	**Balances as at 31 March 2011**
	£000	£000	£000	£000	£000	£000	£000
Modernisation, service & operational improvement	13,768	3,706	(13,820)	3,654	5,706	(2,053)	7,307
Financial risk	10,060	0	(2,125)	7,935	850	(587)	8,198
Waste PFI Equalisation Reserve	3,014	2,465	0	5,479	3,600	0	9,079
Insurance	8,322	839	0	9,161	287	(1,576)	7,872
Dedicated Schools Grant Reserve	4,082	1,454	(1,526)	4,010	2,361	(1,552)	4,819
Future pensions commitments & LPFA liability	0	0	0	0	4,452	0	4,452
Interest equalisation	4,000	0	0	4,000	0	0	4,000
Council Tax and Housing Benefits Subsidy Equalisation	6,489	0	(861)	5,628	98	(4,071)	1,655
Procurement and Contract Management	871	0	0	871	0	0	871
Schools in financial difficulties, schools closures and academies	665	0	0	665	187	0	852
Management and Administration of Elections	409	0	0	409	0	0	409
Unaccompanied Asylum Seeking Children Equalisation	388	0	0	388	0	0	388
Internal audit & anti fraud	275	0	0	275	47	0	322
Early Years Review	0	300	0	300	0	0	300
Youth Service Restructure	250	0	0	250	0	0	250
Neighbourhoods Team Review	0	0	0	0	250	0	250
Customer Service and Customer Access Development’	466	0	0	466	0	0	466
Housing and Planning Delivery Grant Development	0	672	0	672	0	(463)	209
SALIX energy efficiency	0	100	0	100	100	0	200
Homelessness	0		0	0	200		200
Legal & Democratic Services improvement programme	51	75	0	126	60	0	186
General Litigation Costs	172	0	0	172	0	0	172
Equalities and Cohesion Development	0	0	0	0	162	0	162
Blackfriars trust allocation	138	0	0	138	0	0	138
Street Trading	110	0	0	110	0	0	110
Signage	108	0	0	108	0	0	108
European Grant Funding Equalisation Reserve	190	0	0	190	0	(168)	22
Future pensions commitments	3,000	0	0	3,000	0	(3,000)	0
Planned Maintenance Fund	333	0	0	333	0	(333)	0
Peckham Pulse	311	0	(46)	265	0	(265)	0
GIS	130	0	0	130	0	(130)	0
Canada Water Library	0	513	0	513	0	(513)	0
Strategic Services management and development	150	0	0	150	0	(150)	0
Adult Learning	(136)	136	0	0	0	0	0
London Pensions Fund Authority	0	452	0	452	1,000	(1,452)	0
Area Based Grant	1,107	0	(257)	850	0	(850)	0
Street trading account	(519)	0	(301)	(820)	0	0	(820)
Revenue grants	71	290	(71)	290	199	(290)	199
Other reserves individually less than £100,000	734	324	(64)	994	134	(554)	574
Schools' balances							
- Funds held by schools	12,706		(3,724)	8,982	950		9,932
- Funds held by nursery schools	1,145		(249)	896		(310)	586
- Funds held by pupil referral units	236			236			236
Total	**73,096**	**11,326**	**(23,044)**	**61,378**	**20,643**	**(18,317)**	**63,704**

10. RESERVES TO SUPPORT THE CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT

10.1. The following reserves are balances that have been set aside to meet the Council's committed capital programme.

	Balances as at 01 April 2009	Transfers In	Transfers Out	**Balances as at 31 March 2010**	Transfers In	Transfers Out	**Balances as at 31 March 2011**
	£000	£000	£000	£000	£000	£000	£000
Modernisation, service & operational improvement	0	744	(744)	0	1,924	(1,924)	0
Regeneration & development	6,382	5,605	(2,347)	9,640	598	(3,211)	7,027
Capital contingency	2,703	0	0	2,703	0	(472)	2,231
Aylesbury Development	705	1,539	0	2,244	1,000	(140)	3,104
IT modernisation fund	1,500	0	0	1,500	335	0	1,835
Cator Street development	370	354	(370)	354	0	0	354
Sumner Road & East Dulwich Refurbishment	350	0	0	350	0	0	350
Resource Centre	86	175	0	261	0	0	261
Local Public Sector Agreements	578	0	0	578	0	0	578
Performance reward grant	0	0	0	0	4,335	0	4,335
	12,674	**8,417**	**(3,461)**	**17,630**	**8,192**	**(5,747)**	**20,075**

11. TOTAL EARMARKED RESERVES

	Balances as at 01 April 2009	Transfers In	Transfers Out	**Balances as at 31 March 2010**	Transfers In	Transfers Out	**Balances as at 31 March 2011**
	£000	£000	£000	£000	£000	£000	£000
Reserves Intended To Support Revenue Commitments, Projects and Activities	73,096	11,326	(23,044)	61,378	20,643	(18,317)	63,704
Reserves To Support the Capital Programme and other Capital Investment	12,674	8,417	(3,461)	17,630	8,192	(5,747)	20,075
Total earmarked reserves	**85,770**	**19,743**	**(26,505)**	**79,008**	**28,835**	**(24,064)**	**83,779**

12. OTHER OPERATING EXPENDITURE

	2010/11 £000	2009/10 £000
Levies	1,675	1,638
Payment to the Government Housing Capital Receipts Pool	535	32
(Gains)/losses on the disposal of non-current assets	27,381	(3,431)
Total Other Operating Expenditure	**29,591**	**(1,761)**

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	Note	2010/11 £000	2009/10 £000
Interest payable and similar charges		54,720	54,365
Pensions interest cost and expected return on pensions assets		17,364	33,845
Interest receivable and similar income		(2,587)	(5,318)
Income and expenditure in relation to investment properties and changes in their fair value	13.1 & 16	(3,614)	(2,916)
Other investment income and expenditure	13.2	523	99
Total Taxation and Non-Specific Grant Income		**66,406**	**80,075**

13.1. 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.

13.2. Other investment income and expenditure comprises the loss arising from trading operations, see Note 30.

14. TAXATION AND NON-SPECIFIC GRANT INCOME

	Note	2010/11 £000	2009/10 £000
Council Tax Income		(88,360)	(86,250)
NDR Redistribution		(201,473)	(184,721)
Non-ringfenced government grants	14.1	(74,744)	(70,243)
Capital Grants	14.2	(78,052)	(70,790)
Total Taxation and Non-Specific Grant Income		**(442,629)**	**(412,004)**

14.1. Analysis of non-ringfenced government grants:

	2010/11 £000	2009/10 £000
Revenue Support Grant	(29,256)	(42,636)
Local Authority Business Growth Incentive	0	(390)
Housing & Planning delivery	0	(1,200)
Performance Reward Grant	(4,334)	0
Area Based Grants	(41,154)	(26,017)
Total	**(74,744)**	**(70,243)**

14.2. Analysis of capital grants:

	2010/11 £000	2009/10 £000
Capital grants applied:		
Government and other grants – transfer from receipts in advance and applied in year	(78,052)	(64,550)
Capital grants unapplied:		
Government and other grants – conditions met and not applied	0	(6,240)
Total Capital Grants	**(78,052)**	**(70,790)**

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

2010/11	Council Dwellings	Land	Buildings	Infrastructure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	**TOTAL PP&E**	Investment Properties	Intangible Assets	**TOTAL, ALL ASSETS**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	£000	£000	**£000**
Gross Book Value												
Opening balance	2,614,969	270,602	273,468	174,456	33,907	36,785	57,492	6,093	**3,467,772**	96,521	5,780	**3,570,073**
Additions (Note 15.4)	68,933	476	20,154	16,519	1,817	11	62,100	0	**170,010**	0	589	**170,599**
Revaluation increases/(decreases) to Revaluation Reserve	264	9,001	64,685	0	0	1,000	0	0	**74,950**	7,895	0	**82,845**
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(64,630)	0	(54,160)	0	0	(3,765)	0	0	**(122,555)**	(2,253)	0	**(124,808)**
Derecognition – disposals	0	0	(39,317)	0	0	0	0	0	**(39,317)**	0	0	**(39,317)**
Reclassifications & Transfers	(8,609)	0	13,942	0	0	0	0	0	**5,333**	(807)	0	**4,526**
Reclassified to Held for Sale	(6,939)	0	0	0	0	0	0	0	**(6,939)**	0	0	**(6,939)**
Balance as at 31 March 2011	**2,603,988**	**280,079**	**278,772**	**190,975**	**35,724**	**34,031**	**119,592**	**6,093**	**3,549,254**	**101,356**	**6,369**	**3,656,979**
Depreciation and Impairment												
Opening balance	179,357	11,807	54,247	30,392	15,423	1,447	0	152	**292,825**	3,307	4,219	**300,351**
Depreciation Charge	37,575	0	8,594	4,422	4,452	1,234	0	188	**56,465**	0	705	**57,170**
Depreciation written out on Revaluation Reserve	(4,771)	0	(227)	0	0	0	0	0	**(4,998)**	114	0	**(4,884)**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(61,804)	0	(7,069)	0	0	(129)	0	0	**(69,002)**	515	0	**(68,487)**
Impairment losses/(reversals) to Revaluation Reserve	159,284	0	0	0	0	0	0	0	**159,284**	0	0	**159,284**
Impairment losses/(reversals) to Surplus or Deficit on the Provision of Services	482,858	0	0	0	0	0	0	0	**482,858**	0	0	**482,858**
Derecognition – disposals	0	0	(1,798)	0	0	0	0	0	**(1,798)**	0	0	**(1,798)**
Reclassifications and transfers	0	0	14	0	0	0	0	0	**14**	0	0	**14**
Balance as at 31 March 2011	**792,499**	**11,807**	**53,761**	**34,814**	**19,875**	**2,552**	**0**	**340**	**915,648**	**3,936**	**4,924**	**924,508**

2010/11	Council Dwellings	Land	Buildings	Infrastructure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	**TOTAL PP&E**	Investment Properties	Intangible Assets	**TOTAL, ALL ASSETS**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	£000	£000	**£000**
Net Book Value												
Balance as at 31 March 2011	**1,811,489**	**268,272**	**225,011**	**156,161**	**15,849**	**31,479**	**119,592**	**5,753**	**2,633,606**	**97,420**	**1,445**	**2,732,471**
Balance as at 31 March 2010	2,435,612	258,795	219,221	144,064	18,484	35,338	57,492	5,941	3,174,947	93,214	1,561	3,269,722

2009/10

	Council Dwellings	Land	Buildings	Infrastructure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	**Total PP&E**	Investment Properties	Intangible Assets	**TOTAL**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	£000	£000	**£000**
Gross Book Value												
Opening balance	2,316,688	292,567	242,712	153,490	20,891	34,974	11,594	208	**3,073,124**	96,128	5,714	**3,174,966**
Additions (Note 15.4)	94,554	0	18,614	20,966	13,016	1,811	45,898	0	**194,859**	121	66	**195,046**
Revaluation increases/(decreases) to Revaluation Reserve	156,499	0	30,231	0	0	0	0	1,440	**188,170**	6,120	0	**194,290**
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	72,270	0	(1,220)	0	0	0	0	0	**71,050**	1,098	0	**72,148**
Derecognition – Other	(2,801)	0	0	0	0	0	0	0	**(2,801)**	0	0	**(2,801)**
Reclassified to Held for Sale	(22,241)	(21,965)	(16,869)	0	0	0	0	4,445	**(56,630)**	(6,946)	0	**(63,576)**
Balance as at 31 March 2010	**2,614,969**	**270,602**	**273,468**	**174,456**	**33,907**	**36,785**	**57,492**	**6,093**	**3,467,772**	**96,521**	**5,780**	**3,570,073**
Depreciation and Impairment												
Opening balance	144	0	17,712	25,860	9,898	410	0	0	**54,024**	0	2,885	**56,909**
Depreciation Charge	37,106	0	9,102	4,532	5,525	370	0	152	**56,787**	0	1,334	**58,121**
Depreciation written out on Revaluation Reserve	(88)	0	(300)	0	0	0	0	0	**(388)**	586	0	**198**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	0	(7,705)	0	0	0	0	0	**(7,705)**	0	0	**(7,705)**
Impairment losses/(reversals) to Surplus or Deficit on the Provision of Services	142,261	11,807	35,697	0	0	667	0	0	**190,432**	2,721	0	**193,153**
Reclassifications & Transfers	394	0	0	0	0	0	0	0	**394**	0	0	**394**
Eliminated on reclassification to Held for Sale	(460)	0	(259)	0	0	0	0	0	**(719)**	0	0	**(719)**
Balance as at 31 March 2010	**179,357**	**11,807**	**54,247**	**30,392**	**15,423**	**1,447**	**0**	**152**	**292,825**	**3,307**	**4,219**	**300,351**

2009/10	Council Dwellings	Land	Buildings	Infrastructure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	**Total PP&E**	Investment Properties	Intangible Assets	**TOTAL**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	£000	£000	**£000**
Net Book Value												
Balance as at 31 March 2010	**2,435,612**	**258,795**	**219,221**	**144,064**	**18,484**	**35,338**	**57,492**	**5,941**	**3,174,947**	**93,214**	**1,561**	**3,269,722**
Balance as at 31 March 2009	2,316,544	292,567	225,000	127,630	10,993	34,564	11,594	208	**3,019,100**	96,128	2,829	**3,118,057**

15.1. The valuation of assets has been carried out by the Council's internal valuation service, led by Matthew Jackson MRICS BSc.

15.2. The entire housing stock is valued on an annual basis, with estates under development and other potential impairments reviewed during the year. Estates under development will normally increase in value when they become non-operational (surplus assets). This is because operational and non-operational assets are valued using different bases, with the value of a non-operational asset (at market value) typically being higher than the basis for valuing a tenanted property. Impairments have been charged to the Income and Expenditure Account and on to the Capital Adjustment Account.

15.3. Other than the impairment losses arising from the change in valuation methodology for Council dwellings (see Note 6), there were no other significant impairment losses or impairment reversals in 2010/11.

15.4. Summary of capital expenditure and financing

How the money was spent:

	2010/11 £000	2009/10 £000
Children's Services	52,127	21,737
Environment and Housing (excluding HRA)	20,433	32,031
Housing General Fund	5,235	22,915
Regeneration and Major Projects	16,696	17,984
Deputy Chief Executive's Department	1,519	10,262
Health and Community Service	7,836	652
Total General Fund	103,846	105,581
HRA	70,535	96,838
Total	**174,381**	**202,419**

How the expenditure was financed:

	2010/11 £000	2009/10 £000
Revenue contributions	12,745	9,465
Using supported borrowing approvals	20,660	12,526
Using capital receipts received from the sale of assets	15,242	85,473
Specific grants and other contributions	84,974	64,550
Major Repairs Allowance	40,760	30,405
Total	**174,381**	**202,419**

Expenditure by asset class:

	2010/11 £000	2009/10 £000
Fixed assets	155,424	192,824
Revenue expenditure funded by capital under statute	18,957	9,595
Total	**174,381**	**202,419**

15.5. Contractual commitments for the capital programme as at 31 March 2011 can be analysed over the Council's services as follows:

Service	2010/11 £m	2009/10 £m
Children's Services	59.5	39.7
Southwark Schools for future	27.4	3.4
Deputy Chief Executive's department/Finance & Resources department	2.2	5.4
Environment	51.9	43.3
Housing General Fund	6.4	0
Regeneration & Neighbourhoods/ Major Projects	6.4	21.2
Health and Community Service	0	8.2
HRA	91.0	50.7
Total committed programme	**244.8**	**171.9**

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

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

	2010/11 £000	2009/10 £000
Rental income from investment property	(9,478)	(9,560)
Direct operating expenses arising	5,864	6,664
Net (gain)/loss included in Financing & Investment Income in the CIES	(3,614)	(2,916)

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

	2010/11 £000	2009/10 £000
Balance as at 1 April	93,214	96,128
Expenditure incurred	0	121
Net gains/(losses) from fair value adjustments	4,392	3,911
Transfers (to)/from Held for Sale	0	(6,946)
Balance as at 31 March	**97,606**	**93,214**

Properties held under operating leases

16.3. 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 16.1, but being operating leases, are not included with Property, Plant & Equipment.

16.4. The properties held under operating leases are the industrial estates at Sandgate Street and Dockley Road, and Belair Mansion, Gallery Road.

17. INTANGIBLE ASSETS

17.1. The Council accounts for software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted within the hardware item of Property, Plant and Equipment. Intangible assets include both purchased licenses and internally generally software.

17.2. The carrying amount of intangible assets is amortised on a straight-line basis, over a three year period. The amortisation of intangible assets is charged directly to the services using the software or, in the case of corporate wide systems, charged to central budgets and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

	2010/11 £000	2009/10 £000
Gross carrying amounts	5,780	5,714
Accumulated amortisation	(4,219)	(2,885)
Net carrying amount at start of year	**1,561**	**2,829**
Additions:		
Purchases	589	66
	2,150	**2,895**
Amortisation for the period	(705)	(1,334)
Net carrying amount at end of year	**1,445**	**1,561**
Comprising		
Gross carrying amounts	6,369	5,780
Accumulated amortisation	(4,924)	(4,219)
Balance at 31 March	**1,445**	**1,561**

18. FINANCIAL INSTRUMENTS

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

	Long Term			Short Term		
	31/03/2011 £000	31/03/2010 £000	01/04/2009 £000	31/03/2011 £000	31/03/2010 £000	01/04/2009 £000
Investments						
Available for Sale	32,917	23,507	65,139	117,363	123,549	78,650
Loans & Receivables				25,527	24,693	77,308
Less Trust Funds				(1,535)	(1,546)	(1,626)
Cash and cash equivalents				47,036	15,166	26,596
Total Investments	**32,917**	**23,507**	**65,139**	**188,391**	**161,862**	**180,928**
Debtors						
Loans and receivables	2,822	2,413	2,122	79,967	88,932	84,921
Total debtors	**2,822**	**2,413**	**2,122**	**79,967**	**88,932**	**84,921**

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

			Long Term			Short Term
	31/03/2011 £000	31/03/2010 £000	01/04/2009 £000	31/03/2011 £000	31/03/2010 £000	01/04/2009 £000
Borrowings						
Financial Liabilities at Amortised Cost	(761,709)	(761,709)	(761,709)	(54)	(54)	(54)
Accrued Interest				(9,027)	(9,027)	(9,027)
Total Borrowings	**(761,709)**	**(761,709)**	**(761,709)**	**(9,081)**	**(9,081)**	**(9,081)**
Other Long Term Liabilities						
PFI and Finance Lease Liabilities	(25,439)	(11,292)	(11,566)			
Total Other Long Term Liabilities	**(25,439)**	**(11,292)**	**(11,566)**			
Creditors						
Financial Liabilities at Amortised Cost	(9,185)	(6,026)	(5,557)	(93,598)	(85,504)	(109,571)
Total Creditors	**(9,185)**	**(6,026)**	**(5,557)**	**(93,598)**	**(85,504)**	**(109,571)**

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

	2010/11				2009/10			
	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	52,847			52,847	52,848			52,848
Other Charges	57			57	53			53
Total Expenses in Surplus or Deficit on the Provision of Services	**52,904**			**52,904**	**52,901**			**52,901**
Interest Income		(664)	(1,936)	(2,600)		(1,914)	(3,441)	(5,355)
Less Allocated to Other Funds		14		14		38		38
Total Income in Surplus or Deficit on the Provision of Services		**(650)**	**(1,936)**	**(2,586)**		**(1,876)**	**(3,441)**	**(5,317)**
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure			137	137			1,021	1,021
Net Gain/(Loss) for Year	**52,904**	**(650)**	**(1,799)**	**50,455**	**52,901**	**(1,876)**	**(2,420)**	**48,605**

Fair Values of Assets and Liabilities

18.4. Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2011 of 4.5% to 5.5% for loans from the PWLB and 0.5% to 1.0% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

18.5. The fair value of the liabilities is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders below current market rates.

18.6. The fair value of the assets is lower than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest below current market rates.

18.7. Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

	2010/11		2009/10	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Fair values of Assets and Liabilities				
Financial liabilities – long term	(761,709)	(954,459)	(761,709)	(945,794)
Financial liabilities – short term	(9,081)	(9,081)	(9,081)	(9,081)
Creditors – long term	(9,185)	(9,185)	(6,026)	(6,026)
Creditors – short term	(93,598)	(93,598)	(85,504)	(85,504)
Other long term liabilities	(25,439)	(25,439)	(11,292)	(11,292)
Investments – long term	32,917	32,917	23,507	23,507
Investments – short term	188,391	188,391	161,862	161,862
Debtors – long term	2,822	2,822	2,413	2,413
Debtors – short term	79,967	79,967	88,932	88,932
Net Total	**(594,915)**	**(787,665)**	**(596,898)**	**(780,983)**

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

	2010/11 £000	2009/10 £000
Less than 1 year	0	0
Between 1and 5 Years	217,479	137,858
Between 5 and 10 Years	26,000	90,621
Between 10 and 20 Years	184,230	189,230
Over 20 Years	334,000	344,000
Total borrowings	**761,709**	**761,709**

19. DEBTORS

	31/3/2011		31/3/2010	
	Short Term Debtors £000	Long Term Debtors £000	Short Term Debtors £000	Long Term Debtors £000
Central government bodies	30,502	0	35,949	0
Other local authorities	5,289	0	5,595	0
NHS bodies	816	0	427	0
Public corporations and trading funds	0	0	1	0
Other entities and individuals	108,955	2,822	112,134	2,413
Total before impairment	**145,562**	**2,822**	**154,106**	**2,413**
Impairment	(46,604)	0	(42,240)	0
Total net of impairment	**98,958**	**2,822**	**111,866**	**2,413**

20. CASH AND CASH EQUIVALENTS

20.1. The balance of Cash and Cash Equivalents is made up of the following elements. 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.

	2010/11 £000	2009/10 £000
Cash held by the Council	15	21
Bank current accounts	(14,346)	(13,889)
Short-term deposits with banks	61,367	29,034
Total Cash and Cash Equivalents	**47,036**	**15,166**

21. ASSETS HELD FOR SALE

	Current 2010/11 £000	Current 2009/10 £000	Non Current 2010/11 £000	Non Current 2009/10 £000
Balance outstanding at start of year	39,062	47,961	114,076	74,624
Assets newly classified as held for sale:				
Additions	0	0	6	0
Transfers from Other Non Current assets	6,939	22,032	685	43,046
Transferred from Non-Current Assets during year	23,763	16,486	(23,763)	(16,486)
Revaluation gains/(losses) taken to Surplus or deficit on the provision of services	5	544	169	9,044
Revaluation gains/(losses), other	0	0	(2,568)	14,622
Impairment losses	0	0	0	(10,774)
Assets sold	(39,062)	(47,961)	0	0
Balance outstanding at year-end	**30,707**	**39,062**	**88,605**	**114,076**

21.1. On the 26 July 2010 the Cabinet approved a landmark agreement between the Authority and Berkeley Homes on the future development of the vacant site at Potters Fields, in London's South Bank. The site sits next to Tower Bridge on the south bank of the Thames opposite the Tower of London and is set to become one of the most prestigious developments in the capital. The Cabinet approval is the culmination of the collaboration between the Council and Berkeley Homes over the last few years to realise their vision for the joint development of the site.

21.2. The asset is included in Non Current Assets Held for Sale at 31 March 2011 with a valuation of £25 million (£25 million 31 March 2010).

22. CREDITORS

	31/3/2011 Short Term Creditors £000	31/3/2011 Long Term Creditors £000	31/3/2010 Short Term Creditors £000	31/3/2010 Long Term Creditors £000
Central government bodies	10,791	0	13,275	0
Other local authorities	8,556	0	9,999	0
NHS bodies	634	0	122	0
Public corporations and trading funds	3	0	207	0
Other entities and individuals	83,349	9,185	70,808	6,026
Total	**103,333**	**9,185**	**94,411**	**6,026**

23. PROVISIONS

	Balance as at 1 April 2010 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Balance as at 31 March 2011 £000
Long term provisions					
Insurance claims (note 23.1)	6,544	1,221	1,252		6,513
Legal advice – Court of Protection hearing		150			150
Refund of charges for services provided under s117 of the Mental Health Act 1983		353			353
Settlement of school leasing contracts		160			160
Total	**6,544**	**1,884**	**1,252**	**0**	**7,176**
Current provisions					
Tax on leasing subsidy (note 23.2)	3,544			3,544	0
Housing contractual dispute	556			556	0
Compensation claim	26		26		0
HMRC claim		332			332
Settlement of school leasing contracts		440			440
Redundancies		1,010			1,010
Legal settlement – Health & Community Services		43			43
Legal advice – Court of Protection hearing		150			150
Refund of charges for services provided under s117 of the Mental Health Act 1983		353			353
Total	**4,126**	**2,328**	**26**	**4,100**	**2,328**

23.1. The insurance claims provision represents the estimated liability of insurance claims awaiting settlement. Because of their nature, it is not possible to state with any certainty when claims are likely to be settled.

23.2. Between 1983 and 1985 the Council entered into tax variable leases to finance the cost of major improvements in its housing stock. Lessors' entitlement to capital allowances was the subject of a House of Lords ruling in a test case not involving the Council. The Council claimed and received Housing Subsidy on the additional lease rentals in respect of the years 1996/97 to 1998/99, against which a provision for outstanding liabilities was made, shown as Tax on leasing subsidy. The Council now considers there to be no risk of liability and the remaining balance was released in 2010/11.

24. USABLE RESERVES

Capital Receipts Reserve

24.1. These are cash receipts from the sale of Council assets, which have not yet been used to finance capital expenditure.

	2010/11 £000	2009/10 £000
Balance 1 April	5,642	37,988
Capital Receipts in year	46,014	53,766
	51,656	91,754
Less:		
Capital Receipts Pooled	(535)	(639)
Capital Receipts used for financing	(15,242)	(85,473)
Balance 31 March	**35,879**	**5,642**

Major Repairs Reserve

24.2. The Major Repairs Reserve details the Major Repairs Allowance (MRA) received by the Council from the Government. The MRA is based on national average unit costs for each of the property types and represents the estimated long-term average amount of capital spending required to maintain a local authority's stock in its current condition.

	2010/11 £000	2009/10 £000
Opening balance	(11,381)	(4,680)
Transfers from the Capital Adjustment Account	(39,366)	(38,923)
Transfer to the HRA	1,791	1,817
Financing of capital expenditure	40,760	30,405
Total	(8,196)	(11,381)

Capital Grants Unapplied

24.3. Capital grants unapplied are grants received to finance new capital expenditure that have yet to be applied.

	2010/11 £000	2009/10 £000
Balance 1 April	15,845	9,605
Unapplied Capital Grants received	0	6,240
Unapplied Capital Grants transferred to the Capital Adjustment Account	(6,922)	0
Balance 31 March	8,923	15,845

Insurance Fund

24.4. The insurance reserve is a general allocation for risks that are unquantified or unknown at this time. In the unlikely event that this reserve is inadequate, the Council has also provided for a Financial Risk Reserve and has contingency through its general balance

	2010/11 £000	2009/10 £000
Balance 1 April	9,161	8,322
Transfers in to the reserve	287	839
Transfers out of the reserve	(1,576)	0
Balance 31 March	**7,872**	**9,161**

25. UNUSABLE RESERVES

25.1. 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:

	31/3/11 £000	31/3/10 £000
Capital Adjustment Account	1,789,171	2,290,877
Financial Instruments Adjustment Account	(7,753)	(11,499)
Revaluation Reserve	256,267	355,906
Available for Sale Financial Instruments Reserve	124	261
Pensions Reserve	(456,274)	(682,744)
Collection Fund Adjustment Account	(106)	713
Accumulating Compensated Absences Adjustment Account	(7,183)	(7,258)
Total Unusable Reserves	**1,574,246**	**1,946,256**

Capital Adjustment Account

25.2. 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).

25.3. 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.

25.4. Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2010/11 £000	2010/11 £000	2009/10 £000	2009/10 £000
Balance at 1 April		2,290,877		2,280,767
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	(591,031)		(155,537)	
Amortisation of intangible assets	(705)		(1,334)	
Revenue expenditure funded from capital under statute	(18,957)		(9,595)	
Movements in the market value of Investment Properties	(2,299)		520	
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	(74,439)		(30,275)	
		(687,431)		(196,221)
Adjusting amounts written out of the Revaluation Reserve		26,419		10,433
Net written out amount of the cost of non current assets consumed in the year		(661,012)		(185,788)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	15,242		85,473	
Use of the Major Repairs Reserve to finance new capital expenditure	40,760		30,405	
Loans Lease principal repayments	888		1,601	
Financing of investments	471		0	
Application of grants to capital financing from the Capital Grants Unapplied Account	84,973		64,550	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	4,227		4,127	
Capital expenditure charged against the General Fund and HRA balances	12,745		9,742	
		159,306		195,898
Balance at 31 March		**1,789,171**		**2,290,877**

Financial Instruments Adjustment Account

25.5. 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.

25.6. Amongst the transactions on this Account, the Account is used to manage 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 of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31 March 2011 includes £1.491 million to be charged to the HRA over the next 2 years, and a further £3.484 million to be charged to the General Fund over 44 years until 2054/55.

	2010/11 £000	2009/10 £000
Balance at 1 April	(11,499)	(17,206)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	3,724	5,801
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	(94)
Balance at 31 March	**(7,753)**	**(11,499)**

Revaluation Reserve

25.7. 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.

25.8. 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.

	2010/11 £000	2009/10 £000
Balance at 1 April	355,906	191,646
Upward revaluation of assets	117,768	178,365
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(215,249)	(14,172)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(97,481)	164,193
Difference between fair value depreciation and historical cost depreciation	(2,158)	67
Balance at 31 March	**256,267**	**355,906**

Available for Sale Financial Instruments Reserve

25.9. The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

	2010/11 £000	2009/10 £000
Balance at 1 April	261	1,282
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	(137)	(1,021)
Balance at 31 March	**124**	**261**

Pensions Reserve

25.10. 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.

	2010/11 £000	2009/10 £000
Balance at 1 April	(682,744)	(450,261)
Actuarial (gains)/losses on pensions assets and liabilities	86,741	(199,599)
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	139,729	(32,884)
Balance at 31 March	**(456,274)**	**(682,744)**

Collection Fund Adjustment Account

25.11. The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2010/11 £000	2009/10 £000
Balance at 1 April	713	2,259
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	(819)	(1,546)
Balance at 31 March	**(106)**	**713**

Accumulating Compensated Absences Adjustment Account

25.12. The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2010/11 £000	2009/10 £000
Balance at 1 April	(7,259)	(6,907)
Settlement or cancellation of accrual made at the end of the preceding year	7,259	6907
Amounts accrued at the end of the current year	(7,183)	(7,259)
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	76	(352)
Balance at 31 March	**(7,183)**	**(7,259)**

26. ANALYSIS OF ADJUSTMENTS TO SURPLUS/DEFICIT ON THE PROVISION OF SERVICES

	2010/11 £000	2009/10 £000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	54,759	54,970
Impairment and downward revaluations Including non-sale derecognitions)	534,566	98,750
Excess of depreciation charged to HRA Services over the Major Repairs Allowance element of housing subsidy	1,706	1,817
Amortisation	705	1,334
(Increase)/Decrease in Stock	100	90
(Increase)/Decrease in Debtors	8,135	(8,059)
Increase/(decrease) in impairment provision for bad debts	4,363	3,086
Increase/(Decrease) in Creditors	12,081	(22,800)
Payments to Pension fund	(139,729)	32,883
Carrying amount of non-current assets sold	74,439	30,275
Contributions to Other Reserves/Provisions	(95,365)	(29,755)
Movement in value of investment properties	2,299	(520)
Total	**458,059**	**162,071**

	2010/11 £000	2009/10 £000
Adjust 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 PP&E, investment property and intangible assets	(46,014)	(53,766)
Capital grants included in "Taxation & non-specific grant income"	(78,052)	(70,790)
Total	**(124,066)**	**(124,556)**

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

	2010/11 £000	2009/10 £000
Interest received	(2,630)	(6,376)
Interest paid	54,687	54,365
Net interest	**52,057**	**47,989**

27. CASH FLOW FROM INVESTING ACTIVITIES

	2010/11 £000	2009/10 £000
Purchase of PP&E, investment property and intangible assets	(174,381)	(202,419)
Purchase of long term investments	(9,410)	0
Proceeds from the sale of PP&E, investment property and intangible assets	46,014	53,766
Proceeds from short term investments (not considered to be cash equivalents)	5,342	7,636
Proceeds from long term investments	0	41,632
Capital grants and contributions received	74,717	68,054
Net cash flows from Investing Activities	**(57,718)**	**(31,331)**

27.1. 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.

28. CASH FLOWS FROM FINANCING ACTIVITIES

	2010/11 £000	2009/10 £000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(1,501)	(1,878)
Net Cash flows from Financing Activities	(1,501)	(1,878)

29. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

29.1. The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across services.

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

2010/11	Children's Services	Health & Community Services	Environment & Housing	Regeneration & Neighbourhoods and Major Projects	Deputy Chief Executive	Communities, Law and Governance, Finance and Resources & Strategic financing	HRA	SCR Income	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(17,440)	(14,559)	(22,767)	(12,865)	(6,746)	(6,419)	(231,772)	0	(312,568)
Government grants	(235,233)	(713)	(5,082)	(3,186)	(223,615)	0	(36,704)	0	(504,533)
Total income	**(252,673)**	**(15,272)**	**(27,849)**	**(16,051)**	**(230,361)**	**(6,419)**	**(268,476)**	**0**	**(817,101)**
Employee expenses	190,899	15,452	42,077	18,757	6,310	9,447	28,585	0	311,527
Other service expenses	196,472	110,380	54,864	23,167	274,205	51,436	224,135	(58,774)	875,885
Support service recharges	10,042	6,221	14,320	5,166	5,103	3,716	15,756	0	60,324
Total expenditure	**397,413**	**132,053**	**111,261**	**47,090**	**285,618**	**64,599**	**268,476**	**(58,774)**	**1,247,736**
Net expenditure	**144,740**	**116,781**	**83,412**	**31,039**	**55,257**	**58,180**	**0**	**(58,774)**	**430,635**

2009/10	Children's Services	Health & Community Services	Environment & Housing	Regeneration & Neighbourhoods and Major Projects	Deputy Chief Executive	Communities, Law and Governance, Finance and Resources & Strategic financing	HRA	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(21,759)	(12,734)	(22,768)	(16,092)	(6,669)	(7,628)	(229,223)	(316,873)
Government grants	(223,026)	(20,623)	(4,094)	(7,989)	(215,806)	(25)	(42,505)	(514,068)
Total income	**(244,785)**	**(33,357)**	**(26,862)**	**(24,081)**	**(222,475)**	**(7,653)**	**(271,728)**	**(830,941)**
Employee expenses	192,728	14,980	40,374	18,108	3,871	16,174	26,893	313,128
Other service expenses	155,838	111,661	56,945	37,958	264,193	(4,369)	230,877	853,103
Support service recharges	12,961	7,045	12,987	4,784	4,994	10,690	13,958	67,419
Total expenditure	**361,527**	**133,686**	**110,306**	**60,850**	**273,058**	**22,495**	**271,728**	**1,233,650**
Net expenditure	**116,742**	**100,329**	**83,444**	**36,769**	**50,583**	**14,842**	**0**	**402,709**

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

	2010/11 £000	2009/10 £000
Net expenditure in the service analysis	430,635	402,709
Amounts included in the service analysis not included in Cost of Services within the Comprehensive Income and Expenditure Statement	274,337	9,379
Cost of Services in the Comprehensive Income and Expenditure Statement	**704,972**	**412,088**

29.4. 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.

2010-11	Service analysis £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	(300,503)	(137)	(3,193)	(303,833)	0	(303,833)
Interest and investment income	(12,065)	12,065	0	0	(12,065)	(12,065)
Income from council tax	0	0	0	0	(88,360)	(88,360)
Government grants and contributions	(504,533)	4,156	(356)	(500,733)	(354,270)	(855,003)
Total income	**(817,101)**	**16,084**	**(3,549)**	**(804,566)**	**(454,695)**	**(1,259,261)**
Employee expenses	294,163	(139,729)	20,834	175,268	0	175,268
Other service expenses	117,884	568,542	35,126	721,552	6,422	727,974
Support service recharges	60,324	0	(60,324)	0	0	0
Depreciation, amortisation impairment and revaluations	673,690	(68,885)	7,913	612,718	(35)	612,683
Interest payments	54,720	(54,720)	0	0	54,720	54,720
Pensions interest cost & expected return on assets	17,364	(17,364)	0	0	17,364	17,364
Precepts and levies	1,675	(1,675)	0	0	1,675	1,675
Payments to the Housing Capital Receipts Pool	535	(535)	0	0	535	535
Gain or loss on disposal of fixed assets	27,381	(27,381)	0	0	27,381	27,381
Total expenditure	**1,247,736**	**258,253**	**3,549**	**1,509,538**	**108,062**	**1,617,600**
Surplus or deficit on the provision of services	**430,635**	**274,337**	**0**	**704,972**	**(346,633)**	**358,339**

2009-10	Service analysis £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	(301,975)	(1,021)	(2,347)	(305,343)	0	(305,343)
Interest and investment income	(9,242)	9,242	0	0	(9,242)	(9,242)
Income from council tax	0	0	0	0	(86,250)	(86,250)
Government grants and contributions	(514,068)	9,818	(44)	(504,294)	(325,754)	(830,048)
Total income	**(825,285)**	**18,039**	**(2,391)**	**(809,637)**	**(421,246)**	**(1,230,883)**
Employee expenses	279,283	32,884	23,511	335,678	0	335,678
Other service expenses	685,082	(7,493)	46,300	723,889	99	723,988
Support service recharges	67,419	0	(67,419)	0	0	0
Depreciation, amortisation impairment and revaluations	109,761	52,398	(1)	162,158	1,008	163,166
Interest payments	54,365	(54,365)	0	0	54,365	54,365
Pensions interest cost & expected return on assets	33,845	(33,845)	0	0	33,845	33,845
Precepts and levies	1,638	(1,638)	0	0	1,638	1,638
Payments to the Housing Capital Receipts Pool	32	(32)	0	0	32	32
Gain or loss on disposal of fixed assets	(3,431)	3,431	0	0	(3,431)	(3,431)
Total expenditure	**1,227,994**	**(8,660)**	**2,391**	**1,221,725**	**87,556**	**1,309,281**
Surplus or deficit on the provision of services	**402,709**	**9,379**	**0**	**412,088**	**(333,690)**	**78,398**

30. TRADING OPERATIONS

30.1. The list below includes operations of the Council run on a trading account basis. The profit or loss figures are presented on an IAS 19 basis. Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. The expenditure of these operations is charged to services within the Net Operating Expenditure of Continuing Operations and the net deficit on trading operations is charged as Financing and Investment Income and Expenditure (see Note 13).

	Turnover 2010/11 £000	(Profit)/Loss 2010/11 £000	Turnover 2009/10 £000	(Profit)/Loss 2009/10 £000
Building	(9,547)	327	(14,393)	83
Street & Metal Work Services	(3,354)	181	(4,085)	22
Vehicle Management (Fleet)	(5,254)	15	(5,306)	(6)
Total	**(18,155)**	**523**	**(23,784)**	**99**

31. POOLED BUDGETS

31.1. The Council (LBS) and Southwark Primary Care Trust (PCT) operate pooled fund arrangements for the Learning Disabilities Service and the Integrated Community Equipment Service. LBS is the lead authority for both arrangements. Each party accounts separately for its share of the income, expenditure, assets and liabilities of the pooled funds, including any under- or overspend at the year-end. These arrangements were set up under Section 31 of the Health Act 1999, which has now been repealed and replaced by Section 75 of the National Health Service Act 2006, which has consolidated NHS legislation. The pooled budget arrangements continue as if made under the new powers. The memorandum accounts below bring together the income and expenditure for the pooled arrangements:

Learning Disabilities Service	2010/11 £'000	2009/10 £'000
Income		
LBS	(24,227)	(23,321)
PCT	(11,695)	(11,223)
	(35,922)	(34,544)
Expenditure	37,140	36,471
Net over/(under) spend	**1,218**	**1,927**
Shared as follows:		
LBS	804	1,272
PCT	414	655
	1,218	1,927

Integrated Community Equipment Service	2010/11 £000	2009/10 £000
Income		
LBS	(1,156)	(1,210)
PCT	(289)	(337)
	(1,445)	(1,547)
Expenditure	1,619	1,598
Net over/(under) spend	**174**	**51**
Shared as follows:		
LBS	104	40
PCT	70	11
	174	51

32. MEMBERS' ALLOWANCES

32.1. The amount of members' allowances and expenses paid in 2010/11 was £1,247,574 (£1,302,795 in 2009/10).

33. OFFICERS' REMUNERATION

33.1. 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 salary is £150,000 per year or more:

	2010/11		2009/10	
	Total remuneration	Council's contributions to the Pension Fund	Total remuneration	Council's contributions to the Pension Fund
Postholder	£	£	£	£
Chief Executive - A Shepperd	182,089	13,421	196,976	27,760
Deputy Chief Executive - E Kelly	173,787	24,783	154,969	22,506
Strategic Director of Communities, Law & Governance - D Collins	160,383	20,894	153,380	21,475
Strategic Director of Environment and Housing - G Davies	155,755	22,169	161,607	22,674
Strategic Director, Health & Community Services - S White	150,694	21,034	137,023	19,215
Strategic Director of Children's Services - R Bowen	145,310	21,057	159,535	23,161
Finance Director - D Whitfield	143,744	20,026	140,271	19,573
Strategic Director of Housing Services – G Scott	32,126	4,454	N/A	N/A

33.2. Notes to the above table:

- Total remuneration figures are gross pay before individuals' contributions to the Pension Fund
- Remuneration and pension costs reflect actual payments and contributions made in the financial year
- The posts of the Chief Executive and the Strategic Director of Children's Services are based on reduced contractual hours with effect from September 2010 and December 2010 respectively
- The Strategic Director of Communities, Law & Governance remuneration includes payments of £10,654 (£6,096 in 2009/10) for additional duties as the Council's Returning Officer
- The Strategic Director of Health & Community Services was also the Chief Executive of the Southwark PCT. The remuneration noted is the full amount earned by the post-holder
- The post of Strategic Director of Housing Services was newly created and appointed in January 2011.

33.3. During 2010/11 the Council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

Band (£)	Schools	Non schools	Number of employees 2010/11	Number of employees 2009/10
50,000 - 54,999	105	102	207	211
55,000 - 59,999	77	93	170	161
60,000 - 64,999	45	27	72	81
65,000 - 69,999	41	32	73	73
70,000 - 74,999	21	18	39	49
75,000 - 79,999	12	7	19	22
80,000 - 84,999	9	6	15	23
85,000 - 89,999	8	7	15	13
90,000 - 94,999	3	4	7	6
95,000 - 99,999	2	5	7	6
100,000 - 104,999	2	2	4	4
105,000 - 109,999	0	1	1	5
110,000 - 114,999	3	2	5	1
115,000 - 119,999	1	1	2	6
120,000 - 124,999	0	0	0	2
130,000 - 134,999	1	0	1	0
135,000 - 139,999	1	0	1	3
165,000 - 169,999	0	0	0	1
185,000 - 189,999	0	0	0	1
Total	331	307	638	668

33.4. The table includes 12 employees who left the Council in 2010/11 (37 in 2009/10), of whom 5 received termination payments (36 in 2009/10).

34. EXTERNAL AUDIT COSTS

34.1. 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 to non-audit services provided by the Council's external auditors:

	2010/11 £000	2009/10 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	527	557
Fees payable to the Audit Commission in respect of statutory inspections	0	20
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	83	113
Fees payable in respect of other services provided by the appointed auditor during the year (see Note 34.2)	88	142
Total	**698**	**832**

34.2. Other services provided by the appointed auditor included fees relating to dealing with objections to the Accounts (£51,000), Revenues and Benefits in-sourcing (£35,000), and National Fraud Initiative (£2,000).

34.3. Fees payable with regard to the audit of the Pension Fund, of £31,000 for 2010/11 (£39,000 2009/10), are met directly by the Pension Fund and are not included in the above table.

35. DEDICATED SCHOOLS GRANT

35.1. The Council's expenditure on schools is funded primarily by grant moneys provided by the Department for Education, the Dedicated Schools Grant (DSG). 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 2008. 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.

35.2. Details of the deployment of DSG receivable for 2010/11 are as follows:

	Central Expenditure £000	Individual Schools Budgets £000	Total 2010/11 £000	Total 2009/10 £000
Final DSG	(22,149)	(149,789)	**(171,938)**	(168,033)
Brought forward from previous year	(4,010)	0	**(4,010)**	(4,082)
Agreed budgeted distribution	(26,159)	(149,789)	**(175,948)**	(172,115)
Actual central expenditure	21,435	0	**21,435**	21,629
Actual ISB deployed to schools	0	150,625	**150,625**	147,122
Local Authority Contribution	(95)	(836)	**(931)**	(646)
Carry forward including agreed in advance	(4,819)	0	**(4,819)**	(4,010)

36. GRANT INCOME

36.1. The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

	2010/11 £000	2009/10 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(29,256)	(42,636)
Local Authority Business Growth Incentive	0	(390)
Housing & Planning Delivery	0	(1,200)
Performance Reward Grant	(4,334)	0
Area Based Grants	(41,154)	(26,017)
Capital Grants and Contributions	(78,052)	(70,790)
Sub total	**(152,796)**	**(141,033)**
Credited to Services		
Dedicated Schools Grant	(171,831)	(168,873)
Housing Benefits Subsidy - Rent Allowances	(93,435)	(80,773)
Housing Benefits Subsidy - Rent Rebates Granted to HRA Tenants	(93,282)	(95,343)
Housing Benefits Subsidy - Non HRA Rent Rebates	(4,072)	(6,210)
Council Tax Benefit Subsidy	(27,407)	(27,299)
Housing Benefit and Council Tax Benefit Administration	(4,286)	(4,890)
Housing Subsidy	(32,315)	(33,518)
Standards Fund	(25,892)	(22,742)
Sure Start, Early Years and Childcare Grant	(16,307)	(14,666)
School Standards Grant (including Personalisation)	(7,101)	(7,318)
Young People's Learning Agency	(4,262)	0
The Private Finance Initiative (PFI)	(2,776)	(2,776)
Sixth forms funding from Learning and Skills Council (LSC)	(1,564)	(3,075)
Home Office Drug Interventions Programme	(1,560)	0
Homelessness	(1,259)	(1,226)
Youth Justice Board	(1,175)	(139)
Asylum Seekers	(1,097)	(1,290)
Social Care Reform	(402)	(1,242)
New Deal for Communities	(63)	(2,384)
Supporting People Grant	0	(21,130)
Other grants individually less than £1 million	(10,647)	(9,236)
Sub total	**(500,733)**	**(504,130)**
Total	**(653,529)**	**(645,163)**

36.2. The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the moneys or property to be returned to the giver. Revenue grants, held as receipts in advance:

	2010/11 £000	2009/10 £000
Standards Fund	(1,254)	(1,413)
Social Care Reform Grant	(1,096)	0
Housing Subsidy	(507)	0
DFT Severe Winter Grant	(237)	0
LSC Diploma Formula Grant	(202)	(256)
Sure Start	(140)	(397)
Adult Learning Services	0	(378)
LPSA Pump Priming Grant	0	(301)
Childcare Affordability Programme	0	(259)
Future Jobs Fund	0	(164)
Contact Point Grant	0	(147)
Other grants individually less than £100,000	(245)	(473)
Total	**(3,681)**	**(3,788)**

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

	2010/11 £000	2009/10 £000
Balance as at 1 April	(49,443)	(45,939)
New capital grants received in advance	(74,717)	(68,054)
Amounts released to the Comprehensive Income and Expenditure Account (conditions met)	78,052	64,550
Balance as at 31 March	**(46,108)**	**(49,443)**

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

	2010/11 £000	2009/10 £000
South East London Housing Project	(5,638)	(8,506)
Planning Gains	(24,884)	(22,370)
Lottery Funds	(3,092)	(3,001)
Building Schools for the Future	(3,838)	(493)
Cleaner Greener, Safer	(390)	(380)
Department of Health	(668)	(423)
Standards Fund	(7,263)	(10,851)
Transport for London	0	(343)
Disabled Facilities Grant	0	(2,226)
Other balances less than £100,000	(335)	(850)
Balance as at 31 March	**(46,108)**	**(49,443)**

37. RELATED PARTY TRANSACTIONS

37.1. 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 2010/11 were declared by 24 Councillors and two Chief Officers:

- With voluntary bodies or charitable organisations that received funding totalling £2.5 million (£2.7 million in 2009/10)

- With businesses or other organisations that have contracted for goods and services with the Council to the value of £23.6 million (£28.1 million in 2009/10). Within this balance, the two largest entities transacting with the Council were Liberata UK Ltd, with payments of £10.3 million (£11.2 million in 2009/10), and Southwark Primary Care Trust, with payments of £7.7 million (£14.4 million in 2009/10). Liberata UK Ltd provided the Council's revenues and benefits service under contract, which expired on 31 March 2011. The Council and Southwark Primary Care Trust work closely in providing health and social care principally through joint working arrangements as outlined in Note 31 to the accounts.

37.2. 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 2011 are set out in Note 36 to the accounts.

37.3. The Pension Fund is also a related party and the Council charged the fund £0.9 million (£0.9 million in 2009/10) for expenses incurred in administering the Pension Fund. During 2010/11 a separate bank account was set up for the Pension Fund in preparation for statutory changes coming into force on 1 April 2011. In previous years, the Council paid interest to the Pension Fund (£16,800 in 2009/10) for Pension Fund cash deposits held by the Council. Due to the change in banking arrangements, no interest was due from the Council in 2010/11.

38. CAPITAL EXPENDITURE AND CAPITAL FINANCING

38.1. 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/PP 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.

	2010/11 £000	2009/10 £000
Opening Capital Financing Requirement	776,354	768,230
Direct capital expenditure in year	155,424	192,824
Property, Plant & Equipment	17,556	9,595
Revenue expenditure funded from capital under statute		
Assets acquired under finance arrangements		
Property, Plant & Equipment under finance leases	400	1,326
PFI projects	14,776	0
Investments	472	277
Total capital investment	188,628	204,022
Sources of capital finance		
Capital receipts	(15,242)	(85,473)
Grants and contributions	(83,573)	(64,550)
Direct revenue financing	(12,745)	(9,465)
Major Repairs Allowance	(40,760)	(30,405)
CIES charges for outstanding finance		
Minimum Revenue Provision	(4,068)	(4,127)
Repayment of finance and PFI/PPP liabilities	(1,501)	(1,878)
Total capital investment financed	(157,889)	(195,898)
Net movement in year	30,739	8,124
Closing Capital Financing Requirement	**807,093**	**776,354**
Explanation of movement		
Increase in supported borrowing	20,660	12,526
Increase in credit cover required for PFI assets	15,648	1,603
Repayment of finance and PFI liabilities	(1,501)	(1,878)
Minimum Revenue Provision	(4,068)	(4,127)
Net movement in year	**30,739**	**8,124**

39. LEASES

The Council as Lessee – finance leases

39.1. The Council has finance leases for vehicles and office equipment such as photocopiers and IT equipment. Prior to 31/3/2010 the leases were treated as operating leases and have been re-assessed as finance leases. The assets are included in Property, Plant & Equipment in the vehicles plant and equipment category.

	2010/11 £000	2009/10 £000
Gross book value at 1 April	7,728	6,402
Additions in the year	400	1,326
	8,128	7,728
Accumulated depreciation	(5,634)	(4,222)
Net book value at 31 March	**2,494**	**3,506**

39.2. The Council is committed to make minimum payments in future years under these leases, made up of:

	2010/11 £000	2009/10 £000
Finance lease liabilities		
Current year	1,115	1,434
Future years	1,668	2,783
Finance charges	514	915
Total payments to be made	**3,297**	**5,132**

39.3. The Council has obligations to make minimum lease payments in future periods of:

		2010/11			2009/10	
Period due	Finance charges £000	Finance lease liabilities £000	Total £000	Finance charges £000	Finance lease liabilities £000	Total £000
Within 1 year	264	1,115	1,379	402	1,434	1,836
Within 2 to 5 years	249	1,640	1,889	506	2,651	3,157
After 5 years	1	28	29	7	132	139
Total	**514**	**2,783**	**3,297**	**915**	**4,217**	**5,132**

The Council as Lessee – operating leases

39.4. The Council uses a number of properties and vehicles under operating leases. Some of these property assets have been subleased, including the Sandgate and Dockley Road industrial estates. The Council's main Tooley Street office is the largest single asset held under an operating lease. The Tooley Street Office lease is a 25 year lease at an annual rent of £7.7m, which is subject to rent reviews in the future.

39.5. The Council also acquires accommodation from housing associations for those in housing need, under three year operating leases.

39.6. The assessment of vehicles under IFRS required some vehicle leases of 5 years or longer to be treated as finance leases. Leases for office equipment (e.g. photocopiers) have also been reassessed as finance leases.

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

	2010/11			2009/10		
	Land & buildings £000	Vehicles, plant & equipment £000	Total £000	Land & buildings £000	Vehicles, plant & equipment £000	Total £000
Minimum lease payments	10,080	1,316	11,396	10,635	908	11,543
Less sub-lease payments	(936)	0	(936)	(653)	0	(653)
Total	**9,144**	**1,316**	**10,460**	**9,982**	**908**	**10,890**

39.8. The Council has obligations to make minimum lease payments in future periods of:

	2010/11			2009/10		
	Land & buildings £000	Vehicles, plant & equipment £000	Total £000	Land & buildings £000	Vehicles, plant & equipment £000	Total £000
Within 1 year	9,361	1,287	10,648	10,233	1,316	11,549
Within 2 to 5 years	35,004	3,003	38,007	35,839	4,025	39,864
After 5 years	147,387	4	147,391	155,936	271	156,207
Total	**191,752**	**4,294**	**196,046**	**202,008**	**5,612**	**207,620**

The Council as Lessor – finance leases

39.9. The Council holds no finance leases as lessor.

The Council as Lessor – operating leases

39.10. The Council has industrial sites which it lets out as industrial units. The largest sites are on Sandgate Street and Dockley Road. It also lets out workshops on Riley Road.

39.11. The Council also rents out property for shops, community, and commercial use, including the Surrey Quays Surrey Shopping Centre on Redriff Road.

39.12. The Investment assets in the HRA are used as shops and community centres.

39.13. The future minimum rentals receivable under these leases are expected to be:

Period due	2010/11 £000	2009/10 £000
Within 1 year	9,182	9,974
Within 2 to 5 years	24,405	28,967
After 5 years	107,407	112,040
Total due	**140,994**	**150,981**

40. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

St Michael's Catholic College

40.1. St Michael's is a new build voluntary-aided secondary school, that 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.

40.2. St Michael's has been recognised as a leased asset in the Council's Balance Sheet in 2010/11 on becoming operational, within Property, Plant and Equipment, in a value of £17.026 million. A matching long term liability has been recognised, which will be reduced by the capital components within the unitary payments for services to 4 Futures Ltd over the life of the contract.

40.3. The payments to 4 Futures Ltd as unitary charges in 2010/11 totalled £598,000, which are accounted for on the following basis:

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
2010/11	**692**	**(564)**	**470**	**598**

40.4. Future payments under the contract are estimated to be:

Year Payable	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total 31/03/2011 £000	Total 31/03/2010 £000
2011/12	767	(54)	1,956	2,669	598
2012/13 - 2015/16	2,595	585	7,713	10,893	10,805
2016/17 - 2020/21	3,582	1,537	9,025	14,144	14,022
2021/22 - 2025/26	4,903	2,083	7,816	14,802	14,664
2026/27 +	11,474	11,189	8,517	31,180	34,198
Total	**23,321**	**15,340**	**35,027**	**73,688**	**74,287**

40.5. Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding at the end of 2010/11 to pay the contractor for capital expenditure incurred is as follows:

	2010/11 £000
Balance outstanding at start of year	0
Recognise capital expenditure incurred by the contractor	17,026
Payments during the year	564
Contribution by the Council towards capital expenditure	(2,250)
Balance outstanding at year end	**15,340**

Future PFI schools

40.6. In addition to St Michael's, two further new schools are under construction or development by 4 Futures Ltd, St Thomas and Sacred Heart. Both are voluntary–aided secondary schools. St Thomas started construction in April 2010, with an expected operational date of August 2011. Sacred Heart has an expected construction start date of December 2011, with operational completion in August 2013.

40.7. As the schools are not yet operational, the assets are not recognised on the Council's Balance Sheet.

40.8. The two schools are separate entities. However, the two schools are being delivered and operated under one service contract. The expected liability to pay unitary charges under this contract is estimated to be:

Period	£000
2011/12	559
2012/13 - 2015/16	15,824
2016/17 - 2020/21	30,050
2021/22 - 2025/26	31,545
2026/27 - 2030/31	33,235
2031/32 +	40,628
Total	**151,841**

Waste management facilities

40.9. 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.

40.10. 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 the company is to provide at Old Kent Road, which has been leased to the company with effect from 9 September 2008. Until the new facility is completed Veolia will make use of the Council's existing facility at Manor Place, which has been leased by the company from 11 February 2008. Elements of the contract include:

- Kerbside collection of dry recyclables
- Recovery and recycling of bulky, fly tipped and street cleansing waste
- Provision of a materials recycling facility (MRF) and mechanical and biological treatment (MBT) plant on the Old Kent Road site
- Kerbside collection of organic waste (kitchen and green waste) from 2015
- Outputs from the MBT facility will be diverted from landfill through the existing South East London Combined Heat and Power (SELCHP) waste incinerator plant
- Landfill disposal of residual waste.

40.11. As the Old Kent Road facility has not yet been built and brought into operation, the PFI contract effectively operates as a conventional waste collection and disposal contract at this time. Contract payments are charged to the Income and Expenditure Account as they arise, and there are no lease arrangements or Balance Sheet accounting considerations at this time. Contract payments of £19.969 million were made to Veolia in 2010/11 under this scheme (£16.9 million 2009/10).

40.12. A ground breaking ceremony was held on 1 July 2010, with construction to be completed late 2011, and operational early 2012.

40.13. The profile of future payments under the scheme is expected to be as follows:

Period	£000
2011/12	21,951
2012/13 - 2015/16	100,214
2016/17 - 2020/21	125,294
2021/22 - 2025/26	144,702
2026/27 - 2030/31	166,120
2031/32 - 2032/33	72,373
Total	**630,654**

Anchor Homes

40.14. Four of the Council's adult residential care homes are operated by an external contractor, Anchor Homes. The four homes are Rose Court, Greenhive, Blue Grove and Waterside.

40.15. Although the assets are in Council ownership, and are recognised within Property, Plant and Equipment in the Balance Sheet, the contractor has carried out significant works at the homes. Although this is not a PFI scheme, accounting standards under IFRS view the payments to the contractor to include reimbursement of the capital expenditure carried out on the Council's assets, and the payments to be recognised in accordance with PFI accounting.

40.16. The payments to Anchor Homes as unitary charges in 2010/11 totalled £6.218 million, which are accounted for on the following basis:

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
2010/11	5,116	159	943	6,218
2009/10	5,241	140	962	6,343

40.17. Future payments under the contract are estimated to be:

Year Payable	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total 31/03/2011 £000	Total 31/03/2010 £000
2011/12	4,109	180	921	5,210	6,218
2012/13 - 2015/16	16,435	1,000	3,407	20,842	20,842
2016/17 - 2020/21	20,544	2,224	3,285	26,053	26,052
2021/22 - 2025/26	19,083	3,911	1,322	24,316	26,053
2026/27 +	0	0	0	0	3,473
Total	60,171	7,315	8,935	76,421	82,638

40.18. Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding at the end of 2010/11 to pay the contractor for capital expenditure incurred is as follows:

	2010/11 £000
Balance outstanding at start of year	7,475
Payments during the year	(159)
Balance outstanding at year end	7,316

40.19. The net book values of the care homes included in Note 15 Property, Plant & Equipment are:

	2010/11 £000	2009/10 £000
Rose Court	2,860	2,929
Greenhive	2,577	2,638
Blue Grove	2,663	2,730
Waterside	2,102	2,150
Total at 31 March	10,202	10,447

41. IMPAIRMENT LOSSES

41.1. Other than the impairment losses arising from the change in valuation methodology for Council dwellings (see Note 6), there were no other significant impairment losses or impairment reversals in 2010/11.

42. TERMINATION BENEFITS

42.1. In 2010/11 the Council ended a number of contracts of employment, leading to termination benefit payments being made of £3.464 million (£2.305 million in 2009/10).

42.2. At the balance sheet date, provisions of £1.010 million have been set aside to meet termination benefits costs not yet incurred of reorganisations already in progress at 31 March 2011, within the Health and Community Services Department.

43. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

43.1. 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.

43.2. 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.

43.3. In 2010/11, the Council paid £9.61 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2009/10 were £9.73 million and 14.1%. There were no contributions remaining payable at the year-end.

43.4. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44.

44. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

44.1. 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.

44.2. The Council participates in two pension fund schemes, the London Borough of Southwark Pension Fund and the London Pension Fund Authority Pension Fund. Both are funded schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions, assets, liabilities and assumptions for both schemes are set out separately in the following sections.

The London Borough of Southwark Pension Fund

44.3. The Council recognises the cost of retirement benefits in the CIES of when they are earned by employees, rather than when the benefits are eventually paid as pensions.

44.4. However, the charge the Council is required to make against council tax is based on the cash payable in the year, and the real cost of retirement benefits is reversed out in the adjustments between accounting basis and funding basis under regulations line, in the Movement on Reserves Statement. The following transactions have been made in the CIES and the adjustments between accounting basis and funding basis under regulations line, in the Movement on Reserves Statement during the year:

	2010/11 £000	2009/10 £000
Net cost of services:		
Current service cost	29,400	21,900
Past service cost/(gain)	(152,000)	7,100
Gains and losses on settlements or curtailments	0	0
Net operating expenditure:		
Interest cost	70,500	67,100
Expected return on scheme assets	(53,900)	(34,700)
Net charge to the CIES	(106,000)	61,400
Adjustments between accounting basis and funding basis under regulations:		
Reversal of net charges made for retirement benefits in accordance with IAS 19	106,000	(61,400)
Actual amount charged against the general fund balance for pensions in the year:		
Employers' contributions payable to scheme	30,014	29,558
Net charge to the General Fund Summary	**136,014**	**(31,842)**

44.5. In addition to the recognised gains and losses included in the CIES, actuarial gains of £68.8 million (£182.8 million loss in 2009/10) were included in other comprehensive income and expenditure in the CIES.

44.6. Reconciliation of present value of the scheme liabilities:

	2010/11 £000	2009/10 £000
Balance as at 1 April	1,400,600	1,017,500
Current service cost	29,400	21,900
Interest cost	70,500	67,100
Contributions by members	10,000	10,400
Actuarial losses/(gains)	(89,300)	316,800
Past service costs/(gains)	(152,000)	7,100
Estimated benefits paid	(39,800)	(40,200)
Balance as at 31 March	1,229,400	1,400,600

44.7. Reconciliation of present value of the scheme assets:

	2010/11 £000	2009/10 £000
Balance as at 1 April	747,400	576,400
Expected return on assets	53,900	34,700
Contributions by members	10,000	10,400
Contributions by employer	30,900	32,100
Actuarial gains/(losses)	(20,500)	134,000
Benefits paid	(39,800)	(40,200)
Balance as at 31 March	781,900	747,400

44.8. London Borough of Southwark employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

44.9. The actual return on scheme assets in the year was a gain of £33.4 million (£168.7 million gain in 2009/10)

44.10. The fair value of plan assets is shown in the following table. The asset values are at bid value as required by IAS 19.

	31/3/2011 £000	31/3/2010 £000	31/3/2009 £000
Equities	481,600	461,900	335,500
Property	111,800	114,400	102,000
Government bonds	87,600	78,500	61,100
Corporate bonds	86,800	83,000	63,400
Cash	14,100	9,600	14,400
Total	781,900	747,400	576,400

44.11. The Council's share of the Net Pension Liability (included in the Balance Sheet is shown below. Timing differences arise between the actuary's assessment of scheme liabilities, and the Council's decisions at financial close on the funding of outstanding pension entitlements and transfers to the Pension Fund.

	31/3/2011 £000	31/3/2010 £000	31/3/2009 £000
Fair Value of Employer Assets	781,900	747,400	576,400
Present value of funded liabilities	1,229,400	1,400,600	1,017,500
Timing differences between the actuarial assessments and employer's contributions to the Fund	(5,007)	(4,121)	(1,579)
Net Asset/(Liability)	(452,507)	(657,321)	(442,679)

44.12. Analysis of scheme assets and liabilities

	31/3/11 £m	31/3/10 £m	31/3/09 £m	31/3/08 £m	31/3/07 £m
Fair value of assets	781.9	747.4	576.4	717.3	731.5
Present value of liabilities	1,229.4	1,400.6	1,017.5	930.0	975.9
Surplus/(deficit)	**(447.5)**	**(653.2)**	**(441.1)**	**(212.7)**	**(244.4)**

44.13. Amount recognised in Other Comprehensive Income and Expenditure:

	31/3/11 £m	31/3/10 £m	31/3/09 £m	31/3/08 £m	31/3/07 £m
Total actuarial gains/ (losses)	68.8	(182.8)	163.3	(429.3)	(146.1)

44.14. The history of experience gains and losses are show below:

	2010/11 £m	2009/10 £m	2008/09 £m	2007/08 £m	2006/07 £m
Experience gains/(losses) on assets	(20.5)	134.0	(193.5)	(67.3)	6.7
Experience gains/(losses) on liabilities, excluding changes in actuarial assumptions	93.6	10.8	(3.6)	(39.9)	2.0

44.15. The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,229.4 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a net liability of £447.5 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the London Borough of Southwark Pension Fund will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

44.16. The actuary to the London Borough of Southwark Pension Fund estimates the charges to the CIES in 2011/12 will be:

	2011/12 £000
Current service cost	29,900
Past service costs	0
Expected return on Pension Fund assets	(56,700)
Interest on Pension Fund liabilities	66,400
Total charge	**39,600**

44.17. Liabilities 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 Council's Fund liabilities have been assessed by an independent firm of actuaries, estimates for the Council Fund being based on data pertaining to the latest full valuation of the scheme as at 31 March 2010.

	2010/11	2009/10
Long-term expected rate of return on assets in the scheme:		
Equity investments	8.4%	8.0%
Property	7.9%	8.5%
Government bonds	4.4%	4.5%
Corporate bonds	5.1%	5.5%
Cash	1.5%	0.7%
All other assets	8.4%	8.0%
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	21.1 years	21.2 years
Women	22.9 years	23.5 years
Longevity at 65 for future pensioners:		
Men	25.8 years	24.3 years
Women	27.8 years	26.5 years
Inflation/Pension Increase Rate	2.8%	3.9%
Salary Increase Rate	5.2%	5.4%
Expected Return on Assets	7.4%	7.3%
Discount Rate	5.4%	5.5%

44.18. On retirement, members of the Fund have the option to convert annual pension into retirement lump sum. The actuary's assumptions as at 31 March 2011 are that each member is assumed to exchange 30% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 70% of the maximum amount permitted of their future service pension rights on retirement, for additional lump sum. At 31 March 2010 the assumptions were that each member was assumed to exchange 30% of the maximum amount permitted of their pre 1 April 2008 pension entitlements. Each member was assumed to exchange 75% of the maximum amount permitted of their post 31 March 2008 pension entitlements.

The London Pension Fund Authority Pension Fund

44.19. The Council recognises the cost of retirement benefits in the CIES of when they are earned by employees, rather than when the benefits are eventually paid as pensions.

44.20. However, the charge the Council is required to make against council tax is based on the cash payable in the year, and the real cost of retirement benefits is reversed out in the adjustments between accounting basis and funding basis under regulations line, in the Movement on Reserves Statement. The following transactions have been made in the CIES and the adjustments between accounting basis and funding basis under regulations line, in the Movement on Reserves Statement during the year:

	2010/11 £000	2009/10 £000
Net cost of services:		
Current service cost	304	280
Past service cost/(gain)	(4,170)	0
Gains and losses on settlements or curtailments	0	41
Net operating expenditure:		
Interest cost	2,954	2,978
Expected return on scheme assets	(2,190)	(1,533)
Net charge to the CIES	(3,102)	1,766
Adjustments between accounting basis and funding basis under regulations:		
Reversal of net charges made for retirement benefits in accordance with IAS 19	3,102	(1,766)
Actual amount charged against the general fund balance for pensions in the year:		
Employers' contributions payable to scheme	613	725
Net charge to the General Fund Summary	**3,715**	**1,041**

44.21. In addition to the recognised gains and losses included in the CIES, actuarial gains of £17.941 million (£16.799 million loss in 2009/10) were included in other comprehensive income and expenditure in the CIES.

44.22. Reconciliation of present value of the scheme liabilities:

	2010/11 £000	2009/10 £000
Balance as at 1 April	64,367	44,416
Current service cost	304	280
Interest cost	2,954	2,978
Contributions by members	75	105
Actuarial losses/(gains)	(12,883)	19,476
Losses/(gains) on curtailments	0	41
Past service costs/(gains)	(4,170)	0
Estimated benefits paid	(2,508)	(2,929)
Balance as at 31 March	48,139	64,367

44.23. Reconciliation of present value of the scheme assets:

	2010/11 £000	2009/10 £000
Balance as at 1 April	38,978	36,847
Expected return on assets	2,190	1,533
Contributions by members	75	105
Contributions by employer	566	745
Actuarial gains/(losses)	5,058	2,677
Benefits paid	(2,508)	(2,929)
Balance as at 31 March	44,359	38,978

44.24. The London Pension Fund Authority estimates the expected return on assets based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2010 for the year to 31 March 2011). The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The returns on equities and property are then assumed to be a margin above gilt yields.

44.25. The actual return on scheme assets in the year was a gain of £2.562 million (£4.209 million gain in 2009/10)

44.26. The fair value of plan assets is shown in the following table. The asset values are at bid value as required by IAS 19.

	31/3/2011 £000	31/3/2010 £000	31/3/2009 £000
Cashflow matching	15,526	14,811	33,531
Equities	5,323	4,288	2,948
Target Return Portfolio	23,954	21,048	0
Cash	(444)	(1,169)	368
Total	44,349	38,978	36,847

44.27. The Council's share of the Net Pension Liability (included in the Balance Sheet is shown below. Timing differences arise between the actuary's assessment of scheme liabilities, and the Council's decisions at financial close on the funding of outstanding pension entitlements and transfers to the LPFA.

	31/3/2011 £000	31/3/2010 £000	31/3/2009 £000
Fair Value of Employer Assets	44,359	38,978	36,847
Present value of funded liabilities	48,139	64,367	44,416
Timing differences between the actuarial assessments and employer's contributions to the Fund	13	34	14
Net Asset/(Liability)	(3,767)	(25,423)	(7,583)

44.28. Analysis of scheme assets and liabilities

	31/3/11 £000	31/3/10 £000	31/3/09 £000	31/3/08 £000	31/3/07 £000
Fair value of assets	44,359	38,978	36,847	42,543	42,768
Present value of liabilities	48,139	64,367	44,416	46,432	54,279
Surplus/(deficit)	(3,780)	(25,389)	(7,569)	(3,889)	(11,511)

44.29. Amount recognised in Other Comprehensive Income and Expenditure:

	31/3/11 £000	31/3/10 £000	31/3/09 £000	31/3/08 £000	31/3/07 £000
Total actuarial gains/ (losses)	12,883	(19,476)	3,314	8,180	2,056

44.30. The history of experience gains and losses are show below:

	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000	2006/07 £000
Experience gains/(losses) on assets	5,058	2,677	(6,101)	(300)	1
Experience gains/(losses) on liabilities, excluding changes in actuarial assumptions	5,129	0	0	4,804	2

44.31. The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £44.359 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a net liability of £3.78 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the LPFA Pension Fund will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

44.32. The actuary to the LPFA Pension Fund estimates the charges to the CIES in 2011/12 will be:

	2011/12 £000
Current service cost	247
Past service costs	0
Expected return on Pension Fund assets	(2,204)
Interest on Pension Fund liabilities	2,588
Total charge	**631**

44.33. To assess the value of the liabilities as at 31 March 2011, the actuary to the LPFA Pension Fund has rolled forward the value of the Council's liabilities calculated for the triennial valuation as 31 March 2010, allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2010. The actuary estimates that the approach of rolling forward the previous valuation data to 31 March 2011 should not introduce any material distortions in the results provided that the actual experience of the Council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. The actuary has advised, from the information received, that there appears to be no evidence that this approach is inappropriate.

	2010/11	2009/10
Long-term expected rate of return on assets in the scheme:		
Cashflow matching	4.4%	4.5%
Equities	7.2%	7.3%
Target Return Portfolio	5.0%	5.0%
Cash	3.0%	3.0%
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	19.6 years	21.0 years
Women	22.8 years	23.4 years
Longevity at 65 for future pensioners:		
Men	21.7 years	22.0 years
Women	24.7 years	24.2 years
Inflation/Pension Increase Rate	2.7%	3.9%
Salary Increase Rate	4.5%	5.4%
Expected Return on Assets	5.1%	4.4%
Discount Rate	5.5%	5.5%

44.34. The actuary to the LPFA Pension Fund has made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

45. OTHER LONG TERM LIABILTIES

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

	2010/11 £000	2009/10 £000
Payments due under finance leases	2,783	3,817
Payments due under PFI schemes and similar arrangements:		
Anchor Homes	7,316	7,475
St Michael's	15,340	0
Deferred rental due on leasing of building assets	5,387	7,726
Total	**30,826**	**19,018**

46. CONTINGENT LIABILITIES

46.1. A substantial claim was made in the High Court for compensation over planning permission issues for a nightclub in Camberwell. In January 2011 the High Court found in favour of the Council. The claimants are now seeking to appeal. This could lead to substantial costs for the Council if the case is heard and subsequently upheld.

46.2. On 3 July 2009 there was a serious fire at Lakanal House (a block of Council flats). Direct costs associated with the block and other dwellings in the borough are being met from existing budgets. However, police investigations are continuing, and civil claims have been presented. Potential costs are not possible to estimate at this time.

46.3. As a result of unlawful dumping on the Council's property at Honor Oak Cemetery, Network Rail has indicated it may make a third party claim against the Council. The claim has not been issued as at this time.

47. CONTINGENT ASSETS

47.1. The Council has made claims against HM Revenue and Customs (HMRC) for VAT overpaid between the years 1973 and 1996. The Council's claims are in response to the House of Lords' decisions in the cases of Michael Fleming vs. HMRC and Condé Nast Publications Ltd vs. HMRC, which disapplied the three year time limit for input tax claims in respect of periods before 1 May 1997, and output tax claims in respect of periods before 4 December 1996. This has provided many local authorities with the opportunity to recover overpaid VAT to HMRC relating to periods from 1973 to 1997. Claims for overpaid VAT are generally have been made for library charges, bulk waste, car parking/access and cemeteries' charges.

47.2. At 31 March 2011 claims related to cemeteries;' charges have been presented but have yet to be agreed and settled by HMRC, potentially £266,000 excluding interest and costs.

47.3. The Council has entered into a major regeneration scheme at Canada Water, which will significantly improve the extent to which the area will be used and stimulate economic growth for the area, as well as adding significant value for existing business and the Council's commercial partners in the scheme. The scheme involves two major partners, BDW Trading Limited (formerly known as Barratt Homes Limited), and British Land Canada Quays Limited (BLCQ) who are the Major Development Partner (MDP) of the Council in regenerating the area. The scheme involves managing cashflow to reinvest resources in the regeneration area to meet Council objectives and to create future value, by using the proceeds from the sales of assets, processed through the Council's accounts. This enables the Council to provide both funding and act as catalyst for others' funding of the scheme. Proceeds from the sales come back to the Council at different times from the payments initially made by BDW, the amounts and timings as set out under contract in the development agreement. There are opportunities for significant overage at a later date, from both BDW and BLCQ. However, the timings and the amounts are uncertain as at this time, and will depend in part on market conditions. See also Note 49 below.

48. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

48.1. 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.

48.2. Investments are managed prudentially, with capital preservation and liquidity being high priorities. Cash and investments are used to finance the Council's working capital operations. Borrowing pays for capital spend incurred in previous years or due to occur in coming years.

48.3. Trade receivables arise from the carrying out of the Council's functions and the provisions of goods and services.

48.4. The Council does not trade in financial instruments or hold derivatives.

Liquidity risk

48.5. The Council has access to long term loan facilities from the Public Works Loans Board (an Executive Agency of HM Treasury) to fund maturing debt and capital finance requirements. Investment may also be realised for working capital requirements.

48.6. The maturity profiles of Council debt and investments at 31 March 2010 are shown on page 11.

Credit risk

48.7. The Council draws on credit ratings published by major rating agencies in determining 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 diversified by allocating investments across several counterparties, which include the UK Government and supranational entities. An analysis of credit exposure on investments is contained in the Explanatory Foreword to these accounts. The maximum exposure to credit risk is represented by the sums held in investments.

48.8. In the normal course of carrying out its responsibilities, 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 recovery contractors pursue debt and in appropriate cases further credit is suspended. For some debts, a charge is placed on property, but the bulk of the exposure is unsecured and subject to credit risk and notably concentrated within the Council's geographical boundary.

Market risk

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

48.10. All Council borrowing outstanding at 31 March 2011 is at fixed rates, with an average maturity of 21 years and a modified duration of 11 (modified duration is a number which includes interest rate risk in its calculation, and is used in making risk assessments in treasury management decisions). No debt falls for refinance until 2014 (see the debt maturity chart in the Explanatory Foreword, page 11) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £86 million, a 1% fall raises it by £126 million. As debt is held at amortised cost there would be no impact on the Income and Expenditure Account from such changes, unless the debt is extinguished. Legislation would then require the charge to be taken to the Financial Instruments Adjustment Account.

48.11. The overall average life of financial assets (i.e. the Council's investments) is 0.70 years and the modified duration is 0.70. Within that, the available-for-sale investments have an average life of 0.8 years and a modified duration of 0.8. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £1.20 million, which is reflected in the Balance Sheet in the available-for-sale reserve. There is no impact on the Income and Expenditure Account, unless the investment is realised. A 1% change in rates on loans and receivable investments at the Balance Sheet date changes the fair value by £0.03 million, but as these are held at amortised cost there is no impact on the Balance Sheet or Income and Expenditure Account unless the investment is extinguished.

48.12. Investments are held in short term deposits/certificate of deposits with major banks and building societies. Money is also held in money market funds and investments more than 1 year are held in UK government gilts or supranational bonds. The Council employs three fund managers to manage its investments.

Foreign exchange risk

48.13. 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.

49. JOINTLY CONTROLLED OPERATIONS (JCO)

49.1. The Council has entered into a major regeneration scheme at Canada Water, which will significantly improve the extent to which the area will be used and stimulate economic growth for the area, as well as adding significant value for existing business and the Council's commercial partners in the scheme. The scheme involves two major partners, BDW Trading Limited (formerly known as Barratt Homes Limited), and British Land Canada Quays Limited (BLCQ) who are the Major Development Partner (MDP) of the Council in regenerating the area. The partnership with BLCQ operates as a JCO.

49.2. The Council finances the regeneration of Canada Water by depositing part of the proceeds from its sales of assets into a third party account. The costs of regeneration incurred by BLCQ as MDP on behalf of the Council, and the redistribution back to the Council of the proceeds of the sales, are met from the third party account. The transactions of the third party account are incorporated in the Council's accounts as if the transactions had been incurred directly by the Council. At 31 March 2011 the third party account held £5.254 million of Council funds (£2.376 million 31 March 2010) included in long term debtors, representing the balance of receipts to be returned to the Council, or to be applied as future investment into this programme.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Local authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

	Note	2010/11 £000	2009/10 £000
Income			
Dwelling rents		(161,870)	(157,817)
Non dwelling rents		(9,502)	(9,626)
Charges for services and facilities		(57,330)	(58,357)
Contributions towards expenditure		(3,193)	(3,718)
HRA subsidy receivable (including MRA)	3	(32,315)	(33,518)
Total income		(264,210)	(263,036)
Expenditure			
Repairs and maintenance		50,075	58,944
Supervision and management		109,807	107,103
Rents, rates, taxes and other charges		2,210	3,175
Depreciation and impairment of fixed assets	4	524,719	110,964
Debt management costs		288	259
Increase in provisions for bad debts		1,589	199
Revenue expenditure funded from capital under statute	5	1,602	2,017
Total expenditure		690,290	282,661
Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement		**426,080**	**19,625**
HRA share of CDC costs		1,106	1,095
Net Cost of HRA Services		**427,186**	**20,720**
Gains and losses on the sales of HRA fixed assets		(3,920)	(2,296)
Interest payable and similar charges		44,297	43,926
Interest and investment income		(110)	(74)
Pensions interest cost and expected return on pensions assets		2,476	4,755
Capital grants and contributions receivable		(4,156)	(8,618)
Total (surplus)/ deficit for the year		465,773	58,413

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	2010/11 £000	2009/10 £000
(Surplus)/deficit for the year on HRA services		465,773	58,413
Net additional amounts required by statute	6	(472,226)	(54,361)
(Increase)/decrease in the HRA Balance		(6,453)	4,052
HRA Balance brought forward		(14,124)	(18,176)
Balance carried forward	**7**	**(20,577)**	**(14,124)**

HRA PROPERTY, PLANT AND EQUIPMENT

2010/11	Council Dwellings £000	Land £000	Buildings £000	Total Property, Plant & Equipment £000
Gross Book Value				
Balance as at 1 April 2010	2,598,886	0	47,624	2,646,510
Additions	68,933	0	0	68,933
Revaluation increases/decreases to Revaluation Reserve	264	5,855	1,108	7,227
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(64,630)	0	(178)	(64,808)
Reclassifications & Transfers	(8,609)	0	13,679	5,070
Reclassified to Held for Sale	(6,939)	0	0	(6,939)
Balance as at 31 March 2011	**2,587,905**	**5,855**	**62,233**	**2,655,993**
Depreciation and Impairment				
Balance as at 1 April 2010	163,274	0	1,796	165,070
Depreciation Charge	37,575	0	1,706	39,281
Depreciation written out on Revaluation Reserve	(4,771)	0	(227)	(4,998)
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(61,804)	0	(425)	(62,229)
Impairment losses/reversals to Revaluation Reserve	159,284	0	0	159,284
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	482,858	0	0	482,858
Reclassifications and transfers	0	0	14	14
Balance as at 31 March 2011	**776,416**	**0**	**2,864**	**779,280**
Net Book Value as at 31 March 2011	**1,811,489**	**5,855**	**59,369**	**1,876,713**
Net Book Value as at 31 March 2010	2,435,612	0	45,828	2,481,440

2009/10	Council Dwellings £000	Land £000	Buildings £000	Total Property, Plant & Equipment £000
Gross Book Value				
Balance as at 1 April 2009	2,316,688	0	51,846	2,368,534
Additions	94,554	0		94,554
Revaluation increases/decreases to Revaluation Reserve	156,499	0	678	157,177
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	72,270	0		72,270
Derecognition - Other	(2,801)	0	0	(2,801)
Reclassifications & Transfers	0	0	(4,879)	(4,879)
Reclassified to Held for Sale	(22,241)	0	0	(22,241)
Balance as at 31 March 2010	**2,614,969**	**0**	**47,645**	**2,662,614**
Depreciation and Impairment				
Balance as at 1 April 2009	144	0	0	144
Depreciation Charge	37,106	0	1,817	38,923
Depreciation written out to Revaluation Reserve	(88)	0	0	(88)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	142,261	0	0	142,261
Reclassifications & Transfers	394	0	0	394
Eliminated on reclassification to Held for Sale	(460)	0	0	(460)
Balance as at 31 March 2010	**179,537**	**0**	**1,817**	**181,174**
Net Book Value as at 31 March 2010	**2,435,612**	**0**	**45,828**	**2,481,440**
Net Book Value as at 31 March 2009	2,316,544	0	51,846	2,368,390

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	**31/3/11**	31/3/10
Houses and bungalows	**31/3/11**	**409**	**747**	**2,920**	**0**	**4,076**	
	31/3/10	411	744	2,935	0		4,090
Low rise flats	**31/3/11**	**2,963**	**644**	**370**	**0**	**3,977**	
	31/3/10	3,001	654	372	0		4,027
Medium rise flats	**31/3/11**	**6,955**	**7,426**	**6,384**	**0**	**20,765**	
	31/3/10	7,021	7,479	6,412	0		20,912
High rise flats	**31/3/11**	**3,195**	**4,940**	**1,855**	**0**	**9,990**	
	31/3/10	3,238	4,957	1,857	0		10,052
Non permanent	**31/3/11**	**0**	**0**	**0**	**7**	**7**	
	31/3/10	0	0	0	8		8
Multi occupied	**31/3/11**	**0**	**0**	**0**	**247**	**247**	
	31/3/10	0	0	0	244		244
TOTALS	**31/3/11**	**13,522**	**13,757**	**11,529**	**254**	**39,062**	
	31/3/10	13,671	13,834	11,576	252		39,333

2.1. In addition to the numbers shown in the table above, as at 31 March 2011 there were also 1,390 void properties (1,311 at 31 March 2010). These are mostly decanted properties within the major redevelopment projects currently underway and are excluded from the subsidy calculation; but whilst having been made secure they have not yet been demolished.

3. HRA SUBSIDY

3.1. Subsidy is receivable from the Government on the basis of assumptions made for the major income and expenditure headings within the Housing Revenue Account (HRA). These assumptions form a notional account (see below), the balance of which forms the 'Housing Element' of subsidy.

3.2. The HRA is charged for any limitation of (General Fund) Housing Benefit Subsidy. Average rent and relevant service charges were within the rebate rent limit, therefore there was no limitation deduction in 2010/11.

	2010/11 £000	2009/10 £000
Management & Maintenance allowances	(102,972)	(100,647)
Major Repairs Allowance	(37,573)	(37,106)
Capital Charges subsidy	(56,848)	(58,579)
Other Expenditure (leased assets) subsidy	0	(132)
Interest on Receipts deduction	26	33
Guideline rent income deduction	165,052	162,913
Total Housing Subsidy	(32,315)	(33,518)

4. DEPRECIATION AND IMPAIRMENT CHARGES

	2010/11 £000	2009/10 £000
Dwellings depreciation	37,575	37,106
Other property depreciation	1,706	1,817
Impairment	485,437	69,991
Total	**524,718**	**108,914**

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

4.2. The impairment charge for 2010/11 arises from a significant change in the valuation methodology for Council dwellings. This is set out in Note 6 on Material Items of Income and Expense contained in the main body of the Statement of Accounts.

4.3. All depreciation and impairment charges are reversed out of the HRA to the Capital Adjustment Account. These values have no net effect on rents or other HRA income.

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

5.1. 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.

5.2. In 2010/11 £1.602 million was incurred in the HRA as REFCUS (£2.017 million in 2009/10).

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

6.1. Items included in the HRA Income and Expenditure Account but are excluded from the movement on HRA Balance for the year:

	£000	2010/11 £000	2009/10 £000
Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year			
Difference between amounts charged to income and expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute	3,634		5,711
Difference between any other item of income and expenditure and determined in accordance with the Code	(27)		(3)
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(91)		(38)
Impairment including write-down of capital works	(485,351)		(72,041)
Gains and losses on the sales of HRA fixed assets excluding costs	3,890		2,296
Revenue expenditure funded from capital under statute	(1,602)		(2,017)
Application of grants to capital financing transferred to the Capital Adjustment Account	4,156		8,618
Net charges made for retirement benefits in accordance with IAS 19	(6,813)		(7,926)
		(482,204)	(65,400)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year			
Transfer to/(from) Major Repairs Reserve	(1,791)		(1,817)
Transfer to/(from) Capital Adjustment Account	79		84
Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners	4,670		3,722
Capital expenditure funded by the HRA	7,020		9,050
		9,978	11,039
Net additional amount required by statute to be charged to the HRA		(472,226)	(54,361)

7. HRA BALANCE

7.1. HRA reserves at 31 March 2010 are £14.1 million and are allocated as follows:

	2010/11 £m	2009/10 £m
Regeneration and Development Reserve	4.9	4.8
Modernisation, Service and Operational Improvement Reserve	1.0	0.3
Financial Risk Reserve	13.1	6.6
Other earmarked reserves	1.6	2.4
Total	**20.6**	**14.1**

7.2. The Regeneration and Development Reserve of £4.9 million relates in the main for the redevelopment of the Aylesbury Estate.

7.3. The Modernisation, Service and Operational Improvement Reserve of £1.0 million is for IT modernisation, including infrastructure and a leaseholders' service charge system.

7.4. The Financial Risk Reserve, £13.1 million, includes £5.0 million Contingency reserve, broadly representing 1.7% of gross HRA revenue spend and Housing Investment Programme spend. Following a change in accounting treatment in 2007/08, the Contingency reserve reduced temporarily, but is now in the process of being replenished over a number of years as resources permit. 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, £3.0 million set aside to address potential issues arising from the ending of the subsidy arrangements from 2012/13 onward, and £3.1 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and minimise future increases in heating charges.

7.5. The other earmarked reserves, £1.6 million, comprise a range of specific resources for the tenants' fund, leaseholders' fund, Browning TMO, etc, totalling £0.9 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.

8. MAJOR REPAIRS RESERVE

	2010/11 £000	2009/10 £000
Opening balance	(11,381)	(4,680)
Transfers from the Capital Adjustment Account	(39,366)	(38,923)
Transfer to the HRA	1,791	1,817
Financing of capital expenditure	40,760	30,405
Total	(8,196)	(11,381)

9. CAPITAL EXPENDITURE AND FINANCING

	2010/11 £000	2009/10 £000
Capital Investment		
Operational assets	68,933	94,821
REFCUS	1,602	2,017
Total	**70,535**	**96,838**
Funding Source:		
Revenue contributions	7,020	9,050
Supported borrowing approvals	12,526	12,526
Capital receipts from the sales of assets	6,072	36,239
Grants and other contributions	4,157	8,618
Major Repairs Reserve	40,760	30,405
Total	**70,535**	**96,838**

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

	2010/11 £000	2009/10 £000
Council dwellings		
Right To Buy	(3,296)	(2,829)
Discounts repaid	(32)	(23)
Non Right To Buy	(14,498)	(26,332)
Other receipts	(10,593)	(823)
Land sales	(79)	(109)
Mortgage property		
	(28,498)	(30,116)
Less: Pooled (paid to central Government)	535	32
Total	**(27,963)**	**(30,084)**

11. HOUSING TENANTS ACCOUNTS

	2010/11 £000	2009/10 £000
Gross arrears as at 1 April	15,830	18,768
Prior year payments	(5,496)	(5,130)
Arrears as at 1 April	10,334	13,638
Charges due in the year	188,161	186,432
Rent rebates	(92,537)	(91,119)
Write-offs	(2,780)	(2,170)
Adjustments	1,062	(980)
Cash collected	(95,140)	(95,467)
Net arrears as at 31 March	9,100	10,334
Payments in advance	5,800	5,496
Gross arrears as at 31 March	**14,900**	**15,830**

11.1. The arrears position as at 31 March 2010 includes Neighbourhoods, Browning EMB, hostels and miscellaneous properties. It excludes Tenant Management Organisations, Bed & Breakfast, and Travellers Sites.

12. IMPAIRMENT OF DEBTORS

	2010/11 £000	2009/10 £000
Rents	8,615	7,311
Income from hostels	303	295
Court costs	751	659
Commercial rents	420	235
Total	**10,089**	**8,500**

13. PENSIONS COSTS

13.1. 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.

13.2. The apportionment of charges to the HRA under IAS19 is based on the ratio of employer payroll costs incurred by the Council of 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.

	2010/11 £000	2009/10 £000
Current service cost	4,337	3,171
Expected return on employer assets	(8,026)	(5,092)
Interest on pension scheme liabilities	10,503	9,847
Actuarial (gains)/losses	(10,959)	27,363
Total IAS 19 charges	(4,145)	35,289
Less Pensions costs attributable to the HRA	(4,670)	(3,721)
Movement on the Pensions Reserve	**(8,815)**	**31,568**

COLLECTION FUND

The Collection Fund 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	**2010/11 £000**	2009/10 £000
Income			
Income from Council Tax	1	**(95,313)**	(93,533)
Transfer from the General Fund, Council Tax benefits		**(26,841)**	(26,982)
Income collectable from business ratepayers	2	**(164,828)**	(145,920)
Income collectable in respect of Business Rate Supplements	3	**(5,932)**	0
Total Income		**(292,914)**	(266,435)
Expenditure			
Precepts and Demands			
Greater London Authority		**29,873**	29,331
London Borough of Southwark		**87,948**	86,328
Non Domestic Rates	2		
Payment to National Pool		**164,160**	145,272
Cost of collection		**668**	648
Business Rate Supplements (BRS)	3		
Payment to GLA's BRS Revenue Account		**5,887**	0
Administrative costs		**45**	0
Council Tax Impairment of debts			
Allowance for impairment		**1,763**	4,292
Council Tax write offs		**2,017**	703
Contribution to preceptors of the previous year's estimated Collection Fund surplus	4	**1,652**	1932
Total Expenditure		**294,013**	268,506
Net deficit/(surplus) for the year		**1,099**	2,071
Deficit/(surplus) at 1 April		**(957)**	(3,028)
Deficit/(surplus) at 31 March		**142**	(957)

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

1.1. The 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 1st 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 2010/11 the estimated income required from the Collection Fund for all preceptors was £117.820 million (£115.686 million in 2009/10). The amount of Council Tax for a band D property (£1221.96 in 2010/11 and in 2009/10) 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	
	2010/11	2009/10		**2010/11**	2009/10
A	**9,921.45**	9,665.75	6/9	**6,613.72**	6,443.28
B	**30,547.80**	30,261.15	7/9	**23,759.40**	23,536.45
C	**28,140.05**	27,650.15	8/9	**25,013.38**	24,577.91
D	**17,239.45**	16,874.50	1	**17,239.45**	16,874.50
E	**11,294.20**	10,917.55	11/9	**13,804.02**	13,343.67
F	**4,957.25**	4,878.45	13/9	**7,160.47**	7,046.65
G	**3,561.40**	3,534.85	15/8	**5,935.67**	5,891.42
H	**455.15**	451.50	18/9	**910.30**	903.00
Total	**106,116.75**	104,233.90		**100,436.41**	98,616.88
Less adjustment for collection rate				**(4,017.46)**	(3,944.68)
Council Tax Base for year				**96,418.95**	94,672.20
Estimated Income Required from Collection Fund				**£117,820,105**	£115,685,642
Band D Council Tax				**£1,221.96**	£1,221.96

2. NATIONAL NON DOMESTIC RATES

2.1. National Non-Domestic Rates (NNDR) or business rates are collected from local businesses by the Council. The rates collected are then paid into a national pool administered by the Government. The Government then redistributes the total paid into the pool back to local authorities on the basis of a fixed amount per head of the population.

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 2010/11 was 41.4p and 40.7p for small business (48.5p and 48.1p respectively for 2009/10). 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 2011 was £518.999 million (£391.621 million at 31 March 2010).

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 2010/11 was 2p on non-domestic properties with a rateable value of over £55,000 in London.

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

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 2010, the Council estimated an accumulated surplus balance of £1,652,074 for 2009/10 as follows:

	£
Surplus as at 31 March 2009	(3,027,530)
Less estimated deficit for 2009/10	1,375,456
Estimated surplus as at 31 March 2010	**(1,652,074)**

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 (74.6% and 25.4%) as follows:

Distribution of previous year's estimated Collection Fund surplus

	£
Greater London Authority	(419,627)
London Borough of Southwark	(1,232,447
Estimated surplus for 2009/10, redistributed in 2010/11	**(1,652,074)**

TRUST FUNDS & OTHER THIRD PARTY FUNDS

The Council maintains numerous miscellaneous funds and also acts as trustee for a number of Trust Funds which may be utilised for limited purposes as set out in the various trust deeds. All funds are either invested in external market securities or internally. These funds are not consolidated within the Council's accounts.

1. Funds where the Council is the sole trustee

	Balance at 31/3/10	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/11
	£	£	£	**£**
Adult Social Care Funds				
Individual bequests	52,503	610	0	53,113
Comforts Funds/residents' savings	3,535,284	3,424,716	(2,240,181)	4,719,819
Children's Service Trusts				
Miscellaneous	27,520	1,298	0	28,818
Environment and Housing Trusts				
Pullens Gardens maintenance fund	115,863	1,251	0	117,114
Corporate Services Trusts				
Mayor's Charity	7,401	61,119	(56,518)	12,002
Total	**3,738,571**	**3,488,994**	**(2,296,699)**	**4,930,866**

1.1. The purposes of the funds are listed below:

Individual Bequests	
Joseph Taylor	Ex London County Council bequest
Frank Bezer	To provide Christmas extras to children in the Hollies or any replacement accommodation
George Baker	For the benefit of persons living in residential accommodation in Southwark
Daniel Steele	To provide extras for residents of Nye Bevan Lodge
Comforts Funds/Residents' Savings	This comprises numerous separate funds to provide "comforts" to residents of the various Social Services establishments, and savings accounts administered on behalf of the residents of those establishments
Miscellaneous	Bequests set up to provide prizes or financial assistance to students at relevant schools in the borough
Pullens Gardens maintenance fund	To meet the maintenance cost of Pullens Gardens
Mayor's Charity	The Mayor's Charity account supports the activities associated with the Mayor's annual charity appeal

2. Funds where the Council is not the sole trustee

	Balance at 31/3/10	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/11
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common	917,521	9,909	0	927,430
Borough Market Trustees	793	9	0	802
Leisure Trusts				
Cuming Bequest	9,516	103	0	9,619
Total	**927,830**	**10,021**	**0**	**937,851**

2.1. The purposes of the funds are listed below:

Walworth Common	To provide rate relief in the former parish of St Mary Newington
Borough Market Trustees	To reduce parochial rates for the parish of St Saviour
Cuming Bequest	To provide for display of furniture and coins at Cuming Museum

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2010/11 £000	2009/10 £000
Contributions	6	**(45,419)**	(45,510)
Transfers in from other pension funds		**(6,379)**	(4,652)
Other income		**(2)**	(138)
Total income		**(51,800)**	(50,300)
Benefits	8	**40,770**	37,754
Payments to and on account of leavers	8.3	**5,859**	6,971
Other Payments		**44**	0
Administrative expenses	7	**898**	907
Total expenditure		**47,571**	45,632
Net addition from dealing with members of the fund		**(4,229)**	(4,668)
Investment income	9	**(15,782)**	(12,951)
Profit and losses on disposal of investments and changes in market value of investments	10.2	**(46,170)**	(174,590)
Taxes on income	2.4	**80**	0
Investment management expenses		**4,988**	3,648
Net returns on investments		**(56,884)**	(183,893)
Net (increase)/decrease in the net assets available for benefits during the year		**(61,113)**	(188,561)
Opening net assets of the scheme		**(786,766)**	(598,205)
Net assets of the scheme available to fund benefits at 31 March		**(847,879)**	(786,766)

NET ASSETS STATEMENT

	Note	2010/11 £000	2009/10 £000	1/4/2009 £000
Investment assets	10	**828,335**	774,841	589,040
Investment liabilities	10	**(81)**	(15)	0
Current assets	11	**22,544**	12,737	10,065
Current liabilities	11	**(2,919)**	(797)	(900)
Net assets of the scheme available to fund benefits at 31 March		**847,879**	786,766	598,205

Note: The pension fund accounts do not take account of liabilities to pay pensions and other benefits in the future (beyond 31 March 2011). Information regarding future liabilities can be found in the Actuary's statement in note 5.

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

1.1. The Pension Fund is a 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.

1.2. The day to day operations of the fund are financed mainly by contributions from employees and employers but the fund is also supported by a portfolio of investment assets for the longer term.

1.3. The Pension Fund Accounts provides information about the performance and position of the fund. It also summarises the transactions of the scheme and the net assets at the disposal of the Finance Director on the recommendation of the Pensions Advisory Panel.

1.4. The Pension Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future (beyond 31 March 2011). Information regarding future liabilities can be found in the Actuary's statement in note 5.

2. OPERATION AND MEMBERSHIP OF THE FUND

2.1. The Council contributed 22% of pensionable pay in 2010/11 (19% in 2009/10). A one off payment of £4.96 million was made as a special contribution for early and ill health retirements (£4.64 million in 2009/10). In addition, external bodies admitted to the Southwark Fund contributed a total of £2.68 million (£2.33 million in 2009/10).

2.2. The Council is required to ensure that any surplus on the Pension Fund is invested. To ensure that the investment of the Fund is carried out to the best possible advantage, investment managers deal with the day to day investment of the Fund. Investments are managed by the following companies: BlackRock who manage an "indexed" portfolio of global equities and fixed and index-linked gilts; Newton Investment Management who manage an unconstrained global equities portfolio; and Henderson Global Investors, who manage a property portfolio.

2.3. The Investment Management Agreements held with Alliance Bernstein were terminated in November 2010. The assets were transferred to BlackRock and are being held in a warehouse portfolio as a temporary arrangement until an EU procurement exercise is completed to appoint additional index tracking managers.

2.4. Irrecoverable tax on dividends for 2010/11 was £79.94k (£186.60 in 2009/10).

2.5. The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Finance Director, taking account of the advice of the Pensions Advisory Panel.

2.6. At 31 March 2011 membership of the Fund was as follows:

	2010/11	2009/10
Number of contributors to the Fund	6,272	6,285
Number of contributors and dependants receiving allowances	6,310	6,164
Number of contributors who have deferred their pensions	6,697	6,062

3. ACCOUNTING POLICIES

Transition to International Financial Reporting Standards

3.1. The Pension Fund accounts summarise the transactions and net assets of the Pension Fund. They comply in all material respects with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and have been prepared in accordance with international Accounting Standard 26 (IAS26), Retirement Benefit Plans.

3.2. The Accounts have been prepared for the first time in 2010/11 using international accounting standards. The key impact on the Pension Fund is the requirement to disclose the 'actuarial present value of promised retirement benefits', which is disclosed in Note 5 to the Accounts. The opening net assets statement at 1 April 2009 remains unchanged.

Basis of preparation

3.3. The Pension Fund Account has been prepared on an accruals basis, except where otherwise stated, i.e. income and expenditure has been accounted for as it is earned or incurred rather than when they are received or paid.

3.4. The Pension Fund Accounts have been prepared on a going concern basis.

3.5. Additional Voluntary Contributions (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).

3.6. The pension fund accounts do not take account of liabilities to pay pensions and other benefits in the future (beyond 31 March 2011). Information regarding future liabilities can be found in the Actuary's statement in Note 5.

Investments

3.7. Investments are valued as follows:

- Equity investments, unit trusts and unitised insurance policies at their market bid price on 31 March 2011.
- 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 2011.
- Property assets have been included in the accounts at market value as at 31 March 2011 The valuation of direct property managed by Henderson Global Investors is carried out by Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2011.
- 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 except for Aberdeen Eurozone Fund of Funds which was valued using the February 28, 2011 price.

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

3.9. There are no restrictions affecting the ability of the scheme to realise its assets as at 31 March 2011 at the values quoted, which have been verified by the Council's custodian, JP Morgan.

4. MANAGEMENT AND INVESTMENT OF FUNDS REGULATIONS

4.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 deal with the choice of investment managers, terms of their appointment, review of their performance, and the use and investment of pension fund money together with restrictions on such investments. In managing the Fund the investment manager must take into account:

- That Fund money must be invested in a wide variety of investments
- The suitability of those types of investment for the Fund
- The suitability of any particular investment of that type.

4.2. The Council has to keep the investment managers' performance under review and at least once every three months review the investments made, and periodically consider whether or not to retain the manager.

4.3. In addition the Council is under a duty to invest any Fund money not needed immediately to make payments, with power to vary those investments and a duty to formulate an investment policy with a view to:

- The advisability of investing Fund money in a wide variety of investments
- The suitability of particular investments and types of investments.

4.4. In carrying out all the above functions, the Council must obtain proper advice, at reasonable intervals, which is defined as the advice of a person who is reasonably believed by them to be qualified by his/her ability in, and practical experience of, financial matters (including any suitable officer of theirs).

5. ACTUARIAL POSITION OF THE FUND

Introduction

5.1. 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 last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

5.2. The following section on the Actuarial Position of the fund, paragraphs 5.3 – 5.13, has been prepared by the actuary for the sole use of Southwark Council, and should not be relied on by any other party. The statements should not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Actuarial Position

5.3. Rates of contributions paid by the participating employers during 2010/11 were based on the previous actuarial valuation which was carried out as at 31 March 2007.

5.4. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased from 82% at the previous valuation with the market value of the Fund's assets (of £789.3M) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

5.5. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2011 is:

- 13.6% of pensionable pay p.a. 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 23 years from 1 April 2011, amounting to £8.5M in 2011/12, £10.6M in 2012/13, £12.8M in 2013/14, and increasing by 5.3% p.a. thereafter.

5.6. This would imply an average employer contribution rate of about 20.5% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

5.7. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

5.8. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.

5.9. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

5.10. The main actuarial assumptions were as follows:

Discount rate for periods in service Scheduled Bodies Admitted Bodies	7.0% p.a. 6.25% p.a.
Discount rate for periods after leaving service Scheduled Bodies Admitted Bodies	7.0% p.a. 4.75% p.a.
Rate of pay increases:	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.3% p.a.

5.11. The assets were valued at market value. Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

5.12. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. No such reviews have been completed since the 2010 valuation of the Fund.

5.13. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

Actuarial Present Value of Promised Retirement Benefits

5.14. 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 has been valued as at 31 March 2010.

	Value as at 31 March 2010 £m	Value as at 31 March 2007 £m
Fair value of net assets	786.8	754.4
Actuarial present value of promised retirement benefits	(1,399.0)	(1,084.5)
Surplus/(deficit) in the fund as measured for IAS26	**(612.2)**	**(330.1)**

6. CONTRIBUTIONS

6.1. Contributions represent the total amount receivable from employees and employers of the scheme. Contributions to the fund for 2010/11 are analysed as follows:

	Employees £000	Employers £000	2010/11 Total £000	Employees £000	Employers £000	2009/10 Total £000
Southwark Council	9,900	31, 990	41,890	10,159	32,156	42,315
Admitted bodies	556	1,686	2,242	504	1,564	2,068
Scheduled bodies	289	998	1,287	364	763	1,127
Total Contributions	**10,745**	**34,674**	**45,419**	**11,027**	**34,483**	**45,510**

6.2. Contributions receivable from employers for 2010/11 are shown below:

	2010/11 £000	2009/10 £000
Normal	23,971	24,641
Early retirement strain	5,315	4,642
Deficit funding	5,206	5,079
Augmentations	182	121
Total contributions from employers	34,674	34,483
Contributions from employees	10,745	11,027
Total Contributions	**45,419**	**45,510**

6.3. During 2010/11 employees made Additional Voluntary Contributions (AVCs) of £143,709 (£147,987 2009/10). 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 2011 was £1.360 million (£0.871 million at 31 March 2010).

7. ADMINISTRATIVE EXPENSES

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

	2010/11 £000	2009/10 £000
Southwark council recharges	867	868
External Audit fees (Note 7.2)	31	39
Total Administrative expenses	**898**	**907**

7.2. During 2010/11 the Audit Commission issued a rebate of £3,500 in respect of their fee for 2009/10, which has been accounted for in 2010/11. The external audit fee of £35,000 for 2010/11 is shown net of this rebate.

8. BENEFITS

8.1. The total below shows the total benefits payable for 2010/11 grouped by entities:

	Pensions £000	Lump sums £000	2010/11 Total £000	Pensions £000	Lump sums £000	2009/10 Total £000
Southwark Council	30,289	8,987	39,276	29,283	7,167	36,450
Admitted bodies	627	624	1,251	493	755	1,248
Scheduled bodies	48	195	243	28	28	56
Total Contributions	**30,964**	**9,806**	**40,770**	**29,804**	**7,950**	**37,754**

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

	2010/11 £000	2009/10 £000
Pensions	30,964	29,804
Commutation of pensions and lump sum retirement benefits	8,219	7,422
Lump sums – death benefits	1,587	528
Total benefits payable	**40,770**	**37,754**

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

	2010/11 £000	2009/10 £000
Refund of contributions	1	6
State Scheme Premiums	7	7
Individual transfers out to other schemes	5,851	6,958
Total payments	**5,859**	**6,971**

9. INVESTMENT INCOME

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

	2010/11 £000	2009/10 £000
Dividends from equities	7,418	6,788
Income from pooled investment vehicles	2,969	1,851
Net rent from properties	5,167	4,704
Interest on cash deposits	80	147
Income from derivatives	0	(658)
Other income	148	119
Total investment income	**15,782**	**12,951**

9.2. £86,000 included in other income represents income received from stock lending.

10. INVESTMENT ASSETS

10.1. Investment assets shown in the net asset statement are analysed below:

2010/11		Analysed by			
	31/3/11 £000	Quoted (UK) £000	Quoted (Overseas) £000	Unquoted (UK) £000	Unquoted (Overseas) £000
Fixed Interest Securities – UK public sector	23,453	23,453			
Fixed Interest Securities – UK quoted	92,924	92,924			
UK Equities	21,928	21,928			
Overseas Equities	306,220		306,220		
Index linked securities	70,368	70,368			
Managed Funds – Property (Freehold)	57,665			57,665	
Managed Funds – Property (Leasehold)	6,500			6,500	
Unit Trusts – Property	56,234	37,527	18,707		
Unitised insurance policies	188,892	23,608	165,284		
Cash Deposits	4,151		4,151		
Total investment assets	**828,335**	**269,808**	**494,362**	**64,165**	**0**
Investment Liabilities:					
Derivatives Forward Currency	(81)				(81)
Net Investment Assets	**828,254**	**269,808**	**494,362**	**64,165**	**(81)**

2009/10	Total	Analysed by			
	31/3/10 £000	Quoted (UK) £000	Quoted (Overseas) £000	Unquoted (UK) £000	Unquoted (Overseas) £000
Fixed Interest Securities – UK public sector	20,080	20,080			
Fixed Interest Securities – UK quoted	86,745	86,745			
UK Equities	28,398	28,398			
Overseas Equities	296,653		296,653		
Index linked securities	61,608	61,608			
Managed Funds – Property (Freehold)	54,655			54,655	
Managed Funds – Property (Leasehold)	7,200			7,200	
Unit Trusts – Property	57,905	40,073	17,832		
Unitised insurance policies	157,367	23,397	133,970		
Cash Deposits	4,230			4,230	
Total investment assets	**774,841**	**260,301**	**448,455**	**66,085**	**0**
Investment Liabilities:					
Derivatives Forward Currency	(15)				(15)
Net Investment Assets	**774,826**	**260,301**	**448,455**	**66,085**	**(15)**

10.2. 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 31/3/10 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/3/11 £000
Fixed Interest:						
UK public sector	20,080	2,975	(4,000)	4,398	0	23,453
UK quoted	86,745	1,605	0	4,574	0	92,924
UK Equities	28,398	15,867	(21,669)	(668)	0	21,928
Overseas Equities	296,653	177,183	(188,847)	21,231	0	306,220
Index linked Securities	61,608	11,500	(4,000)	1,260	0	70,368
Managed Funds:						
Property (freehold)	54,655	3,540	0	(530)	0	57,665
Property (leasehold)	7,200	0	0	(700)	0	6,500
Unit Trusts - Property	57,905	418	(5,832)	3,743	0	56,234
Unitised insurance policies	157,367	26,282	(7,697)	12,940	0	188,892
Derivatives:						
Forward currency	(15)	1,680	(1,668)	(78)	0	(81)
Cash Deposits	4,230	0	0	0	(79)	4,151
Total Net Investment Assets	**774,826**	**241,050**	**(233,713)**	**46,170**	**(79)**	**828,254**
Cash held at managers	5,623	0	0	0	5,082	10,705
Investment Debtors	529	0	0	0	902	1,431
Total Net Investments	**780,978**	**241,050**	**(233,713)**	**46,170**	**5,905**	**840,390**

10.3. There are three pooled investments held by Blackrock that exceed 5% of the market value of the fund. These investments are in Aquila life pooled funds and the emerging market fund. Investments exceeding 5% within each class of security are as follows:

Asset Class	**Fund Manager**	**Value at 31/3/2011 £000**	**% within asset class**
Fixed interest securities			
Aquila Life Corporate Bond Index All Stock Series 1	BlackRock	92,551	80%
Aquila Life Over 15 Year UK Gilt Index Series 1	BlackRock	23,342	20%
Index linked securities			
BlackRock PML Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	70,302	100%
Managed funds (property)			
190-208 Ingram Street	Henderson	9,130	14%
Hope House, 45 Great Peter Street	Henderson	7,730	12%
Cathedral Park, Belmont Industrial Est.	Henderson	5,100	8%
Bennet Court	Henderson	4,350	7%
Quay Point, Cosham	Henderson	4,350	7%
Unit 2 Rhosili Road	Henderson	4,050	6%
Rossalind House	Henderson	4,000	6%
Great Weston Trade Park	Henderson	3,600	6%
Cumbernauld Business Park	Henderson	3,500	5%
15 - 17 Northgate Street	Henderson	3,425	5%
The Courtyard, Montpellier Street	Henderson	3,380	5%
Units H2, H3 & H4 Premier Bus Park	Henderson	3,300	5%
Unit trusts			
Aquila Life European Equity Index Series 1	BlackRock	50,346	21%
Aquila Life Emerging Markets Fund Inc	BlackRock	37,801	15%
BlackRock Emerging Markets Index Fund	BlackRock Warehouse	24,714	10%
Aquila Life UK Equity Index Fund Series	BlackRock	22,737	9%
Aquila Life Pacific Rim Equity Index Series	BlackRock	21,327	9%
Aquila Life Japanese Equity Index Fund Series 1	BlackRock	21,002	9%
Henderson Indirect Property Fund (Europe)	Henderson	13,997	6%
Henderson Property Fund (UK Property)	Henderson	12,976	5%

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

Fund Manager	Market value of fund at 31/3/11	% market value held at 31/3/11	Market value of fund at 31/3/10	% market value held at 31/3/10
	£million	%	£million	%
BlackRock	468.07	55.70	433.81	55.55
BlackRock (warehouse)	163.09	19.41	0.00	0.00
Alliance Bernstein (Growth)	0.02	0.00	81.67	10.46
Alliance Bernstein (Value)	0.02	0.00	73.00	9.35
Newton Investment Management	77.06	9.17	67.66	8.66
Henderson Global Investors	132.13	15.72	124.85	15.98
Total	**840.39**	**100.00**	**780.99**	**100.00**

10.5. 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.

10.6. Deposits of £4.151 million are balances held by Henderson Global investors. These holdings have not reduced significantly during 2010/11 due to sales of units in a number of property unit trusts. Henderson's strategy is to continue to look for the right opportunity to invest in, within the property market thereby reducing cash holdings in the long term. The purchase of a retail unit in April 2011 will however have significantly reduced the amount of the deposit that was held at 31 March 2011.

10.7. Cash held at other managers are holdings pending the reinvestment of other crystallised transactions.

10.8. The total amount of direct transaction cost on all investment types was £3.024 million (£1.684 million in 2009/10), split between equities £0.184 million (£0.350 million in 2009/10 and property £2.840 million (£1.334 million in 2009/10)

10.9. The valuation of direct property managed by Henderson Global Investors is carried out by Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2011. All properties have been valued at market value.

10.10. Stock lending is allowed under investment agreements within statutory limits. The Fund participates in a stock lending programme, which is managed by the global custodian, JP Morgan. £1.40 million of stock was lent out as at 31 March 2011. (£2.60million at 31 March 2010), the collateral for this is held in a combination of European government bonds and United States cash.

10.11. The Statement of Investment Principles has been revised and will be available on the Council's website shortly along with the annual report for 2010/11. In the interim an electronic copy can be obtained by email from:

Caroline.watson@southwark.gov.uk

or on request from the Finance Director, Southwark Council, Finance and Resources, 2nd floor Hub 1, PO Box 64529, London SE1P 5LX.

11. CURRENT ASSETS AND LIABILITIES

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

	2010/11 £000	2009/10 £000
Contribution due from employers	4,432	1,048
Payments in advance	738	737
Other current assets	2,430	603
Cash at managers	10,705	5,623
Cash and bank	4,239	0
Cash at Council	0	4,726
Total	**22,544**	**12,737**

11.2. There were no unpaid benefits at the end of the period. The amount of £2,919 million of current liabilities would therefore all be categorised as other and relate mainly to £867,000 owed to LB Southwark for recharges as stated in Note 7 of the accounts, £847,000 for outstanding professional fees, and £520,000 in respect of VAT.

12. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

12.1. 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:

	2010/11 £000	2009/10 £000
Loans and receivables	19,625	11,940
Financial assets at fair value through profit or loss	828,335	774,841
Financial liabilities at fair value through profit or loss	(81)	(15)
Total	**847,879**	**786,766**

12.2. 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 12.3 to 12.8.

Credit Risk

12.3. This is the risk that counterparties may fail to pay amounts due to the Pension Fund. For example a stock may lose value or a dividend due may not be paid out. 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

12.4. 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 within the last year, 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.

12.5. 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.

12.6. There is a strategy in place to ensure that if the Fund found itself in a position where it did not have the funds available to meet its commitments, alternative moneys could be drawn down. Funds could be called back from investment managers within a short period of time.

Market Risk

12.7. This is the risk that the fair value or cash flows of an investment will fluctuate due to changes in market prices. Market risk reflects interest rate risks, currency risks and other price risks. The fund manages these risks as follows:

- Equity Risk – this is the risk that stock prices will decrease, resulting in a loss to the Fund. To mitigate against this, the Fund has a diverse portfolio with different asset classes, countries and market sectors. The management of the portfolio is delegated to a number of investment managers with different management styles. Therefore any fall in prices should only affect part of the Fund's investments.
- Interest Rate Risk – the fund hedges against this risk by using fixed income instruments.
- Currency Risk – this is the risk that foreign exchange rates may move in such a way as to reduce the sterling equivalent of overseas holdings. To mitigate against this risk, the fund has a global strategy, investing in a wide range of countries. The Fund also uses derivatives to hedge non UK exposure.

12.8. The impact of a 1% downward movement in the sterling value of equities combined with a 1% upward movement in the value of fixed interest and index linked securities at 31 March 2011 would be a £4.5 million reduction in the value of the pension fund's net assets.

13. RELATED PARTY TRANSACTIONS

13.1. The Council 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. There were no related party transactions other than those disclosed elsewhere in the accounts.

13.2. Although there were no related party transactions, the Council recognises that the following bodies have a related party relationship with the Pension Fund:

- The Administering Authority
  - The London Borough of Southwark
- The Fund Managers:
  - BlackRock (formerly Barclays Global Investors Limited)
  - Henderson Global Investors
  - Alliance Bernstein
  - Newton Investment Management
- The Global Custodian
  - JP Morgan
- The following admitted bodies:
  - Borough Market (ceased active contributors 1 January 2011)
  - Southwark Law Centre
  - Fusion
  - Odyssey
  - Centre for Literacy in Primary Education
  - South London Gallery
  - Shaftesbury Homes (ceased 1 November.2010)
  - APCOA
  - Charter Security
  - Chequers
  - Castle Day Centre
  - Olympic South
  - Morrison
  - Veolia
  - Camden Society
  - Leather Market
  - RSM Tenon
  - RM Education (from 24 January 2011)
  - Balfour Beatty (from 24 January 2011)
  - Blenheim CDP (from 1 May.2010)
- The following scheduled bodies:
  - Academy at Peckham
  - Bacons College
  - Globe Academy
  - Harris Academy Bermondsey
  - Harris Girls Academy
  - Harris Boys Academy
  - St Michaels & All Angels CE Academy
  - Walworth Academy
  - Kingsdale Foundation School (from 1 November 2010)
  - The Charter School Educational Trust (from 6 September 2010)
- The Pension Advisory Panel

14. EVENTS AFTER THE BALANCE SHEET DATE

14.1. There were no significant events after the balance sheet date

15. CONTINGENT LIABILITIES

15.1. There are no contingent liabilities.

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 Best Value Accounting 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.

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 Income and Expenditure Account over a period of time.

ASSET
An item having value to the Council in monetary terms. Assets are categorised as either current or fixed:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A fixed 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
A new account required from 2008/09 to reflect movements in valuations and financing transactions of the Council's fixed 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.

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 2010/11. 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.

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.

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 fixed asset.
(2) The reduction of the value of a fixed 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)
A new account required from 2008/09 to reflect 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.

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 internally 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 fixed asset, greater than normal depreciation, through economic consumption or through a fall in price.

INFRASTRUCTURE ASSETS
A classification of fixed 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

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

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
Fixed 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 are 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.

REFCUS
See Revenue Expenditure Funded from Capital Under Statute

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 fixed assets but statutory regulations allow the cost to be funded from capital resources. The expenditure is recorded in the Income and Expenditure Account 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
A new account required from 2008/09, to account for 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.

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.

SUPPORTED BORROWING
Borrowing supported by central government grant towards the financing costs, mainly through HRA subsidy or 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.