

Statement of accounts

Financial Management Services

2007-2008

www.southwark.gov.uk



Cover photo: **Bandstand in Southwark Park** by Pavla Ondrova.

This photo featured in the Faces of Southwark 2008 photographic competition which was exhibited at the Dulwich Picture Gallery in Spring 2008.

TABLE OF CONTENTS

	Page
Introduction	1
Independent Auditor's Report to the Members of Southwark Council	2
Conclusion on Arrangements for Securing Economy, Efficiency and Effectiveness in the Use of Resources	4
Explanatory Foreword	5
Annual Governance Statement	21
Statement of Accounting Policies	31
Statement of Responsibilities for the Statement of Accounts	40
Income and Expenditure Account	41
Statement of Movement on the General Fund Balance	42
Statement of Total Recognised Gains and Losses	43
Balance Sheet	44
Cash Flow Statement	46
Notes to the Accounts	47
Housing Revenue Account Income and Expenditure Account	93
Statement of Movement on the Housing Revenue Account Balance	94
Notes to the Housing Revenue Account Statements	95
Collection Fund	101
Notes to the Collection Fund	102
Miscellaneous Trust Funds	104
Pension Fund Account	106
Pension Fund Net Assets Statement	107
Notes to the Pension Fund Statements	108
Glossary	115



INTRODUCTION

This Statement of Accounts is produced in accordance with current legislation and in particular with the Accounts and Audit Regulations 2003 and 2006. In order to facilitate a better understanding of the Statement of Accounts, I have extended the foreword to provide 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. In reporting on how the Council's finances have been managed and its financial position, the Statement of Accounts forms a key part of the comprehensive performance assessment (CPA) process. This aims to measure the effectiveness of services being delivered and that value for money is being achieved.

For 2006/07, the Audit Commission again judged that the Council's Use of Resources was "Good". While this matched the result for the previous three years, given the ever more demanding and wider assessment criteria, we remain very pleased with this outcome.

However, despite this very encouraging result, we will 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 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 "ensure that resourcing, project management and governance arrangements for the Council's extensive investment plans are subject to ongoing strong scrutiny" and to "continue to monitor the budget closely given the significance of the current savings and efficiency plans, as well as the ambitious regeneration programme and the need to maintain working balances and reserves at an appropriate level". 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 26th June 2008. 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

Opinion on the accounting statements

I have audited the Authority accounting statements, pension fund accounts and related notes of Southwark Council for the year ended 31st March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund, miscellaneous Trust Funds and the related notes. The pension fund accounts comprise the Pension Fund Account, the Net Assets Statement and the related notes. The Authority accounting statements and 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 Southwark Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 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, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements, 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 Authority accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- The financial position of the Authority and its income and expenditure for the year; and
- 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 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 corporate governance procedures or its risk and control procedures.

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

Opinion

In my opinion:

- The Authority 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 2007, the financial position of the Authority as at 31st March 2008 and its income and expenditure for the year then ended; and
- The pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31st March 2008, and the amount and disposition of the fund's assets and liabilities as at 31st March 2008, 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

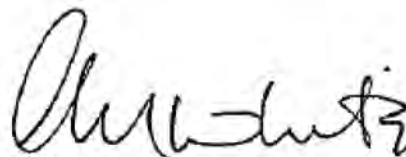
I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Southwark Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March 2008.

Best Value Performance Plan

Your previous auditor, Kash Pandya, issued his statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 10th December 2007. He did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I have carried out the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. However, the audit cannot be formally concluded, and an audit certificate issued, until issues arising from correspondence with the public and legality matters arising from my audit have been resolved. I am satisfied that the amounts involved will not have a material effect on the statement of accounts.



Andrea White
District Auditor

Audit Commission
1st Floor
Millbank Tower
London SW1P 4HQ

18th December 2008

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 2007: 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 31st March 2008. 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

EXPLANATORY FOREWORD

- 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.

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. For 2007/08 the SORP has introduced changes in two main areas – "Financial instruments" and Revaluation Reserve accounting.
- 3.4. "Financial instruments" is a phrase that covers how financial transactions under contracts should be measured, valued, risk assessed, and disclosed in the Accounts. The concept of "fair value" is introduced, that says the value of a contract is not the same as the cost of a contract, and it is the value that should be represented in the Accounts. This applies mainly to the Council's borrowing and investments, for example the purchase of shares or similar, but also applies to our debtors and creditors.
- 3.5. Revaluation Reserve accounting changes the way in which the Council accounts for a movement in the valuation of a fixed asset. Changes in value from market prices and from a change in condition in the asset are accounted for separately, and may have to be charged to the Income and Expenditure Account, where previously the change in value was held only in the Balance Sheet. The accounting for capital expenditure on fixed assets has also been affected, see Accounting Policies section 3 (page 33). A Revaluation Reserve has been introduced, with the Fixed Asset Restatement Account and the Capital Financing Account merged into a new Capital Adjustment Account.

EXPLANATORY FOREWORD

- 3.6. When accounting practice changes such that there are differences between the results of the previous year and the current year, either one of two alternative approaches to making the changes are prescribed – either restate the previous year's accounts to reflect how opening balances should be as if the changes had applied last year, or show the changes as movements through the accounts in the current year. With one exception as set out in 3.7 below, for 2007/08 the SORP has prescribed that the changes are to be shown as movements in the year. Where this applies, the relevant Notes to the Accounts identify these changes.
- 3.7. In some circumstances, CIPFA may issue guidance to the SORP on issues where the SORP may require addition or clarification. The guidance is issued by the Local Authority Accounting Panel (LAAP). LAAP 73, issued in April 2008 but relating to the 2007/08 Accounts, considered issues about capital grant balances held in the Grants Deferred Account, concluding that some portions of the balances should be transferred to the Capital Financing Account and on to the Capital Adjustment Account. LAAP 73 advises that if the balance to be transferred was deemed not to be material, then this would be an in-year adjustment as 3.6 above, but if material then the 2006/07 opening balances for the Grants Deferred Account and the Capital Financing Account should be restated as a prior period adjustment. The transfer of £18.896 million was deemed to be material and has been treated as a prior year adjustment. Note 35 page 79 and Note 40 page 82 detail the adjustments made.
- 3.8. The next major change in local government accounting will be to the 2010/11 Accounts, with the introduction of accounting under International Financial Reporting Standards (IFRS). The most significant aspects will be changes in accounting for 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 earlier. 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 should start at the beginning of 2009/10, i.e. 1st April 2009. Work has already started to prepare for the implementation of IFRS.

4. THE REVENUE BUDGET

- 4.1. The Council's expenditure and income is defined as either revenue (spending on day to day services) or capital (spending on items that provide a benefit for more than one year such as building a school). The Council's revenue expenditure and income is divided between 'General Fund' (services excluding council housing) and the 'Housing Revenue Account' (a separate account for the Council acting as a housing landlord).
- 4.2. As reported throughout 2007/08 in the quarterly monitoring reports to the Executive, most services experienced some form of spending pressures throughout the year requiring management action to limit the financial impact. The Adult Health and Social Care spending pressure (£1.931 million), net of a central contingency allocation of £2 million, was mainly due to cost and volume pressures in placements and care packages and clients requiring support under the National Assistance Act.

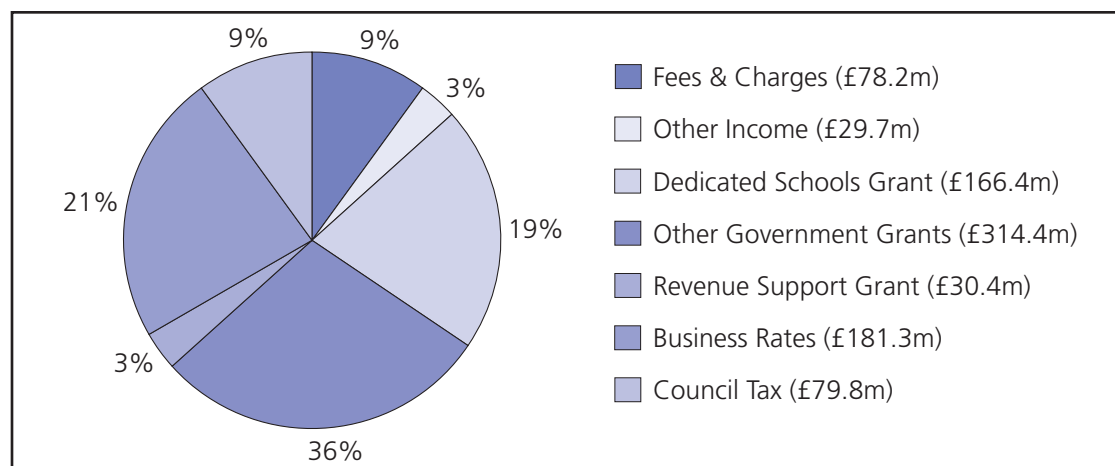
EXPLANATORY FOREWORD

The Environment and Housing pressures (£0.46 million) related mostly to leisure services. These pressures were offset by savings in the Customer and Corporate Services department (£3.973 million), mostly in respect of housing benefits savings, including recovered overpayments. The net adverse variance in Strategic and Corporate Services mostly represents the net movement in the use of reserves and corporate financing costs. The following table compares budgeted with actual General Fund net revenue expenditure for 2007/08.

Service	Budget £000	Actual £000	Variance £000
Children's Services	100,701	100,700	(1)
Adult Health and Social Care	98,443	100,374	1,931
Environment & Housing	81,838	82,298	460
Regeneration and Neighbourhoods	18,111	17,903	(208)
Major Projects	7,575	7,466	(109)
Financial Management Services	6,923	6,928	5
Customer & Corporate Services	47,027	43,054	(3,973)
Deputy Chief Executive	20,371	20,654	283
Legal & Democratic	5,465	5,440	(25)
Corporate Recharges	(51,680)	(51,680)	0
Strategic & Corporate	(42,267)	(41,279)	988
Total for Services	292,507	291,858	(649)

Where the Money Comes From

- 4.3. We receive money to help pay for services from four main sources: rents, fees and other charges; government grants; business rates; and council tax. In 2007/08, we received £880 million of income to support General Fund services, of which 9% was from council tax.



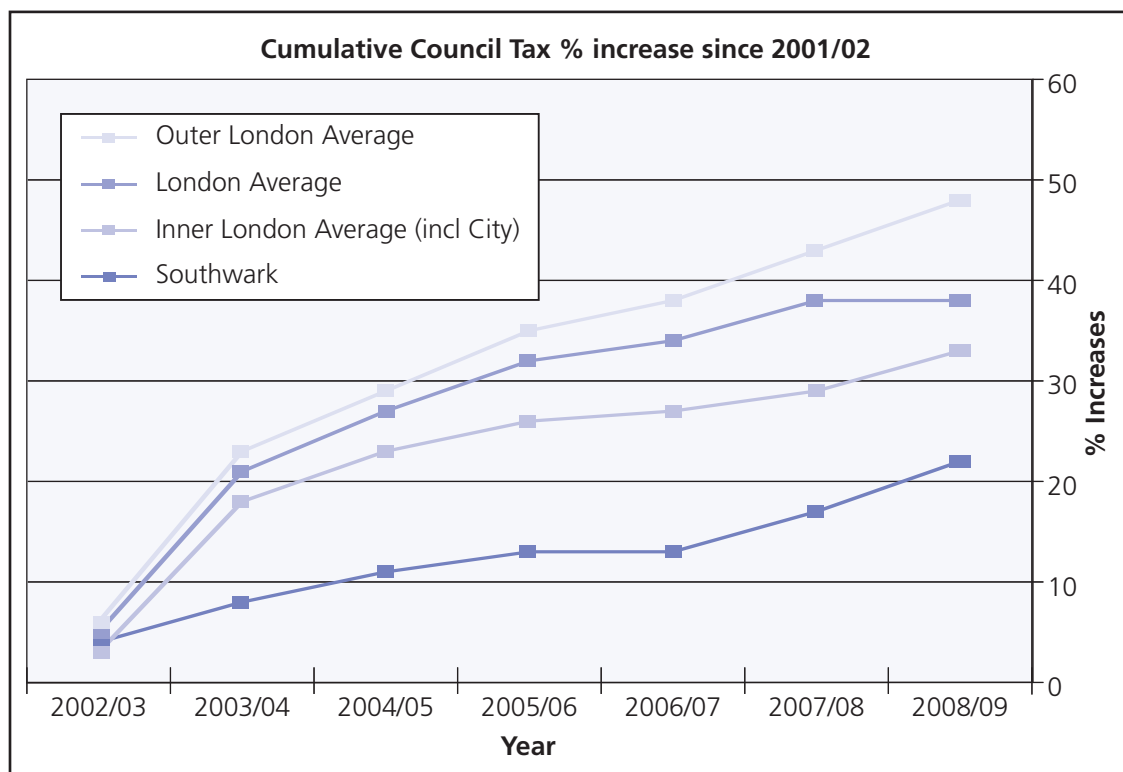
EXPLANATORY FOREWORD

Council Tax

- 4.4. As well as collecting Council Tax to fund its own services, the Council collects on behalf of and pays over to the 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 £27.9 million in 2007/08 (£26.4 million in 2006/07). 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, as shown in the table below:

	2007/08	2006/07
Southwark (Southwark Council Tax requirement / CT Base)	£877	£844
GLA (GLA Precept / CT Base)	£304	£288
Total Council Tax Charge (Band D equivalent)	£1,181	£1,132

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



EXPLANATORY FOREWORD

Housing Revenue Account

- 4.6. The Housing Revenue Account (HRA) is the means by which the Council meets its statutory requirement to account separately for local authority housing provision. The table below summarises the HRA income and expenditure and movement on balances for 2007/08.

	£000
Income	(260,925)
Expenditure	291,696
Net cost of services	30,771
Non-operating costs	71,487
Net statutory accounting adjustments	(95,197)
Decrease in the HRA Balance	<u>7,061</u>
HRA Balance at 1 st April 2007	(37,422)
Decrease in the HRA Balance	7,061
HRA Balance at 31 st March 2008	<u>(30,361)</u>

Summary of reserves and balances

- 4.7. 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	31/3/2008	31/3/2007	31/3/2006	31/3/2005
	£000	£000	£000	£000
General Fund	(17,344)	(16,834)	(15,556)	(8,988)
Earmarked	(57,991)	(59,411)	(64,915)	(44,202)
Schools	(12,740)	(11,771)	(13,177)	(11,935)
HRA including MRR	(49,434)	(51,388)	(42,726)	(50,813)
Total	<u>(137,509)</u>	<u>(139,404)</u>	<u>(136,374)</u>	<u>(115,938)</u>

- 4.8. Comparative figures with other London Boroughs are not yet available for 2007/08. However, comparisons of reserves for 2006/07 are set out below:

Reserve Group	Southwark	Inner London average
	£000	£000
General Fund	(16,834)	(21,341)
Earmarked	(59,411)	(67,763)
Total	<u>(76,245)</u>	<u>(89,104)</u>

EXPLANATORY FOREWORD

5. CAPITAL PROGRAMME

5.1. Southwark has one of the largest capital investment programmes in London, with a ten-year capital investment programme of £951 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 2007/08 and an analysis of the capital programme expenditure over the next 10 years. Contractual commitments of the capital programme are shown in note 5.4 below. On 29th January 2008 the Executive approved two virements from the Capital Contingency budget to cover additional costs at Salmon Youth Centre (£750,000) and Southwark Park lake (£150,000).

Expenditure	10 Year Capital Programme £000	Spend in 2007/08 £000
General Fund		
Regeneration & Major Projects	248,809	11,640
Environment and Housing (non HRA)	88,433	28,249
Children's Services	61,819	17,878
Regeneration & Neighbourhoods	23,711	0
Housing General Fund	21,751	2,627
Deputy Chief Executive	19,984	2,837
Adult Health & Social Care	6,983	1,110
Capital Contingency	2,500	0
Customer & Corporate Services	2,220	0
Housing Investment Programme	474,889	75,886
Total	951,099	140,227
Financed by		
Capital receipts	(346,955)	(43,500)
Specific grants and other contributions	(247,500)	(28,309)
Major Repairs Allowance	(194,286)	(30,912)
Revenue contributions	(87,606)	(11,708)
Supported borrowing	(74,752)	(25,798)
Total	(951,099)	(140,227)

EXPLANATORY FOREWORD

5.2. Major asset acquisitions and disposals in 2007/08:

	£000
Acquisitions	
709 Old Kent Road SE15 (for Waste PFI)	15,787
Leaseholder buy-backs	4,328
Disposals	
Bermondsey Spa sites F, S and U	15,490
Empire Warehouse, Bear Gardens SE1	2,726
38 St Marys Road SE15	1,359
67 Crawford Road SE5	1,421
2a & 6a Ansdell Road SE15	1,387
Chesterfield Way SE15	1,272
387-389 Rotherhithe New Road SE16	1,364
106 Weston Street SE1	1,343
8 Lynton Road SE1	1,030
Mabel Goldwin House car park, 49 Grange Walk SE1	825
30 Grove Park SE5	815

5.3. In 2007/08 £15.49 million was received for the disposal of sites F, S and U at Bermondsey Spa. Although received in 2007/08, a condition relating to the completion of the disposal was not met by 31st March 2008. Therefore this receipt is held in the capital receipts reserve but is not considered usable until the condition is met in 2008/09.

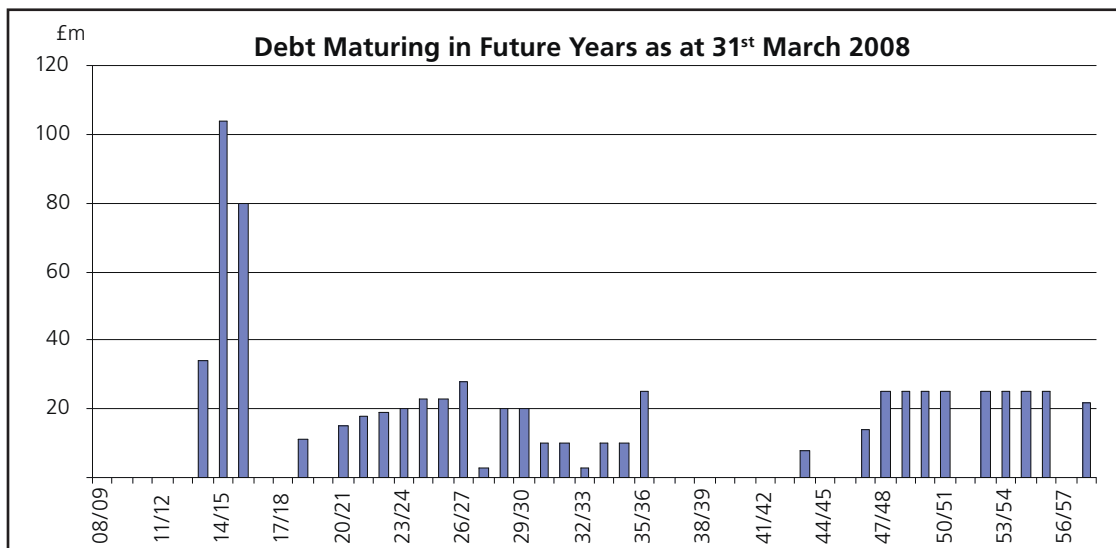
5.4. Contractual commitments for the capital programme as at 31st March 2008 can be analysed over the Council's services as follows:

Service	Contractually Committed Expenditure £m
Children's Services	36.24
HRA	90.36
Regeneration and Major Projects	3.82
Adult Health and Social Care	5.79
Total committed programme	<u>136.21</u>

EXPLANATORY FOREWORD

6. BORROWING FACILITIES

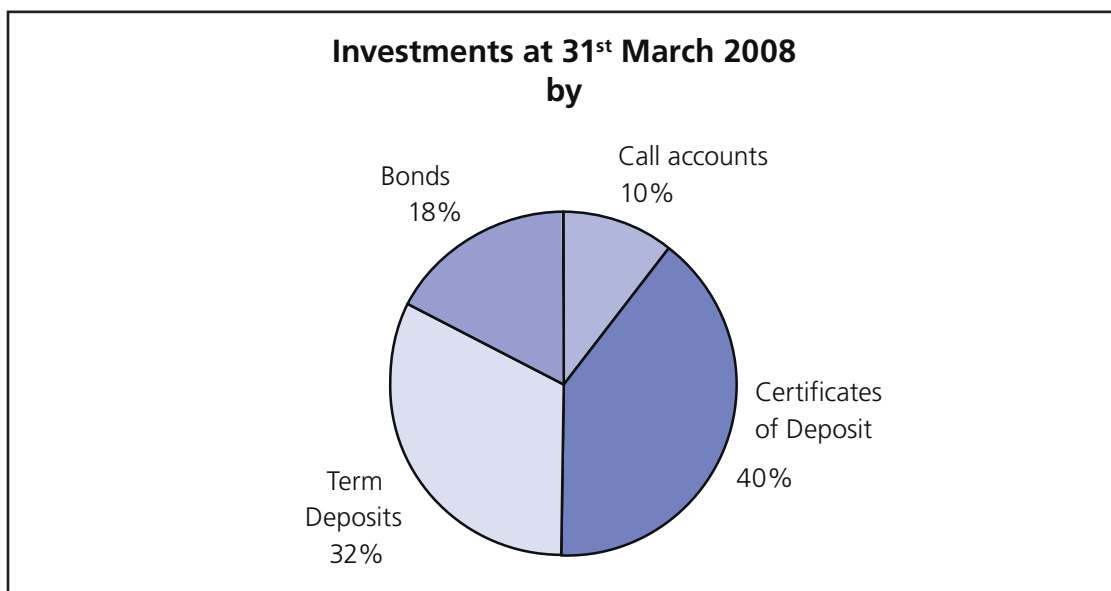
- 6.1. The Council borrows money to pay for capital expenditure (current and past) that is not otherwise met from capital receipts, revenue, grants or other contributions. The principal source of this borrowing is the Public Works Loans Board (PWLB, a division of HM Treasury). The level of debt as at 31st March 2008 stands at £730 million, an increase of £36 million during the year. In 2007/08 £200 million of high rate debt (at rates between 9% and 10.75% maturing between 2008 and 2014) was replaced with new debt with life between 40 and 48 years, at rates between 4.60% and 4.75%. This refinancing lengthened the average life of loans to 24 years and lowered the average rate of interest payable, which in 2007/08 was 7.60% (8.77% in 2006/07). The refinance premium was £26m, 85% of which is reimbursable through HRA support and the remainder is spread over 40 to 48 years, in accordance with the SORP and legislative requirements. All debt is at fixed rates, and with the PWLB. The maturity profile of the debt at 31st March 2008 is set out in the chart below.



7. INVESTMENTS

- 7.1. The Council invests its cash in interest earning call accounts, term deposits, certificates of deposits (CD), and bonds. The types of investments, maturity and rating analysis of its £274 million investments at 31st March 2008 are set out below. All investments are with large UK and international banks, building societies and UK Government or supranational bodies. The long term credit rating of these institutions ranges from AAA to A+ (per Fitch ratings, a commercial rating agency). Details of the Council's treasury strategy are reported to Council Assembly in February each year.

EXPLANATORY FOREWORD



INVESTMENT MATURITY PROFILE AND RATING				
Year Maturing	Fitch Rating			£m
	AAA	AA+ to AA-	A+	
4-5 years	3%			7.4
3-4 years	<1%			1.2
2-3 years	6%			15.5
1-2 years	2%			5.5
Less than 1 year	7%	79%	3%	244.0
Total	18%	79%	3%	273.6

8. SIGNIFICANT EVENTS

- 8.1. On 11th 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.

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

EXPLANATORY FOREWORD

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 31st 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 17.4 page 58, 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 31st March 2008 was £209.300 million, a reduction of £35.101 million from £244.401 million as at 31st March 2007. The reduction in the balance is from an actuarial gain of £50.701 million, the difference of £15.600 million being 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 reduced by £7.622 million, from £11.511 million to £3.889 million at 31st March 2007, as advised by the LPFA's actuaries. The reduction in the balance is from an actuarial gain of £8.180 million, the difference of £0.558 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 31st 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 4.4 page 110.

10. PERFORMANCE AGAINST OTHER MEDIUM TERM RESOURCES STRATEGY OBJECTIVES AND OUR CORPORATE ASSESSMENT

10.1. The Council is committed to providing quality services alongside ambitious regeneration plans which will ensure, through working in partnership, Southwark is a core part of central London. Our sustainable community strategy, *Southwark 2016*, sets out clear and challenging ambitions for the borough and our plans for improving outcomes for *people*, better *places* and improved *services*.

10.2. The Council works in a network of sophisticated partnerships at national, regional and local level to allow us to deliver high quality services. Southwark's Local Area Agreement (LAA) sets out how we will deliver our key partnership priorities. In May 2008 a new agreement was adopted, which takes forward our first agreement from March 2007.

EXPLANATORY FOREWORD

- 10.3. In line with improved partnership working the Council continues to closely monitor partnerships and to improve their governance and financial capacity. The Council has produced guidance for partnership working describing the approach to be taken to ensure proper management of the risks involved with partnership working.
- 10.4. At a council-wide level the MTRS is aligned to the corporate plan, which sets out key objectives over the medium term for supporting delivery of *Southwark 2016*. The MTRS is updated and refreshed annually to ensure it remains fit for purpose and, with the corporate plan, provides the strategic resource framework.
- 10.5. Performance and costs against priorities are tracked on a quarterly basis with Executive Members and the key highlights from 2007/08 are set out below.

Financial Management

- 10.6. The Council continues to deliver strong and effective financial management, as reflected through the external assessment rating of good (3 out of 4) for Use of Resources. Despite continued upward demand and cost pressure on services, through sound financial planning, the Council has consistently delivered year-on-year efficiency savings whilst continuing to deliver improvements against priority outcomes. The Council has achieved some £24 million in cashable savings over the last four years, as shown in the table below. In addition, the Council has achieved non-cashable savings of £5.5 million. The government target for total efficiencies over this period, cashable and non-cashable, was £24.4 million. The total efficiency savings, including non-cashable, achieved by Southwark over this period was £29.4 million, exceeding the government target by £5 million (20%).

Backward Looking Annual Efficiency Statements					
	2004/05	2005/06	2006/07	2007/08	Total
	£000	£000	£000	£000	£000
Adult Health & Social Care	712	605	1,248	952	3,517
Children's Services	717	325	480	593	2,115
Environmental Services	323	550	207	1,580	2,660
Local Transport	0	580	154	72	806
LA Social Housing	942	779	1,284	2,718	5,723
Non-School Educational Services	0	350	20	175	545
Supporting People	468	15	0	380	863
Homelessness	316	0	214	42	572
Corporate Services – Cross Cutting	525	864	2,561	1,138	5,088
Procurement – Cross Cutting	146	0	672	0	818
Transactions – Cross Cutting	683	298	0	0	981
Miscellaneous efficiencies	295	0	0	0	295
	5,127	4,366	6,840	7,650	23,983

EXPLANATORY FOREWORD

Performance Highlights

- 10.7. 2007/08 was a year of continued progress for the Council against our priority outcomes for *people*, *places* and delivering quality *services*. In February 2008, Southwark was assessed as a three star Council that is "improving well", according to the latest Comprehensive Performance Assessment (CPA) undertaken by the Audit Commission. The Annual Audit Letter notes that "services have improved in areas which are a priority, such as children's attainment at school and recycling. Public satisfaction with street cleaning and parks has also improved. The Council contributes positively to wider community objectives including reduction in crime, promotion of sustainable transport and community cohesion. Major plans also take account of the needs of hard to reach residents. Value for money is good".
- 10.8. The Council was judged to be 'performing well' within the Use of Resources assessment with improvements in internal control, value for money and financial reporting highlighted. Again the District Auditor has noted that the Council has in place clearly funded plans for further improvement and the majority of targets are met with no significant weaknesses in arrangements for securing continuous improvement.
- 10.9. In terms of improving life outcomes for *people*, pupils in our schools continue to improve their performance. GCSE results have risen for the 12th year in a row. There has been sustained improvement in Key Stage 2 results, especially amongst pupils from ethnic minority groups, with a rise in the rate for English from 73.3% to 76.5% and a rise in the rate for Maths from 68.9% to 71.6%, when compared to the previous year. In addition to this, Key Stage 4 (GCSE and equivalent) results in 2007 improved ahead of national trends, with 53% of pupils achieving 5+ A*-C, a 4% increase on 2006, compared to a 3% national increase. Across the borough there has been an improvement in Maths and Science, by one and three percentage points respectively, though English remained unchanged. This compares to the national increase of one percentage point in both English and Science and one percentage point decrease in Maths.
- 10.10. Ofsted has given Southwark a rating of 3 out of a possible 4 for the overall effectiveness of children's services in its Annual Performance Assessment. This was matched by a score of 3 for its capacity to improve.
- 10.11. The Council is achieving good outcomes for our more vulnerable communities. Southwark was assessed among the top 12% of councils nationally, achieving the maximum "excellent" CPA rating of 4 out of 4 for adult social care. Allied to this, in 2006/07 the Department of Health rated Southwark PCT as having provided a good quality of service to its patients and being good at managing its resources.
- 10.12. At the same time we are making Southwark safer for all *people*. The overall level of crime as measured by the British Crime Survey comparator has decreased throughout 2007/08. A 5% reduction in offences in 2007/08 has contributed to an overall 24% reduction on the 2003/04 baseline, which is significantly better than the government's reduction target of 20%.

EXPLANATORY FOREWORD

- 10.13. The Council is working in partnership to make the borough a better place. Our ambitious regeneration programme commits us to transforming Southwark in terms of physical environment and social regeneration and throughout the year we continued to progress major plans.
- 10.14. At a day to day level improving planning service performance is imperative to achieving longer term outcomes for place. The percentage of major planning applications processed within 13 weeks in quarter four was 86% which gave the Council a 2007/08 result of 65% against a target of 60%. This compares to 41% for 2006/07 and represents one of the fastest improving services in the Council year on year.
- 10.15. The Council is committed to achieving sustainable solutions to improving the borough as a place. The percentage of waste recycled or composted continued to rise, and the 2007/08 end of year outturn of 20% marks the sixth consecutive year that the borough has seen an increase in overall recycling rates. Our streets continue to get cleaner and resident satisfaction with cleanliness and recycling increased by 20% and 23% respectively between 2004 and 2006. The Council is also improving the 'public realm' with rising satisfaction with parks – our second most popular service – and over a quarter of open spaces at "Green Flag" standard. Furthermore, £25 million is being invested in highways and lighting infrastructure.
- 10.16. As mentioned in Note 8.1 above, Southwark has signed a 25-year PFI partnership with Veolia Environmental Services Plc which will help the Council achieve long term targets for waste minimisation across the borough, diversion of waste from landfill and meet its ambition of increasing the recycling rate to nearly 50% by 2021 and deliver better value for money for residents.
- 10.17. Delivering improved housing services is core to our plans for improving places. In February 2007 the Council launched the 100 Days of Change campaign which focused on improving areas that most mattered to residents. This was followed by a longer term improvement programme entitled "Changing for the Better", which aims to make Southwark's homes and neighbourhoods great places to live.
- 10.18. Key highlights within housing-related services for 2007/08 reflect good performance in the proportion of emergency or urgent repairs completed on time at 99.43%, which was well within the top quartile. Good performance as regards dealing with urgent repairs is set to the backdrop of a more personalised, customer friendly approach. The Council's call-back system aims to ensure that all repairs are carried out to a satisfactory standard, thus reducing the possibility for extra call outs at a later date.
- 10.19. Although the average re-let times of council properties remains behind target a dedicated team to tackle empty properties has been set up, with specific officers tasked to take each empty property through the repairs process and ensuring a more timely outcome.
- 10.20. The Council is transforming places through achieving progress with regards affordable homes. In 2007/08 775 new and affordable homes were built in the borough, which exceeded the target of 750.

EXPLANATORY FOREWORD

10.21. The Council is committed to delivering quality services for all and is a modern authority achieving efficient outcomes in how services are delivered. Our modernisation programme was taken further forward in 2007/08 with a focus on driving improvement by transforming the efficiency and effectiveness of the Council. This includes delivering an ambitious office accommodation programme which involves the relocation of in excess of 2,000 employees to a planned new building at 160 Tooley Street.

10.22. The Council's priorities, plans and good management of resources respond to local needs, with a commitment to reducing inequality underpinning all our plans. At the same time we are increasingly aware of the environmental impact of our plans and our resource strategies are being progressed in line with the emerging Climate Change Strategy for Southwark. This sets out our approach to achieving sustainable and cost effective ways to achieve the priorities of *Southwark 2016* under five key areas – energy and climate change, waste, water, transport and air quality.

11. FUTURE SERVICE DEVELOPMENTS AND EXPENDITURE PLANS

11.1. On 4th June 2008, the Council acquired 160 Tooley Street on a 25-year lease. The building comprises some 200,696 square feet. The move to Tooley Street will provide 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. At the same time, as part of a broader resourcing framework, the use of assets will be made more effective thus generating significant capital receipts to support the overall regeneration ambitions and improvements to services for all

11.2. As stated in 10.1 the Council has ambitious plans in place for improving life outcomes for *people, place* and delivering quality *services* in line with *Southwark 2016*, our sustainable community strategy. The new Local Area Agreement provides a key driver for our future plans. Furthermore the corporate plan and MTRS set out the framework for how the Council will deliver future plans and in line with this on 20th February 2008 Council Assembly agreed a three-year budget for 2008/09 – 2010/11. The agreement of the three-year budget provides further evidence of improvement in ensuring our plans are underpinned by sound planning and financial management. Through the policy and resources strategy – our aligned service and financial planning framework – the budget plans will be effectively delivered and reviewed to ensure they remain fit for purpose. The three-year budget plans are summarised in the table below.

EXPLANATORY FOREWORD

2007/08		2008/09	2008/09	2008/09	2009/10	2010/11
Net Expenditure	Department	Gross Expenditure	Income	Net Expenditure	Net Expenditure projection	Net Expenditure projection
£m		£m	£m	£m	£m	£m
83.0	Children's services	342.5	(244.3)	98.2	100.9	103.3
66.0	Environment and housing	107.5	(34.2)	73.3	76.8	80.3
94.0	Health and community services	161.3	(52.4)	108.9	130.8	133.9
3.5	Major projects	7.9	(3.9)	4.0	4.1	4.2
28.8	Regeneration	55.0	(21.8)	33.2	33.2	33.9
49.4	Deputy chief executive	254.8	(203.5)	51.3	53.3	53.6
6.5	Financial management services	9.0	(2.4)	6.6	6.5	6.5
5.7	Legal & democratic	14.2	(8.4)	5.8	6.0	6.2
(44.9)	Corporate support cost reallocations	0.0	(46.0)	(46.0)	(46.8)	(47.6)
(2.6)	Corporate budgets	24.8	(34.4)	(9.6)	(11.9)	(14.7)
289.4	Total General Fund cost of services	977.0	(651.3)	325.7	352.9	359.6
10.9	Cost of borrowing	63.9	(53.0)	10.9	10.9	10.9
(8.0)	Interest and Investment Income	0.0	(8.0)	(8.0)	(8.0)	(8.0)
2.9	Total cost of financing	63.9	(61.0)	2.9	2.9	2.9
(0.7)	Contribution to/(from) reserves	4.0	0.0	4.0	2.4	1.9
0.0	Area based grant	0.0	(23.6)	(23.6)	(43.4)	(43.1)
291.6	Amount met from government grants and local taxation	1,044.9	(735.9)	309.0	314.8	321.3
(30.4)	Revenue support grant			(27.3)		
(181.4)	Re-distributed non domestic rates (business rates)			(196.2)		
(211.8)	Formula grant			(223.5)		
0.7	Shortfall (surplus) on collection fund from previous year			(1.1)		
80.5	Council tax requirement			84.4		
No.	Council tax base (number of band d equivalent properties)			No.		
91,792				92,472		
£877	Southwark council tax			£912.14		

ANNUAL GOVERNANCE STATEMENT

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 2008 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 which were in place during the year.

ANNUAL GOVERNANCE STATEMENT

Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

The Council has played a leading role in the creation and development of 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).

Reviewing the authority's vision and its implications for the authority's governance arrangements

Since the publication of the Sustainable Community Strategy in 2006, the authority's governance arrangements have undergone a major review to better align them to the strategic themes of *people, place* and *services*.

A major review of the Council's constitution has also been in progress during the past year. The review is considering how the Council can improve its decision making and scrutiny functions, and the implication of legislative changes.

Alongside the constitutional review, we have reviewed the Council's overall governance arrangements to see how we comply with the principles and requirements of good governance set out in the CIPFA/SOLACE framework for good governance in local government. This review demonstrated that the Council's arrangements reflected the principles of good governance described in the framework and those principles have now been codified in the Council's Code of Corporate Governance, which was adopted by the Audit Committee in March 2008.

ANNUAL GOVERNANCE STATEMENT

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

Performance is monitored at all levels on a regular basis. The performance management framework is based on a hierarchy of indicators that differentiate between strategic deliverables and more specific indicators at a departmental level. The Corporate Plan includes key projects and performance indicators, plus project milestones. Performance is formally monitored and reported quarterly, on an exception basis, at meetings of the Executive and the Corporate Management Team. In addition, meetings are scheduled to take place between the Leader and each portfolio holder and strategic director quarterly to discuss performance issues in the broadest sense including key projects, costs, audit, risk and customer data. At a departmental level, departmental business plans form the basis of departmental 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.

The Council's Efficiency Strategy ensures the economical, effective and efficient use of resources. This Strategy was produced alongside the Medium Term Financial Strategy to ensure that Southwark has a robust four-year resources framework within which business plans are delivered. 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 most day-to-day decisions. 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.

ANNUAL GOVERNANCE STATEMENT

Since 1st July 2004, the Council has allowed 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 are 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 Director of Legal & Democratic Services 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 report templates to help 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.

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 of work 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 Contract Standing Orders, Corporate Anti-fraud Strategy and Whistleblowing Policy.

The Council also maintains an effective Standards Committee, consisting of councillors and independent members. 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 Standards Board and considers reports from the monitoring officer (the Director of Legal & Democratic Services) on unlawful expenditure, probity issues, and issues raised under the Whistleblowing Policy.

ANNUAL GOVERNANCE STATEMENT

A recent ethical governance survey of members and senior officers, conducted by the Audit Commission, helped identify areas for improvement in the communication of our policies and an action is in place.

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 Constitution, which incorporates Financial Standing Orders and Contract Standing Orders, is reviewed and updated annually, and during 2007/08 has undergone a major review.

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 a departmental scheme of management, which is updated on an ongoing basis. Detailed procedures and guidance for managers and staff are contained in the business managers' handbook, "Managing @ Southwark", on the Council's intranet. There is also a programme of finance training for staff and managers.

The Council's Risk Management Strategy was reviewed by the Audit Committee in February 2008 and approved by the Executive member for resources. The 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, how they will be managed and mitigated.

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

The Audit Committee (now Audit and Governance Committee) has been in operation since March 2007 and 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 quarterly 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.

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.

ANNUAL GOVERNANCE STATEMENT

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 Legal and Democratic Services department where the new policy, procedures, rules and regulations reflect new legislation.

The Strategic Director of Legal and Democratic Services is responsible for certain statutory functions such as acting with the Standards Committee 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.

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 unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment. The policy and procedures are published on the Council's website and intranet and provide avenues to raise concerns and receive appropriate feedback. They ensure that whistleblowers receive a response to their concerns, and provide reassurance that they will be protected from any reprisals or victimisation by the Council, if they made the disclosure in an appropriate manner and in good faith. All concerns raised under the Whistleblowing Policy are recorded by the Strategic Director of Legal and Democratic Services. 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 website. The procedure, originally approved in 2001 as part of the Customer Charter, was last reviewed in 2005 and is currently under review again.

A training programme for dealing with complaints has been developed and is provided by the Council's Corporate Learning and Development unit. Complaints are currently included in the induction programmes for various departments and the Council's corporate induction programme is to include an item on complaints.

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.

ANNUAL GOVERNANCE STATEMENT

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.

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

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 and community sectors, partners and public). There is also a biennial residents' survey (last undertaken in autumn 2006).

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.

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.

The Council's website has achieved recognition for providing excellent content and information. The Society of Information Technology Management has placed the Council's website in the top 20 out of 343 sites for "using plain English focused on the needs of the user". The report particularly praises the "excellent description of Council's vision, values and priorities... and clear explanation of what Council Tax will be spent on". It states that the site shows numerous examples of good practice, maintaining a constant measure of the highest standards. The Southwark site is one of only three to have appeared in the top 20 in the previous year.

ANNUAL GOVERNANCE STATEMENT

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.

A review of the Council's overall governance arrangements for partnership working will take place in 2008/09.

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.
- An assessment of the corporate governance arrangements against the CIPFA/SOLACE framework for good governance, which helped develop a Code of Corporate Governance for the Council.

ANNUAL GOVERNANCE STATEMENT

- 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 also carries out the Comprehensive Performance Assessment (CPA) and in its annual letter of March 2008, it stated that the Council had another successful year and has continued to deliver service improvements in key corporate priority areas. This is reflected in their conclusion that the Council is improving well and is demonstrating a three-star overall performance.
- 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 self-assessment declarations on the adequacy of the governance framework in departments, which include action plans to address significant weaknesses in internal control arrangements, 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.

Significant governance issues

1. The Council needs to deliver some £30 million of savings from more effective use of resources. To ensure that these efficiencies are realised, a programme of activities to deliver savings through to 2010/11 and beyond will be formalised by the Efficiency and Technology Board and Corporate Management Team, with support from modernisation partners, KPMG.
2. The Council is increasingly acting in partnership with other organisations in delivering its services and in pursuing its strategic objectives and efficiency targets. This kind of arrangement provides many benefits, but also presents challenges for all involved. The increasing use of partnership working has reminded the Council to review its framework for partnership working to provide assurance that the governance arrangements within the partnerships the Council belongs to are appropriate to manage the particular risks involved. The Corporate Management Team, in conjunction with our partners, will ensure that appropriate protocols exist for partnership working.
3. The overall performance of the Council's information systems has improved since the restructuring of the Information Services Division. However, further improvement is needed especially in relation to IT risk management and security. Further work is underway to review the recently consolidated function and its interface with the external providers of IT support (SERCO).

ANNUAL GOVERNANCE STATEMENT

4. Following establishment of the Major Projects department and Major Projects Board in February 2007, existing governance arrangements were analysed across all major projects and a new system of programme management established. Milestones, risks, scope, budget and other key areas are now reviewed on a monthly basis by the major projects Senior Management Team and quarterly by the Major Project Board.

Further work to improve the management of major projects will be implemented in 2008/09, and will include:

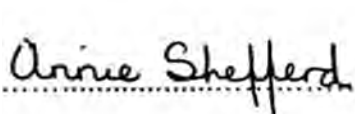
- Establishing an information management system
- Embedding key governance and accountability obligations related to the Elephant & Castle regeneration in a formal agreement between the preferred development partner and Southwark Council
- Further defining roles and responsibilities within the Elephant & Castle project team.

5. The District Auditor, whilst recognising improvements made and noting that performance management arrangements were sound, have recommended that the Council needs to strengthen processes and systems for performance indicators. To that end the Corporate Management Team has agreed principles and a data quality policy as a working framework with implementation and roll out through 2008/09 as part of the annual audit process

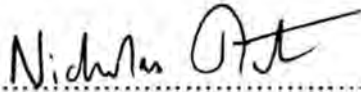
6. The Council has identified inconsistent performance in income collection and management of debt in the past year. To address this, a fundamental review of income and debt collection across all areas of the Council will be undertaken by the Finance Director in 2008/09. The review will identify opportunities to improve the income collection rates and reduce the levels of outstanding debt in all areas of the Council, particularly Council Tax and housing rents.

We propose over the coming year to take steps to address the above matters to further enhance 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 2007: A Statement of Recommended Practice (the "SORP"), the Best Value Accounting Code of Practice 2007 ("BVACOP"), and all relevant legislation and statements of good practice.
- 1.2. The 2007/08 Accounts have been presented in accordance with the 2007 SORP, which has changes from the 2006 SORP used to compile the 2006/07 Accounts, as explained from page 6. The 2007 SORP requires that where the changes in accounting practice for 2007/08 affect the balances brought forward from 2006/07, the changes to the balances are to be shown as movements in the year, rather than restating the 2006/07 Accounts. Where there are movements arising from the changes in accounting practice, the movements are shown in the relevant Notes.

2. COMPLIANCE WITH ACCOUNTING STANDARDS

EXCEPTIONS TO ACCOUNTING STANDARDS

- 2.1. These statements comply with all relevant accounting standards as applied within the 2007 SORP. There are no exceptions to the 2007 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 the full set of additional 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 2007/08 they are accounted for in 2007/08. Similarly, income due for goods and services provided in 2007/08 is accounted for in 2007/08.

STATEMENT OF ACCOUNTING POLICIES

- 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 1st April 2005. The scheme allocates tradable landfill allowances to each WDA in England.

STATEMENT OF ACCOUNTING POLICIES

- 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. 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 2007/08. 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.

3. CAPITAL ACCOUNTING

INTANGIBLE ASSETS

- 3.1. Intangible assets under the 2007 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 2007 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, 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.

STATEMENT OF ACCOUNTING POLICIES

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.

STATEMENT OF ACCOUNTING POLICIES

- 3.12. 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 impaired 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.
- 3.13. 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.
- 3.14. Rentals payable under operating leases are charged to the Income and Expenditure Account on an accruals basis.
- 3.15. 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

- 3.16. 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 non-operational investment properties
 - 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

- 3.17. 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.
- 3.18. The overall charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.

STATEMENT OF ACCOUNTING POLICIES

DEFERRED CHARGES

- 3.19. Deferred charges are fully amortised in the year they arise.

GOVERNMENT GRANTS AND CONTRIBUTIONS

- 3.20. 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.

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 de-recognised 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.

STATEMENT OF ACCOUNTING POLICIES

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.

CHARGE TO INCOME AND EXPENDITURE

- 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.
- 4.10. Accounting requirements for financial instruments came into effect on 1st April 2007 and involve a change in accounting policy. Comparative information for 2006/07 is not restated.

EXPOSURE TO FINANCIAL INSTRUMENTS

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

STATEMENT OF ACCOUNTING POLICIES

LIQUIDITY RISK

- 4.15. The Council has access to long term loan facilities from the Public Works Loans Board (an agency of the Government) to fund maturing debt and capital finance requirements. Investment may also be realised for working capital requirements.
- 4.16. The maturity profiles of Council debt and investments at 31st March 2008 are shown on pages 13 and 14.

CREDIT RISK

- 4.17. 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 Foreword to these accounts. The maximum exposure to credit risk is represented by the sums held in investments.
- 4.18. 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

- 4.19. The Council has exposure to interest rate movements in its borrowing and investments.
- 4.20. All Council borrowing outstanding at 31st March 2008 is at fixed rates, with an average maturity of 24 years and a modified duration of 12.4 (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 2013 (see the debt maturity chart in the Foreword, page 13) and there is no exposure to variable rate debt. A 1% rise in rates at the Balance Sheet date lowers fair value by £100m (a 1% fall raises it by £125m) 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.

STATEMENT OF ACCOUNTING POLICIES

4.21. The overall average life of financial assets (i.e. the Council's investments) is 0.5 years and the modified duration is 0.5. Within that, the available-for-sale investments have an average life of 0.8 years and a modified duration of 0.8. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £1.2m, 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 £0.1m, 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 addition to maintaining the register of Members' interests, the Council has obtained specific declarations from Councillors and Chief Officers for the financial year 2007/08. 77 declarations were requested and, at the time of preparing these Accounts, 73 have been completed and returned. Related party transactions were declared by 18 Councillors and Chief Officers:

- With voluntary bodies or charitable organisations that received funding totalling £2.3 million in 2007/08 (£2.6 million in 2006/07)
- With businesses or other organisations that have contracted for goods and services with the Council to the value of £20.3 million in 2007/08 (£25.5 million in 2006/07). Within this balance, the two largest entities transacting with the Council were Liberata UK Ltd, with payments of £11.9 million (£13.1 million 2006/07), and Southwark Primary Care Trust, with payments of £8.0 million (£11.7 million 2006/07)
- 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 together with their declarations of any related party transactions 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 £596 million revenue grant funding in 2007/08 (£652 million 2006/07), as shown in Note 54 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 2007: 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	2007/08 Net Expenditure £000	2006/07 Net Expenditure £000
Services' Income and Expenditure	1				
Central services to the public		93,226	(88,450)	4,776	(9,432)
Cultural, environmental & planning services	2 - 5	163,067	(63,859)	99,208	80,725
Children's and education services	6	362,622	(260,072)	102,550	21,989
Highways, roads and transport services		33,131	(17,264)	15,867	11,915
Local authority housing (HRA)		291,696	(260,925)	30,771	(72,117)
Other housing services		210,113	(196,965)	13,148	21,157
Social services	7	130,420	(36,604)	93,816	149,737
Coroners service		1,095	(856)	239	234
Corporate and democratic core	8	90,859	(78,713)	12,146	19,634
Non distributed costs	9	13,861	0	13,861	3,268
Net Cost of Services	10 - 17	1,390,090	(1,003,708)	386,382	227,110
(Surplus)/loss on the disposal of fixed assets				(5,868)	(1,819)
Precepts				27,894	26,433
(Surplus)/deficit on trading undertakings not included in Net Cost of Services	18			2,258	1,124
Interest payable and similar charges	19			84,597	64,753
Contribution of housing capital receipts to the Government pool	20			17,538	18,126
Interest and investment income	19			(17,556)	(13,697)
Pensions interest cost and expected return on pensions assets	17			2,788	2,156
Net Operating Expenditure				498,033	324,186
Demand on the Collection Fund				(107,731)	(103,764)
General government grants	21			(30,723)	(38,389)
Non domestic rates redistribution				(181,314)	(173,305)
(Surplus)/deficit for the year				178,265	8,728

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	2007/08 £000	2006/07 £000
(Surplus)/deficit for the year on the Income and Expenditure Account		178,265	8,728
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	22	(179,744)	(8,600)
(Increase)/decrease in General Fund Balance for the Year		(1,479)	128
General Fund Balance brought forward		(28,605)	(28,733)
General Fund Balance carried forward		(30,084)	(28,605)

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:

	2007/08 £000	2006/07 £000
Amount of General Fund Balance held by governors under schemes to finance schools	(12,740)	(11,771)
Amount of General Fund Balance, Council balances	(17,344)	(16,834)
	(30,084)	(28,605)

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.

	2007/08	2006/07
	£000	£000
(Surplus)/deficit for the year on the Income and Expenditure Account	178,265	8,728
(Surplus)/deficit arising on the revaluation of fixed assets	(429,288)	(146,126)
(Surplus)/deficit arising on the revaluation of available-for-sale financial assets	(531)	0
Actuarial (gains)/losses on pension fund assets and liabilities	(58,945)	(8,767)
Movement in the Collection Fund balance	(2,334)	1,827
Total recognised (gains)/losses for the year	(312,833)	(144,338)

BALANCE SHEET

BALANCES AT	Note	31/3/08 £000	31/3/08 £000	31/3/07 £000	31/3/07 £000
Intangible Assets	23		3,223		2,619
Tangible Fixed Assets	24				
Operational assets					
- Council dwellings		2,575,090		2,388,729	
- other land and buildings		580,994		562,179	
- vehicles, plant and equipment		3,495		5,101	
- infrastructure assets		116,272		97,301	
- community assets		33,243		18,524	
Non-operational assets					
- investment properties		101,659		61,091	
- assets under construction		5,701		26,857	
- surplus assets, held for disposal		148,505		61,242	
			3,564,959		3,221,024
Long term investments	25	29,630		0	
Deferred charges	26	0		0	
Deferred debtors	27	1,507		2,387	
Long term debtors	28	260		276	
Deferred debits	29	0		4,489	
			31,397		7,152
Total long term assets			3,599,579		3,230,795
Current Assets					
- stocks and work in progress		1,092		759	
- debtors	30	153,685		161,399	
- less provision for bad debts	31	(48,648)		(42,124)	
- investments	25	240,733		254,966	
- landfill usage allowance	4	356		1,084	
			347,218		376,084
Current Liabilities					
- borrowing repayable on demand or within 12 months	25	(54)		(54)	
- creditors	32	(128,316)		(112,636)	
- landfill usage liability	4	(254)		(831)	
- cash and bank		(5,810)		(20,445)	
			(134,434)		(133,966)
Total assets less current liabilities			3,812,363		3,472,913
Long term borrowing	25		(738,348)		(693,709)
Provisions	33		(20,253)		(23,745)
Capital grants unapplied	34		(43,545)		(35,451)
Grants deferred account	35		(88,785)		(68,781)
Deferred receipts	36		(2,926)		(2,366)
Deferred credits	37		0		(465)
Pension scheme liability	17		(213,189)		(255,912)
Total assets less liabilities	38		2,705,317		2,392,484

BALANCE SHEET

	Note	31/3/08 £000	31/3/07 £000
Represented by:			
Capital Adjustment Account	39	(2,333,505)	0
Capital Financing Account	40	0	(820,640)
Fixed Asset Restatement Account	41	0	(1,613,780)
Financial Instruments Adjustment Account	42	24,253	0
Revaluation Reserve	43	(402,408)	0
Available-for-sale Financial Instruments Reserve	44	(531)	0
Pensions Reserve	45	213,189	255,912
Capital Receipts Reserve	46	(67,771)	(75,871)
Major Repairs Reserve	47	(19,073)	(13,966)
Modernisation, Service & Operational Improvement Reserve	48	(5,305)	(4,982)
Regeneration & Development Reserve	49	(4,579)	(9,357)
Financial Risk Reserve	50	(9,811)	(5,627)
Capital Contingency Reserve	51	(2,703)	(2,500)
Other earmarked reserves	52	(35,593)	(36,945)
Balances			
- Housing Revenue Account	47	(30,361)	(37,422)
- Collection Fund		(1,035)	1,299
- Schools' balances	53	(12,740)	(11,771)
- General Fund		(17,344)	(16,834)
Total Equity		(2,705,317)	(2,392,484)

CASH FLOW STATEMENT

	Note	2007/08 £000	2007/08 £000	2006/07 £000
REVENUE ACTIVITIES				
Cash outflows				
Cash paid to and on behalf of employees		379,907		375,872
Other operating costs		606,856		632,921
Housing benefit (excluding rent rebates)		62,473		59,324
Payments into NNDR pool		119,917		117,468
Payment to preceptors		27,664		26,439
Payment to the Capital Receipts Pool		18,861		15,226
			1,215,678	1,227,250
Cash inflows				
Rents (net of rebates)		(168,775)		(153,451)
NNDR receipts		(132,486)		(108,425)
Contribution from Collection Fund		(83,782)		(85,846)
Government Grants	54	(596,257)		(651,729)
Sales and charges for services		(330,852)		(336,001)
			(1,312,152)	(1,335,452)
Net cash flow from revenue activities	55		(96,474)	(108,202)
SERVICING OF FINANCE				
Cash outflows				
Interest and premiums paid		91,008		52,290
Interest element of leasing payments		12		12
			91,020	52,302
Cash inflows				
Interest received		(21,301)		(11,475)
			(21,301)	(11,475)
CAPITAL ACTIVITIES				
Cash outflows				
Purchase of fixed assets		130,990		145,820
Deferred charges and deferred debtors		9,131		8,403
			140,121	154,223
Cash inflows				
Sale of fixed assets		(68,428)		(56,004)
Capital grants		(36,240)		(17,035)
Other capital cash receipts		(2,200)		804
			(106,868)	(72,235)
NET CASH FLOW BEFORE FINANCING			6,498	14,613
FINANCING				
Cash outflows				
Repayment of long term loans		200,000		134
Repayment of short term loans		0		0
			200,000	134
Cash inflows				
New long term loans		(236,000)		0
New short term loans		0	(236,000)	0
			(29,502)	14,747
MANAGEMENT OF LIQUID RESOURCES			51,231	(64,112)
(Increase)/decrease in liquid resources	57		21,729	(49,365)
(INCREASE)/DECREASE IN CASH AND EQUIVALENTS				
REPRESENTED BY MOVEMENTS IN CASH AND CASH EQUIVALENTS				
Net (increase)/decrease in bank balance			14,636	3,273
Net increase/(decrease) in realisable investments			(36,365)	46,092
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS			(21,729)	49,365

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 undertook commercial refuse collection in addition to its statutory refuse collection. In 2007/08 a surplus of £427,000 (£426,000 in 2006/07) occurred on a turnover of £3,283,000 (£3,236,000 in 2006/07).
- 2.2. The Council operates a number of industrial estates in the area. These produced an income of £1,569,000 (£1,422,000 in 2006/07) against expenditure of £694,000 (£742,000 in 2006/07).
- 2.3. The Council also rents out commercial properties. These produced an income of £1,539,000 (£1,432,000 in 2006/07) against expenditure of £1,180,000 (£1,100,000 in 2006/07).

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 £000	Non Chargeable £000	2007/08 Total £000	2006/07 Total £000
Expenditure				
Employees	673	306	979	922
Premises	40	18	58	128
Transport	6	3	9	14
Supplies & Services	63	29	92	106
Support Services	155	70	225	336
Total Expenditure	937	426	1,363	1,506
Income				
Building Regulation Charges	(1,110)		(1,110)	(708)
Deferred Charges			0	(257)
Dangerous Structures Income		(24)	(24)	(104)
Deferred Income			0	(19)
Total Income	(1,110)	(24)	(1,134)	(1,088)
(Surplus)/Deficit for the year	(173)	402	229	418

NOTES TO THE ACCOUNTS

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:

	2007/08 £000	2006/07 £000
Balance brought forward	(253)	(16)
LATS grant income	(285)	(1,070)
Allowances used in the year	254	831
Changes in valuation	182	2
Unused allowances carried forward	(102)	(253)

- 4.3. Accounting practice requires the receipt of the allowance to be recognised as a current asset in the Balance Sheet, and the use of the allowance as a deferred liability. Unused allowances, £102,000 (£253,000 in 2006/07), are carried forward within other earmarked reserves, Note 52 page 87.
- 4.4. There were no allowances bought or sold within the trading scheme in 2007/08 for use in 2007/08 or future years.

5. BUSINESS IMPROVEMENT DISTRICT SCHEMES

- 5.1. The Council is the billing authority for two business improvement districts (BIDs): Better Bankside and London Bridge. The Better Bankside BID started in April 2005, the London Bridge BID started in April 2006.
- 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 2007/08, the Council paid £810,354 to Better Bankside (£655,616 in 2006/07) and £669,540 to London Bridge (£687,945 in 2006/07).

NOTES TO THE ACCOUNTS

- 5.4. In addition, the Council charges the BIDs for administration costs including the cost of collecting and passing on the levy. In 2007/08 the costs for Better Bankside were £26,841 (£17,415 in 2006/07) and for London Bridge £25,030 (£19,947 in 2006/07).

6. DEDICATED SCHOOLS GRANT (DSG)

- 6.1. In 2006/07 the Government changed its funding for schools through local authority accounts. Previously funding was received through general government grant (Revenue Support Grant), but is now paid as a specific grant, Dedicated Schools Grant (DSG).
- 6.2. DSG is ring-fenced grant, and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately.
- 6.3. Details of the use of DSG received for 2007/08 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total 2007/08 £000	Total 2006/07 £000
Original grant allocation to Schools Budget for the current year in the Council's budget	(23,495)	(143,229)	(166,724)	(171,623)
Adjustment to finalised grant allocation	1,295	(996)	299	3,958
DSG received for the year	(22,200)	(144,225)	(166,425)	(167,665)
Expenditure in the year	21,605	142,483	164,088	163,881
(Under)/overspend for the year	(595)	(1,742)	(2,337)	(3,784)
Contributions to/(from) schools' balances	0	1,937	1,937	(1,020)
(Under)/overspend brought forward (Note 6.4)	(4,804)	0	(4,804)	0
(Under)/overspend carried forward	(5,399)	195	(5,204)	(4,804)

- 6.4. The figures for 2006/07 have been restated resulting in a carry forward of £4.804 million compared to £5.869 million in the 2006/07 accounts.

NOTES TO THE ACCOUNTS

7. POOLED FUNDS

7.1. Section 31 of the Health Act 1999 enables joint working arrangements between NHS bodies and local authorities. 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. The memorandum accounts below bring together the income and expenditure for the pooled arrangements:

Learning Disabilities Service

	2007/08 £000	2006/07 £000
Income		
LBS	(19,174)	(17,930)
PCT	(9,408)	(8,838)
	(28,582)	(26,768)
Expenditure	30,561	28,474
Net over/(under) spend	1,979	1,706
Shared as follows:		
LBS	1,326	1,143
PCT	653	563
	1,979	1,706

Integrated Community Equipment Service

	2007/08 £000	2006/07 £000
Income		
LBS	(1,091)	(1,214)
PCT	(291)	(255)
	(1,382)	(1,469)
Expenditure	1,370	1,518
Net over/(under) spend	(12)	49
Shared as follows:		
LBS	(10)	41
PCT	(2)	8
	(12)	49

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:

	2007/08	2006/07
	£000	£000
Income		
LBS	(10,381)	(8,863)
PCT	(40,932)	(42,090)
	(51,313)	(50,953)
Expenditure	52,363	52,551
Net over/(under) spend	1,050	1,598

- 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 2007/08 was £210,000 (£799,000 in 2006/07). Part of the reduction in the Council's share of the overspend is due to a change in share of the Council's contribution from 50% in 2006/07 to 20% in 2007/08.

8. MEMBERS' ALLOWANCES

- 8.1. The amount of members' allowances paid in 2007/08 was £1,346,461 (£1,259,680 in 2006/07).

9. NON DISTRIBUTED COSTS

- 9.1. Non distributed costs consist of:

	2007/08	2006/07
	£000	£000
London Pension Fund Authority levy	1,361	1,441
Pension contributions, past service costs	12,500	1,827
Total	13,861	3,268

- 9.2. Under accounting for FRS 17, non distributed costs includes the actuarially assessed contribution to the Pension Fund for past service costs rather than the actual payments made.

NOTES TO THE ACCOUNTS

9.3. There has been an introduction of a new Local Government Pension Scheme (LGPS) from 1st April 2008. The governing legislation was enacted in 2007/08 to be in place for the start of 2008/09. Under FRS 17 the past service cost at 31st March needs to take into account the liability into future years arising from the new scheme. The £12.5 million cost in 2007/08 can be analysed as £5.3 million arising from pension costs in the year and £7.2 million additional cost from the change in the LGPS scheme. These costs arising from FRS 17 are not a charge against Council Tax, as they are reversed out to the Pensions Reserve (Note 45 page 84) through the Statement of Movement on the General Fund Balance.

10. LOCAL AREA AGREEMENT (LAA)

10.1. The Council is a participant in an LAA – a partnership between Southwark Alliance, the local strategic partnership which the Council is member of, and the government, involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA has completed the first year of its three-year agreement.

10.2. The purpose of the LAA is to provide a joint commitment from the partners to deliver the priorities identified in the *Southwark 2016* community strategy. This strategy identifies three main objectives:

- Improving individual life chances for *people*
- Making the borough a better *place*
- Delivering quality public *services*.

10.3. The LAA partners are:

- *Public Bodies* - Southwark Primary Care Trust, Jobcentre Plus, Learning and Skills Council, Southwark Council, Metropolitan Police, South London and Maudsley NHS Trust, National Probation Service, Guy's and St Thomas NHS Foundation Trust, King's College Hospital, Environment Agency, Transport for London
- *Voluntary organisations* - Salmon Youth Centre, Southwark Multi Faith Forum, Southwark Friends of the Earth, Groundwork Southwark, Southwark 'Friends of Parks' groups, Bankside Open Spaces Trust, Crisp, British Trust for Conservation Volunteers, Living Streets, Sustainable Energy Action (SEA), Walworth Garden Farm, Southwark cyclists, SE London Greenpeace, Trust for Urban Ecology, London Wildlife Trust, Peckham Society, Dulwich Society, Camberwell Society, Dulwich Going Green, Volunteer Centre Southwark (Active Citizens' Hub Organisation) Southwark Human Rights, Race, and Equalities Board, Southwark Community Care Forum, Southwark Action for Voluntary Organisations, Southwark Group of Tenants Organisations, Southwark Housing Associations Group
- *Business community* - Southwark Chamber of Commerce, Enterprise Task Group
- *Resident representatives for the following areas* - Walworth, Bermondsey, Borough & Bankside, Camberwell, Dulwich, Nunhead & Peckham Rye, Peckham, Rotherhithe
- *Education sector bodies* - Head Teachers' Council, Southwark College, London South Bank University

NOTES TO THE ACCOUNTS

- 10.4. Southwark Council is the accountable body for the financial management of the LAA and for ensuring that robust performance management arrangements are in place. Although the LAA partnerships determine the use of funding, the formal accountability and decision-making rests with the Council. Southwark Council acts as principal for the partnership and has therefore recognised the full amount of LAA Grant in its financial statements.
- 10.5. The total amount of LAA grant received by the Local Strategic Partnership (LSP) in 2007/08 was £18,593,113.
- 10.6. As the accountable body for LAA grant, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems in place for distributing grant are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

11. AUDIT COSTS

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

	2007/08 £000	2006/07 £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)	543	534
Fees payable to the Audit Commission in respect of statutory inspection (Note 11.2)	151	26
Fees payable to the Audit Commission for the certification of grant claims and returns (Note 11.3)	263	411
Fees payable in respect of other services provided by the appointed auditor (see Note 11.4)	19	86
Total	976	1,057

- 11.2. Fees for statutory inspection have increased since last year to cover external audit inspections for the Comprehensive Performance Assessment process during 2007/08.
- 11.3. The 2006 SORP changed the way fees for grant claims and returns should be shown. 2006/07 was a transitional year to accommodate the change, leading to a higher level of disclosure in that year.
- 11.4. Other services provided by the appointed auditor consisted of work on Waste PFI (£8,000), Building Schools for the Future (£5,000), Whole of Government Accounts (£4,000), National Fraud Initiative (£1,300) and Risk Data (£1,000).

NOTES TO THE ACCOUNTS

12. LIABILITY IN RESPECT OF LEASED ASSETS

12.1. 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:

	2007/08	2006/07
	£000	£000
Assets used on a continuing basis:		
Operating leases - Council and staff vehicles	3,747	3,583
Operating leases - property	10,308	9,402
Hire purchase - fixed plant	12	12
Assets used on a one-off or occasional basis	767	739
Total	14,834	13,736

12.2. 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.

	2007/08	2006/07
	£000	£000
From 1 to up to 2 years		
Operating leases - Council and staff vehicles	2,368	3,447
Operating leases - property	9,950	10,642
Hire purchase - fixed plant	12	12
From 2 to up to 5 years		
Operating leases - Council and staff vehicles	2,180	5,069
Operating leases - property	11,057	19,289
Hire purchase - fixed plant	0	37
From 5 years upward		
Operating leases - Council and staff vehicles	0	20
Operating leases - property	16,074	15,846
Total	41,641	54,362

12.3. The Council has rental liabilities for office and other equipment, of £2.3 million per annum (£2.3 million 2006/07), which are not included in the table above.

NOTES TO THE ACCOUNTS

13. PUBLICITY

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

	2007/08 £000	2006/07 £000
Recruitment advertising	1,462	1,304
Council newspapers and other publications	325	307
Consultations and other publicity	2,989	3,446
Total	4,776	5,057

14. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

14.1. 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:

	2007/08 £000	2006/07 £000
Community safety warden training	101	22
Total	101	22

15. REMUNERATION OF EMPLOYEES

15.1. During 2007/08 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:

NOTES TO THE ACCOUNTS

Band (£)	Schools	Non schools	Number of employees	Number of employees
			2007/08	2006/07
50,000 - 59,999	148	129	277	232
60,000 - 69,999	47	61	108	106
70,000 - 79,999	31	26	57	36
80,000 - 89,999	5	14	19	18
90,000 - 99,999	3	4	7	12
100,000 - 109,999	3	3	6	3
110,000 - 119,999	0	4	4	2
120,000 - 129,999	1	1	2	2
130,000 - 139,999		2	2	3
140,000 - 149,999		2	2	2
180,000 - 189,999		1	1	0
210,000 - 219,999		2	2	1
Total	238	249	487	417

15.2. The table includes 40 staff with termination payments (16 in 2006/07).

16. EMPLOYEES PENSION COSTS

16.1. *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 2007/08 the Council paid £13.7 million (£13.4 million 2006/07) to the TPA in respect of teachers' pension costs, which represents 20.5% (19.5% 2006/07) 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 2007/08 these amounted to £113,059 (£84,955 2006/07).

16.2. *Employees who were transferred from the GLC or ILEA.* In 2007/08 the Council paid £666,000 (£360,000 2006/07) to the London Pension Fund Authority in respect of the pension costs for former employees of the GLC or ILEA. This represents 36% of pensionable pay (19.1% 2006/07). In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2007/08 there were no added years paid (£77,315 2006/07)

NOTES TO THE ACCOUNTS

- 16.3. *Other employees' pension costs.* In 2007/08 the Council paid an employer contribution of £27.7 million (£26.5 million 2006/07) into the Pension Fund, representing 21.2% of pensionable pay (16.5% 2006/07). The proportion of this contribution, which was estimated by the actuary to be attributable to current employees' liabilities (10.5%), 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 £6.5 million (£6.65 million 2006/07). The contribution is determined by the Fund's actuary, based on triennial valuations. Contribution rates for 2007/08 were based on the previous full review as at 31/03/04. 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 2007/08 these amounted to £0.22 million, representing 0.17% of pensionable pay (£1.92 million and 1.3% 2006/07)
- 16.4. The Accounts are prepared on the basis of the last triennial revaluation of the Fund, as at 31/3/04. Based on this valuation, to meet the requirements of FRS 17, Retirement Benefits, the Council would have been required to make a contribution of £20.9 million, representing 16.5% of pensionable pay (£23.91 million and 16.5% in 2006/07). The FRS 17 disclosure is shown fully at Note 17 page 58. The movement in the Pensions Reserve is shown at Note 45 page 84.
- 16.5. 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:

	2007/08	2007/08	2006/07	2006/07
	£000	% of total	£000	% of total
		pensionable		pensionable
		pay		pay
Capital cost of discretionary added years awarded in year, funded by the Pension Fund	454	0.4%	592	0.3%
Capital cost of discretionary added years awarded in previous years, funded by the Pension Fund	32,245		38,579	
Capital cost of discretionary added years awarded in year, funded by the Council	781	0.62%	195	0.07%
Capital cost of discretionary added years awarded in previous years, funded by the Council	31,238		29,651	

NOTES TO THE ACCOUNTS

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

17.1. 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.

17.2. 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 17.3 – 17.9, and for the London Pension Fund Authority pension fund in paragraphs 17.10 – 17.16. 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 106.

London Borough of Southwark Pension Fund

17.3. The London Borough of Southwark participates in the Local Government Pension Scheme, and is the Administering Authority. The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary. The most recent valuation was carried out as at 31st 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 31st March 2008. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

17.4. The main assumptions used for the purposes of FRS 17 are:

	2007/08	2006/07
	% p.a.	% p.a.
Discount rate for scheme liabilities	6.8	5.3
Discount rate for pension cost over following year	6.8	5.3
Rate of increase in salaries	5.2	4.7
Rate of increase in pensions in payment	3.7	3.0
Rate of inflation	3.7	3.2
Rate of return on Equities	7.6	7.7
Rate of return on Government Bonds	4.6	4.7
Rate of return on Corporate Bonds	6.8	5.3
Rate of return on Property	6.6	6.7
Rate of return on Other assets	6.0	5.6
Average long term expected rate of return	6.8	7.0

NOTES TO THE ACCOUNTS

17.5. Assets are valued at fair value, principally market value for investments. The proportions of total assets held in each asset type by the Fund as a whole are as follows:

	2007/08 %	2006/07 %
Equities	59	62
Bonds	20	16
Property	20	19
Other	1	3

17.6. The following amounts were measured in accordance with the requirements of FRS 17:

	2007/08 £000	2006/07 £000
Share of assets in London Borough of Southwark Pension Fund	(720,700)	(731,499)
Estimated liabilities in London Borough of Southwark Pension Fund	930,000	975,900
London Borough of Southwark's deficit in the scheme	209,300	244,401

17.7. The deficit above should be borne in mind when considering the amount of overall reserves held. The movement in the net deficit in 2007/08 can be shown as follows:

	2007/08 £000	2007/08 £000
Net deficit as at 31 st March 2007		244,401
Movement in the year:		
Current service cost	28,900	
Past service costs	12,500	
Gain/loss on any settlements or curtailments	0	
Contributions	(27,800)	
Finance Income:		
Net (return)/loss on assets	2,000	
Actuarial (gain)/loss	(50,701)	
Total movement in the year	<u>(35,101)</u>	(35,101)
Net deficit as at 31st March 2008		209,300

NOTES TO THE ACCOUNTS

17.8. Actuarial gains or losses identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31st March:

	2007/08		2006/07		2005/06		2004/05		2003/04	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	67,500	9.4	(4,100)	0.6	(100,000)	14.7	(20,900)	3.9	(61,500)	12.8
Differences between actuarial assumptions about liabilities and actual experience	39,900	4.3	2,000	0.2	(300)	0.03	15,300	1.9	600	0.1
Changes in demographic and financial assumptions used to estimate liabilities	(158,101)	17.0	(4,600)	0.5	67,200	7.2	146,900	18.0	(1,300)	0.2
Total actuarial loss/(gain)	(50,701)		(6,700)		(33,100)		141,300		(62,200)	

17.9. The actuary to the London Borough of Southwark Pension Fund estimates the charge to the Income and Expenditure Account in 2008/09 will be:

	2008/09 £000
Current service cost	20,400
Past service costs	0
Total operating charge	20,400
Expected return on Pension Fund assets	(48,900)
Interest on Pension Fund liabilities	63,200
	14,300
Total charge 2008/09	34,700

NOTES TO THE ACCOUNTS

London Pension Fund Authority Pension Fund

17.10. The London Pension Fund Authority (LPFA) participates in the Local Government Pension Scheme, and is the Administering Authority for its fund. The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary. The most recent valuation was carried out as at 31st March 2007, and has been updated by independent actuaries to the LPFA Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the Fund as at 31st March 2008. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

17.11. The main assumptions used for the purposes of FRS 17 are:

	2007/08	2006/07
	% p.a.	% p.a.
Discount rate	6.9	5.4
Rate of increase in salaries	5.1	4.7
Rate of increase in pensions in payment	3.6	3.2
Rate of inflation	3.6	3.2
Rate of return on Equities	7.7	7.8
Rate of return on Cash	4.8	4.9
Rate of return on Cashflow matching	4.5	4.5

17.12. The proportions of total assets held in each asset type by the Fund as a whole at 31st March are as follows:

	2007/08	2006/07
	%	%
Equities	12	14
Cash	2	2
Cashflow matching	86	84

17.13. The following amounts were measured in accordance with the requirements of FRS 17:

	2007/08	2006/07
	£000	£000
Share of assets in LPFA Pension Fund	(42,543)	(42,768)
Estimated liabilities in LPFA Pension Fund	46,432	54,279
London Borough of Southwark's deficit in the scheme	3,889	11,511

NOTES TO THE ACCOUNTS

17.14. The deficit above should be borne in mind when considering the amount of overall reserves held. The movement in the net deficit in 2007/08 can be shown as follows:

	2007/08	£000
	£000	£000
Net deficit as at 31 st March 2007		11,511
Movement in the year:		
Current service cost	433	
Past service costs	0	
Gain/loss on any settlements or curtailments	0	
Contributions	(663)	
Finance Income:		
Net (return)/loss on assets	788	
Actuarial (gain)/loss	(8,180)	
Total movement in the year	<u>(7,622)</u>	(7,622)
Net deficit as at 31st March 2008		<u>3,889</u>

17.15. Actuarial gains or losses identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31st March (figures are not available from the LPFA for years before 2004/05):

	2007/08		2006/07		2005/06		2004/05	
	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	(365)	0.9	1	0.0	(1,576)	3.7	(214)	0.5
Differences between actuarial assumptions about liabilities and actual experience	(4,139)	8.9	2	0.0	7	0.0	271	0.6
Changes in demographic and financial assumptions used to estimate liabilities	(3,676)	7.9	(2,059)	3.8	5,388	9.7	6,900	14.2
Total actuarial loss/(gain)	<u>(8,180)</u>		<u>(2,056)</u>		<u>3,819</u>		<u>6,957</u>	

NOTES TO THE ACCOUNTS

17.16. The actuary to LPFA Pension Fund estimates the charge to the Income and Expenditure Account in 2008/09 will be:

	2008/09 £000
Current service cost	352
Past service costs	0
Total operating charge	352
Expected return on Pension Fund assets	(2,033)
Interest on Pension Fund liabilities	3,134
	1,101
Total charge 2008/09	1,453

Pension Scheme Liability

17.17. 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.

17.18. The movements in the provision are determined by the actuary to each pension fund, the details of which are included in the above sections. The reduction in the liability in 2007/08 of £42.723 million, from £255.912 million to £213.189 million, arises largely from changes (improvement) in the actuarial assumptions of the projected value and performance of the two funds, of £58.881 million, offset by the difference (underpayment) between actual contributions and actuarially required contributions to the funds, of £16.158 million.

17.19. The total outstanding liability of the Council towards these pension funds, of £213.189 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.

NOTES TO THE ACCOUNTS

17.20. 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.

18. TRADING ACTIVITIES

18.1. 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
		2007/08	2007/08	2006/07	2006/07
		£000	£000	£000	£000
Building	18.2	(19,234)	409	(15,701)	105
Street & Metal Work Services		(3,907)	83	(3,823)	207
Refuse		(8,007)	133	(7,743)	100
Vehicle Management (Fleet)		(6,531)	30	(6,246)	(41)
Building Design Services	18.3	(3,103)	1,116	(6,352)	(181)
Integrated Cleaning Contract		(23,141)	487	(21,012)	502
Passenger Services	18.4	0	0	(762)	13
Total		(63,923)	2,258	(61,639)	705
Reallocation of profits/losses			0		419
Total in Net Operating Expenditure			2,258		1,124

18.2. In 2006/07 the Building division made a profit before FRS 17 adjustments of £419,000 from its housing repairs and maintenance activities. In accordance with the Best Value Accounting Code of Practice from CIPFA, this sum, being a material balance, was transferred back to the Housing Revenue Account Income and Expenditure Account. There were no similar levels of profits that needed to be redistributed back to services in 2007/08.

18.3. On 18th 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.

18.4. Passenger Services ceased trading in August 2006 and the service was transferred to Children's Services.

NOTES TO THE ACCOUNTS

- 18.5. 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 2007/08 £000	(Profit)/Loss 2007/08 £000	Turnover 2006/07 £000	(Profit)/Loss 2006/07 £000
Parking Trading Account	18.6	(11,356)	(2,463)	(10,422)	(3,439)
Total		(11,356)	(2,463)	(10,422)	(3,439)

- 18.6. 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 £1,532,000 (£1,757,000 in 2006/07), road network management £157,000 (£nil in 2006/07), street lighting £nil (£718,000 in 2006/07) and other highways expenditure £774,000 (£964,000 in 2006/07).

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

	Financial Liabilities	Financial Assets		Total
	Amortised Cost 2007/08 £000	Loans and Receivables 2007/08 £000	Available-for-sale 2007/08 £000	2007/08 £000
Interest expense	54,553			54,553
Derecognition - premiums in 2007/08	26,019			26,019
Derecognition - premiums before 2007/08	4,490			4,490
Total expense payable and other charges	85,062			85,062
Interest income and derecognition gains		(10,355)	(7,358)	(17,713)
Derecognition – discounts before 2007/08	(465)			(465)
Total Interest income and gains	(465)	(10,355)	(7,358)	(18,178)
Unrealised Revaluation Gains and Losses			(531)	(531)
Net losses/(gains) for the year	84,597	(10,355)	(7,889)	66,353

NOTES TO THE ACCOUNTS

- 19.1. 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.
- 19.2. For comparison, Interest expense on borrowing in 2006/07 was £60.919 million. Interest income on investments was £14.758 million, including unrealised loss on marketable investments. There were no derecognition gains or losses on borrowing in 2006/07.

20. CONTRIBUTION OF HOUSING CAPITAL RECEIPTS TO THE GOVERNMENT POOL

- 20.1. 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.

21. GENERAL GOVERNMENT GRANT

- 21.1. General government grant includes the receipt in 2007/08 of £0.287 million for Local Area Business Growth Incentive (LABGI) (£3.555 million LABGI 2006/07 and £1.379 million Local Public Sector Agreements 2006/07). See also Note 61.1 page 92.

NOTES TO THE ACCOUNTS

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

	Note	2007/08 £000	2006/07 £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		(1,309)	(502)
Depreciation and impairment of fixed assets		(130,423)	(8,962)
Grants Deferred amortisation		8,345	15,857
Write downs of deferred charges to be financed from capital resources		(9,131)	(8,403)
Net gain on sale of fixed assets excluding costs		5,868	1,991
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		(32,080)	0
Net charges made for retirement benefits in accordance with FRS 17		(44,621)	(33,224)
		(203,351)	(33,243)
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	22.1	2,715	2,204
Charges in relation to the refinancing of debt		7,826	0
Capital expenditure charged in the year to the General Fund Balance		11,708	11,969
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		(17,538)	(18,126)
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners		28,399	29,075
		33,110	25,122
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		(7,061)	5,428
Net transfer to or (from) the Major Repairs Reserve		(1,022)	(1,022)
Net transfer to or (from) earmarked reserves		(1,420)	(4,885)
		(9,503)	(479)
Net additional amount required to be credited to the General Fund Balance for the year		(179,744)	(8,600)

22.1. 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 2007/08 this was £2.715 million (£2.204 million 2006/07).

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

NOTES TO THE ACCOUNTS

23. INTANGIBLE ASSETS

	2007/08 £000	2006/07 £000
Original cost	3,121	1,547
Accumulated amortisation	(502)	0
Balance as at 1 st April	2,619	1,547
Expenditure in the year	1,425	1,574
Assets under construction brought into use	488	0
Amortisation in the year	(1,309)	(502)
Balance as at 31 st March	3,223	2,619

23.1. 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.

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

	£000
IT procurement	3,155
Geographical Information System	67
Care First	1
Total	3,223

23.3. IT procurement includes expenditure on the Offsite Records Storage Management (part of the Paperless Office project), enhancement of the corporate network systems and security, as well as software developments such as SAP upgrades, Business Warehouse and the asset accounting register (Logotech).

NOTES TO THE ACCOUNTS

24. TANGIBLE FIXED ASSETS

24.1. Movement of Fixed Assets 2007/08:

	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	£000
Gross Book Value at 01/4/07	2,424,992	585,842	23,174	116,795	18,524	61,091	26,857	61,242	3,318,517
Additions	71,960	27,904	1,087	16,801	6,763	76	3,738	2,002	130,331
Disposals	(28,960)	(5,015)	0	0	0	(5,750)	0	(6,745)	(46,470)
Revaluations	208,646	66,906	0	0	7,072	15,808	0	88,202	386,634
Restatements	0	0	0	0	0	(602)	0	0	(602)
Transfers	14,786	(38,972)	0	5,120	993	36,012	(24,894)	5,806	(1,149)
Impairment Losses	(80,315)	(31,289)	0	0	0	(5,055)	0	(2,002)	(118,661)
Past Impairment Reversals	0	0	0	0	0	0	0	0	0
Gross Book Value at 31/3/08	2,611,109	605,376	24,261	138,716	33,352	101,580	5,701	148,505	3,668,600
Accumulated depreciation b/f	(36,263)	(23,663)	(18,073)	(19,494)	0	0	0	0	(97,493)
Depreciation for the year	(36,019)	(7,180)	(2,693)	(2,883)	(27)	0	0	0	(48,802)
Depreciation on assets sold	0	0	0	0	0	0	0	0	0
Depreciation for revaluations	36,263	6,312	0	0	0	79	0	0	42,654
Depreciation for transfers	0	149	0	(67)	(82)	0	0	0	0
Depreciation for Impairment Losses	0	0	0	0	0	0	0	0	0
Depreciation on past impairments	0	0	0	0	0	0	0	0	0
Depreciation Balance at 31/3/08	(36,019)	(24,382)	(20,766)	(22,444)	(109)	79	0	0	(103,641)
Net Book Value at 31/3/08	2,575,090	580,994	3,495	116,272	33,243	101,659	5,701	148,505	3,564,959

24.2. 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.

24.3. 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 shown as work in progress whilst being carried out, and on completion will result in either an addition or in a revaluation. Differences between the change in valuation and the cost of these works are treated as impairments. £82.6 million (including £11.3 million work in progress from the previous financial year) was charged initially to the Income and Expenditure Account and on to the Capital Adjustment Account.

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

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

NOTES TO THE ACCOUNTS

	Council Housing	Other Land & Building	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Assets Under Construction	Surplus Assets	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets valued at Historic Cost	2,388,729	562,179	3,495	116,272	33,243	61,091	5,701	61,242	3,231,952
Assets valued at Current Value									
As at 01/0407	186,361	18,815	0	0	0	40,568	0	87,263	333,007
	2,575,090	580,994	3,495	116,272	33,243	101,659	5,701	148,505	3,564,959

24.6. The entire housing stock is valued on an annual basis, with estates under development and other potential impairments reviewed during the year. A total of £1.35 million of negative impairment was identified (i.e. an increase in value). 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.

24.7. There are significant redevelopments being undertaken or planned in the borough and a number of estates and hostels were categorised as non-operational assets as at 1st April 2007. 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.

24.8. 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. The Aylesbury Estate maintains good occupancy levels, consistent void levels and “Right to Buy” applications. Major works to the Heygate Estate are planned to commence in late 2008 as part of the Elephant & Castle Regeneration Programme. 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.

NOTES TO THE ACCOUNTS

24.9. 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, 90, includes 25 voluntary primary and 7 voluntary secondary schools.

	2007/08	2006/07
	No.	No.
Council dwellings, in use	40,498	41,086
Council dwellings, void	343	56
Operational assets		
Town & Public Halls	1	1
Office Buildings	53	47
Coroner's Court	1	1
Community Centres	23	23
Depots	7	2
Social Services - Residential Care	2	2
Social Services - Day Care Facilities	10	10
Social Services - Other/Offices	12	12
Cemeteries and Crematoria	4	4
Sports and Recreation Centres	10	10
Swimming Pools	4	4
Nurseries & Early Years	16	14
Schools - Primary	73	73
Schools - Secondary	10	10
Schools - Special	7	7
Libraries	12	12
Museums & Galleries	5	3
Waste Sites & Facilities	1	1
Shops	581	581
Industrial Sites	18	6
Car Parks	16	3
Community assets		
Parks	131	131
Infrastructure assets		
Roads	337km	337km

NOTES TO THE ACCOUNTS

24.10. Summary of capital expenditure and financing

How the money was spent:

	2007/08	2006/07
	£000	£000
Children's Services	17,878	32,774
Environment and Housing (non HRA)	28,249	13,233
Housing General Fund	2,627	4,039
Regeneration and Major Projects	11,640	13,100
Deputy Chief Executive's Department	2,837	4,496
Adult Health and Social Care	1,110	1,215
Total General Fund	64,341	68,857
HRA	75,886	78,599
Total	140,227	147,456

How the expenditure was financed:

	2007/08	2006/07
	£000	£000
Revenue contributions	11,708	11,969
Using supported borrowing approvals	25,798	25,822
Using capital receipts received from the sale of assets	43,500	35,927
Specific grants and other contributions	28,309	40,044
Major Repairs Allowance	30,912	33,694
Total	140,227	147,456

Expenditure by asset class:

	2007/08	2006/07
	£000	£000
Fixed assets	127,359	108,235
Deferred charges	9,131	8,403
Enhancements and work in progress	3,737	30,818
Total	140,227	147,456

NOTES TO THE ACCOUNTS

25. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

Financial Assets	Fair Value	Carrying Amount	Carrying Amount
	31/3/08	31/3/08	31/3/07
	£000	£000	£000
Available-for-sale – Current	127,591	127,591	0
Available-for-sale – Long Term	29,630	29,630	0
	157,221	157,221	0
Loans and Receivables – Current	116,355	114,850	
Investments at 31 st March 2007			256,923
Less Trust Fund balances	(1,708)	(1,708)	(1,957)
	114,647	113,142	254,966
Total	271,868	270,363	254,966
Presented as:			
Long term investments		29,630	0
Investments		240,733	254,966
Total		270,363	254,966
Financial Liabilities	Fair Value	Carrying Amount	Carrying Amount
	31/3/08	31/3/08	31/3/07
	£000	£000	£000
Financial Liabilities at Amortised Cost – Current	(54)	(54)	0
Financial Liabilities at Amortised Cost – Long Term	(932,128)	(738,348)	0
Borrowing – Short Term at 31 st March 2007	0	0	(54)
Borrowing – Long Term at 31 st March 2007	0	0	(693,709)
	(932,182)	(738,402)	(693,763)
Presented as:			
Borrowing repayable on demand or within 12 months		(54)	(54)
Long term borrowing		(738,348)	(693,709)
Total		(738,402)	(693,763)

NOTES TO THE ACCOUNTS

- 25.1. The available-for-sale, loans and receivables, and financial liabilities at amortised cost categories only refer to values at 31st March 2008. The fair value of investments at 31st March 2007 was £261.392 million. The fair value of short and long term borrowing at 31st March 2007 was £0.54 million and £873.281 million respectively. However, the 2007 SORP does not require the balances at 31st March 2007 to be restated in the Accounts.
- 25.2. Cash and bank balances in hand or overdrawn are shown at face value on the Balance Sheet.
- 25.3. 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.

26. DEFERRED CHARGES

	2007/08 £000	2006/07 £000
Opening balance	0	0
Expenditure in the year	9,131	8,403
Amortisation	(9,131)	(8,403)
Total	0	0

- 26.1. A deferred charge is expenditure which has been capitalised but which does not result in the acquisition of a tangible fixed asset or an addition to an existing asset. Deferred charges include grants to third parties to incur expenditure of a capital nature.
- 26.2. All deferred charges are fully amortised in the year they arise.

NOTES TO THE ACCOUNTS

27. DEFERRED DEBTORS

	2007/08 £000	2006/07 £000
Opening balance	2,387	1,600
New advances in the year	889	901
Repayments in the year	(436)	(114)
Fair value adjustment (Note 27.3)	(1,333)	0
Total	1,507	2,387
Represented by:		
Housing Associations	164	173
Right to Buy mortgages	494	601
Charges over Right to Buy for major works	849	1,613
Total	1,507	2,387

- 27.1. 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.
- 27.2. The Council has agreed a policy whereby, depending on meeting certain criteria, charges to Right to Buy leaseholders for major works can be deferred until death of the owner or sale of the property.
- 27.3. The introduction in 2007/08 of accounting for financial instruments (see Note 3 page 6), requires the re-assessment of loans to "fair value" rather than showing book value or cost. The fair value adjustment in 2007/08 relates only to the debtors for Right to Buy major works. The £1.333 million is made up of £866,000 adjustment to the opening (book) value brought forward and £467,000 on transactions in the year. The £1.333 million transfer is included in the Financial Instruments Adjustment Account (Note 42 page 83).

28. LONG TERM DEBTORS

	2007/08 £000	2006/07 £000
Health & Social Care	257	273
Works in default	3	3
Total	260	276

- 28.1. 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.

NOTES TO THE ACCOUNTS

29. DEFERRED DEBITS

	2007/08 £000	2006/07 £000
Opening balance	4,489	8,982
Amounts written off to revenue	(4,489)	(4,493)
Total	0	4,489

29.1. Deferred debits are premiums paid on restructuring the Council's external loan debt. The SORP and legislation previously allowed these to be charged to the Income and Expenditure Account over a number of years.

29.2. The balance at 1st April 2007 represented premiums attributable to the Housing Revenue Account only.

29.3. The 2007 SORP brought in a change in the accounting for premiums on debt redemption, under the introduction of accounting for financial instruments. As a result, the opening balance of premiums in 2007/08 was required to be fully written off to the Income and Expenditure Account (HRA) in 2007/08. However, legislation governing charges to the HRA, and additional legislation in 2007/08 on premiums, allow the write-off of the premiums to be taken to the Financial Instruments Adjustment Account (Note 42 page 83), leaving no net effect on the Income and Expenditure Account apart from the expected amortisation for the year.

30. DEBTORS

30.1. Debtors represent amounts owed to the Council by other parties. The Council has made provision for those debts it may not recover (Note 31 below).

	2007/08 £000	2006/07 £000
Government departments and other public bodies	30,976	45,285
Council tax payers	26,243	23,297
Housing rent payers	20,512	17,355
Leaseholders and freeholders (Note 30.2, 30.3)	24,712	20,779
Business rates payers	14,149	10,535
Expenditure in advance	3,795	5,428
Southwark Primary Care Trust	1,193	3,030
Financial assets accrued investment income	1,460	4,677
Financial assets trade date settlement (Note 30.4)	3,026	0
Debtors attributable to schools' accounts	1,719	1,404
Sundry debtors	25,900	29,609
Total	153,685	161,399

NOTES TO THE ACCOUNTS

- 30.2. The value of leaseholder debtors includes a reduction of £0.702 million 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.
- 30.3. From 2007/08 the recovery of costs from Right to Buy freeholders has been accounted for on an accruals basis, rather than on the statutory basis of when the invoices are raised after the end of the financial year. This is for accounting presentation only, and does not affect when freeholders are invoiced. In 2007/08 this amounts to £630,000.
- 30.4. Under accounting for financial instruments as introduced in 2007/08, financial assets are shown on the balance sheet at trade date. The £3.026 million represents sales of financial assets on or just before 31st March 2008, for which cash was not received in settlement until 1st April or just after.
- 30.5. Accrued interest on financial assets classified as available-for-sale is excluded from 2007/08 debtors and instead forms part of the financial assets' carry amount. Accrued interest on financial assets classified as loans and receivables remains within debtors.

31. PROVISIONS FOR BAD DEBTS

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Housing Benefits overpayments	(4,502)	679	(3,823)
Rent arrears	(9,887)	(655)	(10,542)
Hostels	(960)	(178)	(1,138)
Housing court costs	(532)	(60)	(592)
Commercial rent arrears	(215)	(18)	(233)
Bed & breakfast	(297)	(189)	(486)
Travellers	(123)	(17)	(140)
Private Sector Leasing	(592)	(54)	(646)
On street parking	(2,060)	(2,029)	(4,089)
Highway contractor overstayers	(581)	21	(560)
Council Tax	(15,644)	(2,342)	(17,986)
Council Tax summons costs	(1,224)	(362)	(1,586)
Non domestic rates collection	(4,080)	(1,486)	(5,566)
BCCI loss	(267)	82	(185)
Children's Services	(165)	57	(108)
Social Services	(529)	2	(527)
South Dock Marina	(160)	16	(144)
Other provisions individually less than £100,000	(306)	9	(297)
Total	(42,124)	(6,524)	(48,648)

NOTES TO THE ACCOUNTS

32. CREDITORS

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

	2007/08 £000	2006/07 £000
Government departments and other public bodies	(21,501)	(18,722)
Leaseholders' receipts in advance (Note 32.2)	(7,997)	0
Other income received in advance	(40,120)	(21,373)
Accrued debt interest (Note 32.3)	0	(15,077)
Council tax payers	(5,046)	(4,393)
Creditors attributable to schools' accounts	(5,123)	(3,965)
Business rates payers	(6,559)	(3,335)
Financial assets trade date settlement (Note 32.4)	(6,203)	0
Sundry creditors	(35,767)	(45,771)
Total	(128,316)	(112,636)

- 32.2. In 2007/08 leaseholders' contributions towards major works schemes that had not been spent by the end of the year were moved from HRA balances to creditors, receipts in advance.
- 32.3. Under accounting for financial instruments as introduced in 2007/08, accruals of debt interest are reflected in the value of the financial instruments, in this case long term borrowing, rather than as a creditor. The 2007 SORP does not require 2006/07 comparatives to be restated on the 2007/08 basis.
- 32.4. Under accounting for financial instruments as introduced in 2007/08, financial assets are shown on the balance sheet at trade date. The £6.203 million represents purchase of financial assets on or just before 31st March 2008, for which cash was not paid in settlement until 1st April or just after.
- 32.5. Accrued interest on financial liabilities at amortised cost is excluded from 2007/08 creditors and instead forms part of the financial liabilities' carried amount.

NOTES TO THE ACCOUNTS

33. PROVISIONS

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Insurance claims	(6,312)	(1,027)	(7,339)
Tax on leasing subsidy	(14,177)	3,544	(10,633)
Housing Benefits subsidy loss	(1,457)	130	(1,327)
Housing contract disputes	(836)	756	(80)
Children's Services contract disputes	(225)	100	(125)
Social Services contract disputes	(145)	0	(145)
Asylum seekers grant	(388)	0	(388)
Other provisions individually less than £100,000	(205)	(11)	(216)
Total	(23,745)	3,492	(20,253)

- 33.1. 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.

34. CAPITAL GRANTS UNAPPLIED

- 34.1. 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 and are amortised to the Income and Expenditure Account in line with the expected life of the asset the grant was spent on. Until 2006/07 the unapplied balances were included within the Grants Deferred Account, but are now shown separately.

- 34.2. Included in the total is £15.68 million of Section 106 receipts (£13.71 million at 31st March 2007).

35. GRANTS DEFERRED ACCOUNT

	2007/08 £000	2006/07 £000
Opening balance	(68,781)	(44,594)
Transferred from Capital Grants Unapplied	(28,349)	(40,044)
Amortisation	8,345	15,857
Total	(88,785)	(68,781)

- 35.1. There is a prior period adjustment to the opening 2006/07 balance, reducing the balance by £18.896 million, from £63.490 million to £44.594 million. This adjustment reflects balances that should have been transferred to the Capital Financing Account (Note 40 page 82) in periods before 2006/07.

NOTES TO THE ACCOUNTS

36. DEFERRED RECEIPTS

	2007/08 £000	2006/07 £000
Where the Council has granted a mortgage but no cash advance on the sale of Council dwellings	(2,528)	(1,860)
Charges on leaseholders' property for major works	(398)	(506)
Total	(2,926)	(2,366)

37. DEFERRED CREDITS

	2007/08 £000	2006/07 £000
Opening balance	(465)	(549)
Amounts written to revenue	465	84
Total	0	(465)

37.1. Deferred credits are discounts received on restructuring the Council's external loan debt. The SORP and legislation previously allowed these to be charged to the Income and Expenditure Account over a number of years.

37.2. The balance at 1st April 2007 represented discounts attributable to the Housing Revenue Account only.

37.3. The 2007 SORP brought in a change in the accounting for discounts on debt redemption, under the introduction of accounting for financial instruments. As a result, the opening balance of discounts in 2007/08 was required to be fully written off to the Income and Expenditure Account (HRA) in 2007/08. However, legislation governing charges to the HRA, and additional legislation in 2007/08 on discounts, allow the write-off of the discounts to be taken to the Financial Instruments Adjustment Account (Note 42 page 83) leaving no net effect on the Income and Expenditure Account apart from the expected amortisation for the year.

38. ANALYSIS OF NET ASSETS

	2007/08 £000	2006/07 £000
Housing Revenue Account	2,291,606	2,089,898
General Fund	413,711	302,586
Net assets shown in the Balance Sheet	2,705,317	2,392,484

NOTES TO THE ACCOUNTS

39. CAPITAL ADJUSTMENT ACCOUNT

	HRA £000	General Fund £000	2007/08 Total £000
Opening balance	0	0	0
Transfer opening balances from the Capital Financing Account	(555,041)	(265,599)	(820,640)
Transfer opening balances from the Fixed Asset Restatement Account	(1,512,218)	(101,562)	(1,613,780)
Transferred balances	(2,067,259)	(367,161)	(2,434,420)
Movements in the year -			
Capital financing			
- capital receipts	(19,613)	(23,887)	(43,500)
- revenue	(8,633)	(3,075)	(11,708)
- capital grants applied	0	(4,879)	(4,879)
- MRA applied	(30,912)	0	(30,912)
Amortisation of deferred charges	261	8,870	9,131
Depreciation	37,041	13,070	50,111
Impairment	83,969	34,692	118,661
Minimum Revenue Provision	0	(2,715)	(2,715)
Historic Value of Assets Sold	12,343	7,246	19,589
Other accounting entries			
- grants amortisation	(671)	(2,794)	(3,465)
- other adjustments	602	0	602
Total	(1,992,872)	(340,633)	(2,333,505)

39.1. The Capital Adjustment Account is a new non-distributable account in 2007/08, under the changes in the 2007 SORP on introducing Revaluation Reserve accounting. As part of the changes, the SORP has required the opening balances in 2007/08 on the Capital Financing Account and the Fixed Asset Restatement Account (FARA) to be consolidated into this new account.

39.2. The opening balance effectively consolidates revaluation gains accumulated up to that date with the consumption of capital financing. The effect of the pre-Revaluation Reserve revaluation gains (as transferred from the FARA) will reduce over time as assets held at 1st April 2007 are sold or decommissioned, but in the medium term there are likely to be material movements in the Capital Adjustment Account until the new Revaluation Reserve is fully established.

NOTES TO THE ACCOUNTS

40. CAPITAL FINANCING ACCOUNT

	HRA £000	General Fund £000	2007/08 Total £000	2006/07 Total £000
Opening balance	(555,041)	(265,599)	(820,640)	(776,187)
Transfer opening balances to the Capital Adjustment Account	555,041	265,599	820,640	0
Capital financing in the year	0	0	0	(44,453)
Total	0	0	0	(820,640)

40.1. There is a prior period adjustment to the opening 2006/07 balance, increasing the balance by £18.896 million, from £757.291 million to £776.187 million. This adjustment reflects balances that should have been transferred from the Grants Deferred Account (Note 35 page 79) in periods before 2006/07.

40.2. The 2007 SORP introduced Revaluation Reserve accounting. As part of the changes, the SORP has required the opening balances in 2007/08 on the Capital Financing Account and the Fixed Asset Restatement Account to be consolidated into one new account, the Capital Adjustment Account, Note 39 above.

41. FIXED ASSET RESTATEMENT ACCOUNT

	HRA £000	General Fund £000	2007/08 Total £000	2006/07 Total £000
Opening balance	(1,512,218)	(101,562)	(1,613,780)	(1,511,983)
Transfer opening balances to the Capital Adjustment Account	1,512,218	101,562	1,613,780	0
Movements in valuation in the year	0	0	0	(101,797)
Total	0	0	0	(1,613,780)

41.1. The 2007 SORP introduced Revaluation Reserve accounting. As part of the changes, the SORP has required the opening balances in 2007/08 on the Capital Financing Account and the Fixed Asset Restatement Account to be consolidated into one new account, the Capital Adjustment Account, Note 39 above.

NOTES TO THE ACCOUNTS

42. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

	HRA £000	General Fund £000	2007/08
			Total £000
Opening balance	0	0	0
Premiums and discounts arising from refinancing debt in previous years	4,025	0	4,025
Premiums and discounts arising from refinancing debt in 2007/08	22,206	3,813	26,019
Amortisation	(7,767)	(59)	(7,826)
Interest rate differences	2,035	0	2,035
Total	20,499	3,754	24,253

42.1. 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.

43. REVALUATION RESERVE

	HRA £000	General Fund £000	2007/08
			Total £000
Opening balance	0	0	0
Unrealised gain/(loss) from revaluation of fixed assets			
Revaluations	(274,282)	(112,352)	(386,634)
Revaluations, depreciation	(37,285)	(5,369)	(42,654)
Value of assets disposed of			
Disposals	18,812	7,665	26,477
Disposals, depreciation	0	403	403
Total	(292,755)	(109,653)	(402,408)

NOTES TO THE ACCOUNTS

43.1. The Revaluation Reserve is a new non-distributable account in 2007/08, introduced by the changes under the 2007 SORP. The account shows upwards movements in valuations, on an asset by asset basis. The account also 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.

43.2. On the introduction of the Reserve in 2007/08, the SORP has prescribed that the opening reserve balance for each individual asset should be nil.

44. AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS RESERVE

	HRA £000	General Fund £000	2007/08 Total £000
Opening balance	0	0	0
Unrealised (gain)/loss from fair value measurement	0	(531)	(531)
Total	0	(531)	(531)

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

45. PENSIONS RESERVE

	2007/08 £000	2006/07 £000
Opening balance	255,912	260,530
Actuarial (gain)/loss – Council pension fund	(50,701)	(6,700)
Actuarial (gain)/loss – LPFA pension fund	(8,180)	(2,056)
Settlement of actual pensions' contributions against liabilities due, to the Statement of Movement on the General Fund Balance	16,222	4,148
Reconciling items to the Pensions Liability	(64)	(10)
Total	213,189	255,912

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

45.2. Movements in the actuarial gains and losses are shown in more detail in Note 17 page 60.

NOTES TO THE ACCOUNTS

46. CAPITAL RECEIPTS RESERVE

	2007/08 £000	2006/07 £000
Opening balance	(75,871)	(83,604)
Gross capital receipts from sale of assets	(52,938)	(46,528)
Less:		
Transfer to the Income and Expenditure Account	17,538	18,334
Capital receipts used for financing capital expenditure	43,500	35,927
Total	(67,771)	(75,871)

46.1. 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.

46.2. In 2007/08 £15.49 million was received for the disposal of sites F, S and U at Bermondsey Spa. Although received in 2007/08, a condition relating to the completion of the disposal was not met by 31st March 2008. Therefore this receipt is held in the capital receipts reserve but is not considered usable until the condition is met in 2008/09.

47. MAJOR REPAIRS RESERVE AND HRA BALANCE

47.1. Movements in these balances are shown in Notes 5 and 6 to the Housing Revenue Account statements, pages 97 and 98.

48. MODERNISATION, SERVICE & OPERATIONAL IMPROVEMENT RESERVE

48.1. 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, in particular to assist accommodation pressures. The use of the reserve is subject to a protocol listing admissible items in accordance with the Council's Medium Term Resources Strategy.

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Modernisation, Service & Operational Improvement Reserve	(4,982)	(323)	(5,305)

NOTES TO THE ACCOUNTS

49. REGENERATION & DEVELOPMENT RESERVE

49.1. 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, Aylesbury Estate, Southwark Schools for the Future, and land acquisitions associated with these projects. In 2006/07 the balance on this reserve included Dedicated Schools Grant carried forward (£4.804 million), but this is now shown in "Other Earmarked Reserves" (Note 52 below).

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Regeneration & Development Reserve	(9,357)	4,778	(4,579)

50. FINANCIAL RISK RESERVE

50.1. 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 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Financial Risk Reserve	(5,627)	(4,184)	(9,811)

51. CAPITAL CONTINGENCY RESERVE

51.1. 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. In 2006/07 this reserve was shown as an item in Other Earmarked Reserves (Note 52 below).

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Capital Contingency Reserve	(2,500)	(203)	(2,703)

NOTES TO THE ACCOUNTS

52. OTHER EARMARKED RESERVES

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

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Internal audit contracts	(204)	(71)	(275)
Town Hall complex building enhancements	(134)	134	0
CSC advance payment (Note 52.2)	(584)	584	0
CSC back office developments	(655)	408	(247)
CSC business process review	(293)	74	(219)
GIS	(130)	0	(130)
Peckham Pulse	(535)	224	(311)
Planned Maintenance Fund	(174)	(372)	(546)
Housing Benefits Subsidy equalisation	(6,489)	0	(6,489)
Future pensions commitments (Note 52.3)	(3,000)	0	(3,000)
Legal and democratic services improvement programme	(65)	(293)	(358)
Landfill Allowance Trading Scheme	(253)	151	(102)
Sumner Road & East Dulwich Refurbishment	0	(350)	(350)
Waste PFI Equalisation Reserve	(200)	(507)	(707)
Other reserves individually less than £100,000	(238)	(107)	(345)
Total	(12,954)	(125)	(13,079)

52.2. CSC advance payment. This is a non cash backed reserve. In 2004/05 the Council made an upfront payment for the development of the Customer Service Centre, of £10 million. Accounting practice requires that the payment is not shown in the Income and Expenditure Account in the year the payment is made, but spread over the years in which the benefit from the upfront payment arises. 2007/08 was the final year of writing the balance down.

52.3. 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.

52.4. Waste PFI equalisation reserve, £707,000. This reserve represents the difference in timing of the Government's funding of a PFI scheme against the assessed spending need of the Council. The surplus of funding in the early years of the project is carried forward to meet spending needs in later years, as a result of government funding reducing in those years.

NOTES TO THE ACCOUNTS

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

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Dedicated Schools Grant Reserve (Note 52.6)	(4,804)	(400)	(5,204)
DSO	(61)	21	(40)
Strategic Services management and development	(150)	0	(150)
Signage	(108)	0	(108)
Schools reorganisation costs	(150)	150	0
Blackfriars trust allocation	(138)	0	(138)
On street parking	(146)	47	(99)
Election costs	(434)	0	(434)
Local Public Sector Agreements	(1,800)	1,006	(794)
Adult Learning	136	0	136
Street trading account	120	(108)	12
Legal Client Monies	0	(110)	(110)
	(7,535)	606	(6,929)

52.6. The Dedicated Schools Grant (DSG) Reserve represents DSG underspend carried forward. Previously this had been included as part of the Regeneration and Development Reserve (Note 49 page 86).

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

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Schools in financial difficulties, schools closures and academies	(1,564)	296	(1,268)
Interest equalisation	(4,000)	0	(4,000)
Commutation adjustment	(1,708)	0	(1,708)
Insurance	(8,678)	356	(8,322)
Other reserves individually less than £100,000	(506)	219	(287)
	(16,456)	871	(15,585)

NOTES TO THE ACCOUNTS

52.8. Summary of other earmarked reserves:

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Specific projects and planned commitments	(12,954)	(125)	(13,079)
Departmental (under)/over spends	(7,535)	606	(6,929)
Future risks and programmes not yet fully committed	(16,456)	871	(15,585)
	(36,945)	1,352	(35,593)

53. SCHOOLS' BALANCES

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

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Funds held by schools	(10,727)	(900)	(11,627)
Nursery school balances	(1,044)	(69)	(1,113)
	(11,771)	(969)	(12,740)

54. ANALYSIS OF GRANTS SHOWN IN CASH FLOW STATEMENT

	2007/08 £000	2006/07 £000
Revenue Support Grant and pool contribution	(113,311)	(115,205)
Housing subsidy	(49,053)	(60,377)
Education grants	(215,363)	(258,330)
Housing benefits (excluding rent rebates)	(158,694)	(157,119)
Other grants	(59,836)	(60,698)
	(596,257)	(651,729)

NOTES TO THE ACCOUNTS

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

	2007/08		2006/07
	£000	£000	£000
Net expenditure/(income) on General Fund	(510)		(1,278)
Net expenditure/(income) on HRA and Major Repairs Reserve	1,954		(8,662)
Net expenditure/(income) on Collection Fund	(2,334)		1,827
Total	(890)		(8,113)
Net revenue income as per cash flow statement	(96,474)		(108,202)
Net interest paid as per cash flow statement	69,719		40,827
Add:			
Decrease in debtors	7,714		0
Increase in creditors	15,679		11,427
Depreciation and capital payments	180,480		58,764
Decrease in deferred debits	4,489	208,362	4,493
74,684			
Less:			
Increase in stocks and work in progress	(333)		(121)
Decrease in deferred credits	(465)		(84)
Increase in debtors	0		(2,786)
Decrease in Provisions and Reserves	(181,699)	(182,497)	(12,431)
Total	(890)		(8,113)

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

	2007/08	2006/07
	£000	£000
Long term loans		
Balance as at 1 st April	693,763	693,897
Repayments of amounts borrowed	(200,000)	(134)
New borrowings	236,000	0
Interest accruals charged direct to loans	8,639	0
Balance as at 31 st March	738,402	693,763
Short term borrowing		
Balance as at 1 st April	0	0
Repayments of amounts borrowed	0	0
New borrowings	0	0
Balance as at 31 st March	0	0

NOTES TO THE ACCOUNTS

57. LIQUID RESOURCES

57.1. 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.

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

	Balance 31/3/07 £000	Movement In 07/08 £000	Balance 31/3/08 £000
Investments, liquid resources	149,498	51,231	200,729
Investments, realisable investments	105,468	(35,834)	69,634
Investments, Balance Sheet	254,966	15,397	270,363

58. INSURANCE

58.1. 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 st May 2003
Property - housing fire	100,000	1 st May 2002
All risks	100,000	1 st May 2002
Motor	112,500	1 st Oct 2006
Liability	100,000	1 st May 2003
Fidelity guarantee	10,000	1 st May 2002

58.2. Provisions of £7.339 million (£6.312 million 2006/07) have been made for outstanding claims and £8.322 million (£8.678 million 2006/07) has been reserved from General Fund balances to meet other potential losses.

58.3. 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.

59. EURO DISCLOSURE

59.1. 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.

NOTES TO THE ACCOUNTS

60. SIGNIFICANT EVENTS

- 60.1. On 11th 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.
- 60.2. 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 9th 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 11th 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.
- 60.3. Contact payments of £2.358 million were made to Veolia in 2007/08 under this scheme.

61. POST BALANCE SHEET EVENTS

- 61.1. On 26th June 2008 the Department for Communities and Local Government published the 2007/08 grant determination for the Local Authority Business Growth Incentive (LABGI), including additional amounts relating to previous years. The determination for Southwark is £6.832 million. LABGI is required to be accounted for in the year of receipt, not the year of performance the award relates to. The receipt in 2008/09 will be credited to the Regeneration and Development Reserve to support the Council's strategic regeneration programme.
- 61.2. On 4th 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 will provide 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.
- 61.3. Since 31st March 2008 the UK and world financial markets have been very volatile. Markets improved in April and May, followed by significant falls since that time. At 31st March 2008 the Council had investments of £270.363 million (Note 25 page 73). Of this, £114.850 million was invested in fixed term fixed interest deposits and variable rate deposit accounts, the value of these investments was unaffected by movements in the financial markets. The remainder, £155.513 million, was invested in government gilts, certificates of deposits and supranational bonds which, at the balance sheet date, had generated unrealised gains of £531,000 (Note 44 page 84). Since 31st March sales and maturities of these assets have given rise to realised losses of £255,000 and gains of £82,000, a net loss of £173,000, which have been offset against the £531,000 unrealised gains at the balance sheet date.
- 61.4. There were no losses arising from investments with Icelandic banks.

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	2007/08 £000	2006/07 £000
Income			
Dwelling rents		(149,997)	(143,755)
Non dwelling rents		(8,861)	(8,533)
Charges for services and facilities		(49,207)	(50,822)
Contributions towards expenditure		(3,576)	(5,589)
HRA subsidy receivable (including MRA)	1,6	(49,284)	(60,756)
Total income		(260,925)	(269,455)
Expenditure			
Repairs and maintenance		56,182	54,671
Supervision and management		107,069	100,599
Rents, rates, taxes and other charges		4,155	3,520
Depreciation and impairment of fixed assets	2	121,010	37,330
Debt management costs		329	308
Increase in provisions for bad debts		2,690	303
Amortisation of deferred charges	3	261	607
Total expenditure		291,696	197,338
Net Cost of HRA Services included in the Council's Income and Expenditure Account		30,771	(72,117)
HRA share of CDC costs		1,059	1,035
Net Cost of HRA Services		31,830	(71,082)
Gains and losses on the sales of HRA fixed assets		65	(459)
Interest payable and similar charges		46,171	51,472
Amortisation of premiums and discounts		26,231	4,409
Interest and investment income		(2,278)	(1,953)
Pensions interest cost and expected return on pensions assets	10	239	177
Total (surplus)/ deficit for the year		102,258	(17,436)

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	2007/08 £000	2006/07 £000
(Surplus)/deficit for the year on HRA services		102,258	(17,436)
Net additional amounts required by statute	4	(95,197)	12,008
(Increase)/decrease in the HRA Balance		7,061	(5,428)
HRA Balance brought forward		(37,422)	(31,994)
Balance carried forward	5	(30,361)	(37,422)

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. HRA SUBSIDY

- 1.1. Subsidy is receivable from the Government on the basis of assumptions made for the major income and expenditure headings within the Housing Revenue Account (HRA). These assumptions form a notional account (see below), the balance of which forms the 'Housing Element' of subsidy.
- 1.2. The HRA is charged for any limitation of (General Fund) Housing Benefit Subsidy. Average rent and relevant service charges were within the rebate rent limit, therefore there was no limitation deduction in 2007/08. However there was a prior year adjustment of £0.382 million in respect of 2006/07.

	2007/08 £000	2006/07 £000
Management & Maintenance allowances	(101,591)	(103,997)
Major Repairs Allowance	(36,019)	(36,308)
Capital Charges subsidy	(63,692)	(67,910)
Other Expenditure (leased assets) subsidy	(1,717)	(1,719)
Rental Constraint Allowance	(4,017)	(1,944)
Interest on Receipts deduction	59	70
Guideline rent income deduction	157,311	150,825
Housing Element subsidy	(49,666)	(60,983)
Housing Benefit subsidy limitation deduction	382	227
Total Housing Subsidy	(49,284)	(60,756)

2. DEPRECIATION AND IMPAIRMENT CHARGES

	2007/08 £000	2006/07 £000
Dwellings depreciation	36,019	36,308
Other property depreciation	1,022	1,022
Impairment	83,969	0
Total	121,010	37,330

- 2.1. The £83.969 million impairment charge in 2007/08 relates to capital expenditure carried out on dwellings which has not changed the value of those dwellings. The Borough Valuer has confirmed that, in the circumstances prevailing in 2007/08, this capital expenditure would not lead to a change in the value of the assets concerned, as the capital expenditure would not change the rental streams from those assets. The valuation of dwellings under EUV-SH (Note 3.6 page 34) is primarily based on rental streams from dwellings, and therefore the expenditure has been impaired from fixed assets. The 2007 SORP requires this impairment to be charged to the HRA Income and Expenditure Account and then reversed out to the Capital Adjustment Account through the Statement of Movement on the HRA Balance (see Note 4 below), with no net effect on the HRA. Previously this transaction would have been carried out within the Balance Sheet only. The 2007 SORP requires that 2006/07 comparatives are not restated for 2007 SORP changes.

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

3. DEFERRED CHARGES

3.1. Deferred charges represent expenditure which has been capitalised but which does not result in the acquisition or increased value of a tangible fixed asset. HRA deferred charges are 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. HRA deferred charges are included in the figures presented at Note 26 to the Balance Sheet (page 74):

	2007/08 £000	2006/07 £000
Opening balance	0	0
Expenditure in the year	261	607
Amortisation in the year	(261)	(607)
Total	0	0

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

	2007/08 £000	2007/08 £000	2006/07 £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	(18,464)		0
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	(2,035)		0
Impairment including write-down of capital works	(83,969)		0
Amortisation of deferred charges and credits from the grants deferred account	410		1,959
Gains and losses on the sales of HRA fixed assets excluding costs	(65)		631
Net charges made for retirement benefits in accordance with FRS 17	(3,406)		(3,527)
		(107,529)	(937)
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	(1,022)		(403)
Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners	4,721		4,160
Capital expenditure funded by the HRA	8,633		9,188
		12,332	12,945
Net additional amount required by statute to be charged to the HRA		(95,197)	12,008

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

5. HRA BALANCE

5.1. HRA reserves at 31st March 2008 are £30.4 million and are allocated as follows:

	2007/08 £m	2006/07 £m
Regeneration and Development Reserve	12.1	7.0
Modernisation, Service and Operational Improvement Reserve	1.3	5.0
Financial Risk Reserve	11.3	19.7
Other earmarked reserves	5.7	5.7
Total	30.4	37.4

5.2. The Regeneration and Development Reserve, £12.1 million, comprises £7.4 million towards achieving Decent Homes and £4.7 million for Major Projects, including the Aylesbury, Heygate and Elephant & Castle regeneration programmes.

5.3. The Modernisation, Service and Operational Improvement Reserve, £1.3 million, comprises £0.3 million for planned maintenance and refurbishment of office accommodation and £1.0 million for IT modernisation, including infrastructure, e-government and customer access initiatives.

5.4. The Financial Risk Reserve, £11.3 million, comprises £5.1 million Contingency reserve, broadly representing 1.2% of gross HRA revenue spend and Housing Investment Programme spend, and includes £4.7 million earmarked to balance the cash flow needed for deferred housing subsidy funding, relating to the Rental Constraint Allowance, which is payable in arrears. The Reserve also provides £2.0 million to self-insure against the risks of subsidence in the Council's housing stock, a £1.1 million leasehold reserve to mitigate against potential future leasehold income shortfalls, £2.0 million for interest equalisation to mitigate the financial effects on the HRA of Council debt restructuring, and £1.1 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, £5.7 million, comprises a range of specific reserves, for example tenants fund, leaseholders fund, Browning TMO, etc, totalling £1.0 million. The balance also includes one-off (non-recurring) schemes and projects aimed at improving customer service and delivery across the housing service, and to meet specific cost pressures outside the existing revenue budget. Service improvement allocations include Environment and Housing £2.4 million, Regeneration and Neighbourhoods £0.5 million and Strategic Services £1.1 million.

5.6. In 2007/08 leaseholders' contributions towards major works schemes that had not been spent by the end of the year were moved to creditors, receipts in advance, £7.997 million.

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

6. MAJOR REPAIRS RESERVE

	2007/08 £000	2006/07 £000
Opening balance	(13,966)	(10,732)
Transfers from the Capital Adjustment Account	(37,041)	(37,330)
Transfer to the HRA	1,022	1,022
Interest received	0	(620)
Financing of capital expenditure	30,912	33,694
Total	(19,073)	(13,966)

7. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling		Number of bedrooms				Total	
		1	2	3+	Other	31/3/08	31/3/07
Houses and bungalows	31/3/08	412	752	2,976	0	4,140	
	31/3/07	413	755	2,984	0		4,152
Low rise flats	31/3/08	3,070	697	381	0	4,148	
	31/3/07	3,112	708	388	0		4,208
Medium rise flats	31/3/08	7,118	7,629	6,615	0	21,362	
	31/3/07	7,173	7,669	6,650	0		21,492
High rise flats	31/3/08	3,601	5,192	1,853	0	10,646	
	31/3/07	3,840	5,294	1,864	0		10,998
Non permanent	31/3/08	0	0	0	10	10	
	31/3/07	0	0	0	29		29
Multi occupied	31/3/08	0	0	0	192	192	
	31/3/07	0	0	0	207		207
TOTALS	31/3/08	14,201	14,270	11,825	202	40,498	
	31/3/07	14,538	14,426	11,886	236		41,086

- 7.1. In addition to the numbers shown in the table above, as at 31st March 2008 there were also 343 void properties (56 at 31st March 2007).

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

8. ASSET VALUATIONS

8.1. The values of HRA operational assets, as included in Note 24 to the Balance Sheet on page 69, are shown in the table below.

	2007/08 £000	2006/07 £000
Operational assets		
Dwellings	2,575,090	2,388,729
Other land and buildings	51,717	50,242
Total operational assets	<u>2,626,807</u>	<u>2,438,971</u>
Non-operational assets		
Surplus assets	109,856	60,624
Commercial and investment assets	69,774	61,091
Total non-operational assets	<u>179,630</u>	<u>121,715</u>
Total HRA assets	<u>2,806,437</u>	<u>2,560,686</u>

8.2. The vacant possession value of dwellings within the HRA at 1st April 2007 was £7.031 billion (£6.373 billion 1st April 2006). 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

CAPITAL EXPENDITURE	2007/08 £000	2006/07 £000
Funding Source:		
Revenue contributions	8,633	9,121
Supported borrowing approvals	12,526	15,299
Capital receipts from the sales of assets	19,613	20,003
Grants and other contributions	4,202	482
Major Repairs Reserve	30,912	33,694
Total HRA capital expenditure	<u>75,886</u>	<u>78,599</u>
RECEIPTS FROM ASSET DISPOSALS	2007/08 £000	2006/07 £000
Land	1,487	1,431
Buildings	29,121	34,691
Other receipts	319	0
Total HRA capital receipts	<u>30,927</u>	<u>36,122</u>

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

10. FRS 17 – ACCOUNTING FOR RETIREMENT BENEFITS

- 10.1. The HRA is presented in accordance with the requirement to account for retirement benefits under the principles of FRS 17. Further information on accounting for FRS 17 is given in Note 17 on page 58.
- 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

	2007/08 £000	2006/07 £000
Gross Arrears as at 1 st April	17,355	16,806
Prior Year Payments	(4,117)	(3,473)
Arrears as at 1 st April	13,238	13,333
Charges due in the year	175,303	165,831
Rent Rebates	(84,370)	(82,556)
Write-offs	(2,192)	(1,840)
Adjustments	293	42
Cash collected	(88,176)	(81,572)
Net Arrears as at 31 st March	14,096	13,238
Payments in Advance	4,203	4,117
Gross Arrears as at 31 st March	18,299	17,355

- 11.1. The arrears position as at 31st March 2008 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	2007/08 £000	2006/07 £000
Income			
Income from Council Tax	1	(87,697)	(82,368)
Transfers from the General Fund, Council Tax benefits		(25,142)	(23,994)
Income collectable from business ratepayers	2	(130,665)	(108,024)
Contribution from preceptors towards previous year's Collection Fund deficit	3	(899)	0
Total Income		(244,403)	(214,386)
Expenditure			
Precepts and Demands			
GLA		27,894	26,433
London Borough of Southwark		80,443	77,287
Non Domestic Rates			
Payment to National Pool		130,016	107,370
Cost of collection allowance		649	654
Provision for bad and doubtful debts			
Council Tax		2,341	3,650
Council Tax write-offs		726	796
Contribution to preceptors from previous year's Collection Fund surplus		0	23
Total Expenditure		242,069	216,213
Net deficit/(surplus) for the year		(2,334)	1,827
Deficit/(surplus) as at 1 st April		1,299	(528)
Deficit/(surplus) as at 31 st March		(1,035)	1,299

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

- 1.1. The Council Tax is a property-based tax, which is assessed on the value of residential property. For this purpose, the Valuation Office Agency has set residential properties into eight valuation bands, of A to H, using estimated market value at 1st April 1991. The Council Tax charges are calculated by estimating the amount of income required from the Collection Fund by the Council and preceptors for the forthcoming year, and dividing this by the Council Tax base, which is the total number of properties liable to tax, expressed as a band D equivalent.
- 1.2. In 2007/08 the estimated income required from the Collection Fund for all preceptors was £108.401 million (£103.747 million in 2006/07). The amount of Council Tax for a band D property (£1,180.94 in 2007/08 and £1,132.75 in 2006/07) 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	
	2007/08	2006/07		2007/08	2006/07
A	9,671.03	9,611.05	6/9	6,446.72	6,406.84
B	29,764.37	29,570.40	7/9	23,150.07	22,999.20
C	26,605.64	26,043.25	8/9	23,649.46	23,149.56
D	15,955.93	15,506.10	1	15,955.93	15,506.10
E	10,418.96	10,091.95	11/9	12,734.28	12,334.61
F	4,772.19	4,725.05	13/9	6,893.16	6,825.07
G	3,541.54	3,506.35	15/9	5,902.57	5,843.92
H	442.18	436.00	18/9	884.36	872.00
Total	101,171.84	99,490.15		95,616.55	93,937.30
Less adjustment for collection rate				(3,824.66)	(2,348.44)
Council Tax Base				91,791.89	91,588.86
Estimated Income Required from Collection Fund				£108,400,715	£103,747,281
Band D Council Tax				£1,180.94	£1,132.75

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 2007/08 was 44.4p and 44.1p for small business (43.3p and 42.6p respectively for 2006/07). 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 31st March 2008 was £399.161 million (£382.171 million at 31st March 2007).

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 the 15th 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 2007 the Council estimated a deficit for 2006/07 of £899,157, to be met by the tax payers in 2007/08, and this is included in the Fund for 2007/08. This was apportioned between the Council and the Greater London Authority as follows:

Contribution from preceptors for previous year's Collection Fund deficit

	£
Greater London Authority	(229,285)
London Borough of Southwark	(669,872)
Estimated deficit for 2006/07 to be met in 2007/08	(899,157)

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 31/3/07	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/08
	£	£	£	£
Adult Social Care Funds				
Individual bequests	48,202	2,803	0	51,005
Comforts Funds/residents' savings	1,479,652	1,287,507	(845,028)	1,922,131
Children's Service Trusts				
Miscellaneous	22,833	1,750	0	24,583
Environment and Housing Trusts				
Potters Fields	272,684	11,416	(284,100)	0
Pullens Gardens maintenance fund	104,193	5,816	0	110,009
Corporate Services Trusts				
Mayor's Charity	0	15,588	0	15,588
	1,927,564	1,324,880	(1,129,128)	2,123,316

1.1. Included in the balance for Comforts Funds/residents' savings is an amount owing to the Council of £787,378. 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.

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

MISCELLANEOUS TRUST FUNDS

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 2007/08 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 In 2007/08, the Council took over responsibility for administering this account, which was previously managed by a separate charity

2. Trust Funds where the Council is not the sole trustee

	Balance at 31/3/07	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/08
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common	954,000	53,367	(61,490)	945,877
Borough Market Trustees	751	2,042	(2,000)	793
Leisure Trusts				
Cuming Bequest	8,557	478	0	9,035
	<u>963,308</u>	<u>55,887</u>	<u>(63,490)</u>	<u>955,705</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

	Note	2007/08 £000	2006/07 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable			
From employers (including admitted bodies)	5.1	(26,903)	(27,601)
From employees (including admitted bodies)	5.1	(9,521)	(8,916)
Transfers in		(6,318)	(7,500)
Other income			
Settlement on closure of admitted body		(271)	0
AVC returns and other contributions		(140)	0
Total income		(43,153)	(44,017)
Benefits payable			
Pensions	5.3	25,686	23,936
Lump sums (including retirement and death grants)	5.3	7,239	5,205
Payments to and on account of leavers			
Refunds of contributions		2	0
Group transfers out to other schemes		0	292
Individual transfers out to other schemes		4,710	3,289
Administrative expenses borne by the scheme		1,098	1,173
Total expenditure		38,735	33,895
Net addition from dealing with members of the fund		(4,418)	(10,122)
Returns on investment			
Investment income			
Income from securities and pooled investment vehicles		(7,603)	(10,247)
Income from pooled property vehicles		(611)	(938)
Net rent from properties		(6,737)	(4,046)
Interest on cash deposits		(702)	(965)
Income from stock lending		(28)	0
Other income		(2)	(313)
Change in market value of Investments		18,038	(32,288)
Investment management Expenses		4,422	3,988
Net returns on investments		6,777	(44,809)
Net (increase)/decrease in the Fund for the year		2,359	(54,931)
Opening net assets of the scheme		(754,374)	(699,443)
Closing net assets of the scheme		(752,015)	(754,374)

PENSION FUND NET ASSETS STATEMENT

	2007/08 £000	2006/07 £000
Investment assets		
Fixed Interest Securities - UK public sector	37,324	25,852
Fixed Interest Securities - UK quoted	0	0
Equities	317,098	341,378
Index linked securities	111,858	91,013
Managed Funds - Property (Freehold)	62,530	72,165
Managed Funds - Property (Leasehold)	9,380	10,720
Unit Trusts - Property	77,301	61,429
Unit Trusts - Other	130,218	126,971
Deposit	2,940	12,106
Total investment assets	748,649	741,634
Net current assets and liabilities		
Cash held at managers	4,399	6,163
Debtors	1,645	2,119
Creditors	(1,997)	(835)
Cash at Council	(681)	5,293
Total net current assets and liabilities	3,366	12,740
Closing net assets of the scheme	752,015	754,374

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.

2. OPERATION AND MEMBERSHIP OF THE FUND

2.1. In 2007/08 contributions to the Fund were made by employees at 6% of salaries and wages. The Council contributed 275% of the employees’ contributions. A one-off payment of £2.77 million was made as a special contribution for early and ill health retirements (£3.9 million 2006/07). In addition, external bodies admitted to the Southwark Fund contributed £1.72 million (£1.38 million 2006/07).

2.2. Prior to 31/3/90 the Council paid for the annual inflation updating existing pensions, which was charged directly to the General Fund. Since that date the cost of annual inflation has been charged to the Pension Fund, apart from that on compensation, gratuities and injury allowances. From 1/4/90 to 31/3/93 the Council’s contribution was set to meet 75% of the potential liabilities of the Fund, on the basis of a triennial actuarial valuation. Since that date, as a result of changes in the legislation, the Council’s contribution is expected to meet 100% of the liabilities.

2.3. The Council is required to ensure that any surplus on the Pension Fund is invested. To ensure that the investment of the Fund is carried out to the best possible advantage, investment managers deal with the day to day investment of the Fund. The Fund’s new investment structure was fully implemented by December 2006 and is now 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).

2.4. Irrecoverable tax on dividends is not shown as a separate deduction to income as this information is not available. It is shown in the net dividend income.

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

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

	2007/08	2006/07
Number of contributors to the Fund	6,699	6,561
Number of contributors and dependants receiving allowances	5,906	5,806
Number of contributors who have deferred their pensions	5,608	4,935

NOTES TO THE PENSION FUND STATEMENTS

3. ACCOUNTING POLICIES

- 3.1. The Accounts have been prepared in accordance with the recommendations of SORP 1 on Pension Scheme Accounts and the CIPFA Code of Practice on Local Authority Accounting. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end (31st March 2008).
- 3.2. In order to comply with SORP 1, the Accounts have been prepared using the market value 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 31st March. Property assets have been included at market value as at 31st March. The cost of acquisition of assets, including property, is treated as a revenue cost. Income and expenditure, including management expenses, are accrued.
- 3.3. 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.
- 3.4. The Authority has to keep the investment manager's performance under review and at least once every three months review the investments made, and periodically consider whether or not to retain the manager.
- 3.5. 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.
- 3.6. 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

4. ACTUARIAL POSITION OF THE FUND

- 4.1. The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial valuation of the Fund was completed as at 31st March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.
- 4.2. The rates of contributions paid by the Council during 2007/08 were based on the actuarial valuation carried out as at 31st March 2004.
- 4.3. The valuation as at 31st 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.
- 4.4. In order to eliminate the past service deficit the actuary has recommended that, with effect from 1st April 2008, employers should contribute to the Fund
- 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 1st April 2008
 - Less 3.2% of pensionable pay in respect of assumed additional investment returns over the period to 1st April 2011.
- 4.5. 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 1st April 2008. All existing members transferred to the new scheme as at that date.
- 4.6. 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 1st 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 31st March 2010.

NOTES TO THE PENSION FUND STATEMENTS

- 4.7. 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 1st 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

- 4.8. 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.

5. CONTRIBUTIONS RECEIVABLE AND BENEFITS PAYABLE

- 5.1. The total contributions receivable for 2007/08 are analysed as follows:

	Employees £000	Employers £000	2007/08 Total £000	2006/07 Total £000
Southwark Council	9,050	26,016	35,066	35,133
Admitted bodies	312	562	874	1,384
Scheduled bodies	159	325	484	0
Total	9,521	26,903	36,424	36,517

- 5.2. During 2007/08 employees made Additional Voluntary Contributions (AVCs) of £80,064 (£77,315 2006/07). 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.

NOTES TO THE PENSION FUND STATEMENTS

5.3. The total benefits payable for 2007/08 are analysed as follows:

	Pensions £000	Lump sums £000	2007/08 Total £000	2006/07 Total £000
Southwark Council	25,380	6,788	32,168	28,537
Admitted bodies	306	451	757	604
Total	25,686	7,239	32,925	29,141

6. RELATED PARTY TRANSACTIONS

6.1. 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.

6.2. 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 Fund Managers:
 - Barclays Global Investors Limited
 - Henderson Global Investors
 - Alliance Bernstein
 - Newton Investment Management
- The following admitted bodies:
 - St Mary Newington
 - Christchurch United Charities
 - Borough Market
 - Southwark Law Centre
 - Fusion
 - Odyssey
 - Gristwood & Toms
 - 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

NOTES TO THE PENSION FUND STATEMENTS

7. OTHER INFORMATION

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

	£m	%
Barclays Global Investors	374.24	49.63
Alliance Bernstein (Growth)	83.92	11.13
Alliance Bernstein (Value)	79.24	10.51
Newton Investment Management	64.34	8.53
Henderson Global Investors	152.37	20.20
Total	754.11	100.00

- 7.2. 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 31/3/07 £m	Purchases £m	Sales £m	Change in market value £m	Value at 31/3/08 £m
UK equities	47.80	20.86	(20.92)	0.13	47.87
Overseas equities	420.54	188.02	(190.92)	(18.20)	399.44
Fixed interest	25.85	27.86	(19.48)	3.09	37.32
Index linked	91.02	22.70	(16.32)	14.46	111.86
Property	144.31	28.37	(5.96)	(17.51)	149.21
Cash	22.19	0.28	(2.75)	(11.31)	8.41
Total	751.71	288.09	(256.35)	(29.34)	754.11

- 7.3. 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 31st March 2008. All properties have been valued at market value.
- 7.4. Stock lending is allowed under investment agreements within statutory limits. Stock lending was implemented for the first time in 2007/08. £6.2 million of stock was lent out as at 31st March 2008, the collateral for this was held in a combination of European government bonds and US cash.
- 7.5. A Statement of Investment Principles has been prepared and is available from the Finance Director, Southwark Town Hall.

NOTES TO THE PENSION FUND STATEMENTS

8. POST BALANCE SHEET EVENTS

- 8.1. Since 31st March 2008 the UK and world financial markets have been very volatile. Markets improved in April and May, followed by significant falls since that time. The value of the Pension Fund at 31st March 2008 was £754.1 million, and as at 5th November 2008 the indicative value of the fund was £721.5 million, down 4.32%. Sales in the first two reported quarters of 2008/09 totalled £125.2 million, from which there were realised gains of £2.4 million in the first quarter, offset by realised losses in the second quarter of £17.9 million. The Pension Fund has a long term funding strategy, structured to withstand short term volatility.
- 8.2. There were no losses arising from investments with Icelandic banks.

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 2007/08 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.

GLOSSARY

CAPITALISATION

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

CAPITAL RECEIPTS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

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

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.

GLOSSARY

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 2007/08 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 1st April to 31st 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.

GLOSSARY

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 ASSETS

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

OPERATING LEASES

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

OPERATIONAL ASSETS

Fixed assets held, occupied, used or consumed by the Council in the direct delivery of its services.

GLOSSARY

OUTTURN

The actual level of income and expenditure for the year.

PFI

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

PRECEPT

A levy made by those authorities that do not collect local taxation themselves but require other bodies to collect the required income from local taxpayers 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 2007/08, to account for the changes in value of the Council's assets.

GLOSSARY

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.

