

Statement of accounts

2009/10

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Introduction

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2003, as amended. 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.

Over the last twelve months we have continued to witness significant pressures on the global economic situation, including a sustained period of slowdown and recession in the UK economy. For example interest rates have been sustained at very low rates and inflation continues at levels higher than expected. These circumstances, alongside continued demand pressures on local services that are likely to increase as a consequence of recession, require the Council to continually review key priorities and supporting financial plans.

Despite the wider pressures on world financial markets, it is encouraging that the Council's Pension Fund continues to recover from the 2008/09 position to a valuation close to the position before those markets collapsed. The Pension Fund is due for a triennial review in the coming year and the situation will need close monitoring and management.

While the demands of structured inspection regimes such as the Comprehensive Area Assessment seem to be moderating, it will be essential that we continue 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 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 look forward to continuing to work closely with the Audit Commission in the coming months, and 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.

The Accounts were presented to and approved by the Audit and Governance Committee on 30 June 2010. The Accounts have now been audited, and the District Auditor presented the Annual Governance Report to the Audit and Governance Committee on 23 September 2010. The District Auditor's opinion on the Accounts is included within these Statements.

I confirm that the Statement of Accounts gives a true and fair view of the financial position and transactions of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

Duncan Whitfield
Finance Director
29 September 2010

Independent auditor's report to the members of the London Borough of Southwark

Opinion on the Authority and Group accounting statements

I have audited the accounting statements and related notes of the London Borough of Southwark for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Finance Director and auditor

The Finance Director's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword by the Finance Director. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Finance Director and auditor

The Finance Director's responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material

inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I have carried out 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. However, the audit cannot be formally concluded and an audit certificate issued until my predecessor and I have completed our consideration of matters brought to our attention by members of the public. I am satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2010.

Susan M Exton
District Auditor

Audit Commission
1st Floor Millbank Tower
Millbank
London
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29 September 2010

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. The Council's Accounts are prepared in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the "SORP"), published by CIPFA/LASAAC. The Accounts are made up of the following statements:

- The Income and Expenditure Account - covering income and expenditure on all goods and services relating to the Council's activities
- The Statement of Movement on the General Fund Balance - reconciles the Income and Expenditure Account to the General Fund balance, showing those items in the Income and Expenditure Account that are prevented by statute from being charged to the General Fund and Council Tax, and also showing the additional items that are required to be included
- The Statement of Total Recognised Gains and Losses - a statement showing the movement in the value of the Council's assets or net worth
- The Balance Sheet - which sets out the financial position of the Council as at 31 March 2010. It incorporates the balances on the Council's revenue and capital accounts, consolidated advances and borrowing pool, and the Collection Fund. The assets and liabilities of the Pension Fund and Trust Funds are excluded and are shown separately
- The Cash Flow Statement - which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes
- Notes to the above Accounts
- The Housing Revenue Account (HRA) statements - which show income and expenditure on Council Housing. Similar to the main statements, this is now made up of the HRA Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, and Notes to these Accounts
- The Collection Fund - which shows transactions of the charging authority relating to National Non Domestic Rates and Council Tax, and the way these have been distributed to preceptors and the General Fund
- Trust Funds and other balances - which show the movements and the final balances on the various trusts and bequests administered by the Council
- The Pension Fund statements - which set out the financial position of the Council's Pension Fund. The statements include the Pension Fund Account, the Pension Fund Net Assets Statements, and Notes to these Accounts.

Explanatory foreword

3. Accounting standards

- 3.1. As far as is possible, the Council's Accounts are prepared in accordance with accounting practice as applied in the commercial sector. However, the accounting standards set for the commercial sector are not designed for the public sector. In particular, these standards do not cover tax raising bodies, such as local authorities or central government. In addition, there are legislative requirements on the finances of local authorities which override standard accounting practice. The purpose of the SORP, as the recognised guidance on local authority accounting, is to determine which accounting standards should be applied to local authorities, and how to account when legislation requires a different approach.
- 3.2. Accounting standards for the commercial sector change and improve. These are incorporated into the SORP as appropriate for local government purposes. As a result, the Accounts can change in appearance from year to year, or result in changes in how some of the values in the Accounts are presented.
- 3.3. There have been a number of changes to the presentation of the primary statements of the Accounts. The most significant of these is in the role the Council has in collecting Council Tax on behalf of its preceptor, the Greater London Authority, and in the collection of business rates to be paid to the Government before the re-allocation to resources back to the Council. Previously all these transactions were included as gross in the Council's Accounts. The 2009 SORP now requires these transactions to be recognised as acting as an agent on behalf of the GLA and the Government, and therefore only to include the net relationship with those bodies in the Accounts. In addition, the Income and Expenditure Account now shows the actual Council's activity in collecting Council Tax on its own behalf, rather than just the budgeted charge to the Collection Fund. These changes affect all the primary statements in the Accounts – the Income and Expenditure Account, the Statement of Movement on the General Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the Cashflow Statement. 2008/09 comparatives have been restated on this basis. The Collection Fund memorandum statement is still required to be shown as previously presented, and is unamended for any current or previous years' changes.
- 3.4. The 2009 SORP has changed accounting practice for accruals on loans and investments. Accruals for interest payable on external borrowing are included in current liabilities (included in the carry cost of the debt in 2008/09). Accruals for interest receivable on investments are included in the carry cost of available-for-sale financial assets (no change from 2008/09), and for loans and receivables shown in short term loans and receivables (shown in debtors in 2008/09). 2008/09 comparatives have been restated on this basis.
- 3.5. The 2009 SORP has changed the level of disclosure on officers' remuneration. The most significant change is in the specific requirements of senior and highly paid staff. In addition, the bands for reporting remuneration over £50,000 have been reduced in size from bands of £10,000 to £5,000. See Note 10 page 47.
- 3.6. The 2009 SORP no longer requires disclosures to be included in the Accounts for the Building Control Fee Earning Account, Business Improvement District Schemes, publicity, income under Local Authorities Goods and Services Act, and Section 137 expenditure.
- 3.7. The 2009 SORP introduces on-balance sheet accounting for all PFI schemes, and other schemes which share attributes of PFI schemes but are not necessarily PFI, or other contractual relationships where the Council is deemed to have the full benefit of the consumption of specific assets during the course of the contract. The Council's waste contract is a PFI scheme that is delivering only a conventional waste management service at this time, and is therefore not yet consolidated into the Council's accounts. The Southwark Schools for the Future programme's PFI elements become active from 2010/11 onwards.

Explanatory foreword

- 3.8. The next major change in local government accounting will be to the 2010/11 Accounts, with the introduction of accounting under International Financial Reporting Standards (IFRS). The most significant aspects will be changes in accounting for property leases and employee benefits, particularly holiday pay and other absences. These changes will require additional work in data collection, and changes to systems and processes. The implementation of IFRS prescribes that the previous year's accounts are restated when applied. The 2009/10 Accounts have been prepared on a similar basis to that in previous years, but will have to be restated differently in the 2010/11 Accounts. This means data collection on the new basis is required from the beginning of 2009/10, i.e. 1 April 2009. Work has already started to prepare for the implementation of IFRS.

4. Significant events

- 4.1. The UK and world financial markets, and consequently all the economies of the world, have been in significant turmoil since the summer of 2007. There were particularly major effects in the second half of 2008 – the purchase of major interests in banks by the Government, base rates of interest falling from 5% on September 2008 to 0.5% in March 2009 in order to support the economy, and a recession was officially recognised.
- 4.2. The recession, combined with the impact of the previous and current Government's level of funding for local government, will affect the finances and operations of the Council for some time to come.
- 4.3. The 2008/09 Accounts were significantly affected by the economic circumstances, particularly in the valuations of fixed assets, and the impact on the Pension Fund's investments. Although the recessionary effects continued into 2009/10, at 31 March 2010 the effects on the 2008/09 Accounts are beginning to be reversed.
- 4.4. The value of the Council's assets are no longer significantly declining, and the net book value of tangible fixed assets at 31 March 2010 increased by £178 million, from £3.220 billion to £3.398 billion (Note 19 page 64).
- 4.5. The Pension Fund's net assets increased by £189 million, from £598 million to £787 million, which is now back above the level at 31 March 2008 of £750 million (see the Pension Fund accounts from page 104). However, despite the restoration of value in the Pension Fund assets, it should be noted that the liability towards the Council's Pension Fund as measured by FRS 17 has continued to increase, see section 9 below (page 13).

5. The revenue budget

- 5.1. 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).
- 5.2. For General Fund services, the Council set a net budget for the year of £315 million. The Council's net expenditure for the year was £312 million and the balance of £3 million was transferred to reserves.

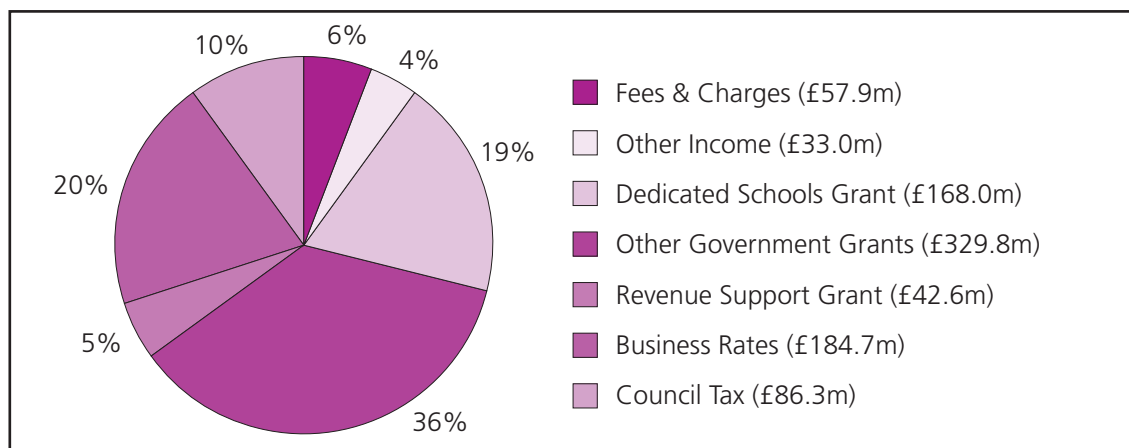
Explanatory foreword

Service	Budget £000	Outturn £000	Variance £000
Children's Services – Core	106,718	108,448	1,730
Children's Services – Schools Budget	2,257	2,169	(88)
Health & Community Services	100,372	100,653	281
Environment & Housing	78,384	78,373	(11)
Regeneration & Neighbourhoods	23,790	23,783	(7)
Major Projects	7,706	7,699	(7)
Deputy Chief Executive	49,654	49,817	163
Communities, Law & Governance	12,673	12,414	(259)
Finance and resources	40,022	40,104	82
Strategic and corporate	(70,121)	(75,308)	(5,187)
Total for services	351,455	348,152	(3,303)
Net appropriation from reserves for schools	(4,132)	(4,044)	88
Net appropriation from reserves for other services	(6,153)	(6,153)	0
General Fund total	341,170	337,955	(3,215)
Area based grant	(26,018)	(26,018)	0
Total	315,152	311,937	(3,215)

- 5.3. As part of the setting of the 2009/10 general fund budget, the Council committed to a programme of savings and efficiencies in excess of £19m. The outturn position reflects the delivery of these targets, with a shortfall of only 1.2 % against the savings target.

Where the Money Comes From

- 5.4. Funds to help pay for services come from four main sources: fees and other charges; government grants; business rates; and Council Tax. In 2009/10, the Council received £902 million of income to support General Fund services, of which 10% was from Council Tax.



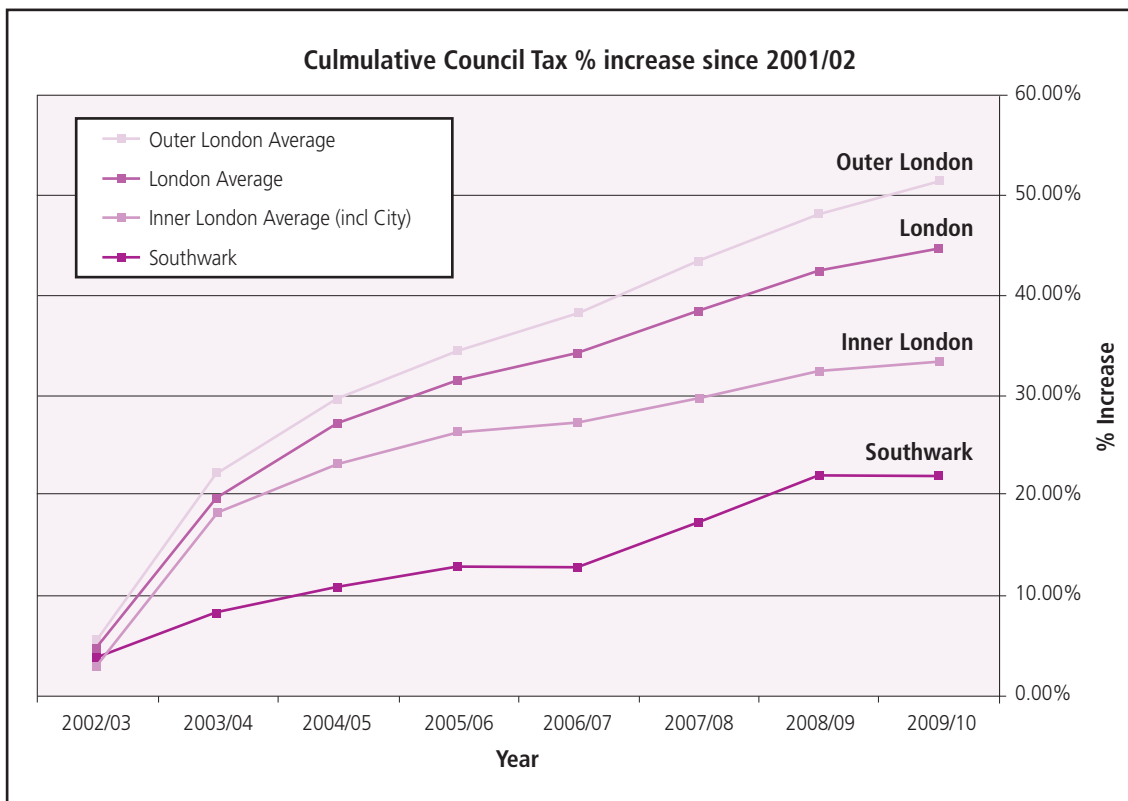
Explanatory foreword

Council Tax

5.5. As well as collecting Council Tax to fund its own services, the Council collects on behalf of and pays over to the General 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 £29.3 million in 2009/10 (£28.6 million in 2008/09). 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 2009/10 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:

	2009/10	2008/09
Southwark Council Tax requirement	£912	£912
GLA Precept	£310	£310
Total Council Tax charge (Band D equivalent)	£1,222	£1,222

5.6. 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.



Explanatory foreword

Housing Revenue Account

- 5.7. 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 2009/10.

	2009/10 £000	2008/09 £000
Income	(272,728)	(260,847)
Expenditure	280,718	381,371
Net cost of services	7,990	120,524
Non operating costs	44,167	39,895
Net statutory accounting adjustments	(48,105)	(148,234)
Decrease in the HRA Balance	4,052	12,185
HRA Balance at 1 April	(18,176)	(30,361)
Decrease in the HRA Balance	4,052	12,185
HRA Balance at 31 March	(14,124)	(18,176)

Summary of reserves and balances

- 5.8. In line with the Medium Term Resources Strategy (MTRS), the Council has maintained appropriate earmarked reserves, and has been steadily increasing its General Fund balance towards the target of £20 million.

Reserve Group	31/3/2010 £000	31/3/2009 £000	31/3/2008 £000	31/3/2007 £000	31/3/2006 £000
General Fund	(18,197)	(18,271)	(17,344)	(16,834)	(15,556)
Earmarked	(68,604)	(71,612)	(57,991)	(59,411)	(64,915)
Schools	(10,114)	(14,087)	(12,740)	(11,771)	(13,177)
HRA incl MRR	(25,505)	(22,856)	(49,434)	(51,388)	(42,726)
Total	(122,420)	(126,826)	(137,509)	(139,404)	(136,374)

- 5.9. Comparative figures with other London boroughs are not yet available for 2009/10. However, comparisons of reserves for 2008/09 are set out below:

Reserve Group	Southwark £000	Average, other Inner London authorities £000
General Fund	(18,271)	(22,423)
Earmarked	(71,612)	(92,748)
Total	(89,883)	(115,171)

Explanatory foreword

6. Capital programme

- 6.1. Southwark has one of the largest capital investment programmes in London, with a ten-year capital investment programme of £661.909 million, which brings together plans for schools, waste, libraries and leisure provision alongside major investment in housing across the borough. The capital programme reflects the Council's strategic ambition with regards to major regeneration which is at the heart of our sustainable community strategy, Southwark 2016. The tables below show actual capital expenditure in 2009/10 and an analysis of the capital programme expenditure over the next 10 years. Contractual commitments of the capital programme are shown in Note 19.10 page 67.

Expenditure	10 Year Capital Programme £000	Spend in 2009/10 £000
General Fund		
Regeneration & Major Projects	38,045	17,984
Southwark Schools for the Future	221,234	22,915
Environment and Housing (non HRA)	75,980	32,031
Children's Services	66,789	21,737
Deputy Chief Executive	13,787	10,262
Adult Health & Social Care	5,781	652
Housing Investment Programme	240,293	96,838
Total	661,909	202,419
Financed by		
Capital receipts	(220,862)	(85,473)
Specific grants and other contributions	(286,429)	(64,550)
Major Repairs Allowance	(58,713)	(30,405)
Revenue contributions	(70,853)	(9,465)
Supported borrowing	(25,052)	(12,526)
Total	(661,909)	(202,419)

- 6.2. Major asset acquisitions and disposals in 2009/10:

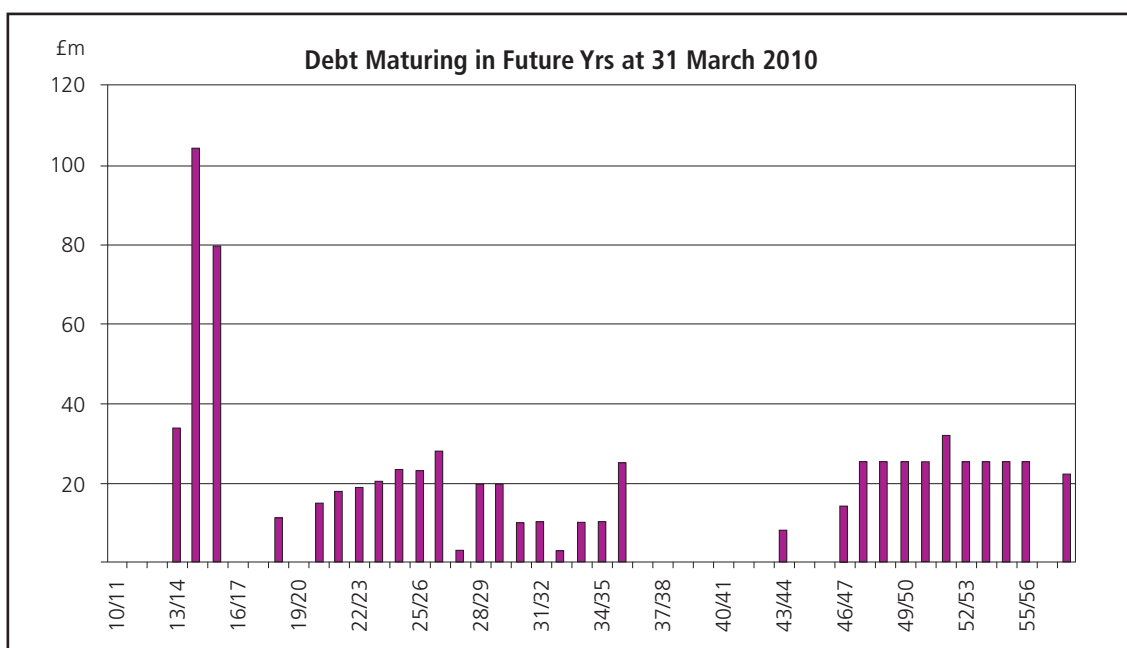
	£000
Acquisitions	
Leaseholder buy-backs	9,926
Disposals	
9 Larcom Street	2,145
Civic Centre, 600-608 Old Kent Road	2,401
15 Spa Road	1,660
John Smith House, 144-152 Walworth Road	3,028
Bermondsey Spa, Sites F, S, U	15,670

- 6.3. The Bermondsey Spa sites were sold in 2007/08, but the proceeds of the sales could not be recognised until certain contractual obligations had been met.

Explanatory foreword

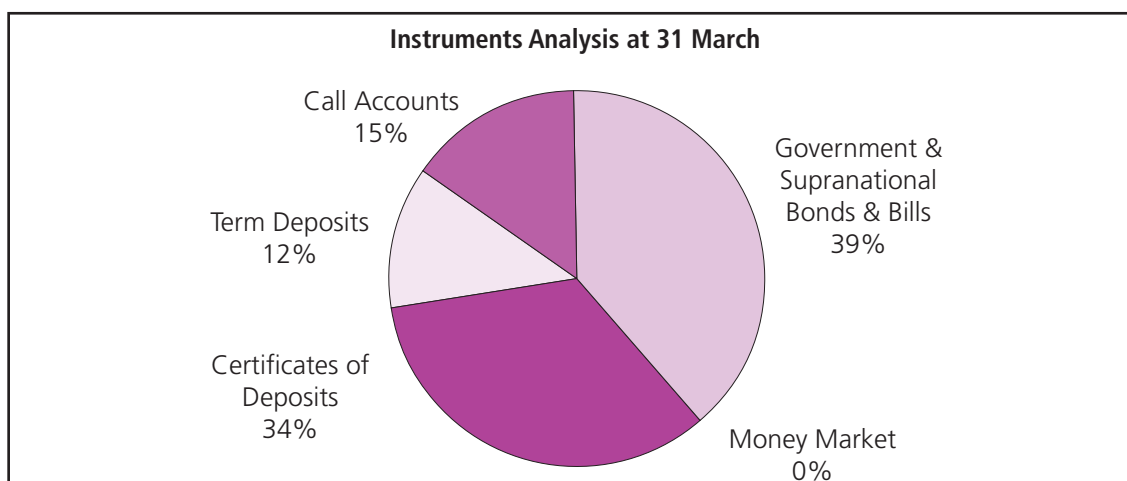
7. Borrowing facilities

7.1. 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 2010 for current and past capital expenditures is £762 million. No loans were taken out or repaid in 2009/10. All debt is from the Public Works Loans Board (PWLB, an Executive Agency of HM Treasury). The average life of all loans is 22 years and the average rate of interest payable is 6.94% (7.03% 2008/09). Interest payable attracts Government Grants and Housing subsidies. The maturity profile of the debt at 31 March 2010 is set out in the chart below.



8. Investments

8.1. 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. Investments held at 31 March 2010 can be shown by classes of instrument as follows:



Explanatory foreword

8.2. The maturity and ratings of investments held at 31 March 2010 are:

Fitch Long Term Rating at 31 March 2010				
Period remaining	AAA	AA+ to AA	A+	Total
2-5 years	11%			11%
1-2 years	1%			1%
Less than 1 year	28%	49%	11%	88%
Total	40%	49%	11%	100%

8.3. 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.

9. Pensions

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

9.2. The Council's accounts are prepared in accordance with Financial Reporting Standard 17 – Retirement Benefits (FRS 17), 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 12 page 50, 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 2010 was £653.2 million, an increase of £212.1 million from £441.1 million as at 31 March 2009. The increase is almost wholly due to the actuary's projections of the continuing adverse effects of the world economy on the Fund's investments, giving an actuarial loss of £182.8 million. The difference of £29.3 million is due to costs required under FRS 17 being higher than the actual level of contributions made in the year, which are increased further because of the prevailing conditions and the increasing assumed liability.
- The liability of the Council to the LPFA increased by £17.8 million, from £7.6 million to £25.4 million at 31 March 2010, as advised by the LPFA's actuary. The increase in the balance is also due to the economic situation, with an actuarial loss of £16.8 million, the difference of £1.0 million being due to costs required under FRS 17 being higher than the actual level of contributions made in the year, as with the Southwark fund.
- The TPA is run on a different basis from the others above, and is not required to be accounted for in this way under FRS 17. There is no separate liability included in the Council's accounts.

9.3. 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 FRS 17. The assumptions under this valuation use a longer timeframe than FRS 17, and incorporate assumptions on the plan to eliminate any outstanding liability, which also is not taken into account under FRS 17 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 2007, giving an outstanding liability at that time of £166 million. 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 108.

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Scope of responsibility

Southwark Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility Southwark Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which include arrangements for the management of risk.

Southwark Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at www.southwark.gov.uk. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Southwark Council for the year ended 31 March 2010 and up to the date of approval of the statement of accounts. In May 2010, a new, majority administration took control of the Council. The Council's Executive has been renamed the Cabinet.

The Council's governance framework

The following section describes the key elements of the systems and processes that comprise the Council's governance arrangements.

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Arrangements for identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users

The Council plays a leading role in the Southwark Alliance, the local strategic partnership, and has developed, together with our partners, a Sustainable Community Strategy for the borough, "Southwark 2016", which sets out the Council's and the partnership's vision for securing the future well being of local people. Southwark 2016 takes account of trends emerging in the borough and in London more generally, and follows on from an extensive consultation that involved local service providers and the wider community.

The Strategy outlines three inter-related objectives:

1. Improving individual life chances
2. Making the borough a better place for people
3. Delivering quality public services.

In turn, each objective contains a range of priorities for action.

The Council's Corporate Plan identifies how the Council will deliver against these three overarching objectives of people, place and services and sets out the framework within which the Policy and Resources Strategy aligns the business and budget planning process and enables members to support, fund and deliver their medium term objectives by matching resources to priorities.

The Community Strategy and Corporate Plan are published on the Council's website and copies are available at key access points in the borough (e.g. libraries).

Arrangements for reviewing the Council's vision and its implications for the Council's governance arrangements

The Council's vision is developed and regularly updated by the Cabinet, based upon the political priorities of the administration, changing statutory requirements, the evolving social and economic context, new needs analyses and the performance of the Council against its priorities.

The Corporate Governance Panel continually reviews the Council's governance arrangements in light of the changing needs of the borough and changes in legislation. The Constitutional Steering Panel, which consists of each of the party whips, reviews any proposed changes to the Constitution before they are proposed to Council Assembly for approval.

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Arrangements for measuring the quality of services for users, ensuring they are delivered in accordance with the Council's objectives and ensuring that they represent the best use of resources

The business and performance of the Council is monitored at all levels on a regular basis. The performance management framework is focused on the aims of promoting an environment for continuous improvement and keeping a focus on what matters locally.

The performance management framework is based on a hierarchy of indicators and measures. The Corporate Plan includes strategic project milestones and performance indicators and measures, ensuring strategic oversight of performance against shared corporate priorities. Departmental business and project plans contain more specific, detailed measures and indicators which in turn are translated through to service, team and individual work plans.

The business and performance of the Council is formally monitored and reported twice yearly at meetings of the Cabinet, supported by the Corporate Management Team. At a departmental level, departmental business plans form the basis of performance monitoring. This ensures that performance, budget, risk and project delivery issues are all covered. Departmental level performance is monitored at senior management team meetings, and there are regular meetings between the strategic director and relevant Cabinet member. In addition, meetings take place between the Leader and each portfolio holder on a regular basis to discuss performance issues within that portfolio.

The Council's strategic approach to efficiency ensures the economical, effective and efficient use of resources. The Medium Term Resources Strategy provides the holistic resource framework to ensure that Southwark has robust medium term business and budget plans in which to deliver priority outcomes. This approach recognises efficiency as a shared responsibility that is integral to the Council's Policy and Resources Strategy.

The Corporate Management Team has responsibility for identifying significant opportunities for efficiency gains and approving and implementing an efficiency programme.

The Cabinet member for finance and resources has portfolio responsibility for the efficiency programme and the Finance Director is the lead officer.

Arrangements for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's constitution sets out how the Council operates. It states what powers are delegated to the Cabinet and what matters are reserved for collective decision of the whole Council. This is updated annually through a review of the constitution.

All elected members meet together at Council Assembly to determine the budget and policy framework of the Council. The Cabinet is responsible for overseeing the executive functions of the Council and can only make decisions which are within the budget and policy framework. Both Council Assembly and Cabinet meetings are normally open to the public, unless matters are discussed which must be kept confidential for a specific reason.

The Council allows individual Cabinet decision making, whereby certain decisions are taken by an individual member of the Cabinet, rather than by the Cabinet as a whole. The benefits are that decision making is speeded up, the size of agendas of the full Cabinet is reduced, and greater responsibility can be taken by individual members for their areas. The Leader of the Council determines the extent of any delegations to individual Cabinet members.

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The Council has established eight community councils, which have a defined range of devolved decision-making powers and also act as a focal point for discussion and consultation on matters that affect different localities within the borough. There is also an Overview & Scrutiny Committee and five sub-committees that support the work of the Cabinet and the Council as a whole, through scrutinising decisions made by the Cabinet, examining services provided by the Council and its partners and reviewing the Council's budget and policies. They allow citizens to have a greater say in Council matters by holding inquiries into matters of local concern in public.

The Constitution describes the roles of the statutory officers: the Chief Executive (Head of Paid Service), the Strategic Director of Communities, Law & Governance (Monitoring Officer) and the Finance Director (Section 151 Officer).

The main policy documents of the Council as set out in the policy and budget framework are presented by the Cabinet for approval by Council Assembly. Action to facilitate the implementation of policies is generally delegated to strategic directors and delegated further in line with departmental schemes of management and the Scheme of Delegation for Financial Authority and Accountability.

There is robust corporate and departmental support to members in policy and decision making, with a reporting framework that helps ensure that members are presented with the appropriate information to make decisions, including the key issues for consideration, a community impact statement, and advice on financial and legal implications. All member level decisions are made on the basis of reports and are formally recorded.

Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

Standards of conduct and personal behaviour expected of members and staff, and the working relationship between members and staff are defined and communicated through codes of conduct and the Member and Officer Protocol. These policies are communicated to members and staff through the Council's intranet and as part of induction training. In addition, the Council has an Equality and Diversity Policy, which is backed up by a programme of learning and development. Other examples of ethical governance can be found in the Communications Protocol, Contract Standing Orders, Corporate Anti-fraud Strategy and Whistleblowing Policy.

The Council also maintains an effective Standards Committee, consisting of councillors and independent members, one of whom is the chair. Its role is to promote high standards of conduct including advising on any revision of the members' code of conduct, monitoring its operation and granting dispensations. It considers reports and advice from the Monitoring Officer on unlawful expenditure, probity issues, and issues raised under the Whistleblowing Policy. Sub-committees are also established to hear complaints against councillors under the local filter procedure.

Both councillors and senior officers are subject to making declarations of interests and registering of gifts and hospitality.

Arrangements for reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

The Council operates a Corporate Governance Panel led by the Deputy Chief Executive, Finance Director and Monitoring Officer. This group continually reviews the Council's overall governance arrangements, including the Constitution (which incorporates Financial Standing Orders and Contract Standing Orders). Formal members' review is carried out by the Constitutional Steering Panel, which receives reports from the Corporate Governance Panel. The Constitution is updated annually.

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Decisions on spending, within the budget approved by the Council, are devolved to strategic directors through the Scheme of Delegation for Financial Authority and Accountability, which is issued by the Finance Director each year and signed by each strategic director. Strategic directors further devolve decision making to divisional service managers and business unit managers through departmental schemes of management, which are updated on an ongoing basis. Detailed procedures and guidance for managers and staff are contained in the business managers' handbook, on the Council's intranet. There is also a programme of finance training for staff and managers.

The Council's Risk Management Strategy explains how the Council will manage its risks, and is supported by training and guidance.

The Cabinet member for finance and resources is named in the constitution as being responsible for risk management. All departments have departmental risk champions and the Finance Director is the corporate risk champion. All departments, divisions and business units have risk registers and all risks are allocated an owner.

Guidance notes for decision making reports require consideration of risk in terms of current and potential risks over the medium term, and how they will be managed and mitigated.

Arrangements for ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)

The Council's financial arrangements fully conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government.

The Finance Director is a key member of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest. He is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and in alignment with the Council's financial strategy; and leads the promotion and delivery by the whole Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The Finance Director is a member of the Chartered Institute of Public Finance and Accountancy. He is responsible for the proper management of the finance function in the Council and leads a fully resourced and suitably qualified finance department.

Arrangements for undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Audit and Governance Committee is now embedded as part of the Council's overall governance framework. It is responsible for monitoring the effective development and operation of corporate governance in the Council. It meets five times a year and provides independent assurance of the adequacy of the Council's governance arrangements, including the risk management framework and the associated control environment, the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and provides oversight of the financial reporting process.

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Arrangements for ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Strategic directors are primarily responsible for compliance with established policies and the Council's own procedures, breach of which could give rise to legal challenge and loss, within their service area. They are required to set up procedures to ensure compliance, taking advice as appropriate. These procedures are reviewed by internal audit and some areas are subject to external inspection.

Responsibility for ensuring compliance with any new procedures introduced rests with the relevant strategic director, who therefore provides appropriate training and information. This is delivered jointly with representatives of the Monitoring Officer where the new policy, procedures, rules and regulations reflect new legislation.

The Monitoring Officer is responsible for certain statutory functions such as acting to maintain legal standards and for the Council's Whistleblowing Policy. She is also responsible for ensuring that decisions made are lawful and fair. The Finance Director is responsible for ensuring that the administration of the Council's financial affairs is in compliance with statutory obligations and with all relevant professional codes of practice and for ensuring that decisions made are lawful and financially prudent. Either officer must make a report to Council Assembly or the Cabinet, as appropriate, if they consider that any proposal, decision or course of action is unlawful, would give rise to maladministration, would involve incurring unlawful expenditure or would be likely to cause a loss or deficiency.

Individual responsibilities for compliance are embodied in the performance management scheme.

Arrangements for whistleblowing and receiving and investigating complaints from the public

The Council's Whistleblowing Policy encourages members, staff, contractors and agents to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment. The policy and procedures are published on the Council's website and intranet and provide avenues to raise concerns and receive appropriate feedback. They ensure that whistleblowers receive a response to their concerns, and provide reassurance that they will be protected from any reprisals or victimisation by the Council, if they made the disclosure in an appropriate manner and in good faith. All concerns raised under the Whistleblowing Policy are recorded by the Monitoring Officer. The Whistleblowing Policy and procedures are regularly reviewed and updated.

The Council has a Corporate Complaints Policy which is in line with Ombudsman guidelines and good practice and is available on the Council's website. The Deputy Chief Executive is the lead officer for complaints across the Council and each department has a departmental complaints champion.

A training programme for dealing with complaints is provided by the Council's Organisational Development unit and the Council's corporate induction programme includes an item on complaints. Guidance is also available on the Council's intranet.

A quarterly monitoring report is produced on all aspects of complaints, including the outcomes of complaint investigations, and information from this report contributes to the regular performance information provided to the Corporate Management Team.

Arrangements for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The Council has achieved Investors in People Bronze accreditation and is committed to developing the capacity of its staff and members. The performance management process helps to identify learning and

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development needs, which are translated into personal development plans for staff. All members are also offered development opportunities, in line with their own personal development plans.

A complete programme of learning and development is available to officers and members from the Organisational Development unit of the Council. Senior officers are also expected to keep abreast of developments in their profession.

Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Council consults with stakeholders in all areas of its business. Different forums and frameworks exist for consultation on different policies and service areas. For example, consultation on the Council's Sustainable Community Strategy takes place through the framework of the Southwark Alliance and consultation on housing strategies takes place through Tenants' and Leaseholders' Councils. Bespoke programmes of consultation are undertaken on specific projects and the development of new policies and strategies. Trades unions are consulted on issues which affect Council staff. Consultation on policies, strategies and plans also takes place on an area basis through Community Councils.

All meeting agendas and reports for consideration by members are published on the Council's website in advance of meetings, which are held in public unless there are specific reasons for confidentiality.

The Corporate Plan, Community Strategy, budget book, annual financial statements and the Annual Report are made available via the Council's website and distributed to key access points across the borough, ensuring that residents have numerous access channels. A feedback form is attached to the Annual Report so the Council can take account of the views of residents and service users. In addition, the Council Tax leaflet, containing details of the Council's budget, is distributed to every household in the borough.

Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

The Council is involved in partnership working with a wide range of other organisations and has compiled a partnership register to record all of the partnerships in which it is involved. The role of overseeing and ensuring effective joint working with partners lies with the Cabinet.

Southwark's local strategic partnership (LSP), Southwark Alliance, is led by a board in accordance with its standing orders. Partnership arrangements were fully reviewed in autumn 2009, resulting in new standing orders being agreed in December 2009. The standing orders describe the purpose of the partnership, its membership, and functions. The thematic partnerships, which come under the umbrella of the Southwark Alliance, each have their own governance arrangements proportionate to the significance of the individual partnership.

Other partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved, for example the partnership between the Council and the PCT is governed by formal Section 31 (now Section 75) agreements.

Review of effectiveness

Southwark Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Risk's annual report, and also by

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comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:

- The Monitoring Officer's duty to maintain the constitution, which is reviewed each year by the Council at its annual meeting, and to promote and maintain high standards of conduct through the provision of support to the Standards Committee
- The Council's internal audit coverage, which is planned using a risk based approach. The Annual Internal Audit Report provides an overall assessment on the adequacy of the Council's internal control environment and areas of weakness to be addressed
- External audit opinion on the adequacy of the internal audit service and comment on corporate governance and performance management in their Annual Audit Letter and other reports
- The Audit Commission Organisational Assessment (now defunct)
- The Audit and Governance Committee agrees the annual audit plan and receives, considers and challenges the Annual Internal Audit Report, the District Auditor's Governance Report, Use of Resources assessment (now defunct) and Annual Audit Letter. The Committee also considers reports on risk management, fraud issues, and other governance issues
- An annual performance assessment of adult social care by the Care Quality Commission
- An annual rating for children's services by Ofsted
- Annual governance assurance statements confirming the adequacy of the governance arrangements in departments are made by strategic directors.

Significant governance issues

1. The 2011 Census provides an opportunity to address what the Council believes has been a significant shortfall between Southwark's actual population and the population calculated by the Office of National Statistics that is used for central government grant allocation. The Council has developed a programme to ensure that the Office for National Statistics (ONS) receives effective local support to help it get a complete and accurate count in Southwark and therefore present a more accurate representation of Southwark's population. This will in turn support fairer funding for our population and an increased understanding of the demographic, social and economic characteristics of the population we serve.

The 2011 Census programme will:

- Engage our residents, especially those that are less likely to respond through work with voluntary sector organisations and specific population groups;
- Complete an accurate register of Southwark's residential addresses to help the Office for National Statistics (ONS) send census forms to all households in Southwark;
- Complete detailed descriptions of Southwark's areas to help enumerators and other census staff get an accurate count in Southwark;

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- Influence ONS to review and where needed change the way the census will be done in Southwark, to help get a complete and accurate count across all resident population groups;
 - Provide ONS with logistical support during the census period
2. With the current economic outlook likely to result in tough financial settlements in the coming years and the demand for some services likely to increase, Council finances need to be kept under close review, both in the current year and within its medium term resources strategy. The Council will continue to take appropriate action to help ensure that it maintains its record of achieving a balanced budget. In particular the Council will ensure that strategies remain both current and relevant to support the increasing demands being placed on services as resources become more limited. These strategies include those for asset management, information technology and human resources.
 3. The tough financial settlements expected in the coming years increase the importance of ensuring that the Council collects all the revenue that it is due. Performance of the Council's outsourced revenues and benefits service in relation to Council Tax collection, whilst initially showing signs of improvement after its commencement in 1998, has not increased in line with other inner London authorities in recent years. On 29 September 2009 the Council's Executive approved the strategy to create an 'in-house' service following termination of the existing arrangements with effect from 1 April 2011. Improvement plans remain in place during the final year of transition in 2010/11 and due diligence will be undertaken to prepare for the new operational arrangements in 2011. A robust governance programme exists for the transition of the service during 2010/11 including the early transfer of the Business Rates function in June 2010.
 4. The Council is continually monitoring the effects of the recession on the assumptions made in its major regeneration programmes and property disposal plans have been adjusted a result of the recession and the reduction in property values. The Council is also undertaking a review of its housing strategy to take account of the financial implications of any funding shortfall and the results of the new stock condition survey to enable it to move towards the Decent Homes Standard for all council properties in the most appropriate planning period, subject to resources being available. This activity takes place in the context of the Council being one of the largest social landlords in the UK, with special circumstances relating to the condition of a large proportion of the housing stock it maintains.
 5. The protocol for the preparation and audit of the final accounts enabled a significant improvement in the audit of the 2008/09 statement of accounts. However, as in the previous year, the audit of fixed assets and capital accounting was difficult and resulted in delays in the completion of the audit. In order to address this issue, a significant restructuring has been undertaken to align responsibilities for these accounts within the chief accountant's team. It is expected that this will lead to an improvement in the timeliness, accuracy and quality of the accounts and in responding to the audit. This will also enable the delivery of the plan for moving to IFRS based accounting in 2010-11.
 6. The Council has an ongoing Information Services Strategy Implementation Programme to improve, and monitor, areas relating to the delivery of information services (IS). The four main themes which are being addressed are:
 - Improvements to stakeholder management – this area is addressing interfaces and communications between the IS client side, IT providers and the Council as a whole
 - Supplier relationship management – to review delivery performance by outsourced providers of IT. This work stream is also reviewing the contractual elements with the Council's primary ICT provider to facilitate improvements to the Council

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- Operational service delivery – to ensure the basic service delivery of IS services and continuing improvements
- Restructure – To review the governance, roles and responsibilities of providing IT to the Council.

We propose over the coming year to take steps to address the above matters to enhance further our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Southwark Council:

Annie Shepperd
Chief Executive

Peter John
Leader of the Council

Statement of accounting policies

1. General principles

- 1.1. The general principles adopted in compiling and presenting these accounts are those contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the "SORP"), the Best Value Accounting Code of Practice 2009 ("BVACOP"), and all relevant legislation and statements of good practice.

2. Compliance with accounting standards

Exceptions to accounting standards

- 2.1. These statements comply with all relevant accounting standards as applied within the 2009 SORP. There are no exceptions to the 2009 SORP.

Group accounts

- 2.2. At the time of preparing the Accounts, the Council has no interests in other organisations that require consolidation as group accounts. If at a later date the Council acquires, receives or develops interests that require consolidation, then group accounts statements will be produced in accordance with the SORP.
- 2.3. The Council may enter into Joint Arrangements that are Not Entities (JANE). JANEs are joint activities with other organisations, but the arrangements stop short of the joint arrangement identifiably carrying out a trade or business of its own, and it is therefore not measured under the requirements of group accounts. In these circumstances the Council's main Accounts will include any share jointly controlled assets, any liabilities the Council has incurred directly, a share of any liabilities incurred jointly with other partners, any income from sale or use of its share output, together with its share of any expenses incurred, and any expenses it incurred in respect of interests in the arrangement.

Schools' accounts

- 2.4. Schools' accounts, excluding academies, are fully consolidated within the Income and Expenditure Account, Balance Sheet and all other statements and Notes. As schools' activities are seen as part of the Local Education Authority function of the Council, the SORP requires inclusion within the single entity accounts of the Council rather than being treated as group accounts.
- 2.5. Academies are excluded from Local Education Authority activities and controls, and do not form part of the Council's Accounts.

Debtors and creditors

- 2.6. The Accounts are compiled on an accruals basis, which is a system of recognising income and expenditure attributable to the year rather than when a payment is actually paid or received. Therefore, if goods or services have been received in 2009/10 they are accounted for in 2009/10. Similarly, income due for goods and services provided in 2009/10 is accounted for in 2009/10.
- 2.7. Where the amount due is unknown then an estimated amount has been allowed for.
- 2.8. 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.

Statement of accounting policies

- 2.9. The 2009 SORP has changed accounting practice for accruals on loans and investments. Accruals for interest payable on external borrowing are included in current liabilities (included in the carry cost of the debt in 2008/09). Accruals for interest receivable on investments are included in the carry cost of available-for-sale financial assets (no change from 2008/09), and for loans and receivables shown in short term loans and receivables (shown in debtors in 2008/09). 2008/09 comparatives have been restated on this basis.

Reserves and provisions

- 2.10. The Balance Sheet contains a number of reserves and provisions. In accordance with the SORP, which incorporates Financial Reporting Standard 12, provisions are sums set aside for liabilities and obligations arising out of the current or previous years' activities but where the exact timing of the payment or the amount to be paid are not certain. Provisions do not reflect continuing contractual commitments or underspends set aside for future use. Reserves are moneys set aside from underspends or planned budget contributions, to meet contractual commitments or future expenditure plans, including meeting risks or liabilities that may arise at a later date.

Repayment of debt

- 2.11. All loans are raised under powers contained in the Local Government Act 2003, and are paid into a pool. Sums are advanced to meet capital expenditure on the various Council services.
- 2.12. Each year the Council is required to charge to revenue a minimum amount for debt redemption, as specified in the Local Government Act 2003. Additional payments may also be made above the minimum required.

Allocation of central administrative expenses over services

- 2.13. There has been an allocation of Central Administrative Expenses over all services, based on Service Level Agreements.

Basis of valuation of investments

- 2.14. General Fund investments are shown at fair value or amortised cost, as set out in section 4 below. Pension Fund investments are shown at market value.

Landfill allowances trading scheme

- 2.15. The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) in the United Kingdom 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), which applies only to WDAs in England and commenced operation on 1 April 2005. The scheme allocates tradable landfill allowances to each WDA in England.
- 2.16. The SORP requires the receipt of the LATS allocation and their use in the year to be recognised as income and expenditure in the Income and Expenditure Account, under Cultural, Environmental and Planning Services. The receipt of the allowance is also recognised on the Balance Sheet as landfill usage allowance, and the amounts used as a liability to DEFRA for the BMW landfill usage. The unused LATS are recognised in earmarked reserves.
- 2.17. The values of the LATS received, used and unapplied, are based on trades made through DEFRA in 2009/10. Revaluation gains or losses only arise on the value of LATS brought forward from the previous year. In 2009/10 the lack of regular trades through DEFRA and the inability to dispose of surplus LATS indicates a nil value for the holdings of the Council.

Statement of accounting policies

Works in progress, stocks and stores

- 2.18. Works in progress are generally valued at cost (except for the stores element, which is valued at average price). However, works carried out by a DSO are shown at the lower of valuation or cost.
- 2.19. Stocks and stores are recorded and charged in the Accounts at average price.

VAT

- 2.20. VAT is included in Income and Expenditure Account, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

Pensions' liabilities

- 2.21. The Council's Accounts are prepared in accordance with Financial Reporting Standard 17 – Retirement Benefits (FRS 17), which requires that the Accounts reflect the employees' pension rights as they are earned in a year, and that outstanding liabilities towards the pension funds are fully recognised.

Contingent assets and liabilities

- 2.22. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent assets are not recognised in the Income and Expenditure Account or the Balance Sheet because prudence cautions that the gain might never be realised. When realisation of the gain is virtually certain, then the item ceases to be a contingent asset and can be accounted for as revenue or capital income as appropriate. Contingent assets are disclosed in the Notes to the Accounts.
- 2.23. A contingent liability is a possible obligation that arises from past events and 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 that arises from past events but is not recognised because either it is not probable that a transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised within the accounts as items of expenditure. If it becomes probable that a transfer of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the Statement of Accounts of the year in which the change in probability occurs. Contingent liabilities are disclosed in the Notes to the Accounts.

Prior period adjustments

- 2.24. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Accounts and Notes, and by adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of any adjustments are noted at the foot of the Statement of Total Recognised Gains and Losses of the current period.

3. Capital accounting

Intangible assets

- 3.1. Intangible assets under the 2009 SORP include software licences. These are valued at historic cost less amortisation. The charge to revenue is based on writing down the historic cost over the appropriate life of the asset.

Statement of accounting policies

Fixed assets

- 3.2. All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the Accounts, provided that the fixed asset yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets that are charged directly to services within the Income and Expenditure Account.
- 3.3. Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance notes issued by the Royal Institution of Chartered Surveyors (RICS). The Housing Revenue Account stock valuation is carried out under the Guidance on stock valuation for resource accounting available from the Department of Communities and Local Government (DCLG).
- 3.4. The DCLG Guidance is confirmed as proper practice by the 2009 SORP Guidance. Previously, in following the DCLG Guidance, the Council has adopted the approach of monitoring for “trigger events”. A trigger event, of planned redevelopment or disposal of blocks on estates, will lead to the block or estate in question to be monitored for occupancy, and possibly thereby triggering a need for revaluation at different levels of occupancy. This approach was reviewed during 2009/10, and was subsequently replaced by the direct methodology set out in the DCLG guidance. It was assessed that the different methodologies did not generate any significant or materially different values for housing stock assets, and therefore there are no amendments to carrying values for this change.
- 3.5. Fixed assets are classified into the groupings recommended by CIPFA:
- Operational assets
- Council dwellings
 - Other land and buildings
 - Vehicles, plant, furniture and equipment
 - Infrastructure assets
 - Community assets
- Non-operational assets
- Investment properties
 - Assets under construction
 - Surplus assets, held for disposal
- 3.6. Operational properties are included in the Balance Sheet at the lower of net current replacement cost and net realisable value in existing use. The following valuation bases are used to determine net current replacement cost:
- Non-specialised operational properties are valued on the basis of Existing Use Value (EUV)
 - Specialised operational properties are valued on the basis of depreciated replacement cost
 - Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH)
- 3.7. Vehicles, plant and equipment are included at historic cost less depreciation. Infrastructure assets are included in the Balance Sheet at historic cost less depreciation. Community Assets are included at historic cost.
- 3.8. Non-operational assets, which include investment and commercial properties and assets that are surplus to requirements, are valued at EUV or market value as appropriate.

Statement of accounting policies

- 3.9. Revaluations of General Fund fixed assets are undertaken on the basis of a five-year rolling programme, although any material changes to asset values will be identified and adjusted in the interim period. The HRA stock is revalued on an annual basis using the Beacon method recommended by DCLG (see Note 3.4 above).
- 3.10. Surpluses arising from revaluation are taken to the Revaluation Reserve. Valuations resulting in a reduction in value are analysed between the consumption of economic benefits (impairment) and a general fall in prices. Impairments are charged fully to the Income and Expenditure Account, with a matching movement between the Capital Adjustment Account and the Statement of Movement on the General Fund Balance.
- 3.11. In the case of a fall in price, the reduction is charged to the Revaluation Reserve through the Statement of Total Realised Gains and Losses. If the fall in price is greater than an asset's individual Revaluation Reserve then the difference is charged to the Income and Expenditure Account, with a matching movement between the Capital Adjustment Account and the Statement of Movement on the General Fund Balance. The movements to the Capital Adjustment Account are in accordance with legislation that prevents valuation reductions being charged to Council Tax payers.
- 3.12. In 2008/09 the impact of the recession was considered by the Valuer and he provided a set of indices to reduce opening book valuations at 01 April 2008 to 31 March 2009 values. Although the recessionary effects continued into 2009/10, continuing to reduce the values of assets in the year, property values started to revert in the latter part of the year, such that that the year-end review by the Valuer concluded that further downwards revaluation was not needed at 31 March 2010 compared with 01 April 2009 values and valuations.
- 3.13. Some capital expenditure, eligible to be capitalised in accordance with the SORP and legislative requirements, may not add value to an individual asset. This often occurs with HRA dwellings, as the valuation basis considers rental streams rather than the condition of the asset. In these cases expenditure is capitalised to the assets and then the Valuer is asked to consider the impact of the expenditure on the value of the assets. Where he considers that the expenditure has not affected the value, the carrying value of the asset is restored to the earlier valuation, with any excess value taken to the Income and Expenditure Account, offset with a matching movement between the Capital Adjustment Account and the Statement of Movement on the General Fund Balance.
- 3.14. 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.
- 3.15. The Council has no finance leases at this time. If the Council entered into finance leases, the assets acquired would be capitalised in the Council's accounts, together with the liability to pay future rentals. Rental payments under finance leases are apportioned between the finance charge, charged to the Income and Expenditure Account, and the principal element, which reduces the liability to pay future rentals.
- 3.16. Rentals payable under operating leases are charged to the Income and Expenditure Account on an accruals basis.

Statement of accounting policies

- 3.17. Income from the disposal of fixed assets is accounted for on an accruals basis. The portions of HRA receipts that are required to be pooled by DCLG are paid on a quarterly basis. The remaining HRA receipts, if covered by the Council's Capital Allowance and General Fund receipts, are used to meet the cost of capital expenditure or additional repayments of debt, with the balance of unused receipts being shown in the Balance Sheet as the Usable Capital Receipts Reserve.

Depreciation

- 3.18. Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:
- All assets are charged with depreciation, unless the amount of depreciation is immaterial, or the asset is non-depreciable land or a non-operational investment property
 - Newly acquired assets are depreciated from the year following acquisition, although assets in the course of construction are not depreciated until they are brought into use
 - Depreciation is calculated on a straight-line basis.
- 3.19. The ranges of asset lives for depreciation or amortisation in each asset class are:

- Council housing, 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.

Charges to the income and expenditure account

- 3.20. All Council accounts are charged with a capital charge for all fixed assets used in the provision of services. The charge covers the annual provision for depreciation. The charge made to the Housing Revenue Account is an amount equivalent to the Major Repairs Allowance (MRA). This is intended to represent the estimated average annual cost of maintaining the condition of the housing stock over a 30-year period, and is a reasonable estimate of depreciation for HRA properties.
- 3.21. The overall charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.

Revenue expenditure funded from capital under statute

- 3.22. The 2008 SORP introduced this category of expenditure, replacing deferred charges, where a council may incur expenditure that meets statutory definitions of capital expenditure, but is of a nature that is not consistent with standard accounting practice under FRS 15, Tangible Fixed Assets. Examples include expenditure incurred on assets that are not owned by the authority, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises, but is charged to the Capital Adjustment Account through the Statement of Movement on the General Fund Balance, to be financed from capital resources.

Government grants and contributions

- 3.23. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the Capital Grants Unapplied Account, and then transferred to the Grants Deferred Account on being spent. Amounts are released then to the service accounts over the useful life of the asset to match the depreciation charged on the asset to which the grant relates.

Statement of accounting policies

4. Financial instruments

4.1. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another. In practice this refers to the Council's loans, investments, trade payables and trade receivables.

4.2. Financial assets and financial liabilities are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Council no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities

4.3. Financial liabilities are classified as other liabilities (as opposed to financial liabilities "at fair value through profit and loss") and initially recognised at fair value plus directly attributable transaction costs, where material. After initial recognition, the liabilities are carried at their amortised cost. Annual charges to the Income and Expenditure Account are based on the effective rate of interest for the instrument. Gains and losses on early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement, unless the terms of the settlement involve loan replacements or modifications which are not substantially different, in which case any gains or losses are carried on the Balance Sheet.

Financial assets

4.4. Financial assets are classified as available-for-sale (where they have a quoted market price) or loans and receivables (where they have fixed or determinable payments but are not quoted in an active market).

Available-for-sale assets

4.5. Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the effective rate of interest. Fair value changes are recognised directly in the Available-for-sale Financial Instruments Reserve, but impairments are recognised in the Income and Expenditure Account.

Loans and receivables

4.6. Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the effective rate of interest for the instrument.

Trade receivables and provisions for bad debts

4.7. Trade receivables are recognised and carried at original invoice. Provisions for bad debts are established for uncollectable amounts. Provision is made when there is objective evidence that the Council will not be able to collect debt. Bad debts are written off when identified.

Statement of accounting policies

Embedded derivatives

- 4.8. Derivatives embedded in other financial instruments or other host contracts are not separated unless their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with gains or losses reported in the Income and Expenditure Account.

Charges to the income and expenditure account

- 4.9. Amounts charged or credited to the Income and Expenditure Account in respect of financial assets or financial liabilities may be modified by Statutory Regulations. For example, premiums and discounts on refinancing or the early repayment of long term debt are first fully charged to the Income and Expenditure Account as they arise, and then removed via the Statement of Movement on the General Fund Balance under Regulation, to be charged back over extended periods.

Exposure to financial instruments

- 4.10. 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.
- 4.11. 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.
- 4.12. Trade receivables arise from the carrying out of the Council's functions and the provisions of goods and services.
- 4.13. The Council does not trade in financial instruments or hold derivatives.

Liquidity risk

- 4.14. 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.
- 4.15. The maturity profiles of Council debt and investments at 31 March 2010 are shown on page 12.

Credit risk

- 4.16. 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.

Statement of accounting policies

4.17. 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

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

4.19. All Council borrowing outstanding at 31 March 2010 is at fixed rates, with an average maturity of 22 years and a modified duration of 12 (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 refinancing until 2014 (see the debt maturity chart in the Explanatory Foreword, page 12) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £95 million, a 1% fall raises it by £118 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.

4.20. The overall average life of financial assets (i.e. the Council's investments) is 0.60 years and the modified duration is 0.56. Within that, the available-for-sale investments have an average life of 0.8 years and a modified duration of 0.75. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £1.10 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 £0.02 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.

5. Grant claims

5.1. The Accounts are prepared on the basis of accruals for claims of grants from the Government. At the time of signing the Accounts a number of end of year grant claims had not been finalised, including material claims such as Housing Benefits Subsidy, NNDR and others. The Accounts are therefore presented using the best estimates available. Any audit amendments to these claims may have a material effect on the Accounts presented.

Statement of responsibilities for the statement of accounts

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 2009: A Statement of Recommended Practice (the SORP).

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

Income and expenditure account

This account summarises the resources that have been generated and used in providing services and managing the Council during the year. It includes day to day expenses and related income on an accruals basis. It also includes transactions reflecting the value of fixed assets used in the year (depreciation) and the real projected value of retirement benefits earned by employees in the year.

	Note	Gross Expenditure £000	Gross Income £000	2009/10 Net Expenditure £000	2008/09 Net Expenditure (restated) £000
Services' Income and Expenditure	1				
Central services to the public		59,100	(39,824)	19,276	11,872
Cultural, environmental, regulatory & planning services	2,3	133,292	(30,557)	102,735	105,027
Education and children's services	4	361,925	(252,820)	109,105	140,738
Highways and transport services		28,844	(15,512)	13,332	14,418
Local authority housing (HRA)		280,718	(272,728)	7,990	120,524
Other housing services		224,837	(216,534)	8,303	10,776
Adult social care	5	116,933	(15,910)	101,023	102,855
Coroners service		1,266	(899)	367	261
Corporate and democratic core	6	14,194	(1,350)	12,844	14,299
Non distributed costs	7	8,589	0	8,589	5,660
Net Cost of Services	8 -12	1,229,698	(846,134)	383,564	526,430
(Surplus)/loss on the disposal of fixed assets				(8,000)	27,571
(Surplus)/deficit on trading undertakings not included in Net Cost of Services	13			122	157
Interest payable and similar charges	14			52,900	52,018
Contribution of housing capital receipts to the Government pool	15			32	3,729
Interest and investment income	14			(5,318)	(15,727)
Pensions interest cost and expected return on pensions assets	12			33,845	16,796
Net Operating Expenditure				457,145	610,974
Demand on the Collection Fund				(86,250)	(86,978)
General government grants	16			(70,244)	(60,913)
Non domestic rates redistribution				(184,720)	(196,228)
(Surplus)/deficit for the year				115,931	266,855

Statement of movement on the general fund balance

This is a reconciliation statement summarising the differences between the outturn on the Income and Expenditure Account and the General Fund 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, the Council is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed (depreciated)
- The payment to the Government of a share of capital receipts from the sales of housing assets is shown as a payment in the Income and Expenditure Account. The payment is met from the usable capital receipts balance rather than Council Tax
- Retirement benefits are charged as amounts payable to pension funds and pensioners rather than as future benefits are earned.

	Note	2009/10 £000	2008/09 (restated) £000
(Surplus)/deficit for the year on the Income and Expenditure Account		115,931	266,855
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	17	(111,884)	(269,129)
(Increase)/decrease in General Fund Balance for the Year		4,047	(2,274)
General Fund Balance brought forward		(32,358)	(30,084)
General Fund Balance carried forward		(28,311)	(32,358)

For the purposes of this Statement, the General Fund Balance and the movement in that balance are made up of the combination of balances held by the Council, attributable to the setting of Council Tax, and the balances held by schools for schools' purposes. The closing balance is analysed as:

	2009/10 £000	2008/09 £000
Amount of General Fund Balance held by governors under schemes to finance schools	(10,114)	(14,087)
Amount of General Fund Balance, Council balances	(18,197)	(18,271)
	(28,311)	(32,358)

Statement of total recognised gains and losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in net worth.

	2009/10 £000	2008/09 (restated) £000
(Surplus)/deficit for the year on the Income and Expenditure Account	115,931	268,347
(Surplus)/deficit arising on the revaluation of fixed assets	(181,356)	163,268
(Surplus)/deficit arising on the revaluation of available-for-sale financial assets	1,021	(751)
Actuarial (gains)/losses on pension fund assets and liabilities	199,599	218,887
Movement in the Collection Fund Adjustment Account	0	(1,224)
Total recognised (gains)/losses for the year	135,195	648,527

The 2009 SORP has changed the representation of funds collected on behalf of the GLA as a Council Tax preceptor, and the business rates collected and paid to the Government. The 2008/09 comparatives now reflect the 2009 SORP basis. The Collection Fund Adjustment Account replaces the Collection Fund balance, which now reflects funds due to or from the Council only, and not those due to or from the other parties. See also Explanatory Foreword section 3, page 6.

The effect of the SORP changes on the reserves and balances of the Council are shown below:

	£000
2008/09 reserves and balances as originally presented	(2,054,159)
Effect of acting as agent instead of principal in the collection of Council Tax and NNDR on the behalf of the GLA and the Government	769
2008/09 reserves and balances as restated	(2,053,390)

Balance sheet

Balances at	Note	31/3/10 £000	31/3/10 £000	31/3/09 (restated) £000	31/3/09 (restated) £000
Intangible Assets	18		1,561		2,829
Tangible Fixed Assets	19				
Operational assets					
- Council dwellings		2,449,919		2,324,159	
- other land and buildings		508,845		517,850	
- vehicles, plant and equipment		14,978		7,310	
- infrastructure assets		144,064		127,630	
- community assets		35,388		34,614	
Non-operational assets					
- investment properties		100,266		96,205	
- assets under construction		57,492		11,594	
- surplus assets, held for disposal		86,964		100,572	
			3,397,916		3,219,934
Long term investments	20	23,507		65,139	
Deferred debtors	22	1,869		1,912	
Long term debtors	23	266		210	
			25,642		67,261
Total long term assets			3,425,119		3,290,024
Current Assets					
- stocks and work in progress		1,046		1,136	
- debtors	24	154,106		146,061	
- less impairment	25	(42,240)		(39,155)	
- investments	20	175,730		188,042	
- landfill usage allowance	3	0		0	
- cash and bank in hand	26	4,842		5,600	
			293,484		301,684
Current Liabilities					
- borrowing repayable on demand or within 12 months		(9,081)		(9,081)	
- creditors	27	(87,443)		(110,845)	
- landfill usage liability		0		0	
- cash and bank overdrawn	26	(18,709)		(12,715)	
			(115,233)		(132,641)
Total assets less current liabilities			3,603,370		3,459,067
Long term borrowing	20		(761,709)		(761,709)
Provisions	28		(10,670)		(14,713)
Deferred liabilities	29		(7,726)		(4,295)
Capital grants unapplied	30		(65,288)		(55,545)
Grants deferred account	31		(151,012)		(113,597)
Deferred receipts	32		(6,026)		(5,557)
Pension scheme liability	12		(682,744)		(450,261)
Total assets less liabilities	33		1,918,195		2,053,390

Balance sheet

	Note	31/3/10 £000	31/3/09 (restated) £000
Represented by :			
Capital Adjustment Account	34	(2,122,012)	(2,148,098)
Financial Instruments Adjustment Account	35	11,499	17,206
Collection Fund Adjustment Account	36	(713)	(2,259)
Revaluation Reserve	37	(361,390)	(204,404)
Pensions Reserve	38	682,744	450,261
Capital Receipts Reserve	39	(5,642)	(37,988)
Available-for-sale Financial Instruments Reserve	40	(261)	(1,282)
Major Repairs Reserve	41	(11,381)	(4,680)
Modernisation, Service & Operational Improvement Reserve	42	(3,654)	(13,768)
Regeneration & Development Reserve	43	(9,640)	(6,382)
Financial Risk Reserve	44	(7,935)	(8,352)
Capital Contingency Reserve	45	(2,703)	(2,703)
Other earmarked reserves	46	(44,672)	(40,407)
Balances			
- Housing Revenue Account	41	(14,124)	(18,176)
- Schools' balances	47	(10,114)	(14,087)
- General Fund		(18,197)	(18,271)
Total Equity		(1,918,195)	(2,053,390)

Cash flow statement

	Note	2009/10	2008/09
		£000	(restated) £000
Revenue activities			
Cash outflows			
Cash paid to and on behalf of employees		389,120	376,893
Other operating costs		614,100	650,005
Housing benefit (excluding rent rebates)		82,192	68,152
Payment to the Capital Receipts Pool		32	6,306
		<u>1,085,444</u>	<u>1,101,356</u>
Cash inflows			
Rents (net of rebates)		(183,872)	(180,287)
NNDR receipts		(139,591)	(138,880)
Contribution from Collection Fund		(92,326)	(74,048)
Revenue Support Grant		(42,636)	(27,316)
DSS housing benefits		(182,328)	(164,550)
Other Government grants	48	(326,886)	(346,680)
Sales and charges for services		(186,600)	(242,896)
		<u>(1,154,239)</u>	<u>(1,174,657)</u>
Net cash flow from revenue activities	49	<u>(68,795)</u>	<u>(73,301)</u>
Servicing of finance			
Cash outflows			
Interest and premiums paid		52,848	51,604
Interest element of leasing payments		0	12
		<u>52,848</u>	<u>51,616</u>
Cash inflows			
Interest received		(5,249)	(15,727)
		<u>(5,249)</u>	<u>(15,727)</u>
Capital activities			
Cash outflows			
Purchase of fixed assets		207,568	162,796
Deferred charges and deferred debtors		0	0
		<u>207,568</u>	<u>162,796</u>
Cash inflows			
Sale of fixed assets		(53,999)	(32,177)
Capital grants		(73,958)	(59,467)
Other capital cash movements		(67)	364
		<u>(128,024)</u>	<u>(91,280)</u>
Net cash flow before financing		<u>58,348</u>	<u>34,104</u>
financing	50		
Cash outflows			
Repayment of long term loans		0	0
Repayment of short term loans		0	0
		<u>0</u>	<u>0</u>
Cash inflows			
New long term loans		0	(32,000)
New short term loans		0	0
		<u>58,348</u>	<u>2,104</u>
Management of liquid resources	51		
Net (increase)/decrease in deposits		(46,789)	16,262
NNDR receipts due (to)/from the Government		1,183	18,780
Council Tax receipts due (to)/from the GLA		144	(501)
(Increase)/decrease in liquid resources		<u>(45,462)</u>	<u>34,541</u>
(Increase)/decrease in cash and equivalents		<u>12,886</u>	<u>36,645</u>
Represented by movements in cash and cash equivalents			
Net (increase)/decrease in bank balance		(6,753)	(1,305)
Net increase/(decrease) in realisable investments		(6,133)	(35,340)
Increase/(decrease) in cash and equivalents		<u>(12,886)</u>	<u>(36,645)</u>

Notes to the accounts

1. Net cost of services

- 1.1. The segmental reporting in Net Cost of Services is in accordance with the classification of services in the Best Value Accounting Code of Practice.

2. Commercial income

- 2.1. The Council operates a number of industrial estates in the borough. Income and expenditure from these were:

	2009/10 £000	2008/09 £000
Income	(1,553)	(1,534)
Expenditure	735	1,040
(Surplus)/Deficit for the year	<u>(818)</u>	<u>(494)</u>
Impairment included in expenditure	23	265
Operating profit excluding impairment	<u>(841)</u>	<u>(759)</u>

- 2.2. The Council also rents out commercial properties. Income and expenditure from these were:

	2009/10 £000	2008/09 £000
Income	(1,566)	(1,611)
Expenditure	1,369	5,407
(Surplus)/Deficit for the year	<u>(197)</u>	<u>3,796</u>
Impairment included in expenditure	332	4,223
Operating profit excluding impairment	<u>(529)</u>	<u>(427)</u>

- 2.3. The impairments in the above tables are changes in the value of assets due to significant falls in market prices in 2008/09, with continuing effects into 2009/10. The operating profits represent the effect of commercial properties and industrial estates on the General Fund balance, as impairments have a nil net effect on the Council's balances.
- 2.4. With effect from 1 April 2008, the Council no longer provides a commercial waste service as part of its day to day operations. However, where a business requests the Council to provide a collection service under Section 45(1b) of the Environmental Protection Act 1990, the Council will do so. There were no such requests in 2009/10 (nil 2008/09).

Notes to the accounts

3. Landfill allowances trading scheme (LATS)

- 3.1. 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 authority 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.
- 3.2. The allowances and the use of the allowances are reflected in the Income and Expenditure Account as gross income and expenditure. LATS memorandum account:

	2009/10 £000	2008/09 £000
Balance brought forward	0	(102)
LATS grant income	0	0
Allowances used in the year	0	0
Changes in valuation	0	102
Unused allowances carried forward	0	0

- 3.3. The value of a LATS unit has been assessed at £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. This is similar to 2008/09, where there was no market in LATS between councils on which to base a value. Despite being valued at £nil, there were 14,377 LATS units unapplied at 31 March 2010 (40,679 at 31 March 2009)
- 3.4. There were no allowances bought or sold within the trading scheme in 2009/10 for use in 2009/10 or future years.

Notes to the accounts

4. Dedicated schools grant (DSG)

4.1. The Council's expenditure on schools is funded primarily by grant moneys provided by the Department for Children, Schools and Families (DCSF), the Dedicated Schools Grant (DSG). DSG is ring-fenced grant, and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2008. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

4.2. Details of the use of DSG received for 2009/10 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total 2009/10 £000	Total 2008/09 £000
Final DSG	(21,557)	(146,476)	(168,033)	(164,714)
Brought forward from previous year	(4,082)	0	(4,082)	(5,204)
Carry forward agreed in advance	0	0	0	2,704
Agreed budgeted distribution	(25,639)	(146,476)	(172,115)	(167,214)
Actual central expenditure	21,629	0	21,629	22,830
Actual ISB deployed to schools	0	147,122	147,122	143,548
Local Authority Contribution	0	(646)	(646)	(542)
Carry forward including agreed in advance	(4,010)	0	(4,010)	(4,082)

4.3. Under the reporting requirements of the DCSF, the bottom line of the table for carry forward is presented including the carry forward agreed in advance (line 3 of the table).

Notes to the accounts

5. Pooled funds

- 5.1. 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	2009/10 £000	2008/09 £000
Income		
LBS	(23,321)	(21,459)
PCT	(11,223)	(10,337)
	(34,544)	(31,796)
Expenditure	36,471	33,752
Net over/(under) spend	1,927	1,956
Shared as follows:		
LBS	1,272	1,320
PCT	655	636
	1,927	1,956
Integrated Community Equipment Service	2009/10 £000	2008/09 £000
Income		
LBS	(1,210)	(1,064)
PCT	(337)	(302)
	(1,547)	(1,366)
Expenditure	1,598	1,513
Net over/(under) spend	51	147
Shared as follows:		
LBS	40	114
PCT	11	33
	51	147

Notes to the accounts

- 5.2. In addition, LBS and the PCT operated a lead commissioning arrangement for Mental Health Services, with the PCT as the lead body. This is not a pooled fund arrangement, but is reported here to reflect all arrangements between the Council and the PCT. The Income and Expenditure Account does not include the transactions of the PCT. The memorandum account for the lead commissioning arrangement is shown as:

	2009/10 £000	2008/09 £000
Income		
LBS	(10,493)	(10,613)
PCT	(43,867)	(42,537)
	(54,360)	(53,150)
Expenditure	54,588	54,145
Net over/(under) spend	228	995

- 5.3. The overspend is reflected in the accounts of the Council and PCT in accordance with the terms of the lead commissioning arrangement. The Council's share of the overspend for 2009/10 was £46,000 (£199,000 in 2008/09).

6. Members' allowances

- 6.1. The amount of members' allowances paid in 2009/10 was £1,302,795 (£1,207,020 in 2008/09). Members' allowances are now shown excluding employer's National Insurance contributions, which were included in previous years' Accounts. The figures for 2008/09 are restated accordingly.

7. Non distributed costs

- 7.1. Non distributed costs consist of:

	2009/10 £000	2008/09 £000
London Pension Fund Authority levy	1,448	1,424
Pension contributions, past service costs	7,141	4,236
Total	8,589	5,660

- 7.2. Under accounting for FRS 17, non distributed costs include the actuarially assessed contribution to the Pension Fund for past service costs rather than the actual payments made.
- 7.3. Costs arising from FRS 17 are not a charge against Council Tax, as they are reversed out to the Pensions Reserve through the Statement of Movement on the General Fund Balance.

Notes to the accounts

8. Audit costs

8.1. The Council has incurred the following fees relating to external audit and inspection:

	2009/10 £000	2008/09 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor (audit of the Accounts and related work)	557	602
Fees payable to the Audit Commission in respect of statutory inspection	20	27
Fees payable to the Audit Commission for the certification of grant claims and returns	113	244
Fees payable in respect of other services provided by the appointed auditor (see Note 8.2)	142	58
Total	832	931

8.2. Other services provided by the appointed auditor included fees relating to the 2008/09 audit (£90,000), dealing with electors' enquiries and objections (£48,000), National Fraud Initiative (£2,000), technical review of asset valuation (£1,000) and School Survey (£1,000).

8.3. Fees payable with regard to the audit of the Pension Fund, of £38,500 for 2009/10 (£38,000 2008/09), are met directly by the Pension Fund.

Notes to the accounts

9. Liability in respect of leased assets

- 9.1. The Council uses assets provided through rental agreements. Assets may be provided on a continuing basis, or used on a one-off or occasional basis. The rental payments are shown below:

	2009/10 £000	2008/09 £000
Assets used on a continuing basis:		
Operating leases - Council and staff vehicles	2,510	2,754
Operating leases – property	11,990	13,058
Hire purchase - fixed plant	0	11
Office and other equipment	2,000	2,100
Assets used on a one-off or occasional basis	706	1,011
Total	17,206	18,934

- 9.2. The future payments on continuing rentals are shown below. The estimates for future property rentals may be subject to rent reviews, lease surrender or other termination agreements.

	2009/10 £000	2008/09 £000
From 1 to up to 2 years		
Operating leases - Council and staff vehicles	1,743	1,748
Operating leases - property	10,631	11,142
Hire purchase - fixed plant	0	0
From 2 to up to 5 years		
Operating leases - Council and staff vehicles	2,124	1,754
Operating leases - property	31,147	32,884
From 5 years upward		
Operating leases – Council and staff vehicles	35	0
Operating leases – property (Note 9.3)	159,155	164,592
Total	204,835	212,120

- 9.3. Property leases in the 5 years upward category include the rental of the Council's premises at 160 Tooley Street. A 25 year lease was taken from 11 June 2008, and the table includes a liability for rental payments totalling £148 million.
- 9.4. The Council has ongoing rental liabilities in respect of leased items included under office and other equipment in table 9.1. Future liabilities fall as leases expire, and new liabilities are created as new items are leased. The annual rental on these items is approximately £2.0 million per annum.

Notes to the accounts

10. Remuneration of employees

10.1. During 2009/10 the Council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. A breakdown of these employees in bands of £5,000 is as follows:

Band (£)	Schools	Non schools	Number of employees	Number of employees
			2009/10	2008/09
50,000 - 54,999	111	100	211	177
55,000 - 59,999	76	85	161	94
60,000 - 64,999	51	30	81	55
65,000 - 69,999	39	34	73	56
70,000 - 74,999	27	22	49	29
75,000 - 79,999	13	9	22	27
80,000 - 84,999	11	12	23	12
85,000 - 89,999	4	9	13	15
90,000 - 94,999	1	5	6	4
95,000 - 99,999	2	4	6	5
100,000 - 104,999	2	2	4	2
105,000 - 109,999	3	2	5	4
110,000 - 114,999	0	1	1	1
115,000 - 119,999	3	3	6	0
120,000 - 124,999	0	2	2	1
125,000 - 129,999	0	0	0	4
130,000 - 134,999	0	0	0	1
135,000 - 139,999	1	3	4	0
140,000 - 144,999	0	1	1	1
145,999 - 149,999	0	0	0	1
150,000 - 154,999	0	2	2	1
155,000 - 159,999	0	1	1	0
160,000 - 164,999	0	1	1	0
165,000 - 169,999	0	1	1	0
185,000 - 189,999	0	1	1	1
195,000 - 199,000	0	1	1	0
Total	344	331	675	491

10.2. The table includes 37 employees who left the Council in 2009/10 (10 in 2008/09), of which 36 received termination payments (6 in 2008/09).

Notes to the accounts

10.3. 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.

2008/09 Total remuneration	Post holder Information	Salary (including fees, allowances and PRP) £	Benefits in kind £	2009/10 Total remuneration £	Council contributions to the Pension Fund £
202,381	Chief Executive A Shepperd	190,969	6,007	196,976	27,760
132,391	Deputy Chief Executive(Note 10.4) E Kelly	154,969	0	154,969	22,506
158,088	Strategic Director of Environment & Housing G Davies	155,978	5,629	161,607	22,674
166,444	Strategic Director of Children's Services R Bowen	159,535	0	159,535	23,161
659,304		661,451	11,636	673,087	96,101

10.4. The post-holder was appointed to this role from 01 September 2008. The table shows only the part-year cost for 2008/09.

10.5. The following table sets out the remuneration for senior officers whose salary is less than £150,000 but equal to, or more than £50,000 per annum.

2008/09 Total remuneration	Post holder Information	Salary (including fees, allowances and PRP) £	Benefits in kind £	2009/10 Total remuneration £	Council contributions to the Pension Fund £
137,248	Finance Director	134,642	5,629	140,271	19,573
142,854	Strategic Director of Communities, Law & Governance (Note 10.6)	147,751	5,629	153,380	21,475
135,000	Strategic Director of Health & Social Care & Chief Executive of the PCT (Note 10.7)	131,394	5,629	137,023	19,215
151,625	Strategic Director of Major Projects (Note 10.8)	83,449	0	83,449	14,456
566,727		497,236	16,887	514,123	74,719

Notes to the accounts

- 10.6. The Strategic Director of Communities, Law & Governance remuneration includes a payment of £6,096 (£602 in 2008/09) for additional duties as the Council's Returning Officer.
- 10.7. The Strategic Director of Health & Social & Chief Executive of the PCT. The remuneration noted is the full amount earned by the post-holder.
- 10.8. The Strategic Director of Major Projects left the Council's services on 30 September 2009. The salary shown is for the period of employment only.

11. Employees pension costs

- 11.1. Teachers' pension costs. Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2009/10 the Council paid £9.73 million (£13.6 million 2008/09) to the TPA in respect of teachers' pension costs, which represents 14.1% (20.5% 2008/09) of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2009/10 these amounted to £87,000 (£99,000 2008/09).
- 11.2. Employees who were transferred from the GLC or ILEA. In 2009/10 the Council paid £712,000 (£872,000 2008/09) to the London Pension Fund Authority in respect of the pension costs for former employees of the GLC or ILEA, including a one-off payment of £372,000 in respect of past service (£372,000 in 2008/09). This represents 47.7% of pensionable pay (50.7% 2008/09). In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2009/10 these amounted to £87,000 (£83,000 in 2008/09).
- 11.3. Other employees' pension costs. In 2009/10 the Council paid an employer contribution of £32.2 million (£27.7 million 2008/09) into the Pension Fund, representing 25.7% of pensionable pay (22.1% 2008/09). The proportion of this contribution, which was estimated by the actuary to be attributable to current employees' liabilities (14.5%), has been charged to the relevant service and the remainder in respect of past employees has been charged as a corporate cost. The £32.2 million includes a one-off lump sum contribution of £5.08 million (£3.13 million 2008/09). The contribution is determined by the Fund's actuary, based on triennial valuations. Contribution rates for 2009/10 were based on the previous full review as at 31 March 2007. Under Pension Fund regulations contribution rates are set to meet the overall liabilities of the Fund. In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2009/10 these amounted to £1.99 million, representing 1.59% of pensionable pay (£0.21 million and 0.17% 2008/09).
- 11.4. The Accounts are prepared on the basis of the last triennial revaluation of the Fund, as at 31 March 2007. Based on this valuation, to meet the requirements of FRS 17, Retirement Benefits, the Council would have been required to make a contribution of £21.28 million, representing 17% of pensionable pay (£21.28 million and 17% 2008/09). The FRS 17 disclosure is shown fully at Note 12 page 50. The movement in the Pensions Reserve is shown at Note 38 page 78.

Notes to the accounts

- 11.5. The Council may make discretionary increases to pension entitlements, funded either by the Council or the Pension Fund. The capital costs of the increases made in the year, and arising from earlier years against which payments are still being made, are identified as:

	2009/10 £000	2009/10 % of total pensionable pay	2008/09 £000	2008/09 % of total pensionable pay
Capital cost of discretionary added years awarded in year, funded by the Pension Fund	380	0.3%	308	0.2%
Capital cost of discretionary added years awarded in previous years, funded by the Pension Fund	32,965		32,965	
Capital cost of discretionary added years awarded in year, funded by the Council	0	0%	0	0%
Capital cost of discretionary added years awarded in previous years, funded by the Council	33,745		31,796	

12. Financial reporting standard 17 – retirement benefits (FRS 17)

- 12.1. The Council's Accounts are prepared in accordance with Financial Reporting Standard 17 – Retirement Benefits (FRS 17), which requires that the accounts reflect the employees' pension rights as they are earned in a year, which is different from the level of contributions being made by the employees and the employer in the year towards those pensions.
- 12.2. In following FRS 17, the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Council employees contribute to one of three pension funds - the Council's own fund, that of the London Pension Fund Authority, or the Teachers' Pensions Agency. Information for FRS 17 relating to the Council's pension fund is given in paragraphs 12.3 – 12.15, and for the London Pension Fund Authority pension fund in paragraphs 12.16 – 12.29. The Teachers' Pensions Agency's pension scheme operates on a different basis and does not meet FRS 17 disclosure requirements. The activities of the Council's Pension Fund are reported at page 104.

London Borough of Southwark Pension Fund

- 12.3. The London Borough of Southwark participates in the Local Government Pension Scheme, and is the Administering Authority. The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary. The most recent valuation was carried out as at 31 March 2007, and has been updated by independent actuaries to the London Borough of Southwark Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the Fund as at 31 March 2010. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Notes to the accounts

12.4. The principal financial assumptions used for the purposes of FRS 17 are:

	31/3/10 % p.a.	31/3/09 % p.a.
Inflation	3.9	3.5
Rate of general increase in salaries	5.4	5.0
Rate of increase to pensions in payment	3.9	3.5
Rate of increase to deferred pension	3.9	3.5
Discount rate	5.5	6.6

12.5. The principal demographic assumptions of post retirement mortality used for the purposes of FRS 17 are:

	31/3/10	31/3/09
Males		
Base table (in 2007)	PNMA00 with allowance for MC improvement factors to 2007	PNMA00 with allowance for MC improvement factors to 2007
Scaling to above base table rates	125%	125%
Cohort improvement factors (from 2007)	80% of LC	80% of LC
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	21.2	21.1
Future lifetime from age 65 (currently aged 45)	23.5	23.4
Females		
Base table (in 2007)	PNFA00 with allowance for MC improvement factors to 2007	PNFA00 with allowance for MC improvement factors to 2007
Scaling to above base table rates	110%	110%
Cohort improvement factors (from 2007)	60% of LC	60% of LC
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	24.3	24.2
Future lifetime from age 65 (currently aged 45)	26.5	26.4

12.6. The approximate split of assets for the Fund as a whole, is shown in the table below, including the assumed rates of return. A "building block" approach is used by the Council in determining the rate of return on its Pension Fund's 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 below. 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 as at 31 March 2010.

Notes to the accounts

Asset class	Long term expected rate of return at 31/3/10 % pa	Asset split at 31/3/10 %	Long term expected rate of return at 31/3/09 % pa	Asset split at 31/3/09 %
Equities	8.0	61.8	7.0	58.2
Property	8.5	15.3	6.0	17.7
Government bonds	4.5	10.5	4.0	10.6
Corporate bonds	5.5	11.1	5.8	11.0
Cash/other	0.7	1.3	1.6	2.5
Total	7.3	100.0	6.2	100.0

12.7. Funding status of the Fund as represented in the Pension scheme liability in the Balance Sheet:

	Value as at 31/3/10 £m	Value as at 31/3/09 £m
Notional value of assets	747.4	576.4
Present value of liabilities	(1,400.6)	(1,017.5)
Net pension asset/(liability)	(653.2)	(441.1)

12.8. Charges made to the Income and Expenditure Account for FRS 17 purposes are:

	2009/10 £m	2008/09 £m
Current service cost	21.9	19.6
Past service cost	7.1	4.0
Interest cost	67.1	63.3
Expected return on assets	(34.7)	(47.6)
	61.4	39.3

12.9. The movements in the present value of FRS 17 liabilities are:

	2009/10 £m	2008/09 £m
Opening present value of liabilities	(1,017.5)	(930.0)
Current service cost	(21.9)	(19.6)
Interest cost	(67.1)	(63.3)
Contributions by participants	(10.4)	(10.0)
Actuarial gains/(losses) on liabilities	(316.8)	(22.6)
Net benefits paid out	40.2	32.0
Past service cost	(7.1)	(4.0)
Closing present value of liabilities	(1,400.6)	(1,017.5)

Notes to the accounts

12.10. The movements in the fair value of FRS 17 assets are:

	2009/10 £m	2008/09 £m
Opening fair value of assets	576.4	717.3
Expected return on assets	34.7	47.6
Actuarial gains/(losses) on assets	134.0	(193.5)
Contributions by the employer	32.1	27.0
Contributions by participants	10.4	10.0
Net benefits paid out	(40.2)	(32.0)
Closing fair value of assets	747.4	576.4

12.11. Actual return on assets:

	2009/10 £m	2008/09 £m
Expected return on assets	34.7	47.6
Actuarial gain/(loss) on assets	134.0	(193.5)
Actual return/(loss) on assets	168.7	(145.9)

12.12. The following amounts are included in the Statement of Total Recognised Gains and Losses (STRGL) (page 36).

	2009/10 £m	2008/09 £m
Total actuarial (gains)/losses	182.8	216.1
Total (gains)/losses in the STRGL	182.8	216.1

12.13. The history of asset values, present value of liabilities and surplus/(deficit) are shown below.

	31/3/10 £m	31/3/09 £m	31/3/08 £m	31/3/07 £m	31/3/06 £m
Fair value of assets	747.4	576.4	717.3	731.5	679.6
Present value of liabilities	(1,400.6)	(1,017.5)	(930.0)	(975.9)	(927.2)
Surplus/(deficit)	(653.2)	(441.1)	(212.7)	(244.4)	(247.6)

12.14. The history of experience gains and losses are show below.

	2009/10 £m	2008/09 £m	2007/08 £m	2006/07 £m	2005/06 £m
Experience gains/(losses) on assets	134.0	(193.5)	(67.3)	6.7	33.5
Experience gains/(losses) on liabilities, excluding changes in actuarial assumptions	10.8	(3.6)	(39.9)	2.0	(0.3)

Notes to the accounts

12.15. The actuary to the London Borough of Southwark Pension Fund estimates the charges to the Income and Expenditure Account in 2010/11 will be:

	2010/11 £000
Current service cost	36,400
Past service costs	0
Total operating charge	36,400
Expected return on Pension Fund assets	(53,500)
Interest on Pension Fund liabilities	77,200
	23,700
Total charge	60,100

London Pension Fund Authority Pension Fund

12.16. The London Pension Fund Authority (LPFA) participates in the Local Government Pension Scheme, and is the Administering Authority. The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary. The most recent valuation was carried out as at 31 March 2007, and has been updated by independent actuaries to the LPFA Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the Fund as at 31 March 2010. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

12.17. The principal financial assumptions used for the purposes of FRS 17 are:

	31/3/10 % p.a.	31/3/09 % p.a.
Inflation	3.9	3.1
Rate of general increase in salaries	5.4	4.6
Expected return on assets	5.1	4.4
Discount rate	5.5	6.9

12.18. The principal demographic assumptions of mortality used for the purposes of FRS 17 shown below. Life expectancy is based on the PFA00 and PMA00 tables, projected with 80% of medium cohort improvement factors.

In year	Males	Females
Age 65 in 2007	21.0 years	23.4 years
Age 65 in 2027	22.0 years	24.2 years

Notes to the accounts

12.19. Life expectancies for FRS 17 at each of the last five years ends have been based on the following assumptions:

Year ending	Prospective pensioners	Pensioners
31 March 2010	PNA00 80% medium cohort	PNA00 80% medium cohort
31 March 2009	PMA00/PFA00 80% medium cohort	PMA00/PFA00 80% medium cohort
31 March 2008	PMA00/PFA00 80% medium cohort	PMA00/PFA00 80% medium cohort
31 March 2007	PMA92/PFA92 c2007	PMA92/PFA92 c1992
31 March 2006	PMA92/PFA92 c1992	PMA92/PFA92 c1992

12.20. The approximate split of assets for the Fund as a whole, is shown in the table below, including the assumed rates of return:

Asset class	Long term expected rate of return at 31/3/10 % pa	Asset split at 31/3/10 %	Long term expected rate of return at 31/3/09 % pa	Asset split at 31/3/09 %
Cashflow matching	4.5	38.0	4.2	91.0
Equity	7.3	11.0	7.0	8.0
Target return portfolio	5.0	54.0	0.0	0.0
Cash	3.0	(3.0)	4.0	1.0
Total	5.1	100.0	4.4	100.0

12.21. Funding status of the Fund as represented in the Pension scheme liability in the Balance Sheet:

	Value as at 31/3/10 £000	Value as at 31/3/09 £000
Notional value of assets	38,978	36,847
Present value of liabilities	(64,367)	(44,416)
Net pension asset/(liability)	(25,389)	(7,569)

12.22. Charges made to the Income and Expenditure Account for FRS 17 purposes are:

	2009/10 £000	2008/09 £000
Current service cost	280	340
Past service cost	0	236
Interest cost	2,978	3,141
Expected return on assets	(1,533)	(2,045)
Curtailments	41	0
	1,766	1,672

Notes to the accounts

12.23. The movements in the present value of FRS 17 liabilities are:

	2009/10 £000	2008/09 £000
Opening present value of liabilities	(44,416)	(46,432)
Current service cost	(280)	(340)
Interest cost	(2,978)	(3,141)
Contributions by participants	(105)	(108)
Actuarial gains/(losses) on liabilities	(19,476)	3,314
Net benefits paid out	2,929	2,527
Gains/(losses) on curtailments	(41)	0
Past service cost	0	(236)
Closing present value of liabilities	(64,367)	(44,416)

12.24. The movements in the fair value of FRS 17 assets are:

	2009/10 £000	2008/09 £000
Opening fair value of assets	36,847	42,543
Expected return on assets	1,533	2,045
Actuarial gains/(losses) on assets	2,677	(6,101)
Contributions by the employer	745	779
Contributions by participants	105	108
Net benefits paid out	(2,929)	(2,527)
Closing fair value of assets	38,978	36,847

12.25. Actual return on assets:

	2009/10 £000	2008/09 £000
Expected return on assets	1,533	2,045
Actuarial gain/(loss) on assets	2,677	(6,101)
Actual return/(loss) on assets	4,210	(4,056)

12.26. The following amounts are included in the Statement of Total Recognised Gains and Losses (STRGL) (page 36).

	2009/10 £000	2008/09 £000
Total actuarial (gains)/losses	16,799	2,787
Total (gains)/losses in the STRGL	16,799	2,787

Notes to the accounts

12.27. The history of asset values, present value of liabilities and surplus/(deficit) are shown below:

	31/3/10 £000	31/3/09 £000	31/3/08 £000	31/3/07 £000	31/3/06 £000
Fair value of assets	38,978	36,847	42,543	42,768	42,440
Present value of liabilities	(64,367)	(44,416)	(46,432)	(54,279)	(55,370)
Surplus/(deficit)	(25,389)	(7,569)	(3,889)	(11,511)	(12,930)

12.28. The history of experience gains and losses are show below.

	2009/10 £000	2008/09 £000	2007/08 £000	2006/07 £000	2005/06 £000
Experience gains/(losses) on assets	2,677	(6,101)	(300)	1	1,576
Experience gains/(losses) on liabilities, excluding changes in actuarial assumptions	0	0	4,804	2	(7)

12.29. The actuary to the LPFA Pension Fund estimates the charges to the Income and Expenditure Account in 2010/11 will be:

	2010/11 £000
Current service cost	577
Past service costs	0
Total operating charge	577
Expected return on Pension Fund assets	(1,944)
Interest on Pension Fund liabilities	3,479
	1,535
Total charge	2,112

Pension Scheme Liability

12.30. The Pension Scheme Liability is an account arising from the full implementation of FRS 17. The balance on the account represents the actuarially assessed liability of the Council to meet the outstanding costs towards defined benefit pension schemes that its employees partake in. The movements on the account reflect the change in the value of the assets of pension funds and the changes in the outstanding liabilities, offset by the payments the Council has made into the pension funds during the year. There are two defined benefit schemes Council employees may partake in, the Council's own scheme and that operated by the London Pension Fund Authority.

Notes to the accounts

12.31. The UK and world financial markets, and consequently all the economies of the world, have been in significant turmoil since the summer of 2007. There were particularly major effects in the second half of 2008 – the purchase of major interests in banks by the Government, base rates of interest falling from 5% on September 2008 to 0.5% in March 2009 in order to prop up the economy, and a recession now officially recognised. As a result, reductions in the market value of the pension fund investments have increased the Council's liability towards pensions as presented under FRS 17, with an increase £233 million in the pensions scheme liability of £450 million to £683 million, of which £200 million is due to actuarial losses, and the remainder being due to difference in the levels of contributions paid to pensions funds against the FRS 17 estimates of what should be paid. The FRS 17 estimates of contributions are themselves increasing due to the economic conditions, compounded by the growth in the accumulated deficit. This is a presentational change within the Balance Sheet with no cost implication for the Council.

12.32. The total outstanding liability of the Council towards the pension funds, of £683 million, has a substantial impact on the net worth of the Council. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy as, under the requirements of the Local Government Pension Scheme, the deficit on the pension funds will be made good by increased employer's contributions over the remaining working life of the employees, as assessed by the funds' actuaries.

12.33. For the Teachers' Pensions Scheme, there were no contributions for outstanding liabilities remaining payable at the year end. The Scheme is a defined benefit scheme, administered by the Teachers' Pensions Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the TPA to identify to the Council a share of the underlying liabilities in the scheme attributable to the Council's employees. For the purposes of the Accounts, and in accordance with the SORP, the scheme is accounted for as a defined contribution scheme, and the liabilities are not included within the Council's balances, though any benefits awarded upon early retirement outside of the Teachers' scheme are fully accrued within the Council's liabilities.

13. Trading activities

13.1. The list below includes operations of the Council run on a trading account basis. The profit or loss figures are presented on an FRS 17 basis.

	Note	Turnover 2009/10 £000	(Profit)/Loss 2009/10 £000	Turnover 2008/09 £000	(Profit)/Loss 2008/09 £000
Building		(14,393)	102	(21,636)	57
Street & Metal Work Services		(4,085)	26	(3,272)	10
Vehicle Management (Fleet)		(5,306)	(6)	(5,582)	3
Building Design Services	13.2	0	0	0	87
Total		(23,784)	122	(30,490)	157

Notes to the accounts

13.2. In November 2007 Building Design Services ceased trading. The organisation was closed, the service broken up and allocated to user departments, in order to have better links to its customers, improve communications, and ensure that the professional services better meet the needs of the Council. The costs reported above relate mainly to early retirement costs of former staff.

13.3. In addition to the above trading accounts, the Council also operates some services which are included within the Net Cost of Services, but are classified as trading activities under the Best Value Accounting Code of Practice. The services are:

	Note	Turnover 2009/10 £000	(Profit)/Loss 2009/10 £000	Turnover 2008/09 £000	(Profit)/Loss 2008/09 £000
Parking Trading Account	13.4	(11,098)	(3,388)	(10,781)	(3,819)
Total		(11,098)	(3,388)	(10,781)	(3,819)

13.4. The surplus on the Parking Trading Account is fully applied to appropriate purposes in the year it arises. There is no residual balance brought forward or carried forward. The surplus has been fully applied to meet costs of road maintenance £2,595,000 (£2,559,000 in 2008/09), road network management £443,000 (£872,000 in 2008/09) and other highways expenditure £350,000 (£388,000 in 2008/09).

14. Financial instruments – gains, losses, interest income and expense

	Financial Liabilities		Financial Assets		Total	Total
	Amortised Cost 2009/10 £000	Loans and Receivables 2009/10 £000	Available -for-sale 2009/10 £000		2009/10 £000	2008/09 (restated) £000
Interest expense	52,847	0	0		52,847	51,965
Costs	53	0	0		53	53
Total expense payable and other charges	52,900	0	0		52,900	52,018
Interest income and derecognition gains	0	(1,915)	(3,441)		(5,356)	(15,931)
Total Interest income and gains	0	(1,915)	(3,441)		(5,356)	(15,931)
Unrealised Revaluation Gains and Losses	0	0	(261)		(261)	(1,282)
Net losses/(gains) for the year	52,900	(1,915)	(3,702)		47,283	34,805

Notes to the accounts

14.1. The table shows accounting charges before applying statutory adjustments that reduce the net charge to the Income and Expenditure Account. Statutory provisions reduce the effect on premiums and discounts against Council Tax and Housing rents by movements in the Statement of Movements on the General Fund Balance.

14.2. Interest income includes income earned on balances held on behalf of the Pension Fund, trust funds and other funds. The interest earned is transferred to those funds and not included in the Income and Expenditure Account:

	2009/10 £000	2008/09 £000
Total Interest income and gains	(5,356)	(15,931)
Less interest due to other funds and balances	38	204
Income and Expenditure Account	<u>(5,318)</u>	<u>(15,727)</u>

15. Contribution of housing capital receipts to the government pool

15.1. The Local Government Act 2003 requires that part of the proceeds from the sale of housing assets are paid to the Government, on the basis of 75% from the sales of dwellings and 50% from the sale of land or other housing assets. The payment is shown in the Income and Expenditure Account, matched by a release from the Usable Capital Receipts Reserve to the Statement of Movement on the General Fund Balance.

15.2. In 2009/10 the amount due to the Government from a low level of asset sales was exceeded by permissible recoverable costs, particularly from the cost of buybacks of property as part of regeneration schemes involving the Heygate and Aylesbury estates. There was therefore no net transfer of funds to the Government for 2009/10. The £32,000 payment was for settlement of final claims in respect of 2008/09.

16. General government grant

16.1. General government grant comprises those grants that are not attributable to specific services, and which, therefore, are excluded from the net cost of services. There are four types of grant:

- Revenue Support Grant (RSG), which is an amount of money given by central government to local authorities each year as part of the formula grant settlement
- Area Based Grant (ABG), is a general grant allocated directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas
- Local Authority Business Growth Incentive Scheme (LABGI). This scheme is designed to give local authorities an incentive to maximise local economic growth by allowing them to receive a proportion of increases in local business rate revenues to spend on their own priorities
- Housing and Planning Delivery Grant (HPDG). The purpose of this grant is to provide support towards expenditure incurred or to be incurred by local planning authorities in respect of their planning functions.

Notes to the accounts

16.2. The amount of general grant received was as follows:

	2009/10 £000	2008/09 £000
Revenue Support Grant	(42,636)	(27,316)
Area Based Grant	(26,018)	(24,137)
Local Authority Business Growth Incentive Scheme	(390)	(9,460)
Housing and Planning Delivery Grant	(1,200)	0
Total	(70,244)	(60,913)

Notes to the accounts

17. Reconciling items for the statement of movement on the General Fund balance

	Note	2009/10 £000	2008/09 (restated) £000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year			
Amortisation of intangible assets		(1,334)	(1,074)
Depreciation and impairment of fixed assets		(112,469)	(250,636)
Grants Deferred amortisation		27,135	21,551
Revenue expenditure funded from capital under statute	21	(9,595)	(23,796)
Net gain/(loss) on sale of fixed assets excluding costs		8,418	(27,229)
Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with the statutory requirements		(94)	(671)
Net charges made for retirement benefits in accordance with FRS 17		(63,166)	(40,972)
Amount by which Council Tax income and residual Community Charge adjustment included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation		(1,546)	1,492
		(152,651)	(321,335)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year			
Minimum revenue provision for capital financing	17.1	4,127	4,388
Charges in relation to the refinancing of debt		5,801	7,718
Capital expenditure charged in the year to the General Fund Balance		9,465	17,796
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		(32)	(3,729)
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners		30,283	26,187
		49,644	52,360
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year			
Housing Revenue Account Balance		(4,052)	(12,185)
Net transfer to/(from) the Major Repairs Reserve		(1,817)	(1,590)
Net transfer to/(from) earmarked reserves		(3,008)	13,621
		(8,877)	(154)
Net additional amount required to be credited to the General Fund Balance for the year			
		(111,884)	(269,129)

17.1. Minimum Revenue Provision (MRP). Accounting practice for local authorities requires that the Accounts show a charge to the General Fund, to set funds aside to repay debt incurred for capital expenditure purposes. The minimum level for the General Fund is 4% of a prescribed notional calculation, and is recognised in the Statement of Movement on the General Fund Balance. For 2009/10 this was £4.127 million (£4.388 million 2008/09).

17.2. There is no statutory requirement to charge MRP to the Housing Revenue Account, and no voluntary charge is made.

Notes to the accounts

18. Intangible assets

	2009/10 £000	2008/09 £000
Original cost	5,714	5,034
Accumulated amortisation	(2,885)	(1,811)
Balance as at 1 April	2,829	3,223
Expenditure in the year	66	680
Amortisation in the year	(1,334)	(1,074)
Balance as at 31 March	1,561	2,829

18.1. Expenditure on intangible assets refers to software acquired and installed as part of the corporate capital programme to enhance the Council's Information & Communication Technology infrastructure. These assets are amortised over a three-year lifespan.

18.2. The outstanding balance on intangible assets reflects expenditure incurred on the following items:

	£000
IT procurement	1,427
Geographical Information System	61
Care First	73
Total	1,561

18.3. IT procurement includes expenditure on Government Connects, Mimesweeper, Wide Area Network, Offsite Records storage Management, asset accounting register (Logotech), with enhancement of the corporate network systems and security as well as software developments such as SAP upgrades.

Notes to the accounts

19. Tangible fixed assets

19.1. Movement of Fixed Assets 2009/10:

	Council Housing Building	Other Land & Equipment	Vehicles Plant &	Infrastructure Assets	Community Assets	Investment Properties	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value at 1/4/09	2,324,303	533,805	14,489	153,490	35,024	96,205	11,594	100,572	3,269,482
Additions	94,552	18,614	11,741	20,966	1,811	121	45,898	0	193,703
Disposals	(7,875)	(9,450)	0	0	0	(557)	0	(26,810)	(44,692)
Revaluations	130,403	21,159	0	0	0	6,120	0	37,147	194,829
Restatements	(394)	0	(67)	0	0	0	0	2,850	2,389
Transfers	0	0	0	0	0	0	0	0	0
Impairment Losses	(127,075)	(47,303)	0	0	(667)	(2,721)	0	(26,900)	(204,666)
Past Impairment Reversals	72,270	9,925	0	0	0	1,098	0	105	83,398
Gross Book Value at 31/3/10	2,486,184	526,750	26,163	174,456	36,168	0	57,492	86,964	3,494,443
Accumulated depreciation b/f	(144)	(15,955)	(7,179)	(25,860)	(410)	0	0	0	(49,548)
Depreciation for the year	(36,209)	(9,955)	(4,073)	(4,532)	(378)	0	0	0	(55,147)
Depreciation on assets sold	88	300	0	0	0	0	0	0	388
Depreciation for revaluations	0	7,705	0	0	0	0	0	0	7,713
Depreciation on restatements	0	0	67	0	0	0	0	0	67
Depreciation for transfers	0	0	0	0	0	0	0	0	0
Depreciation for Impairment Losses	0	0	0	0	0	0	0	0	0
Depreciation on past impairments	0	0	0	0	0	0	0	0	0
Depreciation Balance at 31/3/10	(36,265)	(17,905)	(11,185)	(30,392)	(780)	0	0	0	(96,527)
Net Book Value at 31/3/10	2,449,919	508,845	14,978	144,064	35,388	100,266	57,492	86,964	3,397,916
Net Book Value at 1/4/09	2,324,159	517,850	7,310	127,630	34,614	96,205	11,594	100,572	3,219,934

19.2. This table shows a reconciliation of the movements in fixed assets as required by the SORP. Assets shown as Transfers include the re-categorisation of assets reflecting the identification of assets that have become non-operational, including council housing buildings being prepared for redevelopment.

19.3. Capital expenditure on the acquisition of land, buildings and other tangible assets is shown in additions. Expenditure on the construction of new assets is shown in assets under construction, and shown as additions to fixed assets on completion. Enhancements and improvements to existing assets are added to the assets whilst being carried out, and on completion may result in a revaluation if material. Any differences between the change in valuation and the cost of these works are treated as impairments.

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

19.5. The following table shows the effects of the rolling programme for revaluing fixed assets. The amounts shown in each year for Council Housing and Other Land & Buildings are changed in value at April each year, adjusted for depreciation. The value also includes the sum of the restatements, revaluations, additions and disposals less the depreciation on revaluations and restatements, the depreciation for the year and the depreciation on assets sold. The revaluations include changes in useful economic life and residual value.

Notes to the accounts

	Council Housing	Other Land & Building	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets valued at Historic Cost	0	0	14,978	144,064	35,388	0	57,492	0	251,922
Assets valued at Current Value	2,388,729	562,179	0	0	0	61,091	0	61,242	3,073,241
As at 1/04/07	186,361	18,815	0	0	0	40,568	0	87,263	333,007
As at 1/04/08	(250,931)	(63,144)	0	0	0	(5,454)	0	(47,933)	(367,462)
As at 1/04/09	125,760	(9,005)	0	0	0	4,061	0	(13,608)	107,208
Net Book Value at 31/3/10	2,449,919	508,845	14,978	144,064	35,388	100,266	57,492	86,964	3,397,916

19.6. 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. 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.

19.7. There are significant redevelopments being undertaken or planned in the borough and a number of estates and hostels were categorised as non-operational assets as at 1 April 2009. These are:

- Brayards Estate
- Bermondsey Spa Site G
- Coopers Road
- Dickens Estate
- East Dulwich Estate
- Elmington Estate
- Hostels
- Silwood phase 4B
- Wooddene

These assets have now been revalued at market value rather than the operational valuation approach of Existing Use Value – Social Housing.

19.8. The list below shows the main assets owned by the Council and included in the Balance Sheet, and excludes properties that are rented in the provision of services. The total number of schools, 88, includes 25 voluntary primary and 7 voluntary secondary schools.

Notes to the accounts

	2009/10 No.	2008/09 No.
Council dwellings, in use	39,333	39,829
Council dwellings, void	1,311	995
Operational assets		
Town & Public Halls	1	1
Office Buildings	47	50
Coroner's Court	1	1
Community Centres	26	26
Depots	7	7
Social Services - Residential Care	2	2
Social Services - Day Care Facilities	9	9
Social Services - Other/Offices	12	13
Cemeteries and Crematoria	4	4
Sports and Recreation Centres	8	8
Swimming Pools	4	4
Nurseries & Early Years	17	17
Schools - Primary	72	72
Schools - Secondary	9	9
Schools - Special	7	7
Libraries	12	12
Museums & Galleries	5	5
Waste Sites & Facilities	1	1
Shops	576	581
Industrial Sites	13	14
Car Parks	14	14
Community assets		
Parks	131	131
Infrastructure assets		
Roads	337km	337km

19.9. Summary of capital expenditure and financing

How the money was spent:

	2009/10 £000	2008/09 £000
Children's Services	21,737	18,589
Environment and Housing (non HRA)	32,031	15,646
Housing General Fund	22,915	4,657
Regeneration and Major Projects	17,984	28,568
Deputy Chief Executive's Department	10,262	7,106
Adult Health and Social Care	652	789
Total General Fund	105,581	75,355
HRA	96,838	116,023
Total	202,419	191,378

Notes to the accounts

How the expenditure was financed:

	2009/10 £000	2008/09 £000
Revenue contributions	9,465	16,866
Using supported borrowing approvals	12,526	17,578
Using capital receipts received from the sale of assets	85,473	59,876
Specific grants and other contributions	64,550	47,185
Major Repairs Allowance	30,405	49,873
Total	202,419	191,378

Expenditure by asset class:

	2009/10 £000	2008/09 £000
Fixed assets	190,703	163,215
Revenue expenditure funded by capital under statute (see Note 21)	9,595	23,796
Enhancements and work in progress	2,121	4,367
Total	202,419	191,378

19.10. Contractual commitments for the capital programme as at 31 March 2010 can be analysed over the Council's services as follows:

Service	Contractually Committed Expenditure £m
Children's Services	39.7
Southwark Schools for future	3.4
Deputy Chief Executive's department	5.4
Environment & Housing (non HRA)	43.3
Regeneration & Neighbourhoods/ Major Projects	21.2
Adult Health & Social Care	8.2
HRA	50.7
Total committed programme	171.9

Notes to the accounts

20. Financial instruments – carrying amount and fair value

Financial Assets

	Fair Value	Carrying Amount	Carrying Amount
	31/3/10	31/3/10	31/3/09
	£000	£000	(restated) £000
Available-for-sale – Current	123,549	123,549	78,650
Available-for-sale – Long Term	23,507	23,507	65,139
	<u>147,056</u>	<u>147,056</u>	<u>143,789</u>
Loans and Receivables	53,738	53,658	109,873
Loans and Receivables, current accrued interest	0	69	1,145
Less Trust Fund balances	(1,546)	(1,546)	(1,626)
	<u>52,192</u>	<u>52,181</u>	<u>109,392</u>
Total	<u>199,248</u>	<u>199,237</u>	<u>253,181</u>
Presented as:			
Long term investments		23,507	65,139
Investments		175,730	188,042
Total		<u>199,237</u>	<u>253,181</u>

Financial Liabilities

	Fair Value	Carrying Amount	Carrying Amount
	31/3/10	31/3/10	31/3/09
	£000	£000	£000
Financial Liabilities at Amortised Cost – Current	(54)	(54)	(54)
Financial Liabilities at Amortised Cost – Long Term	(945,794)	(761,709)	(761,709)
Financial Liabilities at Amortised Cost – Long Term, accrued costs	0	(9,027)	(9,027)
	<u>(945,848)</u>	<u>(770,790)</u>	<u>(770,790)</u>
Presented as:			
Borrowing repayable on demand or within 12 months		(9,081)	(9,081)
Long term borrowing		(761,709)	(761,709)
Total		<u>(770,790)</u>	<u>(770,790)</u>

- 20.1. Financial assets and financial liabilities are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Council no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

Notes to the accounts

- 20.2. The fair value of available-for-sale instruments is estimated using market price at Balance Sheet date. The fair value of current loans and receivables and current financial liabilities approximates to the carrying amount plus any accrued interest. The fair value of long term financial liabilities is estimated by valuing cash flow at redemption rates quoted by lenders as at the Balance Sheet date. The fair value of long term liabilities differs markedly from carrying value as loan coupons, which reflect past rates, differ from quoted redemption rates.
- 20.3. Cash and bank balances in hand or overdrawn are shown at face value on the Balance Sheet.
- 20.4. The overall average life of financial assets (i.e. the Council's investments) is 0.60 years and the modified duration is 0.56. Within that, the available-for-sale investments have an average life of 0.8 years and a modified duration of 0.75. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £1.10 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 £0.02 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.
- 20.5. All Council borrowing outstanding at 31 March 2010 is at fixed rates, with an average maturity of 22 years and a modified duration of 12 (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 12) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £95 million, a 1% fall raises it by £118 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.
- 20.6. The 2009 SORP has changed accounting practice for accruals on loans and investments. Accruals for interest payable on external borrowing are included in current liabilities (included in the carry cost of the debt in 2008/09). Accruals for interest receivable on investments are included in the carry cost of available-for-sale financial assets (no change from 2008/09), and for loans and receivables shown in short term loans and receivables (shown in debtors in 2008/09). 2008/09 comparatives have been restated on this basis.

21. Revenue expenditure funded from capital under statute

- 21.1. The 2008 SORP introduced this category of expenditure, replacing deferred charges, where a council may incur expenditure that meets statutory definitions of capital expenditure, but is of a nature that is not consistent with standard accounting practice under FRS 15, Tangible Fixed Assets. Examples include expenditure incurred on assets that are not owned by the authority, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises, but is charged to the Capital Adjustment Account through the Statement of Movement on the General Fund Balance, to be financed from capital resources.
- 21.2. For comparison, in 2009/10 £9.595 million was incurred as revenue expenditure funded from capital under statute, charged to services within the Income and Expenditure Accounts (£23.796 million 2008/09).

Notes to the accounts

22. Deferred debtors

	2009/10 £000	2008/09 £000
Opening balance	1,912	1,507
New advances in the year	465	766
Accrued interest (Note 22.2)	12	14
Repayments in the year	(285)	(262)
Fair value adjustment (Note 22.3)	(235)	(113)
Total	1,869	1,912
Represented by:		
Housing Associations	127	143
Right to Buy mortgages	291	397
Charges on leaseholder properties for major works	1,451	1,372
Total	1,869	1,912

- 22.1. Deferred debtors are mortgages given to permit purchases of homes under Right to Buy and similar initiatives, or advances made to housing associations repayable on a mortgage like basis.
- 22.2. The Council has a policy whereby, depending on meeting certain criteria, charges to leaseholders for major works can be deferred until death of the owner or sale of the property. Interest is accrued until redemption in these circumstances.
- 22.3. Accounting for financial instruments requires the re-assessment of loans to “fair value” rather than showing book value or cost. The fair value adjustment included relates only to the debtors for leaseholder major works, which is charged to the Income and Expenditure Account and then transferred to the Financial Instruments Adjustment Account (Note 35 page 77) until the debtors are modified or redeemed.

23. Long term debtors

	2009/10 £000	2008/09 £000
Health & Social Care	263	207
Works in default	3	3
Total	266	210

- 23.1. Under the Health and Social Care Act 2001, the Council has entered into deferred payment agreements with people receiving residential social care. The aim of the scheme is to enable people in residential care who are responsible for paying all or part of their fees to avoid having to sell their homes to pay the fees. A legal charge is placed against the resident’s property, and the fees due will be recoverable from the resident’s estate.
- 23.2. Accounting for financial instruments requires the re-assessment of loans to “fair value” rather than showing book value or cost. The Health and Social Care debtors have been reassessed to fair value. The fair value adjustment was £56,000 in 2009/10 (£207,000 in 2008/09), which is charged to the Income and Expenditure Account and then transferred to the Financial Instruments Adjustment Account (Note 35 page 77) until the debtors are modified or redeemed.

Notes to the accounts

24. Debtors

24.1. Debtors represent amounts owed to the Council by other parties. The Council impairs the values of these debtors as a potential expectation of debts it may not recover (Note 25 below).

	2009/10	2008/09 (restated)
	£000	£000
Government departments and other public bodies (Note 24.2)	42,276	48,263
Council tax payers (Note 24.2)	26,415	23,501
Housing rent payers	17,169	20,490
Leaseholders and freeholders (Note 24.3)	17,609	20,682
Expenditure in advance	3,593	4,170
Financial assets trade date settlement (Note 24.4)	13,201	0
Debtors attributable to schools' accounts	719	809
Balances held by third parties (Note 24.5)	2,436	2,070
Sundry debtors	30,688	26,076
Total	154,106	146,061

24.2. The 2009 SORP has changed accounting practice for council tax, business rates and accruals on investments which has required the restatement of 2008/09 comparatives.

- From 1 April 2009, Council Tax income is accounted for on an accruals basis. In addition, the agency relationship between the Council and the precepting body, the GLA, is also recognised. Balances relating to Council Tax have been disaggregated and a net debtor/creditor established to reflect the difference between the net cash paid to the preceptor and their share of the cash collected.
- The collection of Business Rates is now recognised as an agency arrangement. Assets and liabilities relating to Business Rates payers are de-recognised in the Council's accounts and replaced by a debtor with the Government for cash paid over to the Government in excess of that collected.
- Accruals for loans and receivables are now shown in short term loans and receivables (shown in debtors in 2008/09). 2008/09 comparatives have been restated on this basis.

24.3. The value of leaseholder debtors includes a reduction of £0.856 million (£1.054 million 2008/09) to reflect the fair value and amortised cost of collection arrangements allowing debt to be collected in instalments over a period of up to 36 months at nil interest.

24.4. Under accounting for financial instruments, financial assets are shown on the balance sheet at trade date. Balances represent sales of financial assets on or just before 31 March, for which cash was not received in settlement until 1 April or just after.

24.5. At 31 March 2009 £2.436 million of Council funding was held in an external escrow account, as part of the funding mechanism for the Canada Water regeneration scheme (£2.070 million 2008/09). See also Notes 57.3 and Note 59, page 89.

Notes to the accounts

25. Impairment of debtors

25.1. The Council impairs the value of its debtors against a potential expectation that some of those debts may not be recovered (previously described as Provisions for Bad Debts).

	Balance 31/3/09 (restated) £000	Movement in 09/10 £000	Balance 31/3/10 £000
Council tax payers	(17,757)	(3,607)	(21,364)
Housing rent payers	(10,693)	2,617	(8,076)
Sundry debtors	(10,705)	(2,095)	(12,800)
Total	(39,155)	(3,085)	(42,240)

25.2. The balances at 31/3/09 have been restated in accordance with the 2009 SORP changes in Note 24.2 above.

26. Cash and bank

26.1. The majority of the Council's bank accounts are with National Westminster Bank plc. All the bank accounts are within a single offset pooling arrangement, managed as one account. Cash and bank overdrawn represents cash in transit across all the bank accounts at the balance sheet date, and not an overdraft position with the bank.

26.2. There are a number of bank accounts that are not with the Council's banker. All the accounts are schools' accounts, where a school has opted not to use the Council's banker. The balances on those accounts are represented individually in cash and bank in hand or overdrawn, pending the balances and cash in transit at the balance sheet date.

Notes to the accounts

27. Creditors

27.1. Creditors represent the amounts owed by the Council to other parties:

	2009/10	2008/09
	£000	(restated) £000
Government departments and other public bodies (Note 27.2)	(19,651)	(22,785)
Leaseholders' receipts in advance	(657)	(3,686)
Other income received in advance (Note 27.2)	(17,779)	(32,566)
Council tax payers (Note 27.2)	(4,614)	(4,244)
Creditors attributable to schools' accounts	(4,094)	(4,397)
Financial assets trade date settlement (Note 27.3)	0	(2,508)
Sundry creditors	(40,648)	(40,659)
Total	(87,443)	(110,845)

27.2. The 2009 SORP has changed the representation of funds collected on behalf of the GLA as a Council Tax preceptor, and the business rates collected and paid to the Government. Creditor balances now show only the net relationships with the GLA and the Government, and excludes any creditors on behalf of those bodies. The 2008/09 comparatives now reflect the 2009 SORP basis. See also Explanatory Foreword section 3, page 6.

27.3. Under accounting for financial instruments, financial assets are shown on the balance sheet at trade date. Trade date is the date when a transaction is entered into, whereas settlement date is when funds are transferred. Balances in creditors represent timing differences in purchases of financial assets with a trade date of on or just before 31 March, for which cash was not paid in settlement until 1 April or just after.

Notes to the accounts

28. Provisions

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Insurance claims (Note 28.1)	(7,358)	814	(6,544)
Tax on leasing subsidy (Note 28.2)	(7,089)	3,545	(3,544)
Housing contractual dispute (Note 28.3)	0	(556)	(556)
Refund of charges for services provided under s117 of the Mental Health Act 1983	(150)	150	0
Other provisions individually less than £100,000 (Note 28.4)	(116)	90	(26)
Total	(14,713)	4,043	(10,670)

- 28.1. 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.
- 28.2. 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. This provision is now being released as the risk of liability declines, and the remaining balance is expected to be released in 2010/11.
- 28.3. The housing contractual dispute relates to repairs and maintenance works and is likely to be resolved during 2010/11.
- 28.4. There is one provision less than £100,000 and it is not possible to say with any certainty when the matter in dispute is likely to be resolved.

29. Deferred liabilities

- 29.1. On 11 June 2008 the Council acquired 160 Tooley Street on a 25-year lease. The lease has an initial 18 month rent free period. Accounting practice requires that the Income and Expenditure Account be charged for the use of the asset as it is used rather than when rental payments are made. The deferred liability represents charges made to the Income and Expenditure Account as rental during the rent free period, to be reduced as actual rent payments are paid, calculated over the first five years of the lease.

Notes to the accounts

30. Capital grants unapplied

30.1. Capital grants unapplied represent grants towards capital expenditure which have not been spent as at the balance sheet date. On being spent the balances are transferred to the Grants Deferred Account (see Note 31) and are then amortised to the Income and Expenditure Account in line with the expected life of the asset the grant was spent on.

	2009/10 £000	2008/09 £000
Opening balance	(55,545)	(43,545)
Grants received in the year	(74,293)	(58,363)
Grants spent, transferred to the Grants Deferred Account	64,550	46,363
Total	(65,288)	(55,545)

30.2. Included in the total is £22.37 million of Section 106 receipts (£14.77 million at 31 March 2009).

31. Grants deferred account

31.1. The Grants Deferred Account shows the balance of grants and other contributions that have been spent on capital expenditure. The balances are then amortised to the Income and Expenditure Account in line with the expected life of the asset the grant was spent on, or written down in accordance with the accounting policies on the valuation of additional capital expenditure on fixed assets. Grants towards expenditure under Revenue Expenditure Funded From Capital Under Statute (Note 21 page 69) are fully amortised in the year of spend.

	2009/10 £000	2008/09 £000
Opening balance	(113,597)	(88,785)
Transferred from Capital Grants Unapplied	(64,550)	(46,363)
Amortisation	27,135	21,551
Total	(151,012)	(113,597)

32. Deferred receipts

	2009/10 £000	2008/09 £000
Where the Council has granted a mortgage but no cash advance on the sale of Council dwellings	(291)	(400)
Charges on leaseholders' property for major works	(3,359)	(3,087)
Deferred capital receipts (Note 32.1)	(2,376)	(2,070)
Total	(6,026)	(5,557)

32.1. This balance represents Council funding that was held in an external escrow account, as part of the funding mechanism for the Canada Water regeneration scheme. The balance (after related accruals) represents deferred capital receipts until such time as they are used for the scheme or returned to the Council. See also Note 57.3 and Note 59, page 89.

Notes to the accounts

33. Analysis of net assets

	2009/10 £000	2008/09 (restated) £000
Housing Revenue Account	1,971,631	1,921,353
General Fund	(53,436)	132,037
Net assets shown in the Balance Sheet	1,918,195	2,053,390

- 33.1. The 2009 SORP has changed the representation of funds collected on behalf of the GLA as a Council Tax preceptor, and the business rates collected and paid to the Government. The 2008/09 comparatives now reflect the 2009 SORP basis, which has changed funds and balances in the Balance Sheet. See also Explanatory Foreword section 3, page 6.
- 33.2. The General Fund component of Net Assets for 2009/10 is significantly affected by the material movement in actuarial assumptions for the pensions scheme liability (Note 12 page 50 above).

34. Capital adjustment account

	HRA £000	General Fund £000	2009/10 Total £000	2008/09 Total £000
Opening balance	(1,870,387)	(277,711)	(2,148,098)	(2,333,505)
Restatements	(10,299)	4,635	(5,664)	0
Movements in the year -				
Capital financing				
- capital receipts	(36,239)	(49,234)	(85,473)	(59,876)
- revenue	(9,049)	(415)	(9,464)	(17,796)
- MRA applied	(30,405)	0	(30,405)	(49,873)
Revenue expenditure funded by capital under statute	2,017	7,578	9,595	23,796
Depreciation	38,923	18,026	56,949	50,257
Impairment	69,991	25,786	95,777	238,523
Minimum Revenue Provision	0	(4,127)	(4,127)	(4,388)
Historic Value of Assets Sold	20,340	5,693	26,033	26,215
Grants amortisation	(9,691)	(17,444)	(27,135)	(21,551)
Other adjustments	0	0	0	100
Total	(1,834,799)	(287,213)	(2,122,012)	(2,148,098)

- 34.1. The Capital Adjustment Account is a non-distributable account introduced in the 2007 SORP for Revaluation Reserve accounting purposes. The balance on this account essentially combines revaluation gains accumulated before 2007/08 with the consumption of capital financing. The effect of the pre-Revaluation Reserve revaluation gains will reduce over time as assets held at 1 April 2007 are sold or decommissioned, but in the medium term there are likely to be material movements in the Capital Adjustment Account until the new Revaluation Reserve is fully established.

Notes to the accounts

35. Financial instruments adjustment account

	HRA	General Fund	2009/10 Total	2008/09 Total
	£000	£000	£000	£000
Opening balance	13,335	3,871	17,206	24,253
Amortisation of premiums and discounts	(5,711)	(90)	(5,801)	(7,718)
Interest rate differences	38	56	94	671
Total	7,662	3,837	11,499	17,206

- 35.1. The Financial Instruments Adjustment Account (FIAA) is a non-distributable account, arising from the introduction of accounting for financial instruments under the 2007 SORP. The account balances gains and losses arising from financial instruments charged to the Income and Expenditure Account against the charges required by legislation to be made against Council Tax or to the HRA.

36. Collection fund adjustment account

- 36.1. The Collection Fund Adjustment Account is a new account introduced by the 2009 SORP, replacing the Collection Fund Balance. The account reflects only the Council's share of surplus or deficits arising from collecting Council Tax, whereas the previous Collection Fund Balance included amounts collected on behalf of preceptors (the GLA). Any surpluses or deficits arising from collection on the behalf of preceptors are now shown in creditors or debtors as appropriate. The 2008/09 comparatives have been restated on this basis.

37. Revaluation reserve

	HRA	General Fund	2009/10 Total	2008/09 Total
	£000	£000	£000	£000
Opening balance	(103,504)	(100,900)	(204,404)	(402,408)
Restatements	9,943	(6,736)	3,207	0
Unrealised (gain)/loss from revaluation of fixed assets				
Revaluations	(138,910)	(39,991)	(178,901)	239,215
Revaluations, depreciation	0	0	0	(75,947)
Value of assets disposed of				
Disposals	4,107	14,601	18,708	34,736
Disposals, depreciation	0	0	0	0
Total	(228,364)	(133,026)	(361,390)	(204,404)

Notes to the accounts

37.1. The Revaluation Reserve is a non-distributable account introduced by the changes under the 2007 SORP. The account shows upwards movements in valuations, on an asset by asset basis. The account includes downwards movements in valuations, but only if an individual asset's revaluation reserve has sufficient value, with any excess having to be charged to the Income and Expenditure Account, and then taken to the Capital Adjustment Account.

38. Pensions reserve

	2009/10 £000	2008/09 £000
Opening balance	450,261	216,589
Actuarial (gain)/loss – Council pension fund	182,800	216,100
Actuarial (gain)/loss – LPFA pension fund	16,799	2,787
Settlement of actual pensions' contributions against liabilities due, to the Statement of Movement on the General Fund Balance	32,884	14,786
Reconciling items to the Pensions Liability	0	(1)
Total	682,744	450,261

38.1. The Pensions Reserve is a non-distributable reserve, arising from accounting for pensions under FRS 17.

38.2. Movements in the actuarial gains and losses are shown in more detail in Note 12 page 50.

39. Capital receipts reserve

	2009/10 £000	2008/09 £000
Opening balance	(37,988)	(67,771)
Gross capital receipts from sale of assets	(53,766)	(34,514)
Less transfers to the Statement of Movement on the General Fund Balance:		
Permitted contributions towards disposal costs	607	692
Contribution of housing capital receipts to the Government pool	32	3,729
Capital receipts used for financing capital expenditure	85,473	59,876
Total	(5,642)	(37,988)

39.1. Under the Local Government Act 2003, part of the proceeds from the sale of housing assets are paid to the Government, on the basis of 75% from the sales of dwellings and 50% from the sale of land and other housing assets. The payment is reflected in the Income and Expenditure Account, matched by a release from the Capital Receipts Reserve in the Statement of Movement on the General Fund Balance.

Notes to the accounts

40. Available-for-sale financial instruments reserve

	HRA £000	General Fund £000	2009/10 Total £000	2008/09 Total £000
Opening balance	0	(1,282)	(1,282)	(531)
Unrealised (gain)/loss from fair value measurement	0	1,021	1,021	(751)
Total	0	(261)	(261)	(1,282)

- 40.1. The Available-for-sale Financial Instruments Reserve is a non-distributable account, arising from the introduction of accounting for financial instruments under the 2007 SORP. The account recognises any unrealised gains or losses from financial instruments required to be measured at fair value.

41. Major repairs reserve and HRA balance

- 41.1. Movements in these balances are shown in Notes 5 and 6 to the Housing Revenue Account statements, page 95.

42. Modernisation, service & operational improvement reserve

- 42.1. This reserve is for one-off expenditure and multi-year projects that are designed to modernise and improve service levels and operational efficiency of Southwark's activities. Schemes will include accommodation pressures and the Shared Services strategy, Local Service Delivery, Customer Service improvements, and Information Services strategy. The use of the reserve is subject to a protocol listing admissible items in accordance with the Council's Medium Term Resources Strategy.
- 42.2. On 11 June 2008 the Council acquired 160 Tooley Street on a 25-year lease. The lease has an initial 18 month rent free period. Accounting practice requires that the Income and Expenditure Account be charged for the use of the asset as it is used rather than when rental payments are made. This has resulted in costs to the Income and Expenditure Account, which have been financed by this reserve. Once the rent-free period has ended, the costs are reversed, and the balances will be restored to the reserve. In 2009/10 the charge to the reserve for this purpose was £3.431 million. In 2008/09 the similar cost, of £4.295 million was allocated to the Regeneration & Development Reserve, but has been reallocated to this reserve in 2009/10. The total, £7.726 million, will be recovered in 2010/11 and later years.

	Balance 31/3/09 £000	Movement in 09/10 £000	Reallocation between reserves in 09/10 £000	Balance 31/3/10 £000
Modernisation, Service & Operational Improvement Reserve	(13,768)	5,819	4,295	(3,654)

Notes to the accounts

43. Regeneration & development reserve

43.1. This reserve is to fund one-off expenditure and multi-year projects to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, and land acquisitions associated with these projects. See Note 42.2 on the reallocation to the Modernisation, Service & Operational Improvement Reserve

	Balance 31/3/09 £000	Movement in 09/10 £000	Reallocation between reserves in 09/10 £000	Balance 31/3/10 £000
Regeneration & Development Reserve	(6,382)	1,037	(4,295)	(9,640)

44. Financial risk reserve

44.1. This reserve is set aside against future financial risks that may arise. For example, taxation risk, legislative changes including actions involving the Greater London Authority, major projects, risks as a result of unavoidable changes in accounting practice, and circumstances not provided for within the Insurance Reserve. The commutation adjustment reserve (£1.708 million) previously included in the "funds set aside for future risks" reserve group, is now included in the balances on this reserve.

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Financial Risk Reserve	(10,060)	2,125	(7,935)

45. Capital contingency reserve

45.1. This reserve exists to help meet the costs of urgent and unavoidable capital works. It is funded from revenue and capital underspends and release of these funds is subject to the approval of the Finance Director in consultation with the Executive Member for Resources.

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Capital Contingency Reserve	(2,703)	0	(2,703)

Notes to the accounts

46. Other earmarked reserves

46.1. Funds set aside to finance specific projects or meet future planned commitments:

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Internal audit contracts	(275)	0	(275)
CSC Back Office Payments	(247)	0	(247)
CSC business process review	(219)	0	(219)
GIS	(130)	0	(130)
Peckham Pulse	(311)	46	(265)
Planned Maintenance Fund	(333)	0	(333)
Housing Benefits Subsidy Equalisation	(6,489)	861	(5,628)
Future pensions commitments (Note 46.2)	(3,000)	0	(3,000)
Legal & Democratic Services improvement programme	(51)	(75)	(126)
Landfill Allowance Trading Scheme	0	0	0
Sumner Road & East Dulwich Refurbishment	(350)	0	(350)
Early Years review	0	(300)	(300)
Waste PFI Equalisation Reserve (Note 46.3)	(3,014)	(2,465)	(5,479)
Cator Street Development	(370)	16	(354)
Procurement Reserve	(871)	0	(871)
Financial Systems Development Reserve	(1,500)	0	(1,500)
Youth Service Restructure	(250)	0	(250)
Aylesbury Development Reserve	(705)	(1,539)	(2,244)
Canada Water library	0	(513)	(513)
Resource Centre	(86)	(175)	(261)
Other reserves individually less than £100,000	(420)	60	(360)
Total	(18,621)	(4,084)	(22,705)

46.2. Future pensions commitments, £3 million. The Government introduced new regulations for local authority pensions from 2004/05, increasing retirement ages. However, the regulations have not yet been implemented by the Government. If the regulations remain unimplemented, or are implemented at a much later date, there will be significant increased costs to the General Fund in 2010/11 and later years. This reserve will meet a proportion of those costs.

46.3. Waste PFI equalisation reserve, £5.479 million. This reserve represents the difference in timing of the Government's funding of a PFI scheme against the assessed spending need of the Council. The surplus of funding in the early years of the project is carried forward to meet spending needs in later years, as a result of government funding reducing in those years.

Notes to the accounts

46.4. Departmental (under)/over spends and balances carried forward:

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Dedicated Schools Grant Reserve	(4,082)	72	(4,010)
Strategic Services management and development	(150)	0	(150)
Signage	(108)	0	(108)
Blackfriars trust allocation	(138)	0	(138)
Election costs	(409)	0	(409)
Local Public Sector Agreements	(578)	0	(578)
Adult Learning	136	(136)	0
Street trading account	519	301	820
Street trading	(110)	0	(110)
General litigation	(172)	0	(172)
SALIX energy efficiency	0	(100)	(100)
Housing and Planning Delivery grant	0	(672)	(672)
London Pensions Fund Authority	0	(452)	(452)
Area Based Grant	(1,107)	257	(850)
Other reserves individually less than £100,000	(99)	(324)	(423)
	(6,298)	(1,054)	(7,352)

46.5. Funds set aside to meet future risks or programmes not yet fully committed:

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Schools in financial difficulties, schools closures and academies	(665)	0	(665)
Interest equalisation	(4,000)	0	(4,000)
Insurance	(8,322)	(839)	(9,161)
European Grant Funding Equalisation Reserve	(190)	0	(190)
Unaccompanied Asylum Seeking Children Equalisation Reserve	(388)	0	(388)
Other reserves individually less than £100,000	(215)	4	(211)
	(13,780)	(835)	(14,615)

46.6. Summary of other earmarked reserves:

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Specific projects and planned commitments	(18,621)	(4,084)	(22,705)
Departmental (under)/over spends	(6,298)	(1,054)	(7,352)
Future risks and programmes not yet fully committed	(13,780)	(835)	(14,615)
	(38,699)	(5,973)	(44,672)

Notes to the accounts

47. Schools' balances

47.1. Funds held by schools and other education establishments that are committed to be spent on the education service. The totals are net balances:

	Balance 31/3/09 £000	Movement in 09/10 £000	Balance 31/3/10 £000
Funds held by schools	(12,706)	3,724	(8,982)
Nursery school balances	(1,145)	249	(896)
Pupil referral units	(236)	0	(236)
	(14,087)	3,973	(10,114)

48. Analysis of grants shown in cash flow statement

48.1. The 2009 SORP has changed the representation of funds collected on behalf of the GLA as a Council Tax preceptor, and the business rates collected and paid to the Government. The Accounts now show only the net relationships with the GLA and the Government, and excludes gross transactions on behalf of those bodies. In addition, Revenue Support Grant and housing benefit grants, previously shown in this summary, are now shown on the face of the cash flow statement. The 2008/09 comparatives now reflect the 2009 SORP basis. See also Explanatory Foreword section 3, page 6.

	2009/10 £000	2008/09 (restated) £000
Housing subsidy	(33,072)	(32,765)
Education grants	(217,265)	(208,119)
Other grants	(76,549)	(105,796)
	(326,886)	(346,680)

Notes to the accounts

49. Reconciliation of net revenue deficit/(surplus) cash flow for the year

	2009/10		2008/09 (restated)	
	£000	£000	£000	£000
Net expenditure/(income) on General Fund		74		(927)
Net expenditure/(income) on HRA and Major Repairs Reserve		(2,649)		26,579
Total		(2,575)		25,652
Net revenue income as per cash flow statement		(68,795)		(73,301)
Net interest paid as per cash flow statement		47,599		35,889
Add:				
Decrease in debtors	0		1,429	
Depreciation and capital payments	162,190		306,576	
Decrease in deferred debits	0	162,190	0	308,005
Less:				
Increase in debtors	(8,046)		0	
Decrease in creditors	(23,402)		(6,588)	
Increase in stocks and work in progress	(89)		(43)	
Decrease in Provisions and Reserves	(112,032)	(143,569)	(238,310)	(244,941)
Total		(2,575)		25,652

50. Reconciliation of financing cash movements shown in the cash flow statement with the balance sheet

	2009/10 £000	2008/09 £000
Long term loans		
Balance as at 1 April	(761,709)	729,709
Repayments of amounts borrowed	0	0
New borrowings	0	32,000
Balance as at 31 March	(761,709)	(761,709)
Short term borrowing		
Balance as at 1 April	0	0
Repayments of amounts borrowed	0	0
New borrowings	0	0
Balance as at 31 March	0	0

Notes to the accounts

51. Liquid resources

51.1. The Council's investments are analysed as either realisable or liquid resources for the purpose of the cash flow statement. Realisable investments are those which are immediately available, for example being held in deposit or call accounts, or can be received the next working day. Liquid resources are those investments that are being held for longer than one day though can be accessed earlier but at a penalty. All the Council's investments are in money market instruments.

51.2. The reconciliation of the movement in deposits in liquid resources to the Balance Sheet is as follows:

	Balance 31/3/09 (restated) £000	Movement in 09/10 £000	Balance 31/3/10 £000
Investments, liquid resources	216,775	(46,789)	169,986
Loans and receivables accruals	0	68	68
Investments, realisable investments	36,406	(7,223)	29,183
Investments, Balance Sheet	253,181	(53,944)	199,237

52. Insurance

52.1. From 1992 the Council has been meeting the following types of insurance from within its own resources. Stop loss and excess cover is continuing, subject to the indicated excesses:

Type of Insurance	Excess £	Effective from
Property - general	500,000	1 May 2003
Property - housing fire	750,000	1 Oct 2009
All risks	100,000	1 May 2002
Motor	112,500	1 Oct 2006
Liability	100,000	1 May 2003
Fidelity guarantee	10,000	1 May 2002

52.2. Provisions of £6.544 million (£7.358 million 2008/09) have been made for outstanding claims and £9.161 million (£8.322 million 2008/09) has been reserved from General Fund balances to meet other potential losses.

52.3. 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.

Notes to the accounts

53. Related party transactions

53.1. 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.

53.2. Related party transactions involving councillors were as follows

Organisation	Councillors with declared interest	Payment made in 2009/10 £
Beormund Community Centre	Paul Bates & Peter John	218,204
Black Elderly Group Southwark	Aubyn Graham	287,316
British Computer Society	Tim McNally	16,367
Cable & Wireless Communications	James Barber	1,985
Camberwell Arts	John Friary	20,000
Caribb Youth & Community Association	Aubyn Graham	23,510
Charities Aid Foundation	James Barber	6,938
Christ Apostolic Church	Tayo Situ	900
Cooltan Arts	Bob Skelly	48,766
Dulwich Park Friends	Kim Humphreys	2,056
GMB Union	Paul Bates & Peter John	25,837
Leathermarket Joint Management Board	Adedokun Lasaki	2,457,217
London Metropolitan University	John Friary	66,595
People Care Association	Lorraine Lauder	330
South London Gallery	Lorraine Zuleta	187,819
Southbank Centre Enterprises Limited	Lorraine Zuleta	253
Southwark Cathedral Education Centre	Bob Skelly	15,673
Southwark College	Aubyn Graham	380,055
Southwark Cyclists	Lisa Rajan & Richard Thomas	50
Southwark Disablement Association	Danny McCarthy	675,306
Southwark Heritage Association	Lewis Robinson	7,500
Southwark Pensioners Centre	Veronica Ward	321,909
Southwark Young Pilgrims Project	Bob Skelly	3,484
Stonewall Lobby Group	David Hubber	2,938
Surrey Docks Farm Provident Society	Paul Noblet	120,306
Walworth Garden Farm	Robert Smeath	212,934

53.3. In addition, Councillor Tim McNally declared an interest with the Royal Bank of Scotland, which through National Westminster Bank Plc, one of its group, is the Council's banker.

Notes to the accounts

53.4. Two officers had related party interests in organisations in 2009/10. These were:

- The Strategic Director of Health and Community Services, who was also employed as the Chief Executive of Southwark Primary Care Trust (the PCT). During 2009/10 the Council made payments to the PCT of £14.48 million (£6.42 million in 2008/09) and received income of £10.78 million (£13.25 million in 2008/09). The Council and the PCT work closely in providing health and social care principally through joint working arrangements as outlined in Note 5 page 43 to the accounts.
- The Strategic Director of the Communities, Law and Governance, whose husband was employed by Liberata, which the Council contracts to provide its revenues and benefits services. During 2009/10 the Council paid Liberata £11.26 million (£11.65 million in 2008/09).

53.5. Central government has effective control over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). The Council received £552 million revenue grant funding in 2009/10 (£538 million 2008/09). Details of transactions with government departments are set out in the Cash Flow Statement.

53.6. During the financial year, the pension fund had an average balance of £1.07 million (£1.38 million in 2008/09) of surplus cash deposited with the council. The Council paid the fund a total for interest of £16,800 (£52,950 in 2008/09) on these deposits. The Council charged the fund £868,800 (£796,470 in 2008/09) for expenses incurred in administering the fund.

54. Euro disclosure

54.1. The Council's main financial system was replaced in 1998 and is fully compliant with the Euro. To date no significant work has been carried out to ensure that the Authority's other systems are compliant, but they will be fully tested at a future date.

55. Significant events

55.1. During 2009/10, two major fires occurred within the borough at residential properties occupied by council tenants and leaseholders. The first happened on 3 July 2009 in Camberwell at Lakanal, a block of 98 properties. The second serious incident on 26 November 2009 was in Peckham at Sumner Road where the residents of 33 adjacent properties had to be rehoused.

55.2. In both cases, the properties remain unoccupied and no decision has been made as yet regarding their future; any resultant costs will fall on the HRA and the Housing Investment Programme, where a range of costs associated with works at both sites have been charged.

55.3. Impairment charges, arising from the damage to the properties, are incorporated into the accounts.

Notes to the accounts

56. Private finance initiative (PFI)

- 56.1. 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.
- 56.2. 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.
- 56.3. 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 £16.9 million were made to Veolia in 2009/10 under this scheme (£18.7 million 2008/09).
- 56.4. The judicial review period on the scheme finished on 17 May 2010. A ground breaking ceremony was held on 01 July 2010, with construction to be completed late 2011, and operational early 2012.
- 56.5. The profile of future payments under the scheme is expected to be as follows:

Period	£000
2010/11	20,393
2011/12 – 2014/15	100,098
2015/16 – 2019/20	122,548
2020/21 – 2024/25	135,643
2025/26 – 2029/30	150,833
2030/31 – 2032/33	92,703
Total	622,218

Notes to the accounts

57. Contingent assets

- 57.1. 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 being made for library charges, bulk waste and car parking/access charges.
- 57.2. At 31 March 2010 the claims were all outstanding. In May 2010 HMRC settled some claims in a total of £933,000 including interest and after costs incurred. Further claims have yet to be agreed and settled, potentially £577,000 including interest and costs.
- 57.3. 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 59 below.

58. Contingent liabilities

- 58.1. The Council has a number of claims against it, which are all being fully contested in the courts. At this time no obligations are expected to arise from these court cases.

59. Joint arrangements that are not entities (JANE)

- 59.1. 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 JANE.

Notes to the accounts

59.2. 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 2010 the third party account held £2.376 million of Council funds (£2.070 million 31 March 2009) as shown in deferred receipts, representing the balance of receipts back to the Council or for future investment into the programme (Note 32 page 75).

60. Post balance sheet events

60.1. In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI).

60.2. The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to result in a reduction in the pensions liabilities and therefore the pension deficit on the balance sheet. The change will also impact upon the Income and Expenditure account over the next accounting period.

London Borough of Southwark Pension Fund

60.3. The actuary to the London Borough of Southwark Pension Fund has calculated that the impact on the balance sheet if the CPI change had occurred at the accounting date would have been to reduce the value of the liabilities on the balance sheet by around £130 million. The actuary has based this figure on the FRS 17 assumptions applicable at the accounting year end, and allowing for CPI increases being lower than RPI increases by around 0.7% p.a. in the long term (the estimate used of the differential at the accounting date). The actual figure will also reflect the date of measurement and assumptions used when producing next year's figures.

60.4. It is anticipated that the reduction in liabilities will be accounted for as a (negative) past service cost i.e. this change constitutes a change to benefits since pension scheme members will expect a lower benefit following the change.

60.5. It is also anticipated that the move to CPI will reduce the interest cost and current service cost calculated for the next accounting period compared to the position if pension increases remained linked to the RPI.

London Pension Fund Authority Pension Fund

60.6. The actuary to the London Pension Fund Authority Pension Fund advises that this change will reduce the value of the net liability (or deficit) in the Pension Fund by £3,635,000.

Housing Revenue Account income and expenditure account

The Housing Revenue Account (HRA) reflects the statutory requirement under schedule 4 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It shows the major elements of cost in providing and managing the Council's housing stock and how this expenditure is met from rents, subsidy and other income.

	Note	2009/10 £000	2008/09 £000
Income			
Dwelling rents		(157,817)	(156,288)
Non dwelling rents		(9,626)	(8,920)
Charges for services and facilities		(58,357)	(59,737)
Contributions towards expenditure		(3,718)	(2,699)
HRA subsidy receivable (including MRA)	1,6	(33,518)	(32,990)
Grants deferred amortisation		(9,692)	(213)
Total income		(272,728)	(260,847)
Expenditure			
Repairs and maintenance		58,944	62,455
Supervision and management		107,210	104,076
Rents, rates, taxes and other charges		3,175	3,171
Depreciation and impairment of fixed assets	2	108,914	211,433
Debt management costs		259	257
Increase in provisions for bad debts		199	(58)
Revenue expenditure funded from capital under statute	3	2,017	37
Total expenditure		280,718	381,371
Net Cost of HRA Services included in the Council's Income and Expenditure Account			
		7,990	120,524
HRA share of CDC costs		1,095	1,085
Net Cost of HRA Services		9,085	121,609
Gains and losses on the sales of HRA fixed assets		(5,509)	(6,349)
Interest payable and similar charges		43,900	43,403
Interest and investment income		(74)	(488)
Pensions interest cost and expected return on pensions assets	10	4,755	2,244
Total (surplus) / deficit for the year		52,157	160,419

Statement of movement on the Housing Revenue Account balance

This is a reconciliation statement summarising the differences between the outturn on the HRA Income and Expenditure Account 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 Account to comply with the statutory requirements of accounting for the HRA.

	Note	2009/10 £000	2008/09 £000
(Surplus)/deficit for the year on HRA services		52,157	160,419
Net additional amounts required by statute	4	(48,105)	(148,234)
(Increase)/decrease in the HRA Balance		4,052	12,185
HRA Balance brought forward		(18,176)	(30,361)
Balance carried forward	5	(14,124)	(18,176)

Notes to the Housing Revenue Account statements

1. HRA subsidy

- 1.1. 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.
- 1.2. 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 2009/10.

	2009/10 £000	2008/09 £000
Management & Maintenance allowances	(100,647)	(100,634)
Major Repairs Allowance	(37,106)	(35,480)
Capital Charges subsidy	(58,579)	(60,037)
Other Expenditure (leased assets) subsidy	(132)	(1,457)
Interest on Receipts deduction	33	48
Guideline rent income deduction	162,913	164,570
Total Housing Subsidy	<u>(33,518)</u>	<u>(32,990)</u>

2. Depreciation and impairment charges

	2009/10 £000	2008/09 £000
Dwellings depreciation	37,106	35,480
Other property depreciation	1,817	1,590
Impairment	69,991	174,363
Total	<u>108,914</u>	<u>211,433</u>

- 2.1. 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.
- 2.2. All depreciation and impairment charges are reversed out of the HRA, from the Statement of Movement on the HRA Balance, to the Capital Adjustment Account. These values have no net effect on rents or other HRA income.

Notes to the Housing Revenue Account statements

3. Revenue expenditure funded from capital under statute

- 3.1. The 2008 SORP introduced this category of expenditure, replacing deferred charges, where a council may incur expenditure that meets statutory definitions of capital expenditure, but is of a nature that is not consistent with standard accounting practice under FRS 15, Tangible Fixed Assets. Examples include expenditure incurred on assets that are not owned by the authority, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises, but is charged to the Capital Adjustment Account through the Statement of Movement on the Housing Revenue Account Balance, 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.
- 3.2. In 2009/10 £2,017,000 was incurred as revenue expenditure funded from capital under statute (£37,000 in 2008/09).

4. Movement on the Housing Revenue Account balance, net additional amounts required by statute

	2009/10 £000	2008/09 £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	5,711	7,628
Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	(38)	(465)
Impairment including write-down of capital works	(69,991)	(174,363)
Amortisation of deferred charges and credits from the grants deferred account	7,675	176
Gains and losses on the sales of HRA fixed assets excluding costs	5,509	6,349
Net charges made for retirement benefits in accordance with FRS 17	(7,926)	(4,991)
	(59,060)	(165,666)
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	(1,817)	(1,590)
Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners	3,722	3,289
Capital expenditure funded by the HRA	9,050	15,733
	10,955	17,432
Net additional amount required by statute to be charged to the HRA	(48,105)	(148,234)

Notes to the Housing Revenue Account statements

5. HRA balance

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

	2009/10 £m	2008/09 £m
Regeneration and Development Reserve	4.8	3.2
Modernisation, Service and Operational Improvement Reserve	0.3	0.6
Financial Risk Reserve	6.6	10.0
Other earmarked reserves	2.4	4.4
Total	14.1	18.2

5.2. The Regeneration and Development Reserve of £4.8 million relates to Major Projects, including the Aylesbury, Heygate and Elephant & Castle regeneration programmes.

5.3. The Modernisation, Service and Operational Improvement Reserve of £0.3 million is for IT modernisation, including infrastructure, e-government and customer access initiatives.

5.4. The Financial Risk Reserve, £6.6 million, includes £3.0 million Contingency reserve, broadly representing 0.6% 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 in the Council's housing stock, and £1.6 million Heating Account reserve, which represents the cumulative balance available to mitigate energy cost pressures and minimise future increases in heating charges.

5.5. The other earmarked reserves, £2.4 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.

6. Major repairs reserve

	2009/10 £000	2008/09 £000
Opening balance	(4,680)	(19,073)
Transfers from the Capital Adjustment Account	(38,923)	(37,070)
Transfer to the HRA	1,817	1,590
Financing of capital expenditure	30,405	49,873
Total	(11,381)	(4,680)

Notes to the Housing Revenue Account statements

7. Analysis of housing stock by type of dwelling

Type of dwelling		Number of bedrooms				Total	
		1	2	3+	Other	31/3/10	31/3/09
Houses and bungalows	31/3/10	411	744	2935	0	4,090	
	31/3/09	412	751	2,991	0		4,154
Low rise flats	31/3/10	3,001	654	372	0	4,027	
	31/3/09	3,046	661	372	0		4,079
Medium rise flats	31/3/10	7,021	7,479	6,412	0	20,912	
	31/3/09	7,060	7,544	6,528	0		21,132
High rise flats	31/3/10	3,238	4,957	1,857	0	10,052	
	31/3/09	3,352	5,023	1,858	0		10,233
Non permanent	31/3/10	0	0	0	8	8	
	31/3/09	0	0	0	10		10
Multi occupied	31/3/10	0	0	0	244	244	
	31/3/09	0	0	0	221		221
TOTALS	31/3/10	13,671	13,834	11,576	252	39,333	
	31/3/09	13,870	13,979	11,749	231		39,829

- 7.1. In addition to the numbers shown in the table above, as at 31 March 2010 there were also 1,311 void properties (995 at 31 March 2009). These are mostly decanted properties within the major redevelopment projects currently underway and are excluded from the subsidy calculation; but whilst having made secure they have not yet been demolished.

Notes to the Housing Revenue Account statements

8. Asset valuations

- 8.1. The values of HRA operational assets, as included in Note 19 to the Balance Sheet on page 64, are shown in the table below.

	2009/10 £000	2008/09 £000
Operational assets		
Dwellings	2,449,919	2,324,159
Other land and buildings	50,104	51,846
Total operational assets	2,500,023	2,376,005
Non-operational assets		
Surplus assets	51,893	79,271
Commercial and investment assets	65,489	61,403
Total non-operational assets	117,382	140,674
Total HRA assets	2,617,405	2,516,679

- 8.2. The vacant possession value of dwellings within the HRA at 1 April 2009 was £6.631 billion (£7.337 billion 1 April 2008). The Balance Sheet value is lower because nearly all the dwellings are occupied, and because the rents for secure tenancies are below market value.

9. Capital

	2009/10 £000	2008/09 £000
Capital expenditure		
Funding Source:		
Revenue contributions	9,050	15,733
Supported borrowing approvals	12,526	12,526
Capital receipts from the sales of assets	36,239	28,123
Grants and other contributions	8,618	9,767
Major Repairs Reserve	30,405	49,873
Total HRA capital expenditure	96,838	116,022
Receipts from asset disposals		
	2009/10 £000	2008/09 £000
Land	596	836
Buildings	28,938	14,315
Other receipts	165	754
Total HRA capital receipts	29,699	15,905

Notes to the Housing Revenue Account statements

10. FRS 17 – Accounting for retirement benefits

- 10.1. The HRA is presented in accordance with the requirement to account for retirement benefits under the principles of FRS 17. Further information on accounting for FRS 17 is given in Note 12 page 50.
- 10.2. The apportionment of charges to the HRA under FRS 17 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 and the expected return on pensions assets.

11. Housing tenants accounts

	2009/10 £000	2008/09 £000
Gross arrears as at 1 April	18,768	18,299
Prior year payments	(5,130)	(4,203)
Arrears as at 1 April	<u>13,638</u>	14,096
Charges due in the year	186,432	182,301
Rent rebates	(91,119)	(87,586)
Write-offs	(2,170)	(2,045)
Adjustments	(980)	138
Cash collected	(95,467)	(93,266)
Net arrears as at 31 March	<u>10,334</u>	13,638
Payments in advance	5,496	5,130
Gross arrears as at 31 March	<u>15,830</u>	<u>18,768</u>

- 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.

Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates (Business Rates) on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

Income and expenditure account

	Notes	2009/10 £000	2008/09 £000
Income			
Income from Council Tax	1	(93,533)	(94,305)
Transfers from the General Fund, Council Tax benefits		(26,982)	(26,072)
Income collectable from business ratepayers	2	(145,920)	(139,515)
Total Income		<u>(266,435)</u>	<u>(259,892)</u>
Expenditure			
Precepts and Demands			
Greater London Authority		29,331	28,650
London Borough of Southwark		86,328	84,291
Non Domestic Rates			
Payment to the National Pool		145,272	138,864
Cost of collection allowance		648	651
Provision for bad and doubtful debts			
Council Tax		4,292	3,287
Council Tax write-offs		703	623
Contribution to preceptors from previous year's Collection Fund surplus	3	1,932	1,533
Total Expenditure		<u>268,506</u>	<u>257,899</u>
Net deficit/(surplus) for the year		2,071	(1,993)
Deficit/(surplus) as at 1 April		(3,028)	(1,035)
Deficit/(surplus) as at 31 March		<u>(957)</u>	<u>(3,028)</u>

Notes to the Collection Fund

1. Council tax

- 1.1. Council Tax is a property-based tax, which is assessed on the value of residential property. For this purpose, the Valuation Office Agency has set residential properties into eight valuation bands, of A to H, using estimated market value at 1 April 1991. The Council Tax charges are calculated by estimating the amount of income required from the Collection Fund by the Council and preceptors for the forthcoming year, and dividing this by the Council Tax base, which is the total number of properties liable to tax, expressed as a band D equivalent.
- 1.2. In 2009/10 the estimated income required from the Collection Fund for all preceptors was £115.686 million (£112.997 million in 2008/09). The amount of Council Tax for a band D property (£1221.96 in both 2009/10 and 2008/09) 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	
	2009/10	2008/09		2009/10	2008/09
A	9,665.75	9,677.95	6/9	6,443.28	6,451.22
B	30,261.15	29,922.55	7/9	23,536.45	23,273.09
C	27,650.15	26,782.10	8/9	24,577.91	23,806.31
D	16,874.50	16,272.70	1	16,874.50	16,272.70
E	10,917.55	10,543.50	11/9	13,343.67	12,886.50
F	4,878.45	4,779.95	13/9	7,046.65	6,904.37
G	3,534.85	3,510.85	15/9	5,891.42	5,851.42
H	451.50	439.65	18/9	903.00	879.30
Total	104,233.90	101,929.25		98,616.88	96,324.91
Less adjustment for collection rate				(3,944.68)	(3,853.00)
Council Tax Base				94,672.20	92,471.91
Estimated Income Required from Collection Fund				£115,685,642	£112,996,975
Band D Council Tax				£1,221.96	£1,221.96

Notes to the Collection Fund

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 2009/10 was 48.5p, and 48.1p for small businesses (46.2p and 45.8p respectively for 2008/09). 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 2010 was £391.621 million (£386.799 million at 31 March 2009).

3. Contributions to collection fund surpluses and deficits

- 3.1 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 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 2009 the Council estimated a surplus for 2008/09 of £1,932,420, to be redistributed to tax payers in 2009/10, and this is included in the Fund for 2009/10. This was apportioned between the Council and the Greater London Authority as follows:

Distribution of previous year's estimated Collection Fund surplus

Greater London Authority
London Borough of Southwark

Estimated surplus for 2008/09, redistributed in 2009/10

	£
	490,835
	1,441,585
	1,932,420

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 31/3/09	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/10
	£	£	£	£
Adult Social Care Funds				
Individual bequests	52,998	853	(1,348)	52,503
Comforts Funds/residents' savings	2,802,612	2,429,627	(1,696,955)	3,535,284
Children's Service Trusts				
Miscellaneous	25,880	1,640	0	27,520
Environment and Housing Trusts				
Pullens Gardens maintenance fund	114,067	1,796	0	115,863
Corporate Services Trusts				
Mayor's Charity	11,299	44,235	(48,133)	7,401
	<u>3,006,856</u>	<u>2,478,151</u>	<u>(1,746,436)</u>	<u>3,738,571</u>

1.1. Included in the balance for Comforts Funds/residents' savings is an amount owing to the Council of £81,522. This relates to payments due to the Council from individual care home residents. The amount is recognised as a creditor in the trust fund accounts and as a debtor in the Council's Statement of Accounts.

1.2. 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

Trust funds & other third party funds

2. Funds where the Council is not the sole trustee

	Balance at 31/3/09	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/10
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common	927,420	14,601	(24,500)	917,521
Borough Market Trustees	793	2,000	(2,000)	793
Leisure Trusts				
Cuming Bequest	9,368	148	0	9,516
	<u>937,581</u>	<u>16,749</u>	<u>(26,500)</u>	<u>927,830</u>

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 account

	Note	2009/10 £000	2008/09 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable			
From employers (including admitted bodies)			
Normal	6.1	(29,283)	(26,369)
Deficit funding	6.1	(5,079)	(3,130)
Augmentations	6.1	(121)	(439)
From employees (including admitted bodies)	6.1	(11,027)	(10,867)
Transfers in		(4,652)	(5,359)
Other income			
AVC returns and other contributions		(138)	(89)
Total income		(50,300)	(46,253)
Benefits payable			
Pensions	6.3	29,804	27,499
Lump sums - retirement benefits	6.3	7,422	5,399
Lump sums – death benefits	6.3	528	569
Payments to and on account of leavers			
State scheme premium		7	0
Refunds of contributions	6.1	6	6
Individual transfers out to other schemes		6,958	3,865
Administrative expenses borne by the scheme	7.1	907	796
Total expenditure		45,632	38,134
Net addition from dealing with members of the fund		(4,668)	(8,119)
Returns on investments			
Investment income			
Dividends from equities		(6,788)	(8,597)
Income from pooled investment vehicles		(1,851)	(2,052)
Net rent from properties		(4,704)	(4,665)
Interest on cash deposits		(147)	(432)
Derivatives		658	(657)
Other income		(119)	(177)
Change in market value of investments	9.2	(174,590)	174,028
Taxation	2.5	0	0
Investment management expenses		3,648	3,287
Net returns on investments		(183,893)	160,735
Net (increase)/decrease in the Fund for the year		(188,561)	152,616
Opening net assets of the scheme		(598,205)	(750,821)
Closing net assets of the scheme		(786,766)	(598,205)

Pension fund net assets statement

	Notes	2009/10 £000	2008/09 £000 Restated
Investment assets			
Fixed Interest Securities – UK public sector		20,080	13,524
Fixed Interest Securities – UK quoted		86,745	65,408
UK Equities		28,398	16,618
Overseas Equities		296,653	219,981
Index linked securities		61,608	49,414
Managed Funds – Property (Freehold)		54,655	45,630
Managed Funds – Property (Leasehold)		7,200	7,350
Unit Trusts – Property		57,905	52,723
Unit Trusts – Other		157,367	109,026
Derivatives – FTSE Futures		0	943
Derivatives – forward currency		0	107
Cash Deposits	9.6	4,230	9,510
Adjustment arising from change in valuation basis in 2008/09		0	(1,194)
Total investment assets		774,841	589,040
Investment Liabilities			
Derivatives Forward Currency		(15)	0
Net Investment Assets		774,826	589,040
Net Current Assets and Liabilities			
Cash held at managers		5,623	4,635
Debtors		2,388	1,531
Creditors		(797)	(900)
Cash held at Council		4,726	3,899
Total Current Assets		11,940	9,165
Closing net assets of the scheme		786,766	598,205

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period ending 31 March 2010.

Notes to the pension fund statements

1. Introduction

- 1.1. The Pension Fund is used to provide benefits for former employees of the Council and other admitted organisations, and dependent on the circumstances provides retirement pensions, widows' pensions, death grants and lump sum payments.
- 1.2. The Pension Fund Accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the Finance Director on the recommendation of the Pensions Advisory Panel.

2. Operation and membership of the fund

- 2.1. Employees pay contribution rates to the Fund determined by salary bandings. Southwark Council employees paid contributions in 2009/10 as follows:

Contribution Rate	2009/10	2008/09
%	£	£
5.25	0	265,578
5.5	266,016	2,779
5.8	26,159	13,119
5.9	365,275	306,927
6.0	0	26
6.5	2,029,198	1,959,381
6.8	3,089,823	3,039,859
7.2	2,398,988	2,503,379
7.5	278,201	326,468
Total	8,453,660	8,417,516

- 2.2. The Council contributed 19% of pensionable pay. A one off payment of £4.64 million was made as a special contribution for early and ill health retirements. In addition, external bodies admitted to the Southwark Fund contributed a total of £2.33 million.
- 2.3. 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: Barclays Global Investors Ltd who manage an "indexed" portfolio of global equities and fixed and index linked gilts; Alliance Bernstein who manage two unconstrained global equities portfolios (one for growth and the other for value purposes); Newton Investment Management who also manage an unconstrained global equities portfolio; and Henderson Global Investors, who manage the property portfolio.
- 2.4. Barclays Global Investors was taken over by BlackRock on December 1, 2009. There have been no changes to the investments held or the terms of the investment management agreement as a result.
- 2.5. Irrecoverable tax on dividends for 2009/10 was £186.60 (nil 2008/09).
- 2.6. 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.

Notes to the pension fund statements

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

	2009/10	2008/09
Number of contributors to the Fund	6,285	6,777
Number of contributors and dependants receiving allowances	6,164	6,002
Number of contributors who have deferred their pensions	6,062	5,752

3. Accounting policies

General principles

3.1. The Pension Fund accounts summarise the transactions and net assets of the Pension Fund and are prepared on a going concern basis. They comply in all material respects with the provisions of Financial Reports of Pensions Schemes - A Statement of Recommended Practice (Revised May 2007), (SORP) and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Basis of preparation

3.2. The Pension Fund Account has been prepared on an accruals basis, except for transfer values which have been accounted for on a cash basis in accordance with the SORP.

3.3. Additional Voluntary Contributions (AVCs) are not included in the Pension Fund Accounts in accordance with the Pension Scheme (Management and Investment of Funds) Regulations 1998, section 5(2)(c).

3.4. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period ending 31 March 2010.

Investments

3.5. Investments are valued as follows:

- Equity investments and unit trusts at their market bid price on 31 March 2010.
- 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 2010.
- Property assets have been included in the accounts at market value as at 31 March 2010. 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 2010.
- 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.

Notes to the pension fund statements

- Unit Trust property has been included at net asset price except for Aberdeen Eurozone Funds which was valued using the February 28 2010 price, and Henderson Indirect Property Fund (Europe), for which the fund's manager has provided an "indicative value" which has been adopted in the portfolio valuation report.

- 3.6. The cost of acquisitions of investment assets including property is treated as revenue expenditure.
- 3.7. There are no significant restrictions affecting the ability of the scheme to realise its assets as at 31 March also 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 Authority 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 administering Authority 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 Authority 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

- 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 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

- 5.2. The rates of contributions paid by the Council during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.

Notes to the pension fund statements

- 5.3. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £756.7 million) covering 82% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets, along with additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations and longevity improvements.
- 5.4. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 should be:
- 14.5% of pensionable pay to meet the liabilities arising in respect of service after the valuation date
 - Plus 6.4% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 18 years from 1 April 2008
 - Less 3.2% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.
- 5.5. These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:
- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage
 - Changes were made consistent with the Finance Act 2004
 - A new scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.
- 5.6. The cost of future benefit promises had increased compared with the costs identified in the previous valuation. This was due to the combined impact of benefit changes, changes in economic conditions, and increased life expectancy.
- 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 Council as Administering Authority. If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010, with contribution rates changing with effect from 1 April 2011.

Notes to the pension fund statements

- 5.8. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement. The following financial assumptions have been used:

Discount rate for periods	
In service	
Admitted Bodies	6.2% pa
Scheduled Bodies	6.2% pa
Left service	
Admitted Bodies	5.2% pa
Scheduled Bodies	6.2% pa
Short term investment returns until 1 April 2011	
Equity/property assets	7.2% pa
Other investments	5.2% pa
Rate of general pay increases	4.7% pa
Rate of increases to pensions in payment	3.2% pa
Valuation of assets	market value

- 5.9. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010, which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.
- 5.10. Special contributions are paid for early retirements and ill health retirements, since the valuation assessment does not make any allowance for the extra liabilities arising from such retirements.

6. Contributions receivable and benefits payable

- 6.1. The total contributions receivable for 2009/10 are analysed as follows:

	Employees £000	Employers £000	2009/10 Total £000	2008/09 Total £000
Southwark Council	10,153	32,156	42,309	37,785
Admitted bodies	504	1,564	2,068	2,000
Scheduled bodies	364	763	1,127	1,026
Total	11,021	34,483	45,504	40,811

- 6.2. During 2009/10 employees made Additional Voluntary Contributions (AVCs) of £147,987 (£116,170 2008/09). 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 1998, section 5(2)(c). The value of the AVCs at 31 March 2010 was £870,739 (£747,945 at 31 March 2009).

Notes to the pension fund statements

6.3. The total benefits payable for 2009/10 are analysed as follows:

	Pensions £000	Lump sums £000	2009/10 Total £000	2008/09 Total £000
Southwark Council	29,283	7,167	36,450	32,609
Admitted bodies	493	755	1,248	766
Scheduled bodies	28	28	56	92
Total	29,804	7,950	37,754	33,467

7. Audit costs

7.1. Administrative expenses include the audit costs for 2009/10, of £38,500 (£38,000 in 2008/09).

Notes to the pension fund statements

8. Related party transactions

- 8.1. 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.
- 8.2. 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
 - Southwark Law Centre
 - Fusion
 - Odyssey
 - PricewaterhouseCoopers
 - Centre for Literacy in Primary Education
 - South London Gallery
 - Shaftesbury Homes
 - APCOA
 - Charter Security
 - Chequers
 - Castle Day Centre
 - Olympic South
 - Morrison
 - St Mungo
 - Veolia
 - Camden Society
 - Leather Market
 - RSM Tenon
 - 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
 - The Pension Fund Advisory Panel

Notes to the pension fund statements

9. Other information

- 9.1. The market value of assets (including cash and accruals) managed by the investment managers at the balance sheet date was:

	£m	%
BlackRock (formerly Barclays Global Investors)	433.81	55.55
Alliance Bernstein (Growth)	81.67	10.46
Alliance Bernstein (Value)	73.00	9.35
Newton Investment Management	67.66	8.66
Henderson Global Investors	124.85	15.98
Total	780.99	100.00

- 9.2. 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.

	Value at 31/3/09	Purchases £m	Sales £m	Gains/ (losses) £m	Cash movement £m	Value at 31/3/10 £m
Fixed Interest:						
UK public sector	13.52	7.73	(1.19)	0.02	0.00	20.08
UK quoted	65.41	7.43	0.00	13.90	0.00	86.74
UK Equities	16.62	16.89	(14.51)	9.40	0.00	28.40
Overseas Equities	219.98	167.13	(177.65)	87.19	0.00	296.65
Index linked Securities	49.41	10.03	(3.59)	5.76	0.00	61.61
Managed Funds:						
Property (freehold)	45.63	4.90	(1.28)	5.41	0.00	54.66
Property (leasehold)	7.35	0.00	0.00	(0.15)	0.00	7.20
Unit Trusts - Property	52.72	9.27	(2.48)	(1.60)	0.00	57.91
Unit Trusts – Other	109.03	0.00	(6.12)	54.45	0.00	157.36
Derivatives:						
FTSE Futures	0.94	0.00	0.00	(0.94)	0.00	0.00
Forward currency	0.11	0.00	0.00	0.00	(0.12)	(0.01)
Cash Deposits	9.51	0.00	0.00	0.00	(5.28)	4.23
Adjustment arising from change in valuation basis 08/09	(1.19)	0.00	0.00	1.19	0.00	0.00
Total Net Investment Assets	589.04	223.38	(206.82)	174.63	(5.40)	774.83
Cash held at managers	4.64	0.28	(0.23)	(0.04)	0.98	5.63
Investment Debtors	0.88	0.00	0.00	0.00	(0.35)	0.53
Total Net Investments	594.56	223.66	(207.05)	174.59	(4.77)	780.99

Notes to the pension fund statements

- 9.3. The Pension Fund does not hold derivatives as a main asset class, but they are used by our active fund managers to hedge the currency risk of holding global equities. Any FTSE futures are always held to equitise cash to ensure that they are always 100% invested in the equity market. The currency forward contracts are traded over the counter and the FTSE futures are exchange traded.
- 9.4. Deposits, £4.23 million, are balances held by Henderson Global Investors. This holding was reduced in 2009/10 by the purchase of a direct property in March 2010. Henderson's strategy is to continue to look for the right opportunities to invest in within the property market, thereby reducing cash holdings in the long term.
- 9.5. Cash held at managers are holdings pending the reinvestment of other crystallised transactions.
- 9.6. The total amount of direct transaction cost on all investment types was £1.684 million, split between equities £0.350 million and property £1.334 million (2008/09 £1.838 million total, £0.457 million equities, £1.373 million property, and £8,000 derivatives).
- 9.7. 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 2010. All properties have been valued at market value.
- 9.8. 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. £2.60 million of stock was lent out as at 31 March 2010, the collateral for this held in a combination of European government bonds and US cash.
- 9.9. A Statement of Investment Principles has been prepared and is available on the Council's website http://www.southwark.gov.uk/download/1204/pension_fund_annual_report_20082009,
or on request from the Finance Director, Southwark Council, Finance and Resources, 2nd floor Hub 1, PO Box 64529, London SE1P 5LX.

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.

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.

Glossary

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 SORP.

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.

Council tax

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

Curtailement

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.

Glossary

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 reporting standards (FRS)

FRS are prescribed by the Accounting Standards Board and are the accounting standards that need to be followed in the preparation of the statutory accounts in the commercial sector. They are also required to be followed in local authority accounting, where deemed applicable in the SORP.

Financial year

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

Fixed assets

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

FRS 17

FRS 17 is Financial Reporting Standard 17 – Accounting for Retirement Benefits. The Standard requires the Council to show its outstanding liability to the Pension Fund in its accounts rather than just the payments made into the Pension Fund in the year. The Accounts were prepared on this basis for the first time in 2004/05.

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.

Glossary

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.

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 authority, 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.

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.

Glossary

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.

Non-operational assets

Fixed assets held by the Council but not directly used in the delivery of its services, e.g. investment and surplus properties.

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.

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).

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.

Glossary

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.

SORP

The Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice. 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.

Specific grants

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

Statement of total recognised gains and losses

A core financial statement that demonstrates how the change in net worth in the Balance Sheet is represented by the surplus or deficit on the Income and Expenditure Account and other unrealised gains and losses.

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.

