

Statement Of Accounts 2008 - 2009

Financial Management Services

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INTRODUCTION

This Statement of Accounts is produced in accordance with current legislation and in particular with the Accounts and Audit Regulations 2003, as amended. In order to facilitate a better understanding of the Statement of Accounts, I have set out in the foreword an overall summary and commentary on the contents.

The Statement of Accounts provides information about the Council's expenditure and income for the year and its overall financial position at the end of the financial year.

Over the last year there have been unprecedented changes in the global economic environment with a major downturn forcing a sustained period of slowdown and recession in the UK economy. Such changes, alongside continued demand pressures on local services (which are likely to be increased as a result of recession), require the council continually to revisit key priorities and supporting financial plans.

With continued financing pressure on local government and new inspection regimes, it is essential that we continue to work to promote and enhance the financial management and standing of the Council so that we can continue to support the quality and improvement of the services that we provide.

We will continue to be guided especially by the advice offered by the District Auditor in the Annual Audit Letter. The District Auditor reminded us in particular of the need to "assess and monitor the impact of the recession on corporate finances and demand-led services". I support this guidance and will be taking appropriate steps to ensure that the financial standing of the Council is maintained and strengthened within future strategies.

The Accounts were presented to and approved by the Audit and Governance Committee on 25 June 2009. The Accounts have now been audited, and the District Auditor's opinion on the Accounts is included within these Statements.

I confirm that the Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year then ended.



Duncan Whitfield
Finance Director

27 November 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

Opinion on the Authority's accounting statements

I have audited the accounting statements and related notes of the Southwark Council for the year ended 31 March 2009 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 the Southwark Council 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 prepared by the Audit Commission.

Respective responsibilities of the Finance Director and auditor

The Finance Director's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, 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 financial 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 related notes and consider whether it is consistent with the audited 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 accounting statements and related notes. My responsibilities do not extend to any other information.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

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

In my opinion the Authority's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Southwark Council 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 prepared by the Audit Commission.

Respective responsibilities of the Finance Director and auditor

The Finance Director's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts 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 accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, 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 also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Management and Financial Performance Report, the Investment Policy and Performance Report and the Statement of the Actuary.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial 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 pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements and the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts 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 accounts 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 accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, 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 relevant criteria specified by the Audit Commission for principal local authorities. 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 February 2009, I am satisfied that, in all significant respects, the Southwark Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Andrea White District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

30 November 2009

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 2008: 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 2009. 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. The Accounts have changed significantly in appearance and content in the last few years. In 2006/07 the Consolidated Revenue Account was cast into the two statements now seen, the Income and Expenditure Account and the Statement of Movement on the General Fund Balance, and the introduction of a new statement, the Statement of Total Recognised Gains and Losses. A number of transactions and balances were required to be restated or presented elsewhere. Building on 2006/07, changes in the 2007/08 Accounts, for Financial Instruments and Revaluation Reserve accounting, have brought local authority accounting closer to financial reporting in the commercial world.
- 3.4. 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 PFI projects, property leases, and employee benefits, particularly holiday pay and other absences, though it is possible that changes to PFI accounting may be introduced in 2009/10. 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 will be prepared on a similar basis to those as present, but will have to have all the information ready 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.
- 3.5. In the interim before 2010/11 only minor changes to the Accounts will be required. In 2008/09 there has been a change in FRS 17, in reporting and valuing retirement benefits. The level and types of disclosures have increased. The most significant effect though is that the valuation of pension fund investments for FRS 17 purposes has changed from a "mid to bid" basis. This changes the funding liability of the Council. The changes in FRS 17 also require that the comparatives for 2007/08, but not earlier years, should be restated as if the changes had applied in 2007/08. As a result the 2007/08 statements have been restated, with a reduction in net assets of £3.4 million as a result of increases in the Council's liabilities under the revised basis.

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 prop up the economy, and a recession now officially recognised.
- 4.2. The recession, combined with the impact of the Government's level of funding for local government, will affect the finances and operations of the Council for some time to come. In the 2008/09 Accounts there are a number of both real and presentational effects arising, including:
 - Property prices have fallen significantly. The value of the Council's assets in Note 23 page 70 include valuation falls in 2008/09 of £563 million. Of this, £381 million has been offset direct to the Revaluation Reserve. However, where the fall in an individual asset's value is greater than that asset's Revaluation Reserve (a consequence of Revaluation Reserve accounting only starting in 2007/08), then the difference of £182 million in aggregate has been charged to service's accounts in the Income & Expenditure Account. Clearly this has caused distortions in services' outturns between years. However, valuation changes have no net effect against Council Tax, rents or other Council resources, as the charges are reversed from the Accounts in the Statement of Movement on the General Fund Balance (and the HRA equivalent) to the Capital Adjustment Account.
 - Although the reduction in value of assets held has no net effect on the Council's resources, there are of course implications for sales of assets, as price and marketability have fallen, which will have an impact on the future capital programme.
 - Falling interest rates directly affect investment income, which has reduced from £17.556 million in 2007/08 to £15.727 million in 2008/09, though the level of investment income is also dependent on the level of investments which have fallen from £270 million to £252 million between Balance Sheet dates. The fall in investment income is not as great as it could or will be, as interest rates were above 5% for half of 2008/09, and there are still continuing interest gains from longer term investment placed before and during the fall in rates. However, as these investments mature, and interest rates stay so low, there will be a much lower level of investment income receivable, which has required action in setting the 2009/10 budget.
 - The Pension Fund has also been significantly affected by the falls in the financial and property markets. The overall value of the fund has fallen £153 million in the year, of which £174 million is due to the market value of investments. Mitigating action in the investment strategy has been undertaken. However, the fall in the value of the Fund, and the timing of the next triennial valuation of March 2010, could have cost implications for the Council into future years. See Section 2 to 5 of the Pension Fund for more detail, from page 111.

EXPLANATORY FOREWORD

- The change in market value of Pension Fund investments has also increased the Council's liability towards pensions as presented under FRS 17, with an increase in the pensions scheme liability of £237 million to £450 million, of which £219 million is due to actuarial losses. This is a presentational change within the Balance Sheet with no cost implication for the Council, as the Council is statutorily obliged to meet pension commitments in accordance with LGPS rather than FRS 17. FRS 17 calculates actuarial gains and losses on a different basis from market value, and addresses funding requirements, which is why the change is different from the actual movement on the Pension Fund.

4.3. On 11 June 2008 the Council acquired 160 Tooley Street on a 25-year lease. The building comprises some 200,696 square feet, and will accommodate approximately 2,100 back-office staff. This represents a significant step in the Council's ambitious modernisation agenda and provides the Council with the platform to modernise and improve the delivery of back-office functions and rationalise the number of office buildings across the borough, generating significant capital receipts to support the Council's 10-year capital programme.

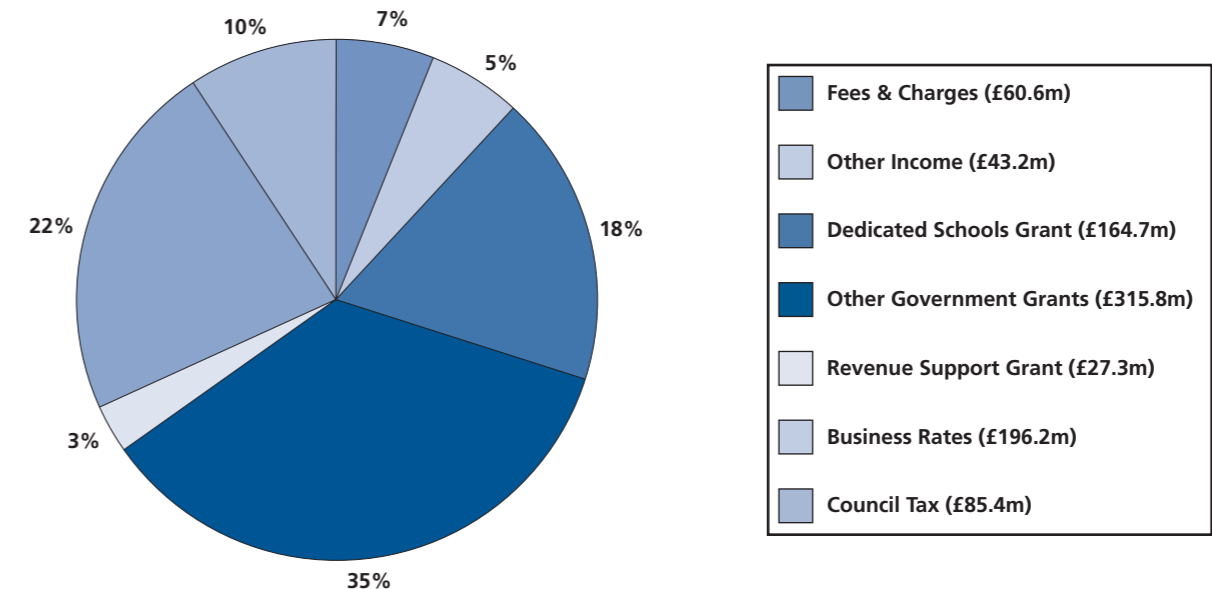
5. THE REVENUE BUDGET

- 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. The Council set a budget of £309.03 million to provide its General Fund Services during 2008/09. Net expenditure on services and other operating income and expenditure during the year was £293.14 million, and the balance was transferred to reserves. There was a net adverse variation on services of £0.54 million. This was offset by other favourable variations, (mainly one off items) of £16.43 million within other operating income and expenditure, as outlined below:

Service	Budget £000	Outturn £000	Variance £000
Childrens – Core	143,740	143,945	205
Childrens – DSG	(2,938)	(2,938)	0
Health & Social Care	102,502	103,394	892
Environment & Housing	81,233	81,161	(72)
Regeneration & Neighbourhoods	17,663	17,629	(34)
Major Projects	12,247	11,786	(461)
Financial Management Services	18,226	18,267	41
Deputy Chief Executive	58,724	58,416	(308)
Communities, Law & Governance	14,652	14,927	275
Total for services	446,049	446,587	538
Other operating income and expenditure	(137,019)	(153,452)	(16,433)
Total spend	309,030	293,135	(15,895)

Where the Money Comes From

- 5.3. Funds to help pay for services come from four main sources: fees and other charges; government grants; business rates; and Council Tax. In 2008/09, the Council received £893 million of income to support General Fund services, of which 10% was from Council Tax.



Council Tax

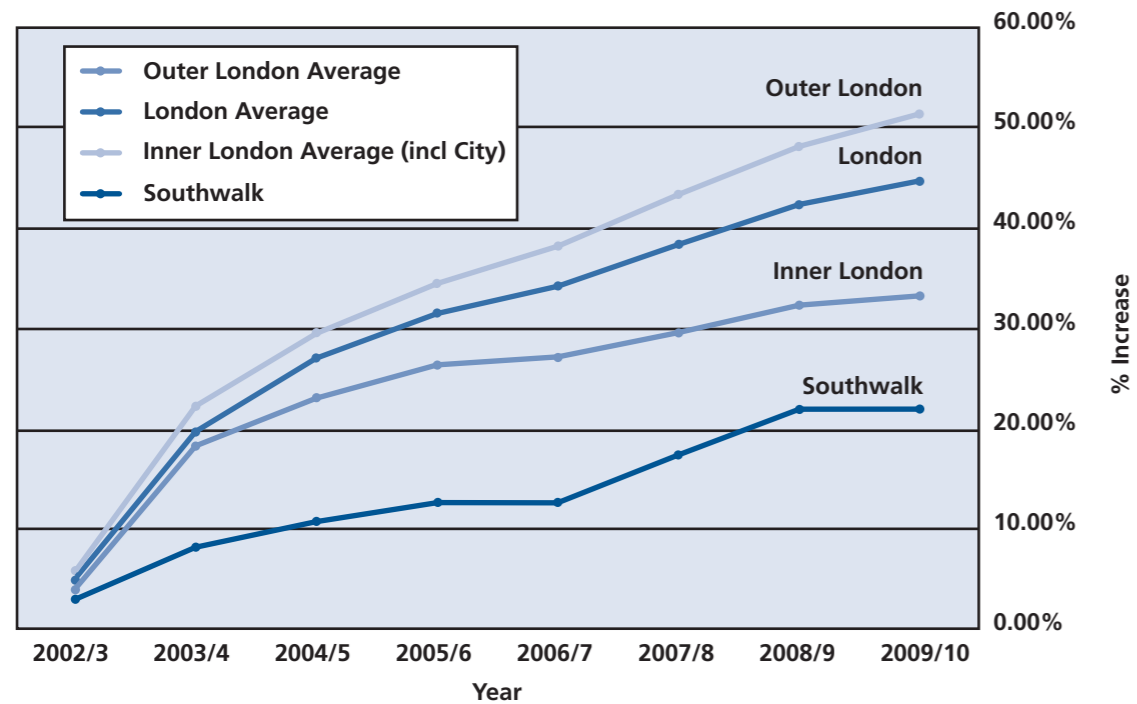
- 5.4. As well as collecting Council Tax to fund its own services, the Council collects on behalf of and pays over to the General London Authority (GLA) a sum of money for services it provides, such as policing, community support officers, fire services and transport. This is referred to as the GLA precept. This was £28.6 million in 2008/09 (£27.9 million in 2007/08). Therefore the total demand on the council taxpayer is made up of two elements; an amount for GLA services and an amount for services provided by the Council. The contributions from the tax payer, expressed as amounts charged to a Band D taxpayer, are:

	2008/09	2007/08
Southwark Council Tax requirement	912	877
GLA Precept	310	304
Total Council Tax charge (Band D equivalent)	1,222	1,181

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

EXPLANATORY FOREWORD

Cumulative Council Tax % increase since 2001/02



Housing Revenue Account

5.6. The Housing Revenue Account (HRA) is the means by which the Council meets its statutory requirement to account separately for local authority housing provision. The table below summarises the HRA income and expenditure and movement on balances for 2008/09.

	£000
Income	(260,847)
Expenditure	381,371
Net cost of services	120,524
Non operating costs	39,895
Net statutory accounting adjustments	(148,234)
Decrease in the HRA Balance	12,185
HRA Balance at 1 April 2008	(30,361)
Decrease in the HRA Balance	12,185
HRA Balance at 31 March 2009	(18,176)

Summary of reserves and balances

5.7. In line with the Medium Term Resources Strategy (MTRS), the Council has maintained appropriate earmarked reserves, and is steadily increasing its General Fund balance towards the target of £20 million over the course of the current administration.

Reserve Group	31/3/2009 £000	31/3/2008 £000	31/3/2007 £000	31/3/2006 £000	31/3/2005 £000
General Fund	(18,271)	(17,344)	(16,834)	(15,556)	(8,988)
Earmarked	(71,612)	(57,991)	(59,411)	(64,915)	(44,202)
Schools	(14,087)	(12,740)	(11,771)	(13,177)	(11,935)
HRA incl MRR	(22,856)	(49,434)	(51,388)	(42,726)	(50,813)
Total	(126,826)	(137,509)	(139,404)	(136,374)	(115,938)

5.8. Comparative figures with other London Boroughs are not yet available for 2008/09. However, comparisons of reserves for 2007/08 are set out below:

Reserve Group	Southwalk £000	Inner London average £000
General Fund	(17,344)	(21,132)
Earmarked	(57,991)	(80,557)
Total	(75,335)	(101,689)

6. CAPITAL PROGRAMME

6.1. Southwark has one of the largest capital investment programmes in London, with a ten-year capital investment programme of £813 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 2008/09 and an analysis of the capital programme expenditure over the next 10 years. Contractual commitments of the capital programme are shown in Note 23.12 page 75.

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Expenditure	10 Year Capital Programme £000	Spend in 2008/09 £000
General Fund		
Regeneration & Major Projects	300,316	15,335
Environment and Housing (non HRA)	70,311	15,646
Children's Services	57,014	18,589
Regeneration & Neighbourhoods	23,300	7,790
Housing General Fund	20,459	4,657
Deputy Chief Executive	24,382	6,359
Adult Health & Social Care	6,216	789
Capital Contingency	2,500	0
Customer & Corporate Services	4,500	747
Housing Investment Programme	304,528	116,023
Total	813,526	185,935
Financed by		
Capital receipts	(278,951)	(54,434)
Specific grants and other contributions	(297,440)	(47,185)
Major Repairs Allowance	(108,586)	(49,873)
Revenue contributions	(88,339)	(16,866)
Supported borrowing	(40,210)	(17,577)
Total	(813,526)	(185,935)

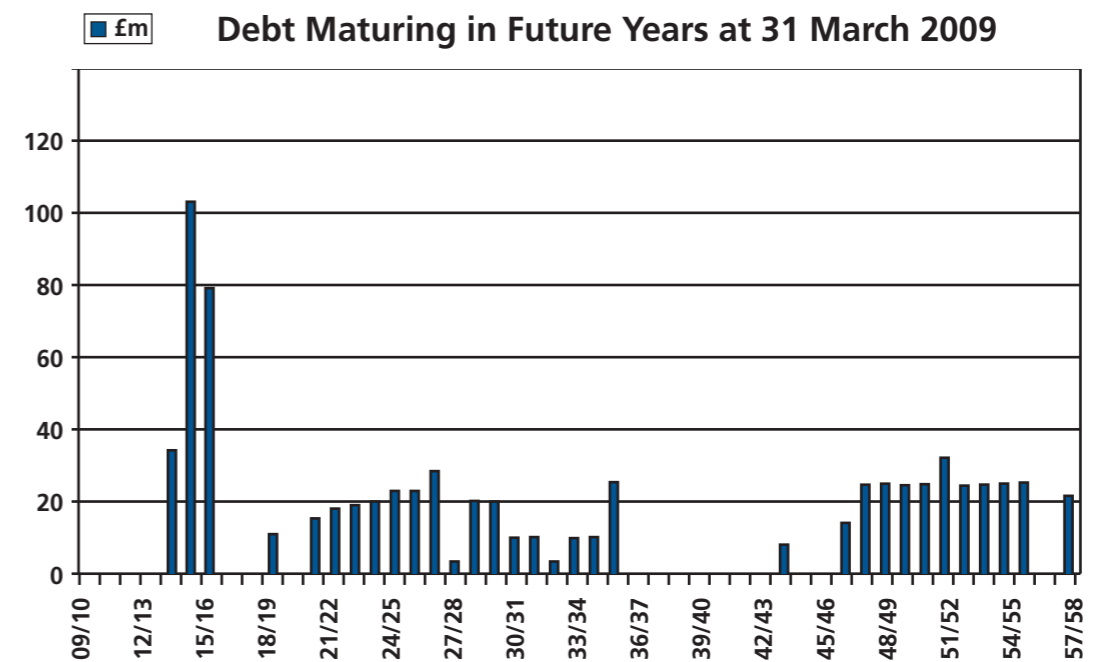
6.2. Major asset acquisitions and disposals in 2008/09:

	£000
Acquisitions	
Leaseholder buy-backs	17,773
91 Kennington Park Road (Note 6.3)	550
Disposals	
Canada Water Site A1	8,624
Canada Water Site B2	7,123
Right to Buy sales	6,972
30—32 Wansey Street	825
Boyson Road, Red Lion Close and garages	600
91 Kennington Park Road (Note 6.3)	576
151-155 Queens Road	575
265-267 Old Kent Road	575

6.3. 91 Kennington Park Road was an empty home bought under Compulsory Purchase Order and later sold at auction.

7. BORROWING FACILITIES

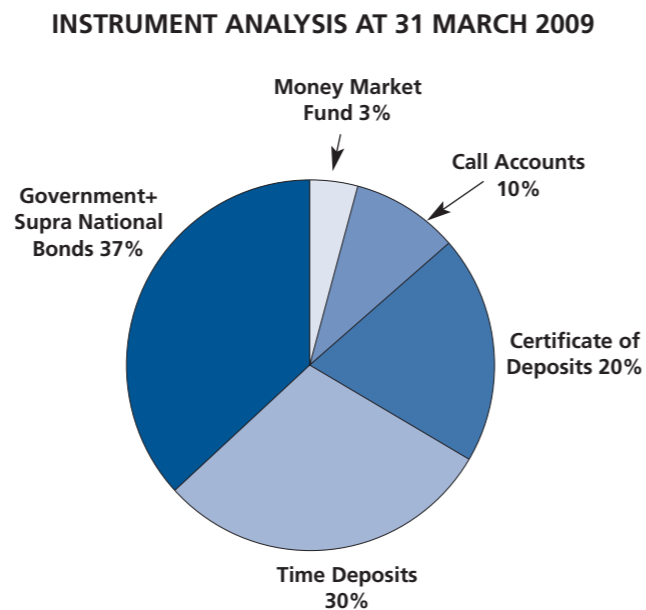
7.1. The Council borrows money to pay for capital expenditure that is not otherwise met from capital receipts, revenue, grants or other contributions. The level of debt outstanding as at 31 March 2009 for current and past capital expenditures is £771 million, an increase of £33 million during 2008/09. All debt is from the Public Works Loans Board (PWL, an Executive Agency of HM Treasury). The average life of all loans is 23 years and the average rate of interest payable is 7.03% (7.60% 2007/08). Interest payable attracts Government Grants and Housing subsidies. The maturity profile of the debt at 31 March 2009 is set out in the chart below.



EXPLANATORY FOREWORD

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 2009 can be shown by classes of instrument as follows:



8.2. The maturity and ratings of investments held at 31 March 2009 are:

Period remaining	Fitch Long Term Rating at 31 March 2009			Total
	AAA	AA+ to AA-	A+	
5-10 years	5%			5%
2-5 years	9%			9%
1-2 years	11%			11%
Less than 1 year	15%	54%	6%	75%
Total	40%	54%	6%	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 109. Other pension schemes are operated by the London Pension Fund Authority (LPFA) and the Teachers' Pensions Agency (TPA).

9.2. The Council's own 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 16 page 55, 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 2009 was £441.1 million, an increase of £228.4 million from £212.7 million as at 31 March 2008. The increase is almost wholly due to the adverse effects of the world economy on the Fund's investments, giving an actuarial loss of £216.1 million. The difference of £15.3 million is due to costs required under FRS 17 being higher than the actual level of contributions made in the year.
- The liability of the Council to the LPFA increased £3.7 million, from £3.9 million to £7.6 million at 31 March 2009, as advised by the LPFA's actuaries. The increase in the balance is also due to the economic situation, with an actuarial loss of £3.3 million, the difference of £0.6 million being due to costs required under FRS 17 being higher than the actual level of contributions made in the year.
- The TPA is run on a different basis from the others above, and is not required to be accounted for in this way under 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 at Note 5 page 114.

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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 includes 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 its 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 2009 and up to the date of approval of the statement of accounts.

The Council's governance framework

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

Arrangements for identifying and communicating the authority'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 of 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 the opportunities available to Southwark's citizens throughout their lives
2. Improving the borough's physical environment and creating a public realm that is attractive to and liveable for residents, business and visitors alike
3. Giving priority to improving public services.

In turn, each objective contains a range of priorities and more detailed actions

The Council's Corporate Plan identifies how the Council will deliver against the three strategic themes in the Community Strategy: people, place and services. These strategic themes are in turn addressed in the Policy and Resources Strategy which 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 authority's vision and its implications for the authority's governance arrangements

The Council's vision is developed and updated based upon the results of performance reported in the Corporate Plan, which is reviewed annually and agreed by the Executive.

The Corporate Governance Panel, supported by a Governance Officers Working Group continually reviews the Council's governance arrangements in light of the changing needs of the borough and changes in legislation. For example, consideration is being given to the governance implications of the Local Government and Public Involvement in Health Act 2007, which will require a review of the Council's leadership arrangements.

Arrangements for measuring the quality of services for users, ensuring they are delivered in accordance with the authority'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.

Departmental business and project plans are at the heart of the performance management framework, with

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the corporate plan ensuring there is strategic oversight of shared priorities and performance measures. The performance management framework is therefore based on a hierarchy of indicators and measures. The corporate plan includes strategic project milestones and performance indicators and measures. 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, on an exception basis, at meetings of the Executive 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 the senior management team meetings, and there are regular meetings between the strategic director and relevant Executive member. In addition, meetings are scheduled to take place between the Leader and each portfolio holder quarterly to discuss performance issues within their portfolios, monitored against an appropriate action planning process.

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.

Roles and responsibilities are clearly assigned by the Strategy, with governance largely focussed on:

- The Efficiency & Technology Board (ETB), with the task of identifying and driving through significant opportunities for efficiency gains
- The Corporate Management Team, translating the mandate provided by the Executive and approving the programme identified by the ETB.

The Executive member for resources has portfolio responsibility for the efficiency programme. The Finance Director is the lead officer and chairs the ETB.

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 Executive, committees, individual members and what matters are reserved for collective decision of the Council. This is updated annually through a review of the constitution.

All councillors meet together as the Council Assembly. The Executive is the part of the Council which is responsible for overseeing the running of Council services on a day-to-day basis. The Executive has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council Assembly as a whole to decide. Both Council Assembly and Executive meetings are normally open to the public unless matters are discussed which must be kept confidential.

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

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 subcommittees that support the work of the Executive and the Council as a whole, through scrutinising (or 'calling in') decisions made by the Executive and through examining services provided by the Council and reviewing the Council's budget and policies. They allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. The Overview and Scrutiny Committee may also be consulted by the Executive or the Council Assembly on forthcoming decisions and on the development of policy.

The Constitution describes the roles of the statutory officers: the Chief Executive, the Monitoring Officer and the Finance Director. It also includes the Member and Officer Protocol, which sets down the principles and procedures to guide officers and members in their joint working in the public interest.

The main policy documents of the Council as set out in the policy and budget framework are drafted by the Executive for approval by the Council Assembly and action to facilitate the implementation of policies is generally delegated to strategic directors and delegated further in line with the 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 and advice on financial and legal implications. All member level decisions are made on the basis of reports and 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 also 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.

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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. It is supported by a Governance Officers Working Group. These groups continually review 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.

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 Executive member for 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 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 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.

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 new procedures introduced rests with the relevant strategic director who provides appropriate training and information. This is provided 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 decide to report to the Council Assembly or Executive 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 & 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, and information from this report contributes to the regular performance information provided to the Executive and the Chief Executive.

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 accreditation and is committed to developing the capacity of its staff and members. The performance management process helps to identify learning and development needs and the Council supports its personnel with learning and development.

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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. Consultation on the Council's Community Strategy takes place through the framework of the Southwark Alliance. The outcome of consultation forms part of the annual reporting process to the wider community at the annual stakeholders' conference (this is attended by voluntary & community sectors, partners and public).

Consultation also takes place for specific services, for example, the Schools Forum, Leaseholders' Forum, tenants and residents associations and consultation with tenants and traders on regeneration projects, etc. Trades unions are consulted on issues which affect Council staff. Consultation also takes place on an area basis for local issues through our 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 good reasons for confidentiality.

The Corporate Plan, Corporate 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 each residence 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 several third parties 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 partner agencies lies with the Executive.

Southwark's local strategic partnership (LSP), Southwark Alliance, is managed by a board and management group in accordance with the partnership's standing orders. The standing orders describe the purpose of the partnership, its membership, and functions. The themed partnerships, which come under the umbrella of the Southwark Alliance, each have their own governance arrangements proportionate to the significance of the individual partnership.

Southwark Council is de facto the lead agency for the LSP and the borough's thematic partnerships, with the exception of the Healthy Southwark Partnership, which is led by the primary care trust (PCT). Any contractual arrangements entered into on behalf of the LSP and the thematic partnerships are made via the Council (the PCT in respect of Healthy Southwark), and the latter's governance arrangements apply. Again, with the exception of Healthy Southwark, the Council's HR frameworks apply to staff employed to support the partnerships.

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 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 authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Risk's annual report, and also by 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 and Inspection Letter and other reports
- The Audit Commission Corporate Assessment, which assesses how well the Council leads its communities, delivers community priorities in partnership with others and ensures continuous improvement across the range of Council activities
- The joint area review of services for children and young people (JAR), which covers specific services for children and young people that are directly managed or commissioned by the Council, as well as relevant health and youth justice services provided by other bodies
- 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 and Annual Audit and Inspection Letter. The Committee also considers reports on risk management, fraud issues, and other governance issues
- Annual service assurance assessments of the adequacy of the governance arrangements in departments are made by strategic directors.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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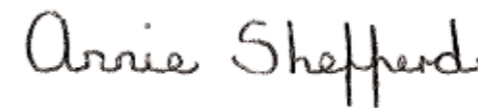
Significant governance issues

1. The slowdown in the economy nationally is beginning to be reflected in changing demand for local services. The Council is also likely to encounter additional challenges in financing its large-scale regeneration and house-building programme. The Council will be seeking to maintain tight control over its finances while continuing to support local people and the local economy. We will continue to assess and monitor the impact of the recession on corporate finances and demand-led services. As the impact of the recession becomes clearer we will seek to re-introduce a three-year policy and resources strategy and refresh the capital programme.
2. Over and above the pressures created by the recession and the funding settlement following the government's comprehensive spending review of 2007, plus the increasing demand pressures, particularly in areas such as adult social care, child protection and safeguarding, the Council needs to make £35m of efficiency savings between 2008/09 and 2010/11. To achieve this target, the Corporate Management Team (CMT) has agreed a programme of activities, which has already achieved efficiency savings of £9.6m during 2008/09. The CMT will continue to monitor the efficiency programme, again linked to the annual policy and resources strategy.
3. A key element in the efficiency strategy is the relocation of over 2000 staff to a modern office building in Tooley Street. This will present opportunities for closer working between and within departments and enable the consolidation of several back office functions through the shared support services project, allowing for economies of scale. The project team is working closely with each department to minimise disruption to services and regular progress updates on the project are considered by the Corporate Contract Review Board. Outcomes will be linked to future efficiency and customer service programmes and embedded within the annual budget setting processes.
4. The Council has identified opportunities for improvement in its services and better use of resources through better management of our service contracts and our arrangements for working with other public sector and third sector organisations. The Executive has agreed to the procurement of a new contract for management of revenues and benefits and a programme is being established to improve the management of the information and communication technology (ICT) contract. In addition, commissioning of services from the third sector will become more closely integrated with the Council's regular contract management processes.
5. The Council has reviewed our arrangements for dealing with complaints, and created an improvement plan that aims to ensure that complaints are systematically used to extend learning and drive improvement, a process that was not previously well integrated into the business of the Council. From this review, a new system for more effective tracking and monitoring of complaints has been developed. Training for staff has commenced and the system went live in April 2009. The effectiveness of the system will be closely monitored to ensure that it achieves the desired outcomes. The Council has also been consulting with stakeholder groups to help identify the customer experience in the dealings and communications with our housing repairs and maintenance service in the call centre. A new project, "one touch" has now been completed which allows customers access to a variety of services from a single point of initial contact. The Council has also been selected for the government pilot for the reducing avoidable contact initiative (extending the "one touch" project) and work will be progressed through the year.

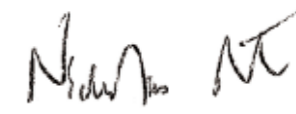
6. The signing of the 2007/08 Statement of Accounts by the District Auditor was delayed until December 2008. To prevent any delay in the audit of the 2008/09 accounts, a protocol has been agreed with the District Auditor for the preparation of the accounts. The audit will be managed centrally through Financial Management Services (FMS) teams and auditors will work with departmental staff as appropriate to support the smooth running of the audit. This includes delivering robust guidance and training on the preparation and completion of the working papers, which will, as far as possible, be in an electronic format. In the preparation for the audit, particular attention will be paid to the valuation of fixed assets, which was a specific issue in the 2007/08 audit.
7. The Council has strengthened its arrangements for data quality over the last year. Building on the strengthened arrangements, the Council has refreshed the data quality policy and updated the supporting principles, which includes aligning the implementation of the outcomes from the most recent performance indicator audit within action planning. The Council has identified the continued implementation and embedding of the data quality policy as a core priority for 2009/10. An action plan has been agreed by CMT and the District Auditor (April 2009) with key implementation dates, which will be kept under quarterly review as appropriate.

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:



Chief Executive



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 2008: A Statement of Recommended Practice (the "SORP"), the Best Value Accounting Code of Practice 2008 ("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 2008 SORP. There are no exceptions to the 2008 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.

SCHOOLS' ACCOUNTS

- 2.3. 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.
- 2.4. Academies are excluded from Local Education Authority activities and controls, and do not form part of the Council's Accounts.

DEBTORS AND CREDITORS

- 2.5. 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 2008/09 they are accounted for in 2008/09. Similarly, income due for goods and services provided in 2008/09 is accounted for in 2008/09.
- 2.6. Where the amount due is unknown then an estimated amount has been allowed for.
- 2.7. Accruals for interest payable on external borrowing are included in the carry cost of the debt. Accruals for interest receivable on investments are included in the carry cost of available-for-sale financial assets, or as debtors for loans and receivables.

RESERVES AND PROVISIONS

- 2.8. 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

- 2.9. 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.
- 2.10. 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

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

BASIS OF VALUATION OF INVESTMENTS

- 2.12. 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

- 2.13. 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.
- 2.14. 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.
- 2.15. The values of the LATS received, used and unapplied are all recognised using the weighted average value of all trades made through DEFRA in 2008/09. Revaluation gains or losses only arise on the value of LATS brought forward from the previous year.

WORKS IN PROGRESS, STOCKS AND STORES

- 2.16. 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.
- 2.17. Stocks and stores are recorded and charged in the Accounts at average price.

STATEMENT OF ACCOUNTING POLICIES

3. CAPITAL ACCOUNTING

INTANGIBLE ASSETS

- 3.1. Intangible assets under the 2008 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.

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 2008 SORP Guidance. 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. When the occupancy falls to 50% the valuation is reduced to reflect the loss of rent from these empty dwellings, and when the occupancy falls to below 20% this is considered by the valuer and may result in a change in classification from being in full operational use to "non-operational", leading to a different basis of valuation for those assets.
- 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.
- 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.
- 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. The impact of the recession has been considered by the Valuer and he has provided a set of indices indicating the change in value from 1 April 2008 to 31 March 2009 for the various types of asset. General Fund assets, which are revalued at a minimum of once every five years, have been adjusted to reflect changes from 1 April 2007, the date of the creation of the Revaluation Reserve, to 31 March 2009. These changes in value have been reflected in the accounts, with any fall initially being met from the Revaluation Reserve, and any residual amount in excess of the Revaluation Reserve being met from the Income and Expenditure Account.
- 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. In 2007/08, the first year of the Revaluation Reserve, this lowering of value was charged through the Income and Expenditure account. In 2008/09 Revaluation Reserves will exist for most assets. Therefore, in accordance with the SORP, the initial impact of the

STATEMENT OF ACCOUNTING POLICIES

lowering of the carrying value will be absorbed by the Revaluation Reserve until the value reaches its depreciated historic cost, 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. The Council has changed its policy on the value of expenditure which might have a significant impact on the carrying value of the asset to increase the accuracy of the balance sheet values. The threshold has been reduced from £250,000 to £100,000 with effect from the 2008/09 accounts.
- 3.15. There has been further refinement of the value of "buy-backs" in 2008/09. These transactions relate to estates being redeveloped. The Council buys dwellings from leaseholders who had previously exercised their "Right to buy" their properties. The dwellings are purchased at market value and, under the SORP, can be carried at this value in the Balance Sheet until being revalued at 1 April of the following financial year. It has been recognised that once these dwellings return to Council ownership the valuation method should be changed to EUV-SH, i.e. 37% of market value as advised by the relevant government department. To ignore the fall in price due to the application of this factor could materially overstate the carrying value of the assets in the balance sheet. With effect from 1 April 2008, this adjustment to the value has been effected.
- 3.16. 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.
- 3.17. Rentals payable under operating leases are charged to the Income and Expenditure Account on an accruals basis.
- 3.18. 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

- 3.19. 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.

CHARGES TO THE INCOME AND EXPENDITURE ACCOUNT

- 3.20. 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.
- 3.21. 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.
- 3.22. 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

- 3.23. The 2008 SORP introduced a new category of expenditure which effectively replaces deferred charges. 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

- 3.24. 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 grants deferred account. Amounts are released 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 replacement or modification 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.

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 2009 are shown on pages 15 and 16.

STATEMENT OF ACCOUNTING POLICIES

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.
- 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; e.g. 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 2009 is at fixed rates, with an average maturity of 23 years and a modified duration of 11 (modified duration is a number which includes interest rate risk in its calculation, and is used in making risk assessments in treasury management decisions). No debt falls for refinancing until 2014 (see the debt maturity chart in the Explanatory Foreword, page 14) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £105 million (a 1% fall raises it by £130 million) but as debt is held at amortised cost there would be no impact on the Income and Expenditure Account, 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 1.1 years and the modified duration is 1.0. Within that, the available-for-sale investments have an average life of 1.8 years and a modified duration of 1.6. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £2.2 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 £0.2 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. RELATED PARTY TRANSACTIONS

- 5.1. 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.
- 5.2. In identifying potential related party interests for Councillors, the register of Members' interests has been viewed, and for Chief Officers, direct confirmation has been sought and obtained. Related party interests for which transactions exist in 2008/09 were declared by 16 Councillors and Chief Officers:
- With voluntary bodies or charitable organisations that received funding totalling £1.8 million in 2008/09 (£2.3 million in 2007/08)
 - With businesses or other organisations that have contracted for goods and services with the Council to the value of £18.1 million in 2008/09 (£20.3 million in 2007/08). Within this balance, the two largest entities transacting with the Council were Liberata UK Ltd, with payments of £11.7 million (£11.9 million 2007/08), and Southwark Primary Care Trust, with payments of £6.4 million (£8.0 million 2007/08)
 - One Councillor declared an interest with the Council's banker, National Westminster Bank plc as part of the Royal Bank of Scotland group.
- 5.3. The Council register of Members' interests is available for inspection at Peckham Town Hall.
- 5.4. The Government is a related party for the Council, by virtue of the influence it can exert through the level of grant funding it provides. The Council received £585 million revenue grant funding in 2008/09 (£596 million 2007/08), as shown in Note 50 to the Cash Flow Statement, page 89.

6. GRANT CLAIMS

- 6.1. 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 Subsidy, Housing Benefits Subsidy, Asylum Seekers 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 2008: 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	2008/09 Net Expenditure £000	2007/08 Net Expenditure £000
Services' Income and Expenditure	1				
Central services to the public		46,985	(35,113)	11,872	4,776
Cultural, environmental, regulatory & planning services	2 - 5	136,302	(31,275)	105,027	99,208
Education and children's services	6	393,071	(252,333)	140,738	102,550
Highways and transport services		27,710	(13,292)	14,418	15,867
Local authority housing (HRA)		381,371	(260,847)	120,524	30,771
Other housing services		212,553	(201,777)	10,776	13,148
Adult social care	7	116,385	(13,530)	102,855	93,816
Coroners service		3,904	(3,643)	261	239
Corporate and democratic core	8	20,177	(5,878)	14,299	12,146
Non distributed costs	9	5,660	0	5,660	13,861
Net Cost of Services	10 - 16	1,344,118	(817,688)	526,430	386,382
(Surplus)/loss on the disposal of fixed assets				27,571	(5,868)
Precepts				29,044	27,894
(Surplus)/deficit on trading undertakings not included in Net Cost of Services	17			157	2,258
Interest payable and similar charges	18			52,018	84,597
Contribution of housing capital receipts to the Government pool	19			3,729	17,538
Interest and investment income	18			(15,727)	(17,556)
Pensions interest cost and expected return on pensions assets	16			16,796	2,788
Net Operating Expenditure				640,018	498,033
Demand on the Collection Fund				(114,530)	(107,731)
General government grants	20			(60,913)	(30,723)
Non domestic rates redistribution				(196,228)	(181,314)
(Surplus)/deficit for the year				268,347	178,265

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	2008/09 £000	2007/08 £000
(Surplus)/deficit for the year on the Income and Expenditure Account		268,347	178,265
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	21	(270,621)	(179,744)
(Increase)/decrease in General Fund Balance for the Year		(2,274)	(1,479)
General Fund Balance brought forward		(30,084)	(28,605)
General Fund Balance carried forward		(32,358)	(30,084)

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:

	2008/09 £000	2007/08 £000
Amount of General Fund Balance held by governors under schemes to finance schools	(14,087)	(12,740)
Amount of General Fund Balance, Council balances	(18,271)	(17,344)
	(32,358)	(30,084)

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.

	2008/09 £000	2007/08 £000
(Surplus)/deficit for the year on the Income and Expenditure Account	268,347	178,265
(Surplus)/deficit arising on the revaluation of fixed assets	163,268	(429,288)
(Surplus)/deficit arising on the revaluation of available-for-sale financial assets	(751)	(531)
Actuarial (gains)/losses on pension fund assets and liabilities	218,887	(55,545)
Movement in the Collection Fund balance	(1,993)	(2,334)
Total recognised (gains)/losses for the year	647,758	(309,433)

Accounting practice under FRS 17 required a change in the valuation of investments for 2008/09. 2007/08 has been restated as if the valuation methodology had applied in 2007/08, leading to a reduction in actuarial (gains)/losses of £3.4 million. See also Explanatory Foreword section 3.5, page 8.

BALANCE SHEET

BALANCES AT	Note	31/3/09 £000	31/3/09 £000	31/3/08 £000	31/3/08 £000
Intangible Assets	22		2,829		3,223
Tangible Fixed Assets	23				
Operational assets					
- Council dwellings		2,324,159		2,575,090	
- other land and buildings		517,850		580,994	
- vehicles, plant and equipment		7,310		3,495	
- infrastructure assets		127,630		116,272	
- community assets		34,614		33,243	
Non-operational assets					
- investment properties		96,205		101,659	
- assets under construction		11,594		5,701	
- surplus assets, held for disposal		100,572		148,505	
			3,219,934		3,564,959
Long term investments	24	65,139		29,630	
Deferred debtors	26	1,912		1,507	
Long term debtors	27	210		260	
			67,261		31,397
Total long term assets			3,290,024		3,599,579
Current Assets					
- stocks and work in progress		1,136		1,092	
- debtors	28	171,037		153,685	
- less provision for bad debts	29	(50,832)		(48,648)	
- investments	24	186,897		240,733	
- landfill usage allowance	4	0		356	
			308,238		347,218
Current Liabilities					
- borrowing repayable on demand or within 12 months	24	(54)		(54)	
- creditors	30	(122,230)		(128,316)	
- landfill usage liability	4	0		(254)	
- cash and bank		(7,115)		(5,810)	
			(129,399)		(134,434)
Total assets less current liabilities			3,468,863		3,812,363
Long term borrowing	24		(770,736)		(738,348)
Provisions	31		(14,713)		(20,253)
Deferred liabilities	32		(4,295)		0
Capital grants unapplied	33		(55,545)		(43,545)
Grants deferred account	34		(113,597)		(88,785)
Deferred receipts	35		(5,557)		(2,926)
Pension scheme liability	16		(450,261)		(216,589)
Total assets less liabilities	36		2,054,159		2,701,917

	Note	31/3/09 £000	31/3/08 £000
Represented by :			
Capital Adjustment Account	37	(2,148,098)	(2,333,505)
Financial Instruments Adjustment Account	38	17,206	24,253
Revaluation Reserve	39	(204,404)	(402,408)
Available-for-sale Financial Instruments Reserve	40	(1,282)	(531)
Pensions Reserve	41	450,261	216,589
Capital Receipts Reserve	42	(37,988)	(67,771)
Major Repairs Reserve	43	(4,680)	(19,073)
Modernisation, Service & Operational Improvement Reserve	44	(13,768)	(5,305)
Regeneration & Development Reserve	45	(6,382)	(4,101)
Financial Risk Reserve	46	(8,352)	(9,811)
Capital Contingency Reserve	47	(2,703)	(2,703)
Other earmarked reserves	48	(40,407)	(36,071)
Balances			
- Housing Revenue Account	43	(18,176)	(30,361)
- Collection Fund		(3,028)	(1,035)
- Schools' balances	49	(14,087)	(12,740)
- General Fund		(18,271)	(17,344)
Total Equity		(2,054,159)	(2,701,917)

Accounting practice under FRS 17 required a change in the valuation of investments for 2008/09. 2007/08 has been restated as if the valuation methodology had applied in 2007/08, leading to an increase in the pension scheme liability and an increase in the deficit on the pension reserve of £3.4 million. See also Explanatory Foreword section 3.5, page 8.

CASH FLOW STATEMENT

	Note	2008/09 £000	2007/08 £000
REVENUE ACTIVITIES			
Cash outflows			
Cash paid to and on behalf of employees		376,893	379,907
Other operating costs		650,005	606,856
Housing benefit (excluding rent rebates)		68,152	62,473
Payments into NNDR pool		138,864	119,917
Payment to preceptors		29,044	27,664
Payment to the Capital Receipts Pool		6,306	18,861
		1,269,264	1,215,678
Cash inflows			
Rents (net of rebates)		(180,287)	(168,775)
NNDR receipts		(138,880)	(132,486)
Contribution from Collection Fund		(74,549)	(83,782)
Government Grants	50	(584,592)	(596,257)
Sales and charges for services		(345,978)	(330,852)
		(1,324,286)	(1,312,152)
Net cash flow from revenue activities	51	(55,022)	(96,474)
SERVICING OF FINANCE			
Cash outflows			
Interest and premiums paid		51,604	91,008
Interest element of leasing payments		12	12
		51,616	91,020
Cash inflows			
Interest received		(15,727)	(21,301)
		(15,727)	(21,301)
CAPITAL ACTIVITIES			
Cash outflows			
Purchase of fixed assets		162,796	130,990
Deferred charges and deferred debtors		0	9,131
		162,796	140,121
Cash inflows			
Sale of fixed assets		(32,177)	(68,428)
Capital grants		(59,467)	(36,240)
Other capital cash movements		364	(2,200)
		(91,280)	(106,868)
NET CASH FLOW BEFORE FINANCING		52,383	6,498
FINANCING			
Cash outflows			
Repayment of long term loans		0	200,000
Repayment of short term loans		0	0
		0	200,000
Cash inflows			
New long term loans		(32,000)	(236,000)
New short term loans		0	0
		(32,000)	(236,000)
		20,383	(29,502)
MANAGEMENT OF LIQUID RESOURCES		16,262	51,016
(Increase)/decrease in liquid resources	53	36,645	21,514
(INCREASE)/DECREASE IN CASH AND EQUIVALENTS REPRESENTED BY MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Net (increase)/decrease in bank balance		(1,305)	14,636
Net increase/(decrease) in realisable investments		(35,340)	(36,150)
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS		(36,645)	(21,514)

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:

	2008/09 £000	2007/08 £000
Income	(1,534)	(1,569)
Expenditure	1,040	694
(Surplus)/Deficit for the year	(494)	(875)
Impairment included in Expenditure	265	0
Operating profit excluding impairment	(759)	(875)

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

	2008/09 £000	2007/08 £000
Income	(1,611)	(1,539)
Expenditure	5,407	1,180
(Surplus)/Deficit for the year	3,796	(359)
Impairment included in Expenditure	4,223	0
Operating profit excluding impairment	(427)	(359)

2.3. The impairments in the above tables are changes in the value of assets due to falling market prices in 2008/09. 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 bottom line. There were no property value impairments in 2007/08.

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 2008/09.

NOTES TO THE ACCOUNTS

3. BUILDING CONTROL FEE EARNING ACCOUNT (BCFE ACCOUNT)

3.1. The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Some activities carried out by the building control service cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of the building control service divided between its chargeable and non chargeable activities.

	Chargeable	Non Chargeable	2008/09 Total	2007/08 Total
	£000	£000	£000	£000
Expenditure				
Employees	649	303	952	979
Premises	42	19	61	58
Transport	7	4	11	9
Supplies & Services	67	31	98	92
Support Services	134	63	197	225
Total Expenditure	899	420	1,319	1,363
Income				
Building Regulation Charges	(945)		(945)	(1,110)
Dangerous Structures Income		7	7	(24)
Total Income	(945)	7	(938)	(1,134)
(Surplus)/Deficit for the year	(46)	427	381	229

3.2. The net balance on dangerous structures income is after making provisions for bad debts in the year.

4. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

- 4.1. 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.
- 4.2. The allowances and the use of the allowances are reflected in the Income and Expenditure Account as gross income and expenditure. LATS memorandum account:

	2008/09 £000	2007/08 £000
Balance brought forward	(102)	(253)
LATS grant income	0	(285)
Allowances used in the year	0	254
Changes in valuation	102	182
Unused allowances carried forward	0	(102)

- 4.3. The value of a LATS unit has been assessed at £nil in 2008/09, as there was no market in LATS between councils in 2008/09 on which to base a value. Despite being valued at £nil, there were 40,679 LATS units unapplied at 31 March 2009.
- 4.4. There were no allowances bought or sold within the trading scheme in 2008/09 for use in 2008/09 or future years.

5. BUSINESS IMPROVEMENT DISTRICT SCHEMES

- 5.1. The Council is the billing authority for three business improvement districts (BIDs): Better Bankside, London Bridge and Waterloo Quarter Business Alliance. The Better Bankside BID started in April 2005, the London Bridge BID in April 2006, and the Waterloo Quarter Business Alliance BID in April 2008.
- 5.2. BID companies manage the BID schemes in Southwark, working with local organisations to provide a variety of projects additional to services provided by the Council. Projects include enhanced cleaning, safety and promotion of the districts.
- 5.3. The Council acts as agent for the Southwark BIDs, collecting levies for the BID companies from business ratepayers within the respective BID areas. The Council pays the total amounts collected to the BID companies. In 2008/09, the Council paid £1,010,683 to Better Bankside (£810,354 in 2007/08), and £822,589 to London Bridge (£669,540 in 2007/08), and £111,487 to Waterloo Quarter Business Alliance (£nil in 2007/08).
- 5.4. In addition, the Council charges the BIDs for administration costs including the cost of collecting and passing on the levy. In 2008/09 the costs for Better Bankside were £27,157 (£26,841 in 2007/08), London Bridge £23,315 (£25,030 in 2007/08) and Waterloo Quarter Business Alliance £7,143 (£nil in 2007/08).

NOTES TO THE ACCOUNTS

6. DEDICATED SCHOOLS GRANT (DSG)

6.1. 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.

6.2. Details of the use of DSG received for 2008/09 are as follows:

	Central Expenditure	Individual Schools Budget	Total 2008/09	Total 2007/08
	£000	£000	£000	£000
Final DSG	(21,488)	(143,226)	(164,714)	(166,425)
Brought forward from previous year	(5,204)	0	(5,204)	(4,804)
Carry forward agreed in advance	2,704	0	2,704	0
Agreed budgeted distribution	(23,988)	(143,226)	(167,214)	(171,229)
Actual central expenditure (Note 6.3)	22,830		22,830	21,800
Actual ISB deployed to schools (Note 6.3)		143,548	143,548	144,225
Local Authority Contribution	(220)	(322)	(542)	0
Carry forward including agreed in advance	(4,082)	0	(4,082)	(5,204)

6.3. To meet changes in the reporting requirements from the DCSF, the format of this table has changed significantly from that in the 2007/08 Accounts. The amounts for 2007/08 have been re-presented to provide meaningful comparison. 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), and is not the actual total of the figures in the columns.

7. POOLED FUNDS

7.1. 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

	2008/09	2007/08
	£000	£000
Income		
LBS	(21,459)	(19,174)
PCT	(10,337)	(9,408)
	(31,796)	(28,582)
Expenditure	33,752	30,561
Net over/(under) spend	1,956	1,979
Shared as follows:		
LBS	1,320	1,326
PCT	636	653
	1,956	1,979

Integrated Community Equipment Service

	2008/09	2007/08
	£000	£000
Income		
LBS	(1,064)	(1,091)
PCT	(302)	(291)
	(1,366)	(1,382)
Expenditure	1,513	1,370
Net over/(under) spend	147	(12)
Shared as follows:		
LBS	114	(10)
PCT	33	(2)
	147	(12)

NOTES TO THE ACCOUNTS

7.2. 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:

	2008/09 £000	2007/08 £000
Income		
LBS	(10,613)	(10,381)
PCT	(42,537)	(40,932)
	(53,150)	(51,313)
Expenditure	54,145	52,363
Net over/(under) spend	995	1,050

7.3. 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 2008/09 was £199,000 (£210,000 in 2007/08).

8. MEMBERS' ALLOWANCES

8.1. The amount of members' allowances paid in 2008/09 was £1,387,047 (£1,346,461 in 2007/08).

9. NON DISTRIBUTED COSTS

9.1. Non distributed costs consist of:

	2008/09 £000	2007/08 £000
London Pension Fund Authority levy	1,424	1,361
Pension contributions, past service costs	4,236	12,500
Total	5,660	13,861

9.2. 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.

9.3. The £12.5 million in 2007/08 for pension contributions included £7.2 million additional cost due to the introduction of a new Local Government Pension Scheme (LGPS) from 1 April 2008. The governing legislation was enacted in 2007/08 to be in place for the start of 2008/09.

9.4. 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.

10. AUDIT COSTS

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

	2008/09 £000	2007/08 £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)	602	543
Fees payable to the Audit Commission in respect of statutory inspection (Note 10.2)	27	151
Fees payable to the Audit Commission for the certification of grant claims and returns	244	263
Fees payable in respect of other services provided by the appointed auditor (see Note 10.3)	58	19
Total	931	976

10.2. Fees for statutory inspection have reverted to their customary level. The 2007/08 fees were high because they included external audit inspections for the Comprehensive Performance Assessment process.

10.3. Other services provided by the appointed auditor included work on Data Quality (£10,000), Mutual Terminations (£6,000), School Survey (£4,000), National Fraud Initiative (£2,000), dealing with Electors' enquiries and objections (£34,000) and other minor items (£2,000).

11. LIABILITY IN RESPECT OF LEASED ASSETS

11.1. 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:

	2008/09 £000	2007/08 £000
Assets used on a continuing basis:		
Operating leases - Council and staff vehicles	2,754	3,747
Operating leases - property	13,058	10,308
Hire purchase - fixed plant	11	12
Assets used on a one-off or occasional basis	1,011	767
Total	16,834	14,834

NOTES TO THE ACCOUNTS

11.2. 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.

	2008/09 £000	2007/08 £000
From 1 to up to 2 years		
Operating leases - Council and staff vehicles	1,748	2,368
Operating leases - property	11,142	9,950
Hire purchase - fixed plant	0	12
From 2 to up to 5 years		
Operating leases - Council and staff vehicles	1,754	2,180
Operating leases - property	32,884	11,057
From 5 years upward		
Operating leases – property (Note 11.3)	164,592	16,074
Total	212,120	41,641

11.3. Property leases in the 5 years upward category include the rental of the Council's new premises at 160 Tooley Street for the first time. A 25 year lease was taken from 11 June 2008, and the table includes a liability for rental payments totalling £148 million.

11.4. The Council has rental liabilities for office and other equipment, of £2.1 million per annum (£2.3 million 2007/08), which are not included in the table above.

12. PUBLICITY

12.1. The Council's spending on publicity is set out below, under the requirements of section 5(1) of the Local Government Act 1986.

	2008/09 £000	2007/08 £000
Recruitment advertising	799	1,462
Council newspapers and other publications	249	325
Consultations and other publicity	2,140	2,989
Total	3,188	4,776

13. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

13.1. The Council is empowered by this Act to provide goods and services to other public bodies. The Council has received income for services provided as follows:

	2008/09 £000	2007/08 £000
Community safety warden training	21	101
Consultancy services	121	0
Total	142	101

14. REMUNERATION OF EMPLOYEES

14.1. During 2008/09 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 £10,000 is as follows:

Band (£)	Schools	Non Schools	Number of employees 2008/09	Number of employees 2007/08
50,000 - 59,999	160	111	271	277
60,000 - 69,999	51	60	111	108
70,000 - 79,999	33	23	56	57
80,000 - 89,000	8	19	27	19
90,000 - 99,999	2	7	9	7
100,000 - 109,999	4	2	6	6
110,000 - 119,999	0	1	1	4
120,000 - 129,999	1	4	5	2
130,000 - 139,999	0	1	1	2
140,000 - 149,999	0	2	2	2
150,000 - 159,999	0	1	1	0
180,000 - 189,999	0	1	1	1
210,000 - 219,999	0	0	0	2
Total	259	232	491	487

14.2. The table includes 10 employees who left the Council in 2008/09 (40 in 2007/08), of which 6 received termination payments (35 in 2007/08).

NOTES TO THE ACCOUNTS

15. EMPLOYEES PENSION COSTS

15.1. **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 2008/09 the Council paid £13.6 million (£13.7 million 2007/08) to the TPA in respect of teachers' pension costs, which represents 20.5% (20.5% 2007/08) 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 2008/09 these amounted to £99,270 (£113,059 2007/08).

15.2. **Employees who were transferred from the GLC or ILEA.** In 2008/09 the Council paid £872,000 (£666,000 2007/08) 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 (£nil in 2007/08). This represents 50.7% of pensionable pay (36% 2007/08). In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2008/09 these amounted to £83,199 (£nil in 2007/08).

15.3. **Other employees' pension costs.** In 2008/09 the Council paid an employer contribution of £27.7 million (£27.7 million 2007/08) into the Pension Fund, representing 22.1% of pensionable pay (21.2% 2007/08). 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 £27.7 million includes a one-off lump sum contribution of £3.13 million (£6.5 million 2007/08). The contribution is determined by the Fund's actuary, based on triennial valuations. Contribution rates for 2008/09 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 2008/09 these amounted to £0.21 million, representing 0.17% of pensionable pay (£0.22 million and 0.17% 2007/08).

15.4. 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 (£20.9 million and 16.5% 2007/08). The FRS 17 disclosure is shown fully at Note 16 page 45. The movement in the Pensions Reserve is shown at Note 41 page 84.

15.5. 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:

	2008/09 £000	2008/09 % of total pensionable pay	2007/08 £000	2007/08 % of total pensionable pay
Capital cost of discretionary added years awarded in year, funded by the Pension Fund	308	0.2%	454	0.4%
Capital cost of discretionary added years awarded in previous years, funded by the Pension Fund	32,965		32,245	
Capital cost of discretionary added years awarded in year, funded by the Council	0	0%	781	0.62%
Capital cost of discretionary added years awarded in previous years, funded by the Council	31,796		31,238	

16. FINANCIAL REPORTING STANDARD 17 – RETIREMENT BENEFITS (FRS 17)

16.1. 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.

16.2. 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 16.5 – 16.17, and for the London Pension Fund Authority pension fund in paragraphs 16.18 – 16.31. 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 109.

16.3. For the 2008/09 Accounts, the accounting, reporting and disclosure requirements have changed. Key changes are around the change in the basis of the valuation of investments from "mid to bid", and the nature and volume of information disclosed has increased.

16.4. The new FRS 17 requires that the 2007/08 Accounts be re-presented as if the accounting standard had applied in 2007/08. The change in valuation basis has required the pensions liability and reserve to change by £3.4 million for the Council's pension fund, but no change has been required for the LPFA fund. The Balance Sheet and Statement of Total Recognised Gains and Losses for 2007/08 have been amended accordingly, as well as the comparative disclosures below. Where disclosures include information for periods before 2007/08, FRS 17 does not require the information to be restated on the new basis.

NOTES TO THE ACCOUNTS

London Borough of Southwark Pension Fund

16.5. 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 2009. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

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

	31/3/09	31/3/08
	% p.a.	% p.a.
Inflation	3.5	3.7
Rate of general increase in salaries	5.0	5.2
Rate of increase to pensions in payment	3.5	3.7
Rate of increase to deferred pension	3.5	3.7
Discount rate	6.6	6.8

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

	31/3/09	31/3/08
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	100% of LC
Minimum underpin to improvement factors	1.25%	1.00%
Future lifetime from age 65 (currently aged 65)	21.1	20.3
Future lifetime from age 65 (currently aged 45)	23.4	22.2
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	100% of LC
Minimum underpin to improvement factors	1.25%	0.50%
Future lifetime from age 65 (currently aged 65)	24.2	23.4
Future lifetime from age 65 (currently aged 45)	26.4	24.6

16.8. 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 2009.

Asset class	Long term expected rate of return at 31/3/09	Asset split at 31/3/09	Long term expected rate of return at 31/3/08	Asset split at 31/3/08
% pa	%	% pa	%	
Equities	7.0	58.2	7.6	59.4
Property	6.0	17.7	6.6	19.6
Government bonds	4.0	10.6	4.6	19.9
Corporate bonds	5.8	11.0	6.8	0.0
Cash/other	1.6	2.5	6.0	1.1
Total	6.2	100.0	6.8	100.0

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

	Value as at 31/3/09	Value as at 31/3/08
	£m	£m
Notional value of assets	576.4	717.3
Present value of liabilities	(1,017.5)	(930.0)
Net pension asset/(liability)	(441.1)	(212.7)

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

	2008/09	2007/08
	£m	£m
Current service cost	19.6	28.9
Past service cost	4.0	12.5
Interest cost	63.3	52.1
Expected return on assets	(47.6)	(49.9)
	39.3	43.6

NOTES TO THE ACCOUNTS

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

	2008/09 £m	2007/08 £m
Opening present value of liabilities	(930.0)	(975.9)
Current service cost	(19.6)	(28.9)
Interest cost	(63.3)	(52.1)
Contributions by participants	(10.0)	(9.0)
Actuarial gains/(losses) on liabilities	(22.6)	118.1
Net benefits paid out	32.0	30.3
Past service cost	(4.0)	(12.5)
Closing present value of liabilities	(1,017.5)	(930.0)

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

	2008/09 £m	2007/08 £m
Opening fair value of assets	717.3	728.2
Expected return on assets	47.6	49.9
Actuarial gains/(losses) on assets	(193.5)	(67.3)
Contributions by the employer	27.0	27.8
Contributions by participants	10.0	9.0
Net benefits paid out	(32.0)	(30.3)
Closing fair value of assets	576.4	717.3

16.13. Actual return on assets:

	2008/09 £m	2007/08 £m
Expected return on assets	47.6	49.9
Actuarial gain/(loss) on assets	(193.5)	(67.3)
Actual return/(loss) on assets	(145.9)	(17.4)

16.14. The following amounts are included in the Statement of Total Recognised Gains and Losses (STRGL) (page 41).

	2008/09 £m	2007/08 £m
Total actuarial (gains)/losses	216.1	(50.8)
Total (gains)/losses in the STRGL	216.1	(50.8)

16.15. The history of asset values, present value of liabilities and surplus/(deficit) are shown below. In accordance with paragraph 77(o) of FRS 17 as revised, the assets for the current and previous two periods are measured at current bid price. Assets values previously measured at mid-market value in 2007/08 have been re-measured and restated on this basis. FRS 17 has not required earlier years to be restated.

	31/3/09 £m	31/3/08 £m	31/3/07 £m	31/3/06 £m	31/3/05 £m
Fair value of assets	576.4	717.3	731.5	679.6	542.0
Present value of liabilities	(1,017.5)	(930.0)	(975.9)	(927.2)	(815.1)
Surplus/(deficit)	(441.1)	(212.7)	(244.4)	(247.6)	(273.1)

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

	2008/09 £m	2007/08 £m	2006/07 £m	2005/06 £m	2004/05 £m
Experience gains/(losses) on assets	(193.5)	(67.3)	6.7	33.5	(141.3)
Experience gains/(losses) on liabilities, excluding changes in actuarial assumptions	(3.6)	(39.9)	2.0	(0.3)	15.3

16.17. The actuary to the London Borough of Southwark Pension Fund estimates the charges to the Income and Expenditure Account in 2009/10 and 2010/11 will be:

	2009/10 £000	2010/11 £000
Current service cost	21,300	22,400
Past service costs	0	0
Total operating charge	21,300	22,400
Expected return on Pension Fund assets	(36,100)	(37,600)
Interest on Pension Fund liabilities	67,100	71,900
	31,000	34,300
Total charge	52,300	56,700

NOTES TO THE ACCOUNTS

London Borough of Southwark Pension Fund

16.18. 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 2009. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

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

	31/3/09	31/3/08
	% p.a.	% p.a.
Inflation	3.1	3.6
Rate of general increase in salaries	4.6	5.1
Expected return on assets	4.4	4.9
Discount rate	6.9	6.9

16.20. 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
2027	22.0 years	24.2 years

16.21. 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 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
31 March 2005	PMA92/PFA92 c1992	PMA92/PFA92 c1992

16.22. 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 31/3/09	Asset split at 31/3/09	Long term expected rate of return at 31/3/08	Asset split at 31/3/08
	% pa	%	% pa	%
Cashflow matching	4.2	91.0	4.5	85.5
Equity	7.0	8.0	7.7	12.4
Cash	4.0	1.0	4.8	2.1
Total	4.4	100.0	4.9	100.0

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

	Value as at 31/3/09	Value as at 31/3/08
	£000	£000
Notional value of assets	36,847	42,543
Present value of liabilities	(44,416)	(46,432)
Net pension asset/(liability)	(7,569)	(3,889)

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

	2008/09	2007/08
	£000	£000
Current service cost	340	433
Past service cost	236	0
Interest cost	3,141	2,871
Expected return on assets	(2,045)	(2,083)
	1,672	1,221

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

	2008/09	2007/08
	£000	£000
Opening present value of liabilities	(46,432)	(54,279)
Current service cost	(340)	(433)
Interest cost	(3,141)	(2,871)
Contributions by participants	(108)	(114)
Actuarial gains/(losses) on liabilities	3,314	8,480
Net benefits paid out	2,527	2,785
Past service cost	(236)	0
Closing present value of liabilities	(44,416)	(46,432)

NOTES TO THE ACCOUNTS

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

	2008/09	2007/08
	£000	£000
Opening fair value of assets	42,543	42,768
Expected return on assets	2,045	2,083
Actuarial gains/(losses) on assets	(6,101)	(300)
Contributions by the employer	779	663
Contributions by participants	108	114
Net benefits paid out	(2,527)	(2,785)
Closing fair value of assets	<u>36,847</u>	<u>42,543</u>

16.27. Actual return on assets:

	2008/09	2007/08
	£000	£000
Expected return on assets	2,045	2,083
Actuarial gain/(loss) on assets	(6,101)	(300)
Actual return/(loss) on assets	<u>(4,056)</u>	<u>1,783</u>

16.28. The following amounts are included in the Statement of Total Recognised Gains and Losses (STRGL) (page 41).

	2008/09	2007/08
	£000	£000
Total actuarial (gains)/losses	2,787	(8,180)
Total (gains)/losses in the STRGL	<u>2,787</u>	<u>(8,180)</u>

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

	31/3/09	31/3/08	31/3/07	31/3/06	31/3/05
	£000	£000	£000	£000	£000
Fair value of assets	36,847	42,543	42,768	42,440	39,770
Present value of liabilities	(44,416)	(46,432)	(54,279)	(55,370)	(48,580)
Surplus/(deficit)	<u>(7,569)</u>	<u>(3,889)</u>	<u>(11,511)</u>	<u>(12,930)</u>	<u>(8,810)</u>

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

	2008/09	2007/08	2006/07	2005/06	2004/05
	£000	£000	£000	£000	£000
Experience gains/(losses) on assets	(6,101)	(300)	(1)	1,576	214
Experience gains/(losses) on liabilities, excluding changes in actuarial assumptions	0	4,804	(2)	(7)	(271)

16.31. The actuary to the LPFA Pension Fund estimates the charges to the Income and Expenditure Account in 2009/10 and 2010/11 will be:

	2009/10	2010/11
	£000	£000
Current service cost	279	292
Past service costs	0	0
Total operating charge	<u>279</u>	<u>292</u>
Expected return on Pension Fund assets	(1,577)	(1,597)
Interest on Pension Fund liabilities	2,992	3,118
	<u>1,415</u>	<u>1,521</u>
Total charge	<u>1,694</u>	<u>1,813</u>

NOTES TO THE ACCOUNTS

Pension Scheme Liability

- 16.32. 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.
- 16.33. 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 in the pensions scheme liability of £237 million to £450 million, of which £219 million is due to actuarial losses. This is a presentational change within the Balance Sheet with no cost implication for the Council.
- 16.34. The total outstanding liability of the Council towards the pension funds, of £450 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.
- 16.35. With regard to the Teachers' Pensions Scheme, there were no contributions 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.

17. TRADING ACTIVITIES

- 17.1. 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 (Profit)/Loss		Turnover	(Profit)/Loss
		2008/09	2008/09		
		£000	£000	£000	£000
Building		(21,636)	57	(19,234)	409
Street & Metal Work Services		(3,272)	10	(3,907)	83
Refuse	17.2	0	0	(8,007)	133
Vehicle Management (Fleet)		(5,582)	3	(6,531)	30
Building Design Services	17.3	0	87	(3,103)	1,116
Integrated Cleaning Contract	17.4	0	0	(23,141)	487
Total		(30,490)	157	(63,923)	2,258

- 17.2. In February 2008, the contract for the Council's waste management was awarded to Veolia Environmental Services. Services being provided include the collection of refuse and recycling. As a consequence, the Council's in-house service ceased trading.
- 17.3. 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.
- 17.4. During 2008/09, services provided under the integrated cleaning contract were absorbed into the Sustainable Services division within the Council's Environment and Housing department. Although still being provided, the services no longer operate under trading conditions.
- 17.5. 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 (Profit)/Loss		Turnover	(Profit)/Loss
		2008/09	2008/09		
		£000	£000	£000	£000
Parking Trading Account	17.6	(10,781)	(3,819)	(11,356)	(2,463)
Total		(10,781)	(3,819)	(11,356)	(2,463)

- 17.6. 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 £2,559,000 (£1,532,000 in 2007/08), road network management £872,000 (£157,000 in 2007/08) and other highways expenditure £388,000 (£774,000 in 2007/08).

NOTES TO THE ACCOUNTS

18. FINANCIAL INSTRUMENTS – GAINS, LOSSES, INTEREST INCOME AND EXPENSE

	Financial Assets			Total 2008/09 £000	Total 2007/08 £000
	Financial Liabilities Amortised Cost 2008/09 £000	Loans and Receivables 2008/09 £000	Available-for-sale 2008/09 £000		
Interest expense	51,965			51,965	54,553
Derecognition - premiums in 2007/08	0			0	26,019
Derecognition - premiums before 2007/08	0			0	4,490
Total expense payable and other charges	51,965			51,965	85,062
Interest income and derecognition gains		(6,772)	(9,159)	(15,931)	(17,713)
Derecognition – discounts before 2007/08		0	0	0	(465)
Total Interest income and gains		(6,772)	(9,159)	(15,931)	(18,178)
Unrealised Revaluation Gains and Losses			(1,282)	(1,282)	(531)
Net losses/(gains) for the year	51,965	(6,772)	(10,441)	34,752	66,353

18.1. 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.

18.2. 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:

	2008/09 £000	2007/08 £000
Total Interest income and gains	(15,931)	(18,178)
Less interest due to other funds and balances	204	622
Income and Expenditure Account	(15,727)	(17,556)

19. CONTRIBUTION OF HOUSING CAPITAL RECEIPTS TO THE GOVERNMENT POOL

19.1. 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.

20. GENERAL GOVERNMENT GRANT

20.1. 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 three 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. In 2008/09, the Council received £27.32 million of RSG (£30.44 million in 2007/08)
- Area Based Grant (ABG), which 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. It replaces a number of service specific grants previously available to local authorities and this is the first year of receipt. This year, the Council received £24.14 million of ABG (nil in 2007/08).
- 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. In 2008/09, the Council received £9.46 million of LABGI grant (£0.29 million in 2007/08)

NOTES TO THE ACCOUNTS

21. RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	Note	2008/09 £000	2007/08 £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		(1,074)	(1,309)
Depreciation and impairment of fixed assets		(250,636)	(130,423)
Grants Deferred amortisation		21,551	8,345
Revenue expenditure funded from capital under statute	25	(23,796)	(9,131)
Net gain/(loss) on sale of fixed assets excluding costs		(27,229)	5,868
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		(671)	(32,080)
Net charges made for retirement benefits in accordance with FRS 17		(40,972)	(44,621)
		(322,827)	(203,351)
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	21.1	4,388	2,715
Charges in relation to the refinancing of debt		7,718	7,826
Capital expenditure charged in the year to the General Fund Balance		17,796	11,708
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		(3,729)	(17,538)
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners		26,187	28,399
		52,360	33,110
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		(12,185)	(7,061)
Net transfer to or (from) the Major Repairs Reserve		(1,590)	(1,022)
Net transfer to or (from) earmarked reserves		13,621	(1,420)
		(154)	(9,503)
Net additional amount required to be credited to the General Fund Balance for the year		(270,621)	(179,744)

21.1. 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 2008/09 this was £4.388 million (£2.715 million 2007/08).

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

22. INTANGIBLE ASSETS

	2008/09 £000	2007/08 £000
Original cost	5,034	3,121
Accumulated amortisation	(1,811)	(502)
Balance as at 1 April	3,223	2,619
Expenditure in the year	680	1,425
Assets under construction brought into use	0	488
Amortisation in the year	(1,074)	(1,309)
Balance as at 31 March	2,829	3,223

22.1. 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.

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

	£000
IT procurement	2,115
Geographical Information System	415
Care First	299
Total	2,829

22.3. 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

23. TANGIBLE FIXED ASSETS

23.1. Movement of Fixed Assets 2008/09:

	Council Housing	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Assets Under Construction	Surplus Assets	TOTAL
	£000	£000	£000	£000	£000	£000	£000		£000
Gross Book Value at 1/4/08	2,611,109	605,376	9,270	138,716	33,352	101,580	5,701	148,505	3,653,609
Additions	115,628	20,325	5,219	14,744	1,928	27	9,005	103	166,979
Disposals	(5,133)	(27,158)	0	0	0	(600)	0	(29,272)	(62,163)
Revaluations	128,275	16,461	0	0	0	15,627	(77)	22,553	182,839
Restatements	(4,707)	665	0	0	(243)	(422)	0	0	(4,707)
Transfers	0	3,005	0	30	0	0	(3,035)	0	0
Impairment Losses	(520,869)	(84,869)	0	0	(13)	(20,007)	0	(41,317)	(667,075)
Past Impairment Reversals	0	0	0	0	0	0	0	0	0
Gross Book Value at 31/3/09	2,324,303	533,805	14,489	153,490	35,024	96,205	11,594	100,572	3,269,482
Accumulated depreciation b/f	(36,019)	(24,382)	(5,776)	(22,444)	(109)	79	0	0	(88,651)
Depreciation for the year	(35,480)	(8,521)	(1,403)	(3,416)	(326)	0	0	(37)	(49,183)
Depreciation on assets sold	0	1,741	0	0	0	0	0	0	1,741
Depreciation for revaluations	35,988	3,886	0	0	0	358	0	14	40,246
Depreciation for transfers	0	493	0	0	25	(518)	0	0	0
Depreciation for Impairment Losses	35,367	10,828	0	0	0	81	0	23	46,299
Depreciation on past impairments	0	0	0	0	0	0	0	0	0
Depreciation Balance at 31/3/09	(144)	(15,955)	(7,179)	(25,860)	(410)	0	0	0	(49,548)
Net Book Value at 31/3/09	2,324,159	517,850	7,310	127,630	34,614	96,205	11,594	100,572	3,219,934
Net Book Value at 1/4/08	2,575,090	580,994	3,494	116,272	33,243	101,659	5,701	148,505	3,564,958

23.2. 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.

23.3. 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. £91.8 million was charged initially to the Revaluation Reserve and the balance to the Income and Expenditure Account.

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

23.5. As a result of the prevailing economic conditions, and the effects on the value of property in all portfolios, the Council's assets have fallen in market value by £563 million. £381 million of this change in value has been charged to individual assets' Revaluation Reserves. Where there is insufficient value in an asset's Revaluation Reserve, the difference, of £182 million for all assets, has been charged to services' budgets in the Income and Expenditure Account, but then reversed out against Council Tax and rents in the Statement of Movement in the General Fund Balance to the Capital Adjustment Account.

23.6. 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.

	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			7,310	127,630	34,614		11,594		181,148
Assets valued at Current Value	2,388,729	562,179				61,091		61,242	3,073,241
As at 1/0407	186,361	18,815	0	0	0	40,568	0	87,263	333,007
As at 1/0408	(250,931)	(63,144)	0	0	0	(5,454)	0	(47,933)	(367,462)
	2,324,159	517,850	7,310	127,630	34,614	96,205	11,594	100,572	3,219,934

NOTES TO THE ACCOUNTS

23.7. 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.

23.8. 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 2008. 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.

23.9. Estates that are closely monitored by each phase but have not reached the occupancy trigger point to revalue in year include Aylesbury and Heygate Estates (Phases 3-4). The Aylesbury Estate maintains good occupancy levels, consistent void levels and “Right to Buy” applications. At this stage in the development historic levels of occupancy have been maintained. The Valuer has therefore not recorded a significant loss in value at this time. For all estates with redevelopment planned the potential for impairment losses to occur will continue to be closely reviewed for changes in the pattern of occupancy of the units resulting in one of the predetermined trigger points being met.

23.10. 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.

Council dwellings, in use

Council dwellings, void

Operational assets

Town & Public Halls

Office Buildings

Coroner’s Court

Community Centres

Depots

Social Services - Residential Care

Social Services - Day Care Facilities

Social Services - Other/Offices

Cemeteries and Crematoria

Sports and Recreation Centres

Swimming Pools

Nurseries & Early Years

Schools - Primary

Schools - Secondary

Schools - Special

Libraries

Museums & Galleries

Waste Sites & Facilities

Shops

Industrial Sites

Car Parks

Community assets

Parks

Infrastructure assets

Roads

2008/09 No.	2007/08 No.
39,829	40,498
995	343
1	1
50	53
1	1
26	23
7	7
2	2
9	10
13	12
4	4
8	10
4	4
17	17
72	73
9	10
7	7
12	12
5	5
1	1
581	581
14	18
14	16
131	131
337km	337km

NOTES TO THE ACCOUNTS

23.11. Summary of capital expenditure and financing

How the money was spent:

	2008/09	2007/08
	£000	£000
Children's Services	18,589	17,878
Environment and Housing (non HRA)	15,646	28,249
Housing General Fund	4,657	2,627
Regeneration and Major Projects	28,568	11,640
Deputy Chief Executive's Department	7,106	2,837
Adult Health and Social Care	789	1,110
Total General Fund	75,355	64,341
HRA	116,023	75,886
Total	191,378	140,227

How the expenditure was financed:

	2008/09	2007/08
	£000	£000
Revenue contributions	16,866	11,708
Using supported borrowing approvals	17,578	25,798
Using capital receipts received from the sale of assets	59,876	43,500
Specific grants and other contributions	47,185	28,309
Major Repairs Allowance	49,873	30,912
Total	191,378	140,227

Expenditure by asset class:

	2008/09	2007/08
	£000	£000
Fixed assets	163,215	127,359
Revenue expenditure funded by capital under statute	23,796	9,131
Enhancements and work in progress	4,367	3,737
Total	191,378	140,227

23.12. Contractual commitments for the capital programme as at 31 March 2009 can be analysed over the Council's services as follows:

Service	Contractually Committed Expenditure £m
Children's Services	1.58
Housing Revenue Account	34.36
Environment & Housing	7.88
Total committed programme	43.82

24. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

Financial Assets	Fair Value	Carrying Amount	Carrying Amount
	31/3/09	31/3/09	31/3/08
	£000	£000	£000
Available-for-sale – Current	78,650	78,650	127,591
Available-for-sale – Long Term	65,138	65,139	29,630
	143,788	143,789	157,221
Loans and Receivables	111,664	109,873	114,850
Less Trust Fund balances	(1,626)	(1,626)	(1,708)
	110,038	108,247	113,142
Total	253,826	252,036	270,363
Presented as:			
Long term investments		65,139	29,630
Investments		186,897	240,733
Total		252,036	270,363
Financial Liabilities	Fair Value	Carrying Amount	Carrying Amount
	31/3/09	31/3/09	31/3/08
	£000	£000	£000
Financial Liabilities at Amortised Cost – Current	(54)	(54)	(54)
Financial Liabilities at Amortised Cost – Long Term	(995,178)	(770,736)	(738,348)
	(995,232)	(770,790)	(738,402)
Presented as:			
Borrowing repayable on demand or within 12 months		(54)	(54)
Long term borrowing		(770,736)	(738,348)
Total		(770,790)	(738,402)

NOTES TO THE ACCOUNTS

- 24.1. 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.
- 24.2. 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.
- 24.3. Cash and bank balances in hand or overdrawn are shown at face value on the Balance Sheet.
- 24.4. The overall average life of financial assets (i.e. the Council's investments) is 1.1 years and the modified duration is 1.0. Within that, the available-for-sale investments have an average life of 1.8 years and a modified duration of 1.6. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £2.2 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 £0.2 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.
- 24.5. All Council borrowing outstanding at 31 March 2009 is at fixed rates, with an average maturity of 23 years and a modified duration of 11 (modified duration is a number which includes interest rate risk in its calculation, and is used in making risk assessments in treasury management decisions). No debt falls for refinance until 2014 (see the debt maturity chart in the Explanatory Foreword, page 15) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £105 million (a 1% fall raises it by £130 million) but as debt is held at amortised cost there would be no impact on the Income and Expenditure Account, unless the debt is extinguished. Legislation would then require the charge to be taken to the Financial Instruments Adjustment Account.

25. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

- 25.1. The 2008 SORP has removed deferred charges, replaced largely by the classification of expense as revenue expenditure funded from capital under statute. Deferred charges were previously expenditure which has been capitalised but which did not result in the acquisition of a tangible fixed asset or an addition to an existing asset. The expenditure was charged to capital, financed from capital resources and then fully amortised through the Income & Expenditure Account. The new category of expense is now charged direct to the Income and Expenditure Account, though remains to be financed from capital resources, and there is no amortisation required. This expenditure would include grants to third parties to incur expenditure of a capital nature.
- 25.2. In 2007/08 £9.131 million was incurred as deferred charge expenditure, which was all fully amortised in the year. For comparison, in 2008/09 £23.796 million was incurred as revenue expenditure funded from capital under statute, charged to services within the Income and Expenditure Accounts.

26. DEFERRED DEBTORS

	2008/09	2007/08
	£000	£000
Opening balance	1,507	2,387
New advances in the year	766	874
Accrued interest (Note 26.2)	14	15
Repayments in the year	(262)	(436)
Fair value adjustment (Note 26.3)	(113)	(1,333)
Total	1,912	1,507
Represented by:		
Housing Associations	143	164
Right to Buy mortgages	397	494
Charges on leaseholder properties for major works	1,372	849
Total	1,912	1,507

- 26.1. 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.
- 26.2. The Council also 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.
- 26.3. 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 38 page 83) until the debtors are modified or redeemed.

NOTES TO THE ACCOUNTS

27. LONG TERM DEBTORS

	2008/09	2007/08
	£000	£000
Health & Social Care	207	257
Works in default	3	3
Total	210	260

- 27.1. 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.
- 27.2. 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 in 2008/09. The fair value adjustment was £207,000 in 2008/09, which is charged to the Income and Expenditure Account and then transferred to the Financial Instruments Adjustment Account (Note 38 page 83) until the debtors are modified or redeemed.

28. DEBTORS

- 28.1. Debtors represent amounts owed to the Council by other parties. The Council has made provision for those debts it may not recover (Note 29 below).

	2008/09	2007/08
	£000	£000
Government departments and other public bodies	30,468	30,976
Council tax payers	30,378	26,243
Housing rent payers	20,073	20,512
Leaseholders and freeholders (Note 28.2)	21,099	24,712
Business rates payers	21,121	14,149
Expenditure in advance	4,170	3,795
Southwark Primary Care Trust	1,917	1,193
Financial assets accrued investment income (Note 28.3)	1,145	1,460
Financial assets trade date settlement (Note 28.4)	0	3,026
Debtors attributable to schools' accounts	809	1,719
Balances held by third parties (Note 28.5)	2,070	0
Sundry debtors	37,787	25,900
Total	171,037	153,685

- 28.2. The value of leaseholder debtors includes a reduction of £1.054 million (£0.702 million 2007/08) 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.
- 28.3. Accrued interest on financial assets classified as available-for-sale is excluded from 2008/09 debtors and instead forms part of the financial assets' carry amount. Accrued interest on financial assets classified as loans and receivables remains within debtors.
- 28.4. 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.
- 28.5. At 31 March 2009 £2.070 million of Council funding was held in an external escrow account, as part of the funding mechanism for the Canada Water regeneration scheme. See also Note 35 (page 66) and Notes 58.3 and 59 (page 75).

29. PROVISIONS FOR BAD DEBTS

	Balance	Movement	Balance
	31/3/08	In 08/09	31/3/09
	£000	£000	£000
Housing Benefits overpayments	(3,823)	(528)	(4,351)
Rent arrears	(10,542)	1,288	(9,254)
Hostels	(1,138)	460	(678)
Housing court costs	(592)	(79)	(671)
Commercial rent arrears	(233)	(154)	(387)
Bed & breakfast	(486)	86	(400)
Travellers	(140)	50	(90)
Private Sector Leasing	(646)	285	(361)
On street parking	(4,089)	739	(3,350)
Highway contractor overstayers (Note 29.1)	(560)	560	0
Council Tax	(17,986)	(3,286)	(21,272)
Council Tax summons costs	(1,586)	(292)	(1,878)
Non domestic rates collection	(5,566)	(999)	(6,565)
BCCI loss	(185)	92	(93)
Children's Services	(108)	(75)	(183)
Social Services	(527)	(416)	(943)
South Dock Marina	(144)	91	(53)
Other provisions individually less than £100,000	(297)	(6)	(303)
Total	(48,648)	(2,184)	(50,832)

- 29.1. This provision is no longer required due to the settlement of TfL works on London Road.

NOTES TO THE ACCOUNTS

30. CREDITORS

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

	2008/09 £000	2007/08 £000
Government departments and other public bodies	(21,264)	(21,501)
Leaseholders' receipts in advance	(3,686)	(7,997)
Other income received in advance	(37,109)	(40,120)
Council tax payers	(5,686)	(5,046)
Creditors attributable to schools' accounts	(4,397)	(5,123)
Business rates payers	(6,921)	(6,559)
Financial assets trade date settlement (Note 30.2)	(2,508)	(6,203)
Sundry creditors	(40,659)	(35,767)
Total	(122,230)	(128,316)

30.2. 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.

31. PROVISIONS

	Balance 31/3/08 £000	Movement In 08/09 £000	Balance 31/3/09 £000
Insurance claims	(7,339)	(19)	(7,358)
Tax on leasing subsidy (Note 31.1)	(10,633)	3,544	(7,089)
Refund of charges for services provided under s117 of the Mental Health Act 1983	0	(150)	(150)
Housing Benefits subsidy loss	(1,327)	1,327	0
Children's Services contract disputes	(125)	125	0
Social Services contract disputes	(145)	145	0
Asylum seekers grant	(388)	388	0
Other provisions individually less than £100,000	(296)	180	(116)
Total	(20,253)	5,540	(14,713)

31.1. 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.

32. DEFERRED LIABILITIES

32.1. 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. However, 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.

33. CAPITAL GRANTS UNAPPLIED

33.1. 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 34) and are then amortised to the Income and Expenditure Account in line with the expected life of the asset the grant was spent on.

33.2. Included in the total is £14.77 million of Section 106 receipts (£15.68 million at 31 March 2008).

34. GRANTS DEFERRED ACCOUNT

	2008/09 £000	2007/08 £000
Opening balance	(88,785)	(68,781)
Transferred from Capital Grants Unapplied	(46,363)	(28,349)
Amortisation	21,551	8,345
Total	(113,597)	(88,785)

35. DEFERRED RECEIPTS

	2008/09 £000	2007/08 £000
Where the Council has granted a mortgage but no cash advance on the sale of Council dwellings	(3,087)	(2,528)
Charges on leaseholders' property for major works	(400)	(398)
Deferred capital receipts (Note 35.1)	(2,070)	0
Total	(5,557)	(2,926)

35.1. At 31 March 2009 £2.070 million of Council funding was held in an external escrow account, as part of the funding mechanism for the Canada Water regeneration scheme. The balance represents deferred capital receipts until such time they as they are used for the scheme or returned to the Council. See also Note 28 (page 78) and Notes 58.3 and 59 (page 94).

NOTES TO THE ACCOUNTS

36. ANALYSIS OF NET ASSETS

	2008/09 £000	2007/08 £000
Housing Revenue Account	1,921,353	2,291,235
General Fund	132,806	410,682
Net assets shown in the Balance Sheet	2,054,159	2,701,917

36.1. Accounting practice under FRS 17 required a change in the valuation of investments for 2008/09. 2007/08 has been restated as if the valuation methodology had applied in 2007/08, leading to a reduction in Net Assets of £3.4 million. See also Explanatory Foreword section 3.5, page 8.

37. CAPITAL ADJUSTMENT ACCOUNT

	HRA £000	General Fund £000	2008/09 Total £000	2007/08 Total £000
Opening balance	(1,992,872)	(340,633)	(2,333,505)	0
Transfer opening balances from the Capital Financing Account	0	0	0	(820,640)
Transfer opening balances from the Fixed Asset Restatement Account	0	0	0	(1,613,780)
Movements in the year -				
Capital financing				
- capital receipts	(28,123)	(31,753)	(59,876)	(43,500)
- revenue	(15,733)	(2,063)	(17,796)	(11,708)
- MRA applied	(49,873)	0	(49,873)	(30,912)
Revenue expenditure funded by capital under statute	37	23,759	23,796	9,131
Depreciation	37,070	13,187	50,257	50,111
Impairment	174,363	64,160	238,523	118,661
Minimum Revenue Provision	0	(4,388)	(4,388)	(2,715)
Historic Value of Assets Sold	4,957	21,258	26,215	19,589
Other accounting entries				
- grants amortisation	(213)	(21,338)	(21,551)	(8,345)
- other adjustments	0	100	100	603
Total	(1,870,387)	(277,711)	(2,148,098)	(2,333,505)

37.1. 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.

38. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

	HRA £000	General Fund £000	2008/09 Total £000	2007/08 Total £000
Opening balance	20,499	3,754	24,253	0
Premiums and discounts arising from refinancing debt in previous years	0	0	0	4,025
Premiums and discounts arising from refinancing debt in the year	0	0	0	26,019
Amortisation of premiums and discounts	(7,628)	(90)	(7,718)	(7,826)
Interest rate differences	464	207	671	2,035
Total	13,335	3,871	17,206	24,253

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

39. REVALUATION RESERVE

	HRA £000	General Fund £000	2008/09 Total £000	2007/08 Total £000
Opening balance	(292,755)	(109,653)	(402,408)	0
Unrealised (gain)/loss from revaluation of fixed assets				
Revaluations	259,351	(20,136)	239,215	(386,634)
Revaluations, depreciation	(73,997)	(1,950)	(75,947)	(42,654)
Value of assets disposed of				
Disposals	3,897	30,839	34,736	26,477
Disposals, depreciation	0	0	0	403
Total	(103,504)	(100,900)	(204,404)	(402,408)

NOTES TO THE ACCOUNTS

39.1. 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. The Revaluation Reserve also shows the movement in realised gains recorded in the Reserve on the sale of an asset.

40. AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS RESERVE

	HRA	General Fund	2008/09	2007/08
	£000	£000	£000	£000
Opening balance	0	(531)	(531)	0
Unrealised (gain)/loss from fair value measurement	0	(751)	(751)	(531)
Total	0	(1,282)	(1,282)	(531)

40.1. The Available-for-sale Financial Instruments Reserve is a new non-distributable account from 2007/08, 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. PENSIONS RESERVE

	2008/09	2007/08
	£000	£000
Opening balance	216,589	255,912
Actuarial (gain)/loss – Council pension fund	216,100	(47,301)
Actuarial (gain)/loss – LPFA pension fund	2,787	(8,180)
Settlement of actual pensions' contributions against liabilities due, to the Statement of Movement on the General Fund Balance	14,786	16,222
Reconciling items to the Pensions Liability	(1)	(64)
Total	450,261	216,589

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

41.2. Accounting practice under FRS 17 required a change in the valuation of investments for 2008/09. 2007/08 has been restated as if the valuation methodology had applied in 2007/08, leading to an increase in the deficit balance on this reserve of £3.4 million.

41.3. Movements in the actuarial gains and losses are shown in more detail in Note 16 page 55.

42. CAPITAL RECEIPTS RESERVE

	2008/09	2007/08
	£000	£000
Opening balance	(67,771)	(75,871)
Gross capital receipts from sale of assets	(34,514)	(52,938)
Less transfers to the Statement of Movement on the General Fund Balance:		
Permitted contributions towards disposal costs	692	0
Contribution of housing capital receipts to the Government pool	3,729	17,538
Capital receipts used for financing capital expenditure	59,876	43,500
Total	(37,988)	(67,771)

42.1. 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.

43. MAJOR REPAIRS RESERVE AND HRA BALANCE

43.1. Movements in these balances are shown in Notes 5 and 6 to the Housing Revenue Account statements, pages 100 and 101.

44. MODERNISATION, SERVICE & OPERATIONAL IMPROVEMENT RESERVE

44.1. 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.

	Balance	Movement	Balance
	31/3/08	In 08/09	31/3/09
	£000	£000	£000
Modernisation, Service & Operational Improvement Reserve	(5,305)	(8,463)	(13,768)

NOTES TO THE ACCOUNTS

45. REGENERATION & DEVELOPMENT RESERVE

45.1. 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. In 2007/08 the balance on this reserve included money set-aside for the Aylesbury development project (£478,000), but this is now shown in "Other Earmarked Reserves" (Note 48 below).

	Balance 31/3/08	Movement In 08/09	Balance 31/3/09
	£000	£000	£000
Regeneration & Development Reserve	(4,101)	(2,281)	(6,382)

46. FINANCIAL RISK RESERVE

46.1. 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.

	Balance 31/3/08	Movement In 08/09	Balance 31/3/09
	£000	£000	£000
Financial Risk Reserve	(9,811)	1,459	(8,352)

47. CAPITAL CONTINGENCY RESERVE

47.1. 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 31/3/08	Movement In 08/09	Balance 31/3/09
	£000	£000	£000
Capital Contingency Reserve	(2,703)	0	(2,703)

48. OTHER EARMARKED RESERVES

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

	Balance 31/3/08	Movement In 08/09	Balance 31/3/09
	£000	£000	£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)	0	(311)
Planned Maintenance Fund	(546)	213	(333)
Housing Benefits Subsidy Equalisation	(6,489)	0	(6,489)
Future pensions commitments	(3,000)	0	(3,000)
Legal & Democratic Services improvement programme	(358)	307	(51)
Landfill Allowance Trading Scheme	(102)	102	0
Sumner Road & East Dulwich Refurbishment	(350)	0	(350)
Waste PFI Equalisation Reserve	(707)	(2,307)	(3,014)
Cator Street Development	0	(370)	(370)
Procurement Reserve	0	(871)	(871)
Financial Systems Development Reserve	0	(1,500)	(1,500)
Youth Service Restructure	0	(250)	(250)
Aylesbury Development Reserve	(478)	(227)	(705)
Other reserves individually less than £100,000	(345)	(161)	(506)
Total	(13,557)	(5,064)	(18,621)

48.2. 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 2008/09 and later years. This reserve will meet a proportion of those costs.

48.3. Waste PFI equalisation reserve, £3.014 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.

48.4. Aylesbury Development Reserve, £705,000. The balance includes money set-aside for the Aylesbury development project. Previously, the balance at 31 March 2008 (£478,000) was held within the Regeneration and Development Reserve.

NOTES TO THE ACCOUNTS

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

	Balance 31/3/08 £000	Movement In 08/09 £000	Balance 31/3/09 £000
Dedicated Schools Grant Reserve	(5,204)	1,122	(4,082)
DSO balances	(40)	40	0
Strategic Services management and development	(150)	0	(150)
Signage	(108)	0	(108)
Blackfriars trust allocation	(138)	0	(138)
On street parking	(99)	0	(99)
Election costs	(434)	25	(409)
Local Public Sector Agreements	(794)	216	(578)
Adult Learning	136	0	136
Street trading account	184	335	519
Street trading	(110)	0	(110)
General litigation	(172)	0	(172)
Area Based Grant	0	(1,107)	(1,107)
	(6,929)	631	(6,298)

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

	Balance 31/3/08 £000	Movement In 08/09 £000	Balance 31/3/09 £000
Schools in financial difficulties, schools closures and academies	(1,268)	603	(665)
Interest equalisation	(4,000)	0	(4,000)
Commutation adjustment	(1,708)	0	(1,708)
Insurance	(8,322)	0	(8,322)
European Grant Funding Equalisation Reserve	0	(190)	(190)
Unaccompanied Asylum Seeking			
Children Equalisation Reserve	0	(388)	(388)
Other reserves individually less than £100,000	(287)	72	(215)
	(15,585)	97	(15,488)

48.7. Summary of other earmarked reserves:

	Balance 31/3/08 £000	Movement In 08/09 £000	Balance 31/3/09 £000
Specific projects and planned commitments	(13,557)	(5,064)	(18,621)
Departmental (under)/over spends	(6,929)	631	(6,298)
Future risks and programmes not yet fully committed	(15,585)	97	(15,488)
	(36,071)	(4,336)	(40,407)

49. SCHOOLS' BALANCES

49.1. Funds held by schools and other Education establishments. The totals are net balances:

	Balance 31/3/08 £000	Movement In 08/09 £000	Balance 31/3/09 £000
Funds held by schools	(11,627)	(1,079)	(12,706)
Nursery school balances	(1,113)	(32)	(1,145)
Pupil referral units	0	(236)	(236)
	(12,740)	(1,347)	(14,087)

50. ANALYSIS OF GRANTS SHOWN IN CASH FLOW STATEMENT

	2008/09 £000	2007/08 £000
Revenue Support Grant and pool contribution	(116,696)	(113,311)
Housing subsidy	(32,765)	(49,053)
Education grants	(208,119)	(215,363)
Housing benefits (excluding rent rebates)	(164,550)	(158,694)
Other grants	(62,462)	(59,836)
	(584,592)	(596,257)

NOTES TO THE ACCOUNTS

51. RECONCILIATION OF NET REVENUE DEFICIT/(SURPLUS) CASH FLOW FOR THE YEAR

	2008/09		2007/08	
	£000	£000	£000	£000
Net expenditure/(income) on General Fund		(927)		(510)
Net expenditure/(income) on HRA and Major Repairs Reserve		26,579		1,954
Net expenditure/(income) on Collection Fund		(1,992)		(2,334)
Total		23,660		(890)
Net revenue income as per cash flow statement		(55,022)		(96,474)
Net interest paid as per cash flow statement		35,889		69,719
Add:				
Decrease in debtors	0		7,714	
Increase in creditors	0		15,679	
Depreciation and capital payments	306,576		180,480	
Decrease in deferred debits	0	306,576	4,489	208,362
Less:				
Increase in debtors	(17,351)		0	
Decrease in creditors	(6,087)			
Increase in stocks and work in progress	(43)		(333)	
Decrease in deferred credits	0		(465)	
Decrease in Provisions and Reserves	(240,302)	(263,783)	(181,699)	(182,497)
Total		23,660		(890)

52. RECONCILIATION OF FINANCING CASH MOVEMENTS SHOWN IN THE CASH FLOW STATEMENT WITH THE BALANCE SHEET

	2008/09	2007/08
	£000	£000
Long term loans		
Balance as at 1 April	738,402	693,763
Repayments of amounts borrowed	0	(200,000)
New borrowings	32,000	236,000
Interest accruals charged direct to loans	388	8,639
Balance as at 31 March	770,790	738,402
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

53. LIQUID RESOURCES

53.1. 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.

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

	Balance 31/3/08	Movement In 08/09	Balance 31/3/09
	£000	£000	£000
Investments, liquid resources	200,513	16,262	216,775
Investments, realisable investments	69,850	(34,589)	35,261
Investments, Balance Sheet	270,363	(18,327)	252,036

NOTES TO THE ACCOUNTS

54. INSURANCE

54.1. 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	100,000	1 May 2002
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

54.2. Provisions of £7.358 million (£7.339 million 2007/08) have been made for outstanding claims and £8.322 million (£8.322 million 2007/08) has been reserved from General Fund balances to meet other potential losses.

54.3. 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.

55. EURO DISCLOSURE

55.1. 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.

56. SIGNIFICANT EVENTS

56.1. On 11 June 2008 the Council acquired 160 Tooley Street on a 25-year lease. The building comprises some 200,696 square feet, and will accommodate approximately 2,100 back-office staff. This represents a significant step in the Council's ambitious modernisation agenda and provides the Council with the platform to modernise and improve the delivery of back-office functions and rationalise the number of office buildings across the borough, generating significant capital receipts to support the Council's 10-year capital programme.

57. PUBLIC FINANCE INITIATIVE (PFI)

57.1. 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.

57.2. 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.

57.3. 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 arrangement or Balance Sheet accounting considerations at this time. Contact payments of £18.7 million were made to Veolia in 2008/09 under this scheme (£2.358 million 2007/08, only a part year effect in 2007/08 as the contract started on 11 February 2008).

58. CONTINGENT ASSETS

58.1. At 31 March 2009 the Council has an outstanding claim against HM Revenue and Customs (HMRC) for VAT overpaid between the years 1973 and 1996. The Council's claim is in response to the recent 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.

58.2. After taking into account fees, the Council could receive around £910,000 plus a sum of interest. However, the claim is subject to review and assessment by HMRC and therefore the amount due to the Council is not certain at this time.

NOTES TO THE ACCOUNTS

58.3. 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.

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.

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 2009 the third party account held £2.070 million of Council funds, the balance shown in debtors (Note 28 page 63), representing the deferral of receipts back to the Council (Note 35 page 66).

60. POST BALANCE SHEET EVENTS

60.1. On 3 July 2009 there was a major fire at Lakanal House, a block of flats of 98 properties. At the time of preparing the audited statement of accounts, Lakanal House remains unoccupied, and the future of the property is uncertain. The costs associated with works at Lakanal House, the possible implications for the whole of the Council's estate, and any liabilities on the Council arising from the fire itself, are not known at this time, and may fall on the General Fund as well as the HRA and Housing Investment Programme.

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	2008/09 £000	2007/08 £000
Income			
Dwelling rents		(156,288)	(149,997)
Non dwelling rents		(8,920)	(8,861)
Charges for services and facilities		(59,737)	(49,207)
Contributions towards expenditure		(2,699)	(3,576)
HRA subsidy receivable (including MRA)	1,6	(32,990)	(49,284)
Grants deferred amortisation		(213)	0
Total income		(260,847)	(260,925)
Expenditure			
Repairs and maintenance		62,455	56,182
Supervision and management		104,076	107,069
Rents, rates, taxes and other charges		3,171	4,155
Depreciation and impairment of fixed assets	2	211,433	121,010
Debt management costs		257	329
Increase in provisions for bad debts		(58)	2,690
Revenue expenditure funded from capital under statute	3	37	261
Total expenditure		381,371	291,696
Net Cost of HRA Services included in the Council's Income and Expenditure Account			
HRA share of CDC costs		120,524	30,771
		1,085	1,059
Net Cost of HRA Services		121,609	31,830
Gains and losses on the sales of HRA fixed assets		(6,349)	65
Interest payable and similar charges		43,403	46,171
Amortisation of premiums and discounts		0	26,231
Interest and investment income		(488)	(2,278)
Pensions interest cost and expected return on pensions assets	10	2,244	239
Total (surplus)/ deficit for the year		160,419	102,258

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	2008/09 £000	2007/08 £000
(Surplus)/deficit for the year on HRA services		160,419	102,258
Net additional amounts required by statute	4	(148,234)	(95,197)
(Increase)/decrease in the HRA Balance		12,185	7,061
HRA Balance brought forward		(30,361)	(37,422)
Balance carried forward	5	(18,176)	(30,361)

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. HRA SUBSIDY

- 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.
- The Government introduced a Rental Constraint Allowance in 2006/07 and 2007/08 to cover the cost of restraining rent increases within affordability limits, including a cap of 5% on the average increase in those years. In 2008/09 there was no cap on the average rent increase and hence no allowance.
- 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 2008/09. However there was a prior year adjustment of £0.382 million incurred in 2007/08 in respect of 2006/07.

Management & Maintenance allowances	(100,634)	(101,591)
Major Repairs Allowance	(35,480)	(36,019)
Capital Charges subsidy	(60,037)	(63,692)
Other Expenditure (leased assets) subsidy	(1,457)	(1,717)
Rental Constraint Allowance	0	(4,017)
Interest on Receipts deduction	48	59
Guideline rent income deduction	164,570	157,311
Housing Element subsidy	(32,990)	(49,666)
Housing Benefit subsidy limitation deduction	0	382
Total Housing Subsidy	(32,990)	(49,284)

	2008/09 £000	2007/08 £000
Management & Maintenance allowances	(100,634)	(101,591)
Major Repairs Allowance	(35,480)	(36,019)
Capital Charges subsidy	(60,037)	(63,692)
Other Expenditure (leased assets) subsidy	(1,457)	(1,717)
Rental Constraint Allowance	0	(4,017)
Interest on Receipts deduction	48	59
Guideline rent income deduction	164,570	157,311
Housing Element subsidy	(32,990)	(49,666)
Housing Benefit subsidy limitation deduction	0	382
Total Housing Subsidy	(32,990)	(49,284)

2. DEPRECIATION AND IMPAIRMENT CHARGES

Dwellings depreciation	35,480	36,019
Other property depreciation	1,590	1,022
Impairment	174,363	83,969
Total	211,433	121,010

	2008/09 £000	2007/08 £000
Dwellings depreciation	35,480	36,019
Other property depreciation	1,590	1,022
Impairment	174,363	83,969
Total	211,433	121,010

- 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.
- 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 has removed deferred charges, replaced largely by the classification of expense as revenue expenditure funded from capital under statute. Deferred charges were previously expenditure which has been capitalised but which did not result in the acquisition of a tangible fixed asset or an addition to an existing asset. The expenditure was charged to capital, financed from capital resources and then fully amortised through the Income & Expenditure Account. The new category of expense is now charged direct to the Income and Expenditure Account, though remains to be financed from capital resources, and there is no amortisation required. 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 2007/08 £261,000 was incurred as deferred charge expenditure, which was all fully amortised in the year. For comparison, in 2008/09 £37,000 was incurred as revenue expenditure funded from capital under statute, charged to the HRA Income and Expenditure Account.

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

	2008/09 £000	2007/08 £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	7,628	(18,464)
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	(465)	(2,035)
Impairment including write-down of capital works	(174,363)	(83,969)
Amortisation of deferred charges and credits from the grants deferred account	176	410
Gains and losses on the sales of HRA fixed assets excluding costs	6,349	(65)
Net charges made for retirement benefits in accordance with FRS 17	(4,991)	(3,406)
	(165,666)	(107,529)
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	(1,590)	(1,022)
Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners	3,289	4,721
Capital expenditure funded by the HRA	15,733	8,633
	17,432	12,332
Net additional amount required by statute to be charged to the HRA	(148,234)	(95,197)

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

5. HRA BALANCE

5.1. HRA reserves at 31 March 2009 are £18.2 million and are allocated as follows:

	2008/09 £m	2007/08 £m
Regeneration and Development Reserve	3.2	12.1
Modernisation, Service and Operational Improvement Reserve	0.6	1.3
Financial Risk Reserve	10.0	11.3
Other earmarked reserves	4.4	5.7
Total	18.2	30.4

5.2. The Regeneration and Development Reserve of £3.2 million relates to Major Projects, including the Aylesbury, Heygate and Elephant & Castle regeneration programmes.

5.3. The Modernisation, Service and Operational Improvement Reserve of £0.6 million is for IT modernisation, including infrastructure, e-government and customer access initiatives.

5.4. The Financial Risk Reserve, £10.0 million, includes £3.0 million Contingency reserve, broadly representing 0.5% 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, a £2.0 million leasehold reserve to mitigate against potential future leasehold income shortfalls, £1.5 million for interest equalisation to mitigate the financial effects on the HRA of Council debt restructuring, and £1.5 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, £4.4 million, comprise a range of specific resources for tenants fund, leaseholders fund, Browning TMO, etc, totalling £1.1 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. Service improvement allocations include Environment and Housing £1.6 million, Regeneration and Neighbourhoods £0.6 million and Strategic Services £0.1 million.

6. MAJOR REPAIRS RESERVE

	2008/09 £000	2007/08 £000
Opening balance	(19,073)	(13,966)
Transfers from the Capital Adjustment Account	(37,070)	(37,041)
Transfer to the HRA	1,590	1,022
Financing of capital expenditure	49,873	30,912
Total	(4,680)	(19,073)

7. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling	Number of bedrooms				Total		
	1	2	3+	Other	31/3/09	31/3/08	
Houses and bungalows	31/3/09	412	751	2,991	0	4,154	
	31/3/08	412	752	2,976	0		4,140
Low rise flats	31/3/09	3,046	661	372	0	4,079	
	31/3/08	3,070	697	381	0		4,148
Medium rise flats	31/3/09	7,060	7,544	6,528	0	21,132	
	31/3/08	7,118	7,629	6,615	0		21,362
High rise flats	31/3/09	3,352	5,023	1,858	0	10,233	
	31/3/08	3,601	5,192	1,853	0		10,646
Non permanent	31/3/09	0	0	0	10	10	
	31/3/08	0	0	0	10		10
Multi occupied	31/3/09	0	0	0	221	221	
	31/3/08	0	0	0	192		192
TOTALS	31/3/09	13,870	13,979	11,749	231	39,829	
	31/3/08	14,201	14,270	11,825	202		40,498

7.1. In addition to the numbers shown in the table above, as at 31 March 2009 there were also 995 void properties (363 at 31 March 2008).

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

8. ASSET VALUATIONS

8.1. The values of HRA operational assets, as included in Note 23 to the Balance Sheet on page 70, are shown in the table below.

	2008/09 £000	2007/08 £000
Operational assets		
Dwellings	2,324,159	2,575,090
Other land and buildings	51,846	51,717
Total operational assets	2,376,005	2,626,807
Non-operational assets		
Surplus assets	79,271	109,856
Commercial and investment assets	61,403	69,774
Total non-operational assets	140,674	179,630
Total HRA assets	2,516,679	2,806,437

8.2. The vacant possession value of dwellings within the HRA at 1 April 2008 was £7.337 billion (£7.031 billion 1 April 2007). 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

	2008/09 £000	2007/08 £000
Capital Expenditure		
Funding Source:		
Revenue contributions	15,733	8,633
Supported borrowing approvals	12,526	12,526
Capital receipts from the sales of assets	28,123	19,613
Grants and other contributions	9,767	4,202
Major Repairs Reserve	49,873	30,912
Total HRA capital expenditure	116,022	75,886

	2008/09 £000	2007/08 £000
Receipts From Asset Disposals		
Land	836	1,487
Buildings	14,315	29,121
Other receipts	754	319
Total HRA capital receipts	15,905	30,927

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 16 on page 55.

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

	2008/09 £000	2007/08 £000
Gross Arrears as at 1 April	18,299	17,355
Prior Year Payments	(4,203)	(4,117)
Arrears as at 1 April	14,096	13,238
Charges due in the year	182,301	175,303
Rent Rebates	(87,586)	(84,370)
Write-offs	(2,045)	(2,192)
Adjustments	138	293
Cash collected	(93,266)	(88,176)
Net Arrears as at 31 March	13,638	14,096
Payments in Advance	5,130	4,203
Gross Arrears as at 31 March	18,768	18,299

11.1. The arrears position as at 31 March 2009 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	2008/09 £000	2007/08 £000
Income			
Income from Council Tax	1	(94,305)	(87,697)
Transfers from the General Fund, Council Tax benefits		(26,072)	(25,142)
Income collectable from business ratepayers	2	(139,515)	(130,665)
Contribution from preceptors towards previous year's Collection Fund deficit	3	0	(899)
Total Income		(259,892)	(244,403)
Expenditure			
Precepts and Demands			
Greater London Authority		28,650	27,894
London Borough of Southwark		84,291	80,443
Non Domestic Rates			
Payment to the National Pool		138,864	130,016
Cost of collection allowance		651	649
Provision for bad and doubtful debts			
Council Tax		3,287	2,341
Council Tax write-offs		623	726
Contribution to preceptors from previous year's Collection Fund surplus	3	1,533	0
Total Expenditure		257,899	242,069
Net deficit/(surplus) for the year		(1,993)	(2,334)
Deficit/(surplus) as at 1 April		(1,035)	1,299
Deficit/(surplus) as at 31 March		(3,028)	(1,035)

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

- 1.1. The Council Tax is a property-based tax, which is assessed on the value of residential property. For this purpose, the Valuation Office Agency has set residential properties into eight valuation bands, of A to H, using estimated market value at 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 2008/09 the estimated income required from the Collection Fund for all preceptors was £112.997 million (£108.401 million in 2007/08). The amount of Council Tax for a band D property (£1,221.96 in 2008/09 and £1,180.94 in 2007/08) 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	
	2008/09	2007/08		2008/09	2007/08
A	9,677.95	9,671.03	6/9	6,451.22	6,446.72
B	29,922.55	29,764.37	7/9	23,273.09	23,150.07
C	26,782.10	26,605.64	8/9	23,806.31	23,649.46
D	16,272.70	15,955.93	1	16,272.70	15,955.93
E	10,543.50	10,418.96	11/9	12,886.50	12,734.28
F	4,779.95	4,772.19	13/9	6,904.37	6,893.16
G	3,510.85	3,541.54	15/9	5,851.42	5,902.57
H	439.65	442.18	18/9	879.30	884.36
Total	101,929.25	101,171.84		96,324.91	95,616.55
Less adjustment for collection rate				(3,853.00)	(3,824.66)
Council Tax Base				92,471.91	91,791.89
Estimated Income Required from Collection Fund				£112,996,975	£108,400,715
Band D Council Tax				£1,221.96	£1,180.94

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 2008/09 was 46.2p and 45.8p for small business (44.4p and 44.1p respectively for 2007/08). 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 2009 was £386.799 million (£399.161 million at 31 March 2008).

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 2008 the Council estimated a surplus for 2007/08 of £1,533,360, to be redistributed to tax payers in 2008/09, and this is included in the Fund for 2008/09. 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	394,074
London Borough of Southwark	1,139,286
Estimated surplus for 2007/08, redistributed in 2008/09	1,533,360

MISCELLANEOUS TRUST 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. TRUSTS FUNDS WHERE THE COUNCIL IS THE SOLE TRUSTEE

	Balance at 31/3/08 £	Increase in fund balance £	(Decrease) in fund balance £	Balance at 31/3/09 £
Adult Social Care Funds				
Individual bequests	51,005	1,993	0	52,998
Comforts Funds/residents' savings	1,922,131	2,075,999	(1,195,518)	2,802,612
Children's Service Trusts				
Miscellaneous	24,583	1,297	0	25,880
Environment and Housing Trusts				
Potters Fields	0	0	0	0
Pullens Gardens maintenance fund	110,009	4,058	0	114,067
Corporate Services Trusts				
Mayor's Charity	15,588	67,458	(71,747)	11,299
	<u>2,123,316</u>	<u>2,150,805</u>	<u>(1,267,265)</u>	<u>3,006,856</u>

- 1.1. Included in the balance for Comforts Funds/residents' savings is an amount owing to the Council of £124,488. This relates to a delay in processing 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.

MISCELLANEOUS TRUST FUNDS

1.2. The purposes of the trust 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
Potters Fields	To maintain open space adjoining London Bridge City at Potters Fields During 2008/09 the trust fund was transferred to Potters Fields Park Management Trust, an external not-for-profit organisation set up in 2005 to manage the park
Pullens Gardens maintenance fund	To meet the maintenance cost of Pullens Gardens
Mayor's Charity	The Mayor's Charity account supports the activities associated with the Mayor's annual charity appeal

2. TRUST FUNDS WHERE THE COUNCIL IS NOT THE SOLE TRUSTEE

	Balance at 31/3/08	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/09
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common	945,877	35,543	(54,000)	927,420
Borough Market Trustees	793	2,000	(2,000)	793
Leisure Trusts				
Cuming Bequest	9,035	333	0	9,368
	<u>955,705</u>	<u>37,876</u>	<u>(56,000)</u>	<u>937,581</u>

2.1. The purposes of the trust 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

	Notes	2008/09 £000	2007/08 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable			
From employers (including admitted bodies)			
- Normal	6.1	(26,369)	(20,374)
- Deficit funding	6.1	(3,130)	(6,529)
- Augmentations		(439)	0
From employees (including admitted bodies)	6.1	(10,867)	(9,521)
Transfers in		(5,359)	(6,318)
Other income			
Deficit settlement (on closure of admitted body)		0	(271)
AVC returns and other contributions		(89)	(140)
Total income		(46,253)	(43,153)
Benefits payable			
Pensions	6.3	27,499	25,686
Lump sums - retirement benefits	6.3	5,399	6,762
Lump sums - death benefits	6.3	569	477
Payments to and on account of leavers			
Refunds of contributions	6.1	6	2
Group transfers out to other schemes		0	0
Individual transfers out to other schemes		3,865	4,710
Administrative expenses borne by the scheme		796	1,098
Total expenditure		38,134	38,735
Net addition from dealing with members of the fund		(8,119)	(4,418)
Returns on investment			
Investment income			
Dividends from equities and pooled equity vehicles		(9,102)	(7,603)
Income from pooled property vehicles		(1,547)	(611)
Net rent from properties		(4,665)	(6,737)
Interest on cash deposits		(1,089)	(702)
Other income		(65)	(2)
Income from stock lending		(112)	(28)
Change in market value of investments		174,028	19,232
Taxation		0	0
Investment management expenses		3,287	4,422
Net returns on investments		160,735	7,971
Net decrease in the Fund for the year		152,616	3,553
Opening net assets of the scheme		(750,821)	(754,374)
Closing net assets of the scheme		(598,205)	(750,821)

PENSION FUND NET ASSETS STATEMENT

Notes	2008/09 £000	2007/08 £000
Investment assets		
Fixed Interest Securities – UK public sector	13,524	37,295
Fixed Interest Securities – UK quoted	65,408	0
Equities	236,599	338,765
Index linked securities	49,414	111,679
Managed Funds – Property (Freehold)	45,630	62,530
Managed Funds – Property (Leasehold)	7,350	9,380
Unit Trusts – Property	52,723	77,301
Unit Trusts – Other	109,026	107,566
Derivatives – FTSE futures	943	0
Derivatives – forward currency	107	(209)
Deposits	9,510	2,940
Adjustment arising from change in valuation basis in 2008/09	(1,194)	0
Total investment assets	589,040	747,247
Net current assets and liabilities		
Cash held at managers	4,635	4,607
Debtors	1,531	1,645
Creditors	(900)	(1,997)
Cash at Council	3,899	(681)
Total net current assets and liabilities	9,165	3,574
Closing net assets of the scheme	598,205	750,821

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period ending 31 March 2009.

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. As mentioned in Section 4 below, there has been a change in accounting practice on the valuation of investments in accordance with the Pensions SORP. This has required an adjustment to the opening valuation of assets in 2008/09. 2007/08 has also been restated on the revised basis.

2. FUND VALUE

- 2.1. Over the last year the Pension Fund value has fallen to £597.738 million, which is down 20.4% (£153.083 million) from its value at 31 March 2008 of £750.821 million. The most significant negative impact on the Fund was a change in the market value of investments held in the portfolios of £174 million. The cash flow position in respect of dealing with members of the Fund showed a positive position with a surplus of £7.7 million.
- 2.2. As with most funds operating both within and outside the public sector, the value of the investments has been affected by the market turmoil across all asset classes, and the change in investment values within the Southwark fund is largely consistent with the change in the FTSE all world index, which experienced a fall of 20.4% during 2008/09.
- 2.3. To limit the adverse impact of this economic volatility on the Fund value, a continuous review of the funding strategy has been carried out to ensure there is an appropriate investment mix with a specific aim of creating a fully diversified asset allocation to mitigate the risk of heavy losses in any one particular asset class. One example of this was to purchase £65.408 million of corporate bonds which did not previously form part of the investment portfolio.
- 2.4. The market volatility faced by all local authorities during 2008/09 was unprecedented within recent history, in that falls were experienced in almost all investment areas within the major markets of UK and overseas equities, property and alternative asset classes. In normal circumstances there would be instances of negative correlation between the various major asset classes.

NOTES TO THE PENSION FUND STATEMENTS

3. OPERATION AND MEMBERSHIP OF THE FUND

- 3.1. A new-look LGPS (Local Government Pension Scheme) came into force on 1 April 2008. Employees now pay contribution rates determined by salary bandings. Southwark Council employees paid contributions in 2008/09 as follows:
- 3.2. The Council contributed 17% of pensionable pay. A one off payment of £2.33 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 £1.72 million.

Contribution Rate %	Total £
5.25	265,578
5.5	2,779
5.8	13,119
5.9	306,927
6.0	26
6.5	1,959,381
6.8	3,039,859
7.2	2,503,379
7.5	326,468
Total	8,417,516

- 3.2. The Council contributed 17% of pensionable pay. A one off payment of £2.33 million was made as a special contribution for early and ill health requirements. In addition, external bodies admitted to the Southwark Fund contributed a total of £1.72 million.
- 3.3. 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 (property).
- 3.4. Irrecoverable tax on dividends is not shown as a separate deduction to income as the amount is de minimis.
- 3.5. The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Finance Director, taking account of the advice of the Pensions Advisory Panel.
- 3.6. At 31 March membership of the Fund was as follows:

	2008/09	2007/08
Number of contributors to the Fund	6,777	6,699
Number of contributors and dependants receiving allowances	6,002	5,906
Number of contributors who have deferred their pensions	5,752	5,608

4. ACCOUNTING POLICIES

- 4.1. The Accounts have been prepared in accordance with Chapter 2 Recommended Accounting Practice of the Pension SORP 2007 and the CIPFA Code of Practice on Local Authority Accounting.
- 4.2. In order to comply with these recommendations, the Accounts have been prepared using the market value (bid price) of equity investments and unit trusts. Foreign transactions are brought into account at the exchange rate when the transaction took place. End of year balances are calculated at the exchange rate for 31 March. Property assets have been included at market value as at 31 March. The cost of acquisition of assets, including property, is treated as a revenue cost. Income and expenditure, including management expenses, are accrued. The value of equities and unit trust as at 31 March 2008 have been re-stated using bid price market value.
- 4.3. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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.
- 4.4. 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.
- 4.5. 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.
- 4.6. 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).

NOTES TO THE PENSION FUND STATEMENTS

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 2008/09 were based on the actuarial valuation carried out as at 31 March 2007.
- 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.
- 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. 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.

NOTES TO THE PENSION FUND STATEMENTS

6. CONTRIBUTIONS RECEIVABLE AND BENEFITS PAYABLE

6.1. The total contributions receivable for 2008/09 are analysed as follows:

	Employees £000	Employers £000	2008/09 Total £000	2007/08 Total £000
Southwark Council	9,993	27,792	37,785	35,066
Admitted bodies	550	1,450	2,000	874
Scheduled bodies	324	702	1,026	484
Total	10,867	29,944	40,811	36,424

6.2. During 2008/09 employees made Additional Voluntary Contributions (AVCs) of £116,170 (£80,064 2007/08). 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).

6.3. The total benefits payable for 2008/09 are analysed as follows:

	Pensions £000	Lump sums £000	2008/09 Total £000	2007/08 Total £000
Southwark Council	27,078	5,531	32,609	32,167
Admitted bodies	402	364	766	748
Scheduled bodies	19	73	92	10
Total	27,499	5,968	33,467	32,925

7. RELATED PARTY TRANSACTIONS

7.1. 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.

7.2. In respect of the Pension Fund, the Council recognises that the following bodies have a related party relationship with the Pension Fund -

- The Council
- 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
- The Fund Managers:
 - Barclays Global Investors Limited
 - Henderson Global Investors
 - Alliance Bernstein
 - Newton Investment Management
- The Global Custodian, JP Morgan
- The following scheduled bodies:
 - Academy at Peckham
 - Bacons College
 - Globe Academy
 - Harris Academy Bermondsey
 - Harris Girls Academy
 - St Michaels & All Angels CE Academy
 - Walworth Academy

8. OTHER INFORMATION

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

	£m	%
Barclays Global Investors	324.70	54.50
Alliance Bernstein (Growth)	58.63	9.84
Alliance Bernstein (Value)	47.79	8.02
Newton Investment Management	49.25	8.27
Henderson Global Investors	115.38	19.37
Total	595.75	100.00

NOTES TO THE PENSION FUND STATEMENTS

8.2. 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 31/3/08	Purchases	Sales	Change in market value	Value at 31/3/09
	£m	£m	£m	£m	£m
UK equities	44.70	29.28	(21.37)	(19.87)	32.74
Overseas equities	400.29	227.24	(208.67)	(105.98)	312.88
Fixed interest	37.29	10.42	(36.10)	1.91	13.52
Index linked	111.68	16.14	(73.75)	(4.66)	49.41
Corporate bonds	0.00	66.18	0.00	(0.77)	65.41
Property	149.21	1.44	(1.69)	(43.26)	105.70
FTSE futures	1.34	0.00	(0.18)	(0.22)	0.94
Forward currency	(0.21)	106.76	(109.17)	2.73	0.11
Cash	8.62	13.20	(13.20)	6.42	15.04
Total	752.92	470.66	(464.13)	(163.70)	595.75

8.3. 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.

8.4. Following the 2007 valuation the Pension Fund underwent an investment strategy review. The outcome was that the Fund moved passive bond strategy from 5% fixed income, UK gilts and 15% indexed linked UK gilts to 10% corporate bonds, 2% fixed income UK gilts and 8% indexed linked UK gilts.

8.5. The total amount of direct transaction cost on all investment types was £1.838 million (equities £457,000, property £1.373 million, and derivatives £8,000).

8.6. 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 2009.

All properties have been valued at market value.

8.7. Cash deposits as at 31 March 2009 were £9.5 million, all with Henderson Global Investors. This holding accumulated during the year, waiting for the right opportunities within the property market to invest. Unfortunately this did not materialise, due to the downturn in the economy.

8.8. 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. £5.3 million of stock was lent out as at 31 March 2009, the collateral for this held in a combination of European government bonds and US cash.

8.9. A Statement of Investment Principles has been prepared and is available on the Council's website at http://www.southwark.gov.uk/Uploads/FILE_41739.pdf, or on request from the Finance Director, 160 Tooley Street, London SE1 2TZ.

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 deferred charge or loan 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.

GLOSSARY

CAPITAL RECEIPTS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

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

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.

CURTAILMENT

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

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

DCLG

Department for Communities and Local Government

DEBTORS

Organisations and individuals who owe money to the Council.

DEFERRED CHARGE

Expenditure that may properly be capitalised but which does not represent a tangible fixed asset, e.g. improvement grants.

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.

GLOSSARY

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.

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.

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 ASSET

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.

GLOSSARY

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.

RESERVES

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

REVENUE EXPENDITURE

Day to day payments on the running of Council services such as salaries and wages, operating costs and charges for the use of assets.

REVENUE 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.