

Statement of accounts 2005-2006

Financial Management Services

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FOREWORD

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

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 value for money being achieved.

In 2005/06, a more demanding CPA framework was introduced and included a revised judgement on the 'Use of Resources'. This assessed the quality of the Council's financial reporting and controls by looking at the following five elements:

- Financial reporting
- Financial management
- Financial standing
- Internal control, and
- Value for money.

The Audit Commission judged that the Council's Use of Resources was "Good". While this matched the result from 2004/05, given the more demanding and wider assessment criteria we were 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 his annual audit letter. He reminds us in particular of the need to continue to ensure that the Council's medium term financial strategy is robust and that reserves and balances adequately reflect ongoing needs and new risks emerging from the Council's major longer term priorities. 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 Council Assembly on 28th June 2006. 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 CPFA

Dated 26th Oct. 2006

INDEPENDENT AUDITOR'S REPORT TO SOUTHWARK COUNCIL

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of Southwark Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to 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 Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements 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 financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- The financial position of the Authority and its income and expenditure for the year; and

- The financial transactions of its 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 statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

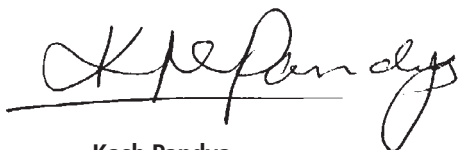
INDEPENDENT AUDITOR'S REPORT TO SOUTHWARK COUNCIL

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 financial statements 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 financial statements.

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.



Kash Pandya
DISTRICT AUDITOR

Address

Audit Commission
1st Floor Millbank Tower
London
SW1P 4HQ

Date 31 October 2006

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- Certifying that I have done so;
- Stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

- Where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Southwark Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 on 12 December 2005. I 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 certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



Kash Pandya
DISTRICT AUDITOR

Address

Audit Commission
1st Floor Millbank Tower
London
SW1P 4HQ

Date 31 October 2006

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 Chief Finance Officer's responsibilities

The Finance Director is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice (the "SORP"), is required to present fairly the financial position of the Authority at the accounting date, and its income and expenditure for the year ended 31st March 2006.

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
- Stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Statement of Accounts
- Complied with the Code
- Kept proper accounting records which were up to date, and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

1. BACKGROUND

The Council is required to publish an annual statement on internal control under the provisions of Regulation 4 of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and also the CIPFA Code of Practice on UK Local Authority Accounting 2005: A Statement of Recommended Practice (SORP).

2. 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. Southwark 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 also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

3. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 Southwark 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 system of internal control has been in place at Southwark Council for the year ended 31st March 2006 and up to the date of approval of the annual report and accounts.

4. THE COUNCIL'S FRAMEWORK OF INTERNAL CONTROL

The following section describes the internal control framework that was in place during the year.

- ***Establishing and monitoring the achievement of the authority's objectives***

The Community Strategy sets out five strategic priorities and the Corporate Plan, which is agreed by the Council annually, identifies how the Council will deliver against them. These strategic priorities are in turn addressed in the Policy and Resourcing 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.

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

The Corporate Plan includes key projects and performance indicators. These, through milestones and actions, are reported via a quarterly performance report to Executive. Performance is also discussed by all scrutiny committees in relation to their respective areas of responsibility.

The business and budget planning process is an annual rolling programme which ensures that we capture changes and emerging trends as well as monitor achievement against existing objectives.

- ***The facilitation of policy and decision-making***

The Council's constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

All Councillors meet together as the Council Assembly. These meetings are normally open to the public unless matters are discussed which must be kept confidential and at them Councillors decide the Council's overall policies and set the budget each year.

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. When major decisions are to be discussed or made, these are published in the Executive's forward plan in so far as they can be anticipated. Both Council Assembly and Executive meetings are normally open to the public unless matters are discussed which must be kept confidential.

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 act as a focal point for discussion and consultation on matters that affect the borough. There is also an overview & scrutiny committee and six subcommittees that support the work of the Executive and the Council as a whole. 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 main policy documents of the Council as set out in the policy and budget framework are approved either by the Council Assembly or by the Executive 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.

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

- **Ensuring compliance with established policies, procedures, laws and regulations**

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

Responsibility for ensuring compliance with new procedures introduced rests with the relevant strategic director who provides appropriate training and information. This is provided jointly with representatives of the legal services department where the new policy procedures, laws and regulations reflect new legislation.

The borough solicitor is responsible for certain statutory functions such as acting with the standards committee to maintain legal standards and for the Council's whistle blowing policy. As monitoring officer, she is also responsible for ensuring that decisions made are lawful and fair. The finance director, as the Council's section 151 officer, 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 may 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.

- **Embedding risk management in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties**

The authority has adopted a range of methods for identifying, assessing and managing the risks to its objectives, as well as implementing a series of actions to ensure that risk management becomes embedded in the culture of the organisation. These include:

- A revised strategy and policy which more clearly defines responsibilities and sets out the authority's "risk appetite"
- Comprehensive guidance and procedures to assist managers in risk analysis, control, monitoring, and reporting
- Development of a new corporate risk register, in addition to the departmental and business unit risk registers to highlight the most significant risks to the organisation
- A new risk management information system designed to ensure it meets both current and future needs
- Regular meetings of departmental risk champions
- Adoption of Prince2 risk management methodology in all significant projects
- Development of stronger links between the departmental and corporate risk registers and the audit plans
- Greater emphasis on risk management in the business planning process
- Inclusion of risk management responsibilities in job descriptions and performance plans

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

The Council does however recognise that there is a need to build on the progress already made, and further activities either in progress or planned for the coming year include:

- Development and implementation of departmental quarterly reporting on a range of risk and governance issues
- Development and implementation of a set of risk performance indicators
- A review of the current training programmes to identify and incorporate appropriate elements of risk management training
- Improved reporting arrangements to senior management and the Executive
- Development and implementation of a risk management communication plan

Our internal auditors undertake a full review of the effectiveness of our risk management processes as part of their audit programme.

- ***Ensuring the economical, effective and efficient use of resources, and securing continuous improvement***

The Council uses a three year policy and resourcing strategy as the overall framework for determining its objectives and associated performance targets and securing the resources to deliver these. Intrinsic to this process is the core responsibility of senior managers to develop and implement efficiency savings at every level of the organisation. Within this context, the Council has long pursued value for money and more efficient working practices. This has encompassed a range of mechanisms, including successful programmes of best value and other service improvements reviews. These are to be further enhanced by:

- Establishing a rolling programme of efficiency-focused activity which extends over a number of years and which is monitored consistently throughout each year
- Improving stakeholder engagement in the efficiency programme so that it has broad acceptance as a Council-wide activity and is not viewed as just a corporate activity, using key levers of change such as human resources, organisational development and information technology to help embed efficiency in the Council's organisational psyche
- Tying efficiency activity much more closely into improving customer service.

- ***The financial management of the authority and the reporting of financial management***

The financial management of the authority is ensured through a framework of financial regulations as set out in the Financial Standing Orders section of the constitution and in the Money section of Managing @ Southwark (the Business Managers' Handbook), administrative procedures and a system of delegation and accountability and by the provision of regular management information, including regular revenue and capital monitoring to Executive.

- ***The performance management of the authority and the reporting of performance management***

Performance is monitored at all levels on a regular basis. The corporate plan includes key projects and performance indicators, plus project milestones. Performance is monitored on an exception basis quarterly at meetings of the Executive, scrutiny committees and chief officer team. The quarterly performance reports use a traffic light system and include action plans to address underperformance where relevant. At departmental level, departmental business plans

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

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 performance management framework is based on a hierarchy of indicators to ensure a key split between strategic deliverables and more specific indicators at a departmental level.

5. REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS

The Council is responsible for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment. It is also informed by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The effectiveness of the system of internal control has been reviewed throughout the year as part of the Council's internal audit coverage, which is planned using a risk based approach. As part of the Council's monitoring arrangements, the internal auditors meet monthly with Council staff to report the outcomes of reviews and internal control issues. In their annual report, they provide an overall assessment on the overall adequacy of the Council's internal control environment and areas of weakness to be addressed.
- External audit express an opinion on the adequacy of the internal audit service and in their annual letter comment on financial aspects of corporate governance and performance management and other reports. The Audit Commission also carry out the comprehensive performance assessment (CPA) and in their annual letter of January 2006, they 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 monitoring officer has a duty to maintain the constitution, which is reviewed each year by the Council at its annual meeting, and to promote and maintain high standards of conduct through the provision of support to the standards committee.
- The overview & scrutiny committee is responsible for monitoring the decisions of the Executive and can 'call-in' a decision that has been made by the Executive but not yet implemented. This enables the committee to consider whether the decision is appropriate. It may recommend that the Executive reconsider the decision.

Following the review of the effectiveness of the system of internal control, a plan has been drawn up to address weaknesses and ensure continuous improvement.

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

6. INTERNAL CONTROL ISSUES

The table which follows identifies those issues that represent the most significant exceptions to the generally sound system of internal control operating within the Council during the year ended 31st March 2006. For each exception identified the Council's action to resolve the problem is recorded alongside.

Control Exception	Council Response
<p>Business continuity plans must be further enhanced to incorporate all business units. Additional resilience will be required to support IT systems and data can be restored quickly and effectively in the event of an unforeseen incident or disaster.</p>	<p>Significant progress has been made at a corporate level with a strategy in place, a completed business impact analysis (BIA) and approved departmental business continuity plan template. Departments are expected to have plans in place by September 2006. ICT have recognised the need to further enhance and document business continuity and disaster recovery processes, in line with corporate aspirations in this area. In a formal response to the BIA report, ICT have formally agreed to take this work forward and submit suitable plans to enhance resilience and detail disaster recovery. A draft plan is to be issued in 2006. Business Continuity and Disaster Recovery will form an integral part of the new IT Facilities Management Contract to be let during 2006/07.</p>
<p>The Council's arrangements for dealing with suspected frauds, including investigation and reporting, need further development.</p>	<p>Work is underway to strengthen processes relating to fraud monitoring and reporting, in particular those relating to the National Fraud Initiative, and a new fraud investigation contract will include a proactive programme of work. Procedures are being established to manage each of the NFI datasets; the Finance Director is representing the Society of London Treasurers as the coordinating member with the Audit Commission. Closer relationships with the local and national police forces will also be pursued to make maximum use of all knowledge and resources available to tackle fraud issues.</p>
<p>The Council is starting to embark on a number of significant infrastructure projects that are likely to incur significant costs and will need close control in order to ensure that financial and service benefits are realised.</p>	<p>The Council have recognised comments made by the District Auditor in his Annual Management Letter regarding the management of these projects and the need for a sound financial base on which to support them. Greater officer, chief officer, partner and member level engagement in the management of risk is being pursued with a view to building on progress to date. The objective remains to embed risk management more robustly within the management arrangements and processes of the Council. The Council has designated the Executive member for resources and the finance director as member and officer risk champions respectively. The development of these roles will be important in achieving greater engagement with risk management and action plans are in place in departments to improve risk identification and management across the Council.</p>

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2005/06

Control Exception	Council Response
<p>Project management arrangements can be further strengthened to support the successful delivery of capital investment plans. Special attention must be paid to the availability of appropriate management capacity in terms both of skills and numbers to support an expanding programme.</p>	<p>A management review is being undertaken of the teams dealing with major projects and its conclusions will be implemented during the course of 2006/07 in advance of the critical development phases for the major projects. Training and development programmes for staff (e.g. PRINCE 2) will continue. The CAPEX system to support project management arrangements will become fully integrated. Work by both external and internal audit is programmed for 2006/07 and any further appropriate action will be taken in line with their recommendations.</p>
<p>Full compliance with all financial procedures and procurement and human resources protocols has not always operated during the year. Internal audit reviews have identified weaknesses in a number of areas.</p>	<p>Action plans to address the issues raised in the internal audit reviews have been agreed and are in the process of being implemented. Regular liaison meetings are to be put in place with the new HMRC Relationship Manager to steer any changes required by either party.</p>
<p>Use of systems and technology to enhance processes and management information needs to be improved e.g. in relation to the Council's main accounting system (SAP) and housing benefits</p>	<p>A programme of work to ensure complete and up-to-date SAP documentation is in hand and will lead to an improved training programme. The CAPEX project will improve the Council's capital project management processes. An action plan to address the issues raised in relation to housing benefits has been agreed and is being implemented.</p>

Signature of the Finance Director  Date 31/5/06

Signature of the Chief Executive  Date 21/06/06

SUMMARY OF THE ACCOUNTS

1. THE STATEMENT OF ACCOUNTS

- 1.1 This section provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main features of the Council's financial position at 31st March 2006.
- 1.2 The Council's Accounts for the year 2005/06 are set out in the following pages. They consist of:
- The Consolidated Revenue Account - the Council's main revenue account, covering income and expenditure on all services
 - The Housing Revenue Account - which shows income and expenditure on Council Housing
 - The Consolidated Balance Sheet - which sets out the financial position of the Council as at 31st March 2006. 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 Superannuation 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
 - The Trust Fund balances - which show the movements and the final balances on the various trusts and bequests administered by the Council
 - The Collection Fund - which shows transactions of the charging authority relating to Non Domestic Rates and Council Tax and the way these have been distributed to preceptors and the General Fund
 - The Pension Fund - which sets out the financial position of the Council's Pension Fund.
- 1.3 The attached Statements of Accounting Policies and various notes support these Accounts.

SUMMARY OF THE ACCOUNTS

2. THE REVENUE BUDGET

- 2.1 The table below shows how the actual expenditure for the year, excluding the Housing Revenue Account, differs from that budgeted. The table also excludes the collection of Council Tax on behalf of the Greater London Authority (GLA) and the payment of that Council Tax to the GLA, which is included in the Consolidated Revenue Account, page 23.

	Budget £000	Actual £000	Difference £000
Net Expenditure on Services	435,900	411,840	(24,060)
Collection Fund (surplus)/deficit	0	(1)	(1)
	<u>435,900</u>	<u>411,839</u>	<u>(24,061)</u>
Less Income:			
Revenue Support Grant	(275,600)	(275,638)	(38)
Business Rates	(84,600)	(84,581)	19
Council Tax	(75,700)	(75,654)	46
	<u>0</u>	<u>(24,034)</u>	<u>(24,034)</u>
Net deficit/(surplus) for the year			
Balance at 1 st April 2005	(8,988)	(8,988)	0
Balances taken to reserves	0	17,466	17,466
Balance at 31st March 2006	<u>(8,988)</u>	<u>(15,556)</u>	<u>(6,568)</u>

- 2.2 The General Fund generated a net £24.060 million favourable variance in 2005/06, representing approximately 2.3% on a gross General Fund budget of £1.010 billion. Of this surplus, £6.568 million arose specifically from NNDR credits and have been added to the General Fund balance, and £3.805 million was a technical movement between provisions and reserves in respect of potential housing benefit subsidy overclaims. The NNDR credits are recoveries of overpayments to the Government's NNDR pool. The balance was accumulated over a number of years, previously held in creditors as receipts in advance. Although there is a risk of claim against the Council, the risk is considered low such that no specific provision is recognised. The balance has therefore been applied to increase general balances, which is in accordance with the Medium Term Financial Strategy, and still preserves the balance should claims arise.
- 2.3 £13.661 million favourable variance arises after providing specifically for Peckham Pulse in accordance with the recommendations of the Executive (£2.15 million set aside separately). £3.271 million arose from additional funds received from the Government for Local Public Service Agreements (LPSA) and Local Authority Business Growth Incentive scheme (LABGI). These funds have been earmarked within the agreed General Fund budget for 06/07.
- 2.4 As a result of the Council's direct activities, £3.022 million of the variance came from Housing General Fund activities including £2.143 million from changes in housing benefits entitlements. A further £6.127 million came from investment income, from a combination of interest rates continuing higher than the projections made 18 months ago in setting the budget, and from cash balances being sustained throughout the year well above the budget assumptions (a balance of £275 million at 31st March 2006).

SUMMARY OF THE ACCOUNTS

- 2.5 Other sources of additional funds included the under-use of the budget set aside for prudential borrowing (£1 million); these funds have been earmarked to finance future borrowing costs arising from the acquisition of the Old Kent Road site for the Waste PFI scheme. The revenue surplus from the sale of Orchard Lodge after accumulated costs had been met generated a one-off income of £1.437 million. The remainder of the balance (£1.096 million) comes from other departmental over and underspends, smaller windfall gains, and accumulated balances within the accounting system no longer required to be applied.
- 2.6 The LPSA and LABGI funds have been specifically set aside to meet the approved budget requirements for 2006/07. The remainder of the funds have been set aside either to meet one-off items or multi-year projects (Modernisation, Service & Operational Improvement Reserve, Regeneration & Development Reserve), to meet specific risks and costs (accommodation pressures, Peckham Pulse restoration), risks arising from current and future initiatives (Southwark Schools for the Future, Elephant & Castle, Waste PFI), or to mitigate other identified risks (interest cost and gains, insurance, schools). Details of the movements in reserves are given on pages 60 to 63.

3. PENSIONS

- 3.1 The Council offers retirement pensions to its staff and makes contributions to pension schemes on their behalf. These pensions schemes include the Council's own pension fund as operated under the Local Government Pension Scheme, the accounts of which are at page 77. Other pension schemes are operated by the Local Pension Fund Authority (LPFA) and the Teachers' Pensions Agency (TPA).
- 3.2 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, which is different from the level of contributions being made by the employees and the employer in the year towards those pensions. 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 on page 63, 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 2006 was £247.200 million, a reduction of £25.852 million from £273.052 million as at 31st March 2005, the reduction being almost wholly due to changes in the actuary's assumptions used in calculating this liability rather than movements in the level of contributions to the fund or the performance of the fund.
 - The liability of the Council to the LPFA increased by £4.120 million, from £8.810 million to £12.930 million at 31st March 2006, as advised by the LPFA's actuaries. The increase in liability is again largely due to actuarial assumptions, which are different from those used for the Council's fund. Also, the investment portfolio and the demographics of the fund are different from the Council's.
 - 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 the Council's accounts.

SUMMARY OF THE ACCOUNTS

3.3 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 and the employees 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 again 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 2004, giving an outstanding liability at that time of £165 million. From this the actuary recommended the Council as employer makes higher contributions to the fund over an 18 year period, which is included within the Council's base budget.

4. CAPITAL FINANCING

4.1 The Council has set a de minimis of £10,000 for the valuation of fixed assets (£1,000 for DSO assets).

4.2 In 2005/06 the Council spent £152 million on capital projects, including £92 million on Council dwellings and other housing.

4.3 This expenditure was financed from the use of supported borrowing (21%), with the permitted proportion from the sale of assets (17%), grants and other contributions (23%), and contributions from revenue and the Major Repairs Reserve (38%).

4.4 Capital expenditure under supported borrowing was financed from new loans and the requirement to make the Minimum Revenue Provision. Long term debt increased in the year by £45 million, from £649 million to £694 million.

5. ARREARS ON RECURRING DEBT

5.1 Arrears on recurring debt increased by £5.5 million as at 31st March 2006. The increase in non domestic rates is due to changes in transitional relief, and the impact of increase in valuations implemented near the year-end. There is a high expectation of collection of the arrears arising from these changes, so there is not a proportionate increase in the provision for bad debts on these arrears at 31st March. The increase in Other debtors is largely attributable to transactions with the Southwark Primary Care Trust (see also Note 6 to the Balance Sheet page 48).

Arrears	Gross Arrears £m	Payments In advance £m	31/3/06	31/3/05
			Net Arrears £m	Net Arrears £m
Housing rents	16.8	(3.5)	13.3	14.8
Homelessness	2.1	(0.1)	2.0	1.8
Non domestic rates	11.5	(3.2)	8.3	2.9
Council Tax	18.6	(3.7)	14.9	16.9
Other debtors	15.3	(1.3)	14.0	10.6
	64.3	(11.8)	52.5	47.0

SUMMARY OF THE ACCOUNTS

- 5.2 The Council's level of provisions for the write off of arrears on recurring debt has reduced by £1.0 million in 2005/06:

	31/3/06	31/3/05
	£m	£m
Provisions for bad debts		
Housing rents	10.2	10.3
Homelessness	1.9	1.6
Non domestic rates	3.4	3.2
Council Tax	12.0	11.8
Other debtors	9.6	11.2
	37.1	38.1

6. FUTURE COMMITMENTS

CAPITAL PROGRAMME

- 6.1 The Council plans its capital programme on a 5-year cycle, i.e. current year plus four further years. Future commitments to the programme can be analysed over the Council's services as follows:

Service	Contractually Committed Expenditure
	£m
Education	5.1
Housing	55.0
Leisure	3.9
Regeneration	7.0
Social Services	0.4
Strategic Services	1.1
Total committed programme	<u>72.5</u>

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 Government Accounting in Great Britain: A Statement of Recommended Practice 2005 (the "SORP"), the Best Value Accounting Code of Practice 2005 ("BVACOP"), and all relevant legislation and statements of good practice.

2. COMPLIANCE WITH ACCOUNTING STANDARDS

- 2.1 Compliance with accounting standards and the SORP was examined by PWC Internal Audit during 2004/05. The audit required only minor changes to disclosures in the 2004/05 Accounts, and these have been fully implemented. There have been no major changes since that time.

EXCEPTIONS TO ACCOUNTING STANDARDS

- 2.2 These statements comply with all relevant accounting standards with the exception of the following:
- Legislation does not empower local authorities to credit capital receipts to the General Fund (apart from payments of capital receipts to the ODPM, see Note 17 to the Consolidated Revenue Account, page 34). Capital receipts are applied to finance new capital expenditure, repay outstanding loan debt, or remain unapplied at the end of the financial year. A statement is included at Note 19.3 to the Consolidated Balance Sheet (page 57).

GROUP ACCOUNTS

- 2.3 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

- 2.4 Schools' accounts are fully consolidated within the Consolidated Revenue Account, Balance Sheet and all other statements and notes. As schools' activities are seen as part of the Local Education Authority function of the Council, the SORP requires inclusion within the single entity accounts of the Council rather than being treated as group accounts.
- 2.5 Schools' finance and accounting is fully delegated to each school. In a small number of cases, if schools' accounts are not available at the time of preparing the Statement of Accounts the records are estimated for consolidation on the basis of the first three quarters' activities and known payments to the school for the school budget share.

STATEMENT OF ACCOUNTING POLICIES

DEBTORS AND CREDITORS

- 2.6 The Accounts are compiled on an accruals basis, which is a system of recognising income and expenditure attributable to the year rather than when the income or expenditure is actually incurred. Therefore, if goods or services have been received in year 2005/06 they are accounted for accordingly. Likewise, income due in for goods and services relating to 2005/06 is accounted for in 2005/06.
- 2.7 Where the amount due is unknown then an estimated amount has been allowed for.
- 2.8 All interest payable on external borrowing and interest receivable on investments is accounted for in the period to which it relates.

RESERVES AND PROVISIONS

- 2.9 The Consolidated 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 to meet contractual commitments or future expenditure plans, including meeting risks or liabilities that may arise at a later date.

REPAYMENT OF DEBT

- 2.10 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.
- 2.11 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 ADMINISTRATION EXPENSES OVER SERVICES

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

BASIS OF VALUATION OF INVESTMENTS

- 2.13 General Fund investments are shown at their cost price excluding brokerage and fees. Pension Fund investments are shown at market value.

STATEMENT OF ACCOUNTING POLICIES

LANDFILL ALLOWANCES TRADING SCHEME

- 2.14 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) in the United Kingdom to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS), which applies only to WDAs in England and commenced operation on 1 April 2005. The scheme allocates tradable landfill allowances to each WDA in England.
- 2.15 LATS have been recorded in the Accounts in accordance with CIPFA Local Authority Accounting Practice (LAAP) Bulletin 64. The receipt of the LATS allocation and their use in the year are recognised as income and expenditure in the Consolidated Revenue 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.
- 2.16 In accordance with LAAP Bulletin 64, all values of the LATS received, used and unapplied are recognised using the weighted average value of all trades made through DEFRA in 2005/06. As the same value is used for the initial recognition and the closing valuation, there are no revaluation gains or losses to be recognised in the Accounts.

WORKS IN PROGRESS, STOCKS AND STORES

- 2.17 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.
- 2.18 Stocks and stores are recorded and charged in the accounts at average price.

3. CAPITAL ACCOUNTING

FIXED ASSETS

- 3.1 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 direct to service revenue accounts.
- 3.2 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). Fixed assets are classified into the groupings required by the 2005 SORP:
- Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.
 - Non operational assets, investment properties and assets that are surplus to requirements are included in the balance sheet at the lower of net current replacement cost and net realisable value.
 - Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

STATEMENT OF ACCOUNTING POLICIES

- 3.3 Revaluations of fixed assets are undertaken on the basis of a five-year rolling programme, although material changes to asset valuations will be adjusted in the interim period should they occur. Any surpluses or deficits from revaluation are taken to the Fixed Asset Restatement Account.
- 3.4 Impairments to assets in a year are reviewed at the year-end. The whole housing stock is valued on an annual basis, and any impairment not separately identified has been absorbed as part of that revaluation. Impairments reflecting movements in the general price of properties other than the housing stock have been credited to the Fixed Asset Restatement Account. All other impairments are charged to cost of services.
- 3.5 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 would be apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals would then be charged to the Asset Management Revenue Account.
- 3.6 Rentals payable under operating leases are charged to revenue on an accruals basis.
- 3.7 Income from the disposal of fixed assets is accounted for on an accrual basis. The portions of the receipts that are required to be set aside for the repayment of external loans are taken to the Capital Finance Account. The remaining 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

- 3.8 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.
 - 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.
 - Apart from Council dwellings, depreciation is calculated on a straight-line basis.
 - Depreciation on Council dwellings is charged at the level of the Major Repairs Allowance received from the Government, in accordance with the SORP and the legislative requirements concerning accounting for the HRA.

CHARGES TO REVENUE

- 3.9 All Council accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. The charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.
- 3.10 The Asset Management Revenue Account contains the reversing entry for these transactions, thereby ensuring there is no overall net effect on the Accounts.

STATEMENT OF ACCOUNTING POLICIES

- 3.11 An appropriation is made to or from the Capital Financing Account, for the difference between depreciation charged and the statutory Minimum Revenue Provision (MRP), which reverses out the depreciation charged leaving only the MRP in the accounts as a charge against Council Tax. From 2005/06 there is no MRP charged to the HRA.

DEFERRED CHARGES

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

GOVERNMENT GRANTS AND CONTRIBUTIONS

- 3.13 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 Asset Management Revenue Account over the useful life of the asset to match the depreciation charged on the asset to which the grant relates.

4. RELATED PARTY TRANSACTIONS

- 4.1 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.
- 4.2 In addition to maintaining the register of Members' interests, the Council has obtained specific declarations from Councillors and Chief Officers for the financial year 2005/06. At the time of preparing these Accounts, of the 73 declarations requested 63 have been completed and returned. Interests were declared by 15 Councillors and Chief Officers:
- With voluntary bodies or charitable organisations that received funding totalling £2,327,991 in 2005/06
 - With businesses or other organisations that have contracted for goods and services with the Council to the value of £11,642,174 in 2005/06. Within this balance, the largest entity transacting with the Council is the Southwark PCT, with payments of £6,690,410.
- 4.3 The Council register of Members' interests is available for inspection together with their declarations of any related party transactions at Peckham Town Hall.
- 4.4 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 £699 million grant funding in 2005/06 (£692 million 2004/05), as shown in Note 2 to the cashflow statement, page 75.

5. GRANT CLAIMS

- 5.1 The Accounts are prepared on the basis of accruals for claims of grants from the Government. At the time of signing the Accounts a number of end of year grant claims had not been finalised, including material claims such as Housing 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.

CONSOLIDATED REVENUE ACCOUNT

	Note	Expenditure £000	Income £000	2005/06 Net Expenditure £000	2004/05 Net Expenditure £000
Education		295,079	(99,610)	195,469	179,550
Social Services	1	181,859	(48,760)	133,099	125,934
Housing Services - Housing Revenue Account	2	288,997	(272,257)	16,740	33,370
Housing Services - General Fund		232,561	(211,939)	20,622	24,214
Highways and Transportation		26,922	(13,007)	13,915	15,749
Cultural, Environmental and Planning	3 - 5	140,296	(56,571)	83,725	67,945
Coroners service		1,225	(903)	322	227
Central Services		56,229	(69,947)	(13,718)	(3,675)
Corporate and Democratic Core	7 - 8	17,369	(2,939)	14,430	14,549
Non distributed costs	9	4,490	0	4,490	3,004
Net Cost of Services		1,245,027	(775,933)	469,094	460,867
Net (surplus)/loss on internal trading accounts	10			1,763	1,157
Interest Receivable				(12,683)	(11,768)
Transfers to/(from) AMRA	16			(47,449)	(64,961)
Contribution of housing capital receipts to the Government Pool	17			54,586	108,229
Deferred Credits	18			(4,986)	(559)
Deferred Debits	18			9,014	4,779
Levies				166	741
Amounts due to precepting authorities				22,820	21,253
Pensions interest cost and expected return on pensions assets				6,034	5,331
Net Operating Expenditure				498,359	525,069
Appropriations:					
Transfers to/(from) HRA Fund				4,464	(10,316)
Contributions to/(from) earmarked reserves				20,876	12,814
Contributions to/(from) capital reserves					
- Financing capital expenditure				8,462	27,886
- Deferred Charges				(5,584)	(8,284)
- Deferred Grants				1,048	1,010
- Transfer from Usable Capital Receipts					
Reserve equal to the contribution to Housing Pooled Receipts	17			(54,586)	(108,229)
MRP/Depreciation adjustment	19			(9,834)	(6,486)
Contribution from the pension reserve				(8,214)	(5,665)
Amounts to be met from Government Grants & Taxation				454,991	427,799
Sources of Finance:					
Council Tax payers				(98,474)	(94,286)
Deficit from previous years Collection fund				(1)	8
General Government Grant	20			(278,503)	(264,234)
Contributions from non domestic pool				(84,581)	(70,202)
Net General Fund (surplus)/deficit				(6,568)	(915)
Balance brought forward				(8,988)	(8,073)
Balance carried forward				(15,556)	(8,988)
Schools' balances at 31 st March				(13,177)	(11,935)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. POOLED FUNDS

- 1.1 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 a pooled fund arrangement for the Learning Disabilities Service and, from 1st April 2005, 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	2005/06	2004/05
	£000	£000
Income		
LBS	(17,069)	(16,413)
PCT	(8,656)	(8,411)
	(25,725)	(24,824)
Expenditure	25,962	24,241
Net over/(under) spend	237	(583)
Shared as follows:		
LBS	156	(379)
PCT	81	(204)
	237	(583)
Integrated Community Equipment Service	2005/06	
	£000	
Income		
LBS	(1,189)	
PCT	(249)	
	(1,438)	
Expenditure	1,527	
Net over/(under) spend	89	
Shared as follows:		
LBS	18	
PCT	71	
	89	

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

- 1.2 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 Consolidated Revenue Account does not include the transactions of the PCT. The memorandum account for the lead commissioning arrangement is shown as:

	2005/06 £000	2004/05 £000
Income		
LBS	(8,286)	(7,416)
PCT	(41,839)	(40,210)
	(50,125)	(47,626)
Expenditure	51,278	48,468
Net over/(under) spend	1,153	842

- 1.3 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 2005/06 was £0.701 million (£0.550 million in 2004/05).

2. RECONCILIATION OF THE HRA TO THE CONSOLIDATED REVENUE ACCOUNT

- 2.1 The net cost of services for the HRA, as shown in the HRA statement on page 36, is £17.750 million. Under Best Value Accounting the disclosure of the net cost of the HRA is required to be included in the Consolidated Revenue Account as:

	2005/06 £000	2004/05 £000
Cost of Services, Consolidated Revenue Account	16,740	33,370
Corporate and Democratic Core	1,010	990
Net Cost of Services, HRA	17,750	34,360

3. COMMERCIAL INCOME

- 3.1 The Council undertook commercial refuse collection in addition to its statutory refuse collection. In 2005/06 a surplus of £346,000 (£397,000 in 2004/05) occurred on a turnover of £3,031,000 (£2,914,000 in 2004/05).
- 3.2 The Council operates a number of industrial estates in the area. These produced an income of £1,429,000 (£1,303,000 in 2004/05) against expenditure of £901,000 (£910,000 in 2004/05).
- 3.3 The Council also rents out commercial properties. These produced an income of £1,514,000 (£1,699,000 in 2004/05) against expenditure of £1,242,000 (£1,288,000 in 2004/05).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

4. BUILDING CONTROL FEE EARNING ACCOUNT (BCFE Account)

4.1 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. However, certain 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 BCFE account divided between the chargeable and non-chargeable activities.

			2005/06	2004/05
	Chargeable	Non	Total	Total
	£000	Chargeable	£000	£000
		£000		
Expenditure				
Employees	785	325	1,110	999
Premises	58	24	82	52
Transport	14	6	20	18
Supplies & Services	53	22	75	137
Support Services	179	74	253	318
Total Expenditure	1,089	451	1,540	1,524
Income				
Building Regulation Charges	(835)	0	(835)	(823)
Deferred Charges	(341)	0	(341)	(299)
Miscellaneous Income	0	0	0	(2)
Dangerous Structures Income	0	(58)	(58)	(73)
Deferred Income	(132)	0	(132)	(132)
Total Income	(1,308)	(58)	(1,366)	(1,329)
(Surplus)/Deficit for the year	(219)	393	174	195

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

5. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

5.1 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.

5.2 The allowances and use of allowances are reflected in the Consolidated Revenue Account as gross income and expenditure. LATS memorandum account:

	2005/06
	£000
LATS grant income	(1,208)
Allowances used in the year	1,192
Unused allowances carried forward to 2006/07	<u>(16)</u>

5.3 There were no allowances bought or sold with the trading scheme in 2005/06 for use in 2005/06 or future years.

6. BUSINESS IMPROVEMENT DISTRICT SCHEMES

6.1 The Council is the billing authority for the Better Bankside business improvement district (BID). The Bankside Local Management Board, which manages the BID, is a company comprising business and residential interests in the Bankside area of Southwark. The term of the BID, which started in April 2005, is five years until 2010/11.

6.2 The Better Bankside BID scheme works with local businesses to provide a variety of projects additional to services provided by the Council. Projects include enhanced cleaning, pedestrian safety and Bankside promotion.

6.3 The Council acts as agent in the Better Bankside BID, collecting a levy for the BID company from business ratepayers within the Better Bankside BID area. The Council collected £530,679 for 2005/06. The Council paid the total collected to the BID company. In addition, the Council charged the BID company £17,368 for the Council's administration costs.

7. MEMBERS' ALLOWANCES

7.1 The amount of members' allowances paid in 2005/06 was £1,230,913 (£1,138,132 in 2004/05).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

8. AUDIT REMUNERATION

8.1 In 2005/06 the Council incurred the following fees relating to external audit and inspection:

	2005/06 £000	2004/05 £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)	502	608
Fees payable to the Audit Commission in respect of statutory inspection	16	88
Fees payable to the Audit Commission for the certification of grant claims and returns	191	210
Fees payable in respect of other services provided by the appointed auditor (see Note 8.2)	2	27
	711	933

8.2 The £2,000 fees for other services payable in 2005/06 related to residual costs for work carried out in earlier years, on the public interest report on Imperial Gardens (£1,500) and the schools survey (£500).

9. NON DISTRIBUTED COSTS

9.1 Non distributed costs consist of:

	2005/06 £000	2004/05 £000
London Pension Fund Authority levy	1,490	1,474
Pension contributions, past service costs	3,000	1,530
Total	4,490	3,004

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 CONSOLIDATED REVENUE ACCOUNT

10. TRADING ACTIVITIES

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

	Note	Turnover (Profit)/Loss		Turnover	(Profit)/Loss
		2005/06	2005/06	2004/05	2004/05
		£000	£000	£000	£000
Building		(11,840)	794	(13,581)	127
Street & Metal Work Services		(3,766)	399	(3,994)	(16)
Refuse		(7,675)	(14)	(6,599)	54
Vehicle Management (Fleet)		(5,996)	(24)	(5,806)	(69)
Building Design Services		(6,690)	160	(6,351)	12
Integrated Cleaning Contract		(19,964)	316	(19,149)	387
Passenger Services		(2,544)	(4)	(2,426)	6
DSO SLA overhang costs	10.2	0	0	0	539
Social Services – Orchard Lodge	10.3	(6,434)	136	(7,194)	117
Total		(64,909)	1,763	(65,100)	1,157

10.2 SLA overhang costs were associated with trading accounts that no longer exist, but for which some residual costs remained.

10.3 The assets and function of the secure unit at Orchard Lodge were sold on 31st March 2006 and are no longer the responsibility of the Council. The sale price absorbed the profit/loss on trading in the year, and the £136,000 "loss" represents the notional charge for FRS 17 costs only.

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

	Note	Turnover (Profit)/Loss		Turnover	(Profit)/Loss
		2005/06	2005/06	2004/05	2004/05
		£000	£000	£000	£000
Translation Unit	10.5	(37)	7	(163)	(38)
Parking Trading Account	10.6	(9,968)	(3,510)	(9,954)	(3,572)
Total		(10,005)	(3,503)	(10,117)	(3,610)

10.5 In May 2005 the Translation Service was transferred to Pearson Government Solutions. The figures for 2005/06 reflect the Council's activities up to the point of transfer.

10.6 The Parking Trading Account surplus has been fully applied to meet other transport costs of road maintenance £1,522,000, street lighting £1,268,000 and other highways expenditure of £720,000 (£1,585,000, £1,269,000 and £718,000 in 2004/05, respectively). There is no residual balance brought forward nor carried forward, as any surplus on the account is fully applied to appropriate purposes in the year it arises.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

11. LIABILITY IN RESPECT OF LEASED ASSETS

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

	2005/06 £000	2004/05 £000
Assets used on a continuing basis:		
Operating leases - Council and staff vehicles	3,325	2,977
Operating leases - property	8,113	6,390
Hire purchase - fixed plant	12	12
Assets used on a one-off or occasional basis	963	1,059
	12,413	10,438

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

	2005/06 £000	2004/05 £000
From 1 to up to 2 years		
Operating leases - Council and staff vehicles	3,255	2,759
Operating leases - property	8,969	7,984
Hire purchase - fixed plant	12	12
From 2 to up to 5 years		
Operating leases - Council and staff vehicles	6,771	6,859
Operating leases - property	20,727	23,130
Hire purchase - fixed plant	50	50
From 5 years upward		
Operating leases - Council and staff vehicles	83	182
Operating leases - property	16,317	17,250
	56,184	58,226

11.3 The Council has rental liabilities for office and other equipment, of £1.8 million per annum (£1.8 million 2004/05), which is not included in the table above.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

12. PUBLICITY

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

	2005/06 £000	2004/05 £000
Recruitment advertising	1,070	1,465
Council newspapers and other publications	228	192
Consultations and other publicity	3,334	3,081
	4,632	4,738

- 12.2 The recruitment advertising figure for 2004/05 has been restated from £1.630 million, to exclude certain recruitment costs that were not publicity related.

13. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

- 13.1 The Council is empowered by this Act to provide goods and services to other public bodies. During 2005/06 the Council received income for services provided as follows:

	2005/06 £000	2004/05 £000
Income received:		
LB Hackney: Building Design Commissions	12	81
Southwark PCT: Building Design Commission	10	0
Corporation of London: Signage work	5	0
	27	81

14. EMPLOYEES PENSION COSTS

- 14.1 *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 2005/06 the Council paid £13.2 million to the TPA in respect of teachers' pension costs, which represents 19.6% 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 2005/06 these amounted to £84,241.

- 14.2 *Employees who were transferred from the GLC or ILEA.* In 2005/06 the Council paid £360,000 to the London Pension Fund Authority in respect of the pension costs for former employees of the GLC or ILEA. This represents 20.1% of pensionable pay. In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2005/06 these amounted to £75,705.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

14.3 *Other employees' pension costs.* In 2005/06 the Council paid an employer contribution of £22.55 million into the Pension Fund, representing 16.6% of pensionable pay. 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 £22.55 million includes a one off lump sum contribution of £6.33 million. The contribution rate is determined by the Fund's actuary, based on triennial valuations, the last full review on which these rates were based being 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 2005/06 these amounted to £2.01 million, representing 1.5% of pensionable pay.

14.4 The last triennial revaluation of the Fund took place as at 31/03/04. Based on this valuation, to meet the requirements of FRS 17, Accounting for pension costs, the Council would have been required to make a contribution of £22.36 million, representing 16.5% of pensionable pay. The FRS17 disclosure is shown fully at Note 22 of the Consolidated Balance Sheet (page 63). The movement in the Pensions Reserve is shown at Note 19.7 to the Consolidated Balance Sheet (page 59).

14.5 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:

	£000	% of total pensionable pay
Capital cost of discretionary added years awarded in 2005/06, funded by the Pension Fund	395	0.3%
Capital cost of discretionary added years awarded in years before 2005/06, funded by the Pension Fund	38,363	
Capital cost of discretionary added years awarded in 2005/06, funded by the Council	92	0.07%
Capital cost of discretionary added years awarded in years before 2005/06, funded by the Council	28,513	

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

15. REMUNERATION OF EMPLOYEES

15.1 During 2005/06 the Council employed staff whose taxable remuneration exceeded £50,000 in the year. A breakdown of these employees in bands of £10,000 is as follows:

Band (£)	Schools	Non schools	Number of employees	Number of employees
			2005/06	2004/05
50,000 - 59,999	105	94	199	177
60,000 - 69,999	55	30	85	47
70,000 - 79,999	16	10	26	21
80,000 - 89,999	5	15	20	8
90,000 - 99,999	6	1	7	3
100,000 - 109,999	0	0	0	4
110,000 - 119,999	0	2	2	2
120,000 - 129,999	0	4	4	0
130,000 - 139,999	0	0	0	1
140,000 - 149,999	0	1	1	0
150,000 - 159,999	0	0	0	0
160,000 - 169,999	0	0	0	1
170,000 - 179,999	0	1	1	0
	187	158	345	264

16. ASSET MANAGEMENT REVENUE ACCOUNT (AMRA)

16.1 Accounting practice for local authorities requires that a capital charge is made to services, to reflect the use of assets in providing those services. The capital charge is made up of depreciation, plus a notional interest charge, the rates for which are set externally by CIPFA. The AMRA reverses out the charges made to services, so that there is no impact on Council Tax or Housing rents. The AMRA also shows the depreciation of fixed assets from the Balance Sheet and the real cost of capital in terms of external debt interest paid (also the interest cost of finance leases if the Council had any).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

- 16.2 Under the requirements of resource accounting for the Housing Revenue Account (HRA), the charge for depreciation to the HRA is set at the level of receipt of the Major Repairs Allowance (for depreciation on dwellings) or by a transfer from the Major Repairs Reserve (for depreciation on all other HRA assets).

	2005/06 £000	2004/05 £000
Income		
Capital charges - General Fund	(30,909)	(26,714)
Capital charges - General Fund, impairments	(2,715)	0
Capital charges - Housing Revenue Account:	(121,544)	(142,701)
Transfer from Grants Deferred Account	(1,048)	(1,010)
	(156,216)	(170,425)
Expenditure		
Provision for depreciation - General Fund	9,064	8,267
Impairment - General Fund	2,715	0
Provision for depreciation - Housing Revenue Account	36,989	38,083
External interest charges	60,002	59,114
	108,767	105,464
Balance to the Consolidated Revenue Account	(47,449)	(64,961)
Analysed as:		
General Fund	(18,636)	(15,142)
Housing Revenue Account	(28,813)	(49,819)
Balance to the Consolidated Revenue Account	(47,449)	(64,961)

17. CONTRIBUTION OF HOUSING CAPITAL RECEIPTS TO THE GOVERNMENT POOL

- 17.1 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 reflected in the Consolidated Revenue Account, matched by a release from the Usable Capital Receipts Reserve.

18. DEFERRED CREDITS AND DEBITS

- 18.1 Deferred credits and debits arise from discounts and premiums on refinancing the Council's debt portfolio, the costs of which can be charged to the Consolidated Revenue Account over a number of years. In 2005/06 the General Fund share of the discounts and premiums were fully discharged from the Balance Sheet. See Notes 19.5 and 19.6 to the Balance Sheet, pages 58 and 59, for more details.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

19. MINIMUM REVENUE PROVISION (MRP)

19.1 Accounting practice for local authorities requires that the Accounts show a charge to the Consolidated Revenue Account 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, which is applied.

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

19.3 Accounting practice for local authorities also requires that the depreciation and impairment charged to the AMRA (Note 16 above) is reversed out so that there is no impact on Council Tax or Housing rents from depreciation or changes in asset values. The table below shows the amounts calculated to be set aside for MRP, offset against the reversal of the depreciation charged to the AMRA, to form the net charge to the Consolidated Revenue Account.

	2005/06 £000	2004/05 £000
General Fund Minimum Revenue Provision	1,945	1,781
Less General Fund depreciation	(9,064)	(8,267)
Less General Fund impairment charges	(2,715)	0
	(9,834)	(6,486)
HRA Minimum Revenue Provision	0	0
Less HRA depreciation	(36,986)	(38,083)
Receipt of Major Repairs Allowance	35,908	36,639
Transfer to the Major Repairs Reserve	1,078	1,444
	0	0
Balance to the Consolidated Revenue Account	(9,834)	(6,486)

20. GENERAL GOVERNMENT GRANT

20.1 General government grant includes the receipt in 2005/06 of £1.469 million for Local Area Business Growth Incentive and £1.396 million for Local Public Sector Agreements. These items are new resources in 2005/06 and there were no equivalents to these in previous years.

HOUSING REVENUE 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.

HOUSING REVENUE ACCOUNT		2005/06	2004/05
	Note	£000	£000
INCOME			
Dwelling rents (gross)		(141,132)	(137,976)
Non dwelling rents (gross)		(8,324)	(9,321)
Charges for services and facilities		(42,868)	(46,137)
Contributions towards expenditure		(6,446)	(5,422)
HRA subsidy receivable (including MRA)	11	(65,502)	(69,644)
Reductions in provisions		(7,985)	(2,270)
TOTAL INCOME		(272,257)	(270,770)
EXPENDITURE			
Repairs and maintenance		52,705	52,043
Supervision and management		105,364	100,905
Rents, rates, taxes and other charges		3,206	3,092
Increases in provisions		6,329	5,557
Cost of capital charge	6	84,267	104,335
Depreciation and impairment of fixed assets	7	36,986	38,083
Amortisation of deferred charges	9	859	832
Leasing charges		12	12
Debt management expenses		279	271
TOTAL EXPENDITURE		290,007	305,130
Net Cost of Services		17,750	34,360
Asset Management Revenue Account balance	8	(33,713)	(54,835)
Pensions interest cost and expected return on pensions assets		840	824
Amortised premiums and discounts		4,900	5,016
HRA Investment Income		(1,072)	(1,055)
Net Operating Expenditure		(11,295)	(15,690)
Revenue Contribution to Capital Expenditure		8,462	27,417
Transfer to/(from) Major Repairs Reserve	3	(1,078)	(1,444)
Contribution to the pension reserve		(553)	33
Total (Surplus)/Deficit for the year		(4,464)	10,316
Balance brought forward		(27,530)	(37,846)
Balance carried forward	4	(31,994)	(27,530)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling		Number of bedrooms				Total 2005/06	Total 2004/05
		1	2	3+	Other		
Houses and bungalows	31/3/06	415	759	2,998	0	4,172	4,227
	31/3/05	414	774	3,039	0		
Low rise flats	31/3/06	3,164	767	395	0	4,326	4,302
	31/3/05	3,177	729	396	0		
Medium rise flats	31/3/06	7,171	7,663	6,693	0	21,527	22,191
	31/3/05	7,393	7,901	6,897	0		
High rise flats	31/3/06	3,878	5,409	1,936	0	11,223	11,909
	31/3/05	4,043	5,796	2,070	0		
Non permanent	31/3/06	0	0	0	36	36	36
	31/3/05	0	0	0	36		
Multi occupied	31/3/06	0	0	0	200	200	198
	31/3/05	0	0	0	198		
TOTALS	31/3/06	14,628	14,598	12,022	236	41,484	42,863
	31/3/05	15,027	15,200	12,402	234		

2. ASSET VALUATIONS

2.1 The values of HRA operational assets, as included in Note 2 to the Balance Sheet on page 44 are shown in the table below.

	2005/06 £000	2004/05 £000
Dwellings	2,322,010	2,858,282
Other land and buildings	84,452	70,852
	2,406,462	2,929,134

2.2 The vacant possession value of dwellings within the HRA at 1st April 2005 was £6.203 billion. The Balance Sheet value is lower because nearly all the dwellings are occupied, and because the rents for secure tenancies are below market value.

2.3 In the main, the reduction in the value of Council housing is attributable to changes in the guidance from the Government (ODPM) on the discount rate used to move from vacant possession valuation to tenanted valuation. For 2005/06 the discount rate was set at 37% compared with 47% previously.

NOTES TO THE HOUSING REVENUE ACCOUNT

- 2.4 Substantial redevelopments planned for the Aylesbury and Heygate Estates have been incorporated into the impairment review of the Housing stock to determine the stock value at 1st April 2005. 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 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 these properties the potential for impairment losses to occur will continue to be closely reviewed in light of any further resolutions by the Council or changes in the pattern of use of the units that comprise these estates.

3. MAJOR REPAIRS RESERVE

	2005/06 £000	2004/05 £000
Balance at 1 st April 2005	(23,283)	(25,399)
Transfers from the Capital Financing Reserve	(36,986)	(38,083)
Transfer to the HRA	1,078	1,444
Interest received	(760)	(1,070)
Financing of capital expenditure	49,219	39,825
Balance at 31st March 2006	(10,732)	(23,283)

4. HRA BALANCE

- 4.1 HRA reserves at 31st March 2006 are £32.0 million. The increase in the reserves from £27.5 million arises from the additional provision regarding the Council's Investment Programme, less the release of bad debts provisions, housing subsidy provisions and improved income collection. The reserves are allocated as follows:

	2005/06 £m	2004/05 £m
Earmarked reserves	24.4	18.0
Working balances	7.6	9.5
Balance at 31st March 2006	32.0	27.5

- 4.2 Earmarked reserves comprise:

- Contingency Fund, £13.0 million - reserve held similar to that in the General Fund, representing 3% of gross HRA, and an additional 2% relating to overprogramming and other potential overspends in the Council's Investment Programme.
- Insurance reserve, £2.0 million - self-insurance fund against risk of subsidence in housing owned stock.

NOTES TO THE HOUSING REVENUE ACCOUNT

- Office accommodation, £1.0 million - planned maintenance and office refurbishment programme.
- Heating account, £1.3 million - provision against potential increases in fuel costs part-way through 2005/06.
- Customer Services Centre, £1.8 million - amortisation of the second year of costs attributable to the HRA. The full costs will be written down over 4 years.
- IT Modernisation, £2.3 million - investment in infrastructure, e-government and customer access.
- Housing Subsidy, £3.0 million - a reserve to cover potential reductions in the amount of subsidy receivable from the Government.

4.3 Working balances comprise:

- Service delivery improvements, £4.8 million - primarily to repair and maintain the housing stock, and improvements and new initiatives to enhance service provision to tenants and leaseholders.
- Business process improvements, £1.3 million - HRA contribution towards improving performance and quality of service delivery.
- Corporate modernisation programme, £0.2 million - HRA contribution towards costs of the modernisation agenda.
- Redevelopment, regeneration and investment, £1.3 million - costs associated with redevelopment and regeneration works, principally associated security costs.

5. CAPITAL

CAPITAL EXPENDITURE

Funding Source:

Borrowing	24,318	11,109
Usable capital receipts	7,420	4,263
Grants and contributions	402	307
Revenue contributions	8,462	27,417
Major Repairs Reserve	49,219	39,825

Total HRA capital expenditure

2005/06	2004/05
£000	£000
89,821	82,921

RECEIPTS FROM ASSET DISPOSALS

Land	1,287	14,688
Buildings	80,769	163,844
Other receipts	1,184	83
Total HRA capital receipts	83,240	178,615

6. COST OF CAPITAL CHARGES

- 6.1 The cost of capital charges represents a notional interest charge to the HRA for the use of its operational assets, calculated as 3.5% of the value of HRA operational assets.

NOTES TO THE HOUSING REVENUE ACCOUNT

7. DEPRECIATION CHARGE

	2005/06 £000	2004/05 £000
Dwellings	35,908	36,639
Other property	1,078	1,444
	36,986	38,083

8. ASSET MANAGEMENT REVENUE ACCOUNT BALANCE

- 8.1 The balance is a capital asset charge accounting adjustment, representing the difference between the cost of capital charge and the HRA interest costs, as statutorily calculated in accordance with the Item 8 Debit (General) Determination.

9. DEFERRED CHARGES

- 9.1 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.

- 9.2 HRA deferred charges are included in the figures presented at Note 3 to the balance sheet (page 47):

	2005/06 £000	2004/05 £000
Balance at 1 st April	0	0
Expenditure in the year	859	832
Amortisation in the year	(859)	(832)
Balance as at 31st March	0	0

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 22 on page 63.

- 10.2 The 2005 SORP requires that the HRA is charged for a share of the pensions interest cost and the expected return on pensions assets. These charges are then reversed out as part of the contribution to/from the pension reserve, to leave no net charge to the HRA. The comparative figures for 2004/05 have been restated to take account of this change in presentation.

NOTES TO THE HOUSING REVENUE ACCOUNT

11. HRA SUBSIDY

11.1 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. In 2005/06 Southwark's average rent fell within Government guideline levels. As a result there was no Housing Benefit subsidy limitation deduction.

	2005/06 £000	2004/05 £000
Management & Maintenance allowances	(96,357)	(97,239)
Major Repairs Allowance	(35,908)	(36,639)
Capital Charges subsidy	(68,009)	(67,379)
Other Expenditure (leased assets) subsidy	(1,662)	(1,622)
Interest on Receipts deduction	87	106
Guideline rent income deduction	136,347	133,129
Housing Element subsidy	(65,502)	(69,644)
Housing Benefit subsidy limitation deduction	0	2,213
Total Housing Subsidy	(65,502)	(67,431)

12. HOUSING TENANTS ACCOUNTS

	2005/06 £000	2004/05 £000
Gross arrears at 1 st April	17,942	19,833
Prior Year Payments	(3,185)	(3,514)
Arrears at 1 st April 2005	14,757	16,319
Charges due in the year	156,483	151,889
Rent Rebates	(78,239)	(74,797)
Write offs	(3,722)	(3,361)
Adjustments	785	343
Cash collected	(76,731)	(75,636)
Net Arrears at 31 st March	13,333	14,757
Payments in Advance	3,473	3,185
Gross Arrears at 31 st March	16,806	17,942

12.1 The arrears position as at 31st March 2006 includes Neighbourhoods, Browning EMB, hostels and miscellaneous properties. It excludes Tenant Management Organisations, Bed & Breakfast and Travellers Sites.

CONSOLIDATED BALANCE SHEET

BALANCES AS AT	Note	31/3/06 £000	31/3/06 £000	31/3/05 £000	31/3/05 £000
Intangible Assets	1		1,547		269
Tangible Fixed Assets	2				
Operational assets					
- Council dwellings		2,322,010		2,858,282	
- other land and buildings		594,922		544,496	
- vehicles, plant and equipment		7,017		1,149	
- infrastructure assets		81,900		63,791	
- community assets		17,032		12,442	
- work in progress		4,550		14,031	
Non operational assets					
- investment properties		618		618	
			3,028,049		3,494,809
Deferred charges	3	0		0	
Deferred debtors	4	1,600		1,233	
Long term debtors	5	4,903		2,078	
			6,503		3,311
Total long term assets			3,036,099		3,498,389
Current Assets					
- stocks and work in progress		638		1,036	
- debtors	6	158,612		140,257	
- less provision for bad debts	7	(41,898)		(46,170)	
- investments	8	272,986		294,922	
- landfill usage allowance	9	1,208		0	
			391,546		390,045
Current Liabilities					
- borrowing repayable on demand or within 12 months	10	(65)		(65)	
- creditors	11	(100,837)		(142,629)	
- landfill usage liability	9	(1,192)		0	
- cash and bank		(23,719)		(19,865)	
			(125,813)		(162,559)
Total assets less current liabilities			3,301,832		3,725,875
Long term borrowing	12		(693,832)		(648,843)
Deferred receipts	13		(1,482)		(985)
Provisions	14		(27,234)		(33,105)
Pension scheme liability	15		(260,130)		(281,862)
Total assets less liabilities			2,319,154		2,761,080
Represented by :					
Fixed asset restatement account	19.1		(1,511,983)		(2,074,838)
Capital financing account	19.2		(757,291)		(719,912)
Usable capital receipts reserve	19.3		(83,604)		(70,032)
Grants deferred account	19.4		(97,937)		(73,397)
Major Repairs Reserve			(10,732)		(23,283)
Deferred debits	19.5		8,982		17,996
Deferred credits	19.6		(549)		(5,535)
Pensions reserve	19.7		260,130		281,862
Modernisation, Service & Operational Improvement Reserve	19.8		(8,846)		(8,885)
Regeneration & Development Reserve	19.9		(8,330)		(1,000)
Financial Risk Reserve	19.10		(7,678)		(5,702)
Schools' balances	19.11		(13,177)		(11,935)
Other earmarked reserves	19.12		(40,061)		(28,615)
Balances					
- General Fund	20		(15,556)		(8,988)
- Housing Revenue A/c			(31,994)		(27,530)
- Collection Fund			(528)		(1,286)
Total Equity			(2,319,154)		(2,761,080)

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. INTANGIBLE ASSETS

	2005/06 £000	2004/05 £000
Original cost	866	866
Accumulated amortisation	(597)	(308)
Balance as at 1st April	269	558
Expenditure in the year	1,547	0
Amortisation in the year	(269)	(289)
Balance as at 31st March	1,547	269

1.1 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.

1.2 The outstanding balance on intangible assets reflects expenditure occurred on the following items:

	£000
IT procurement	1,340
Geographical Information System	203
Care First	4
	<u>1,547</u>

1.3 IT procurement includes the development of the Corporate WEB portal, the South East London Community Port, and the enhancement of the Wide and Local Area Networks.

NOTES TO THE CONSOLIDATED BALANCE SHEET

2. TANGIBLE FIXED ASSETS

2.1 Movement of Fixed Assets 2005/06

	Council Housing	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Work in Progress	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value as at 1/4/05	2,893,501	568,561	16,958	78,722	12,442	618	14,031	3,584,833
Restatements	0	8,334	0	(70)	254	0	0	8,518
Revaluations	(581,850)	33,778	0	0	0	0	0	(548,072)
Additions	89,931	27,289	6,269	20,292	4,336	0	(9,481)	138,636
Impairments	0	(2,803)	0	0	0	0	0	(2,803)
Disposals	(44,278)	(16,249)	0	0	0	0	0	(60,527)
Gross Book Value as at 31/3/06	2,357,304	618,910	23,227	98,944	17,032	618	4,550	3,120,585
Accumulated depreciation b/f	(35,219)	(24,065)	(15,809)	(14,931)	0	0	0	(90,024)
Depreciation for restatements	0	93	0	0	0	0	0	93
Depreciation for revaluations	35,219	6,277	0	0	0	0	0	41,496
Depreciation for the year	(35,908)	(7,428)	(401)	(2,113)	0	0	0	(45,850)
Depreciation on impairments	0	88	0	0	0	0	0	88
Depreciation on assets sold	614	1,047	0	0	0	0	0	1,661
Depreciation Balance as at 31/3/06	(35,294)	(23,988)	(16,210)	(17,044)	0	0	0	(92,536)
Net Book Value as at 31/3/06	2,322,010	594,922	7,017	81,900	17,032	618	4,550	3,028,049

- 2.2 Adjustments for previous years reflect the change in value of non-dwellings assets following a review of the Council's asset register in October to December 2004, and subsequent updates to the property management system, Manhattan.
- 2.3 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 work in progress while 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 a change in valuation rather than being classed as an addition. Differences between the change in valuation and the cost of these works are transferred to the Fixed Asset Restatement Account.
- 2.4 The valuation of assets has been carried out by the Council's internal valuation service, led by Matthew Jackson MRICS BSc.
- 2.5 In the main, the reduction in the value of Council housing is attributable to changes in the guidance from the Government (ODPM) on the discount rate to move from vacant possession valuation to tenanted valuation. In 2005/06 the discount rate was set at 37% compared with 47% previously.

NOTES TO THE CONSOLIDATED BALANCE SHEET

- 2.6 The following table shows the effects of the rolling programme for revaluing fixed assets. The amounts shown in each year for Council housing and Other land & buildings are changed in value at April each year, adjusted for depreciation. The value also includes the sum of the restatements, revaluations, additions and disposals less the depreciation on revaluations and restatements, the depreciation for the year and the depreciation on assets sold. The amount at April 1999 includes prior years.

	Council Housing	Other Land & Building	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Work in Progress	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Assets valued at Historic Cost	0	0	7,017	81,900	17,032	618	4,550	111,117
Assets valued at Current Value								0
As at 1 st April 1999	1,121,681	333,974						1,455,655
As at 1 st April 2000	715,018	564						715,582
As at 1 st April 2001	177,825	63,092						240,917
As at 1 st April 2002	732,612	92,177						824,789
As at 1 st April 2003	(7,935)	16,727						8,792
As at 1 st April 2004	119,081	37,962						157,043
As at 1 st April 2005	(536,272)	50,426						(485,846)
	2,322,010	594,922	7,017	81,900	17,032	618	4,550	3,028,049

- 2.7 There were impairment losses on General Fund fixed assets, the impacts of which are included in the figures above. Two leisure centre facilities, at Peckham Pulse and Elephant & Castle, have given rise to actual and potential building failures and have led to partial closure and substantial remediation costs. The loss in value resulting from these impairments is £2.715 million, and these costs have been charged to the services in year, in accordance with the SORP.
- 2.8 Substantial redevelopments planned for the Aylesbury and Heygate Estates have been incorporated into the impairment review of the Housing stock to determine the stock value at 1st April 2005. 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 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 these properties the potential for impairment losses to occur will continue to be closely reviewed in light of any further resolutions by the Council or changes in the pattern of use of the units that comprise these estates.
- 2.9 The listing below shows assets owned by the Council and included in the Consolidated Balance Sheet, and excludes properties that are rented in the provision of services. The total number of schools, 92, includes 24 voluntary primary and 7 voluntary secondary schools.

NOTES TO THE CONSOLIDATED BALANCE SHEET

2.10 Summary of assets

	2005/06 Quantity in Numbers	2004/05 Quantity in Numbers
Council Dwellings	41,484	42,863
Operational Assets		
Town & Public Halls	1	1
Office Buildings	47	47
Coroners Courts	1	1
Depots	2	2
Social Services - Residential Care	2	3
Social Services - Day Care Facilities	10	10
Social Services - Other/Offices	12	12
Cemeteries and Crematoria	4	4
Sports and Recreation Centres	10	11
Swimming Pools	4	4
Nurseries & Early Years	13	14
Schools - Primary	72	72
Schools - Secondary	13	13
Schools - Special	7	7
Libraries	12	12
Museums & Galleries	3	3
Waste Sites & Facilities	1	1
Shops	581	582
Industrial Sites	7	7
Car Parks	3	4
Community Assets		
Parks	131	131
Infrastructure Assets		
Roads (in km)	337	337

NOTES TO THE CONSOLIDATED BALANCE SHEET

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.

	2005/06 £000	2004/05 £000
Deferred charges as at 1 st April	0	0
Transferred from Tangible Fixed Assets	0	1,253
Expenditure in the year	5,584	7,031
Amortisation	(5,584)	(8,284)
Balance as at 31st March 2006	0	0

- 3.2 All deferred charges are fully amortised in the year they arise.
- 3.3 The transfer from Tangible Fixed Assets followed a review of the asset register in 2004/05. The City Learning Centre at Sacred Heart School, previously recorded as Council property, has been confirmed as not being in Council ownership. The Council's expenditure on the building is therefore a grant rather than works to assets, and was reclassified as a deferred charge in 2004/05, and then fully amortised.

4. DEFERRED DEBTORS

	2005/06 £000	2004/05 £000
Balance as at 1 st April 2005	1,233	1,263
New advances in the year	504	216
Repayments in the year	(137)	(246)
Balance as at 31st March 2006	1,600	1,233
Represented by:		
Housing Associations	183	190
Right to Buy mortgages	702	835
Charges over Right to Buy for major works	712	208
Other	3	0
Balance as at 31st March 2006	1,600	1,233

- 4.1 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
- 4.2 The Council has agreed a policy whereby, depending on meeting certain criteria, charges to Right to Buy leaseholders for major works under Section 20 can be deferred until death of the owner or sale of the property.

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. LONG TERM DEBTORS

	2005/06 £000	2004/05 £000
Deferred payment schemes for Section 20 works	4,900	2,060
Works in default	3	18
	4,903	2,078

- 5.1 Deferred payments for Section 20 works are leaseholders in a fixed plan for the repayment of costs due, compared with the deferred debtors (Note 4 above) where the period for repayment is uncertain. Moneys due under Section 20 that are not in an agreed deferred payment plan are included in debtors under current assets.

6. DEBTORS

- 6.1 Debtors represent amounts owed to the Council by other parties. The Council has made provision for those debts it may not recover (Note 7 below).

	2005/06 £000	2004/05 £000
Government departments and other public bodies	38,475	32,356
Council tax payers	18,610	18,297
Housing rent payers	16,806	17,942
Leaseholders	13,693	22,330
Business rates payers	11,457	7,996
Expenditure in advance	10,152	11,267
Southwark Primary Care Trust	6,958	686
Accrued investment income	2,706	3,867
Debtors attributable to schools' accounts	2,266	2,408
Sundry debtors	37,489	23,108
Total	158,612	140,257

NOTES TO THE CONSOLIDATED BALANCE SHEET

7. PROVISIONS FOR BAD DEBTS

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Rent allowances	(180)	180	0
Housing Benefits overpayments	(3,778)	(975)	(4,753)
Rent arrears	(9,936)	252	(9,684)
Hostels	(837)	(24)	(861)
Housing court costs	(394)	(136)	(530)
RTB Leaseholders	(1,643)	1,643	0
RTB Section 20	(4,455)	1,705	(2,750)
Commercial rent arrears	(367)	101	(266)
Bed & breakfast	(613)	295	(318)
Travellers	(116)	(3)	(119)
Private Sector Leasing	(331)	(242)	(573)
On street parking	(4,171)	849	(3,322)
Section 74	(570)	0	(570)
Highways	(111)	97	(14)
Council Tax	(11,835)	(159)	(11,994)
Council Tax summons costs	(1,249)	40	(1,209)
Non domestic rates collection	(3,178)	(259)	(3,437)
BCCI loss	(458)	191	(267)
Education services	(753)	451	(302)
Social Services	(657)	154	(503)
Other provisions individually less than £100,000	(538)	112	(426)
	(46,170)	4,272	(41,898)

8. INVESTMENTS

	2005/06 £000	2004/05 £000
Temporary investments	275,125	297,039
Less: Sums invested on behalf of Trust Funds	(2,139)	(2,117)
	272,986	294,922

- 8.1 Temporary investments include funds managed externally on behalf of the Council. The book cost at 31st March of investments managed externally was £25.739 million (£24.454 million 2004/05), with a market value of £25.897 million (£24.706 million 2004/05).

9. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

- 9.1 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.

NOTES TO THE CONSOLIDATED BALANCE SHEET

9.2 The allowances and use of allowances are reflected in the Consolidated Revenue Account as gross income and expenditure (Note 5 page 27). Accounting practice also requires the receipt of the allowance as a current asset, and the use of the allowance as deferred liability. Unused allowances, £16,000 in 2005/06, are carried forward within other earmarked reserves (Other reserves individually less than £100,000, Note 19.12.6 page 62).

9.3 There were no allowances bought or sold with the trading scheme in 2005/06 for use in 2005/06 or future years.

10. BORROWING REPAYABLE ON DEMAND OR WITHIN 12 MONTHS

10.1 Long term loans that are repayable immediately or have less than 12 months remaining as at 31st March are shown under current liabilities:

	Range of Interest rates payable (%)	Total outstanding	
		2005/06 £000	2004/05 £000
Stock		(54)	(54)
Mortgages	3.25 to 5.06	(11)	(11)
		(65)	(65)

11. CREDITORS

11.1 Creditors represent the amounts owed by the Council to other parties.

	2005/06 £000	2004/05 £000
Government departments and other public bodies	(20,383)	(35,668)
Income received in advance	(22,737)	(27,237)
Accrued debt interest	(10,857)	(10,098)
Council tax payers	(6,485)	(8,279)
Creditors attributable to schools' accounts	(2,522)	(3,107)
Business rates payers	(1,333)	(2,330)
Sundry creditors	(36,520)	(55,910)
Total	(100,837)	(142,629)

NOTES TO THE CONSOLIDATED BALANCE SHEET

12. LONG-TERM BORROWING

12.1 Long term loans that are repayable on demand or have less than 12 months remaining as at 31st March are disclosed separately, Note 10 above.

12.2 Sources of loans:

	Range of Interest rates payable (%)	Total outstanding	
		2005/06 £000	2004/05 £000
Mortgages	3.25 to 5.06	(123)	(134)
PWLB loans	4.25 to 10.75	(693,709)	(648,709)
		(693,832)	(648,843)

12.3 Maturity dates of loans:

	2005/06 £000	2004/05 £000
from 1 year to 2 years	(12)	(11)
from 2 years to 5 years	(144,683)	(74,400)
from 5 years to 10 years	(272,907)	(263,567)
after 10 years	(276,230)	(310,865)
	(693,832)	(648,843)

13. DEFERRED RECEIPTS

13.1 The balance is made up as follows :

	2005/06 £000	2004/05 £000
Where the Council has granted a mortgage but no cash advance on the sale of Council dwellings	(609)	(749)
Charges on leaseholders' property for major works	(873)	(236)
	(1,482)	(985)

NOTES TO THE CONSOLIDATED BALANCE SHEET

14. PROVISIONS

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Insurance claims	(5,965)	192	(5,773)
Taxation	(141)	(17)	(158)
Education severance costs	(414)	414	0
Education grants	(395)	395	0
Recoupment	(199)	199	0
Subsidy loss rebates	(1,776)	1,098	(678)
Tax on leasing agreements	(1,439)	1,439	0
Tax on leasing subsidy	(17,721)	0	(17,721)
RTB insurance claims	(457)	457	0
Housing Benefits subsidy loss	(1,569)	178	(1,391)
Regeneration - redundancy costs	(158)	145	(13)
Potters Field legal costs	(100)	49	(51)
s117 Social Services claims	(1,454)	1,308	(146)
Other Social Services	(575)	575	0
Refund of asset sale	0	(150)	(150)
Housing contract disputes	0	(1,089)	(1,089)
Other provisions individually less than £100,000	(742)	678	(64)
	(33,105)	5,871	(27,234)

14.1 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 considers it may still have an outstanding liability, and a provision has been set aside for such a case, as Tax on leasing agreements, and will be kept under review in future years.

14.2 The Council has also claimed and received housing subsidy on the additional lease rentals in respect of the years 1996/97 to 1998/99, against which a further provision of £17.721 million was made, shown as Tax on leasing subsidy. The future treatment of this provision is dependent on the review of the issue by the Office of the Deputy Prime Minister (now the Department for Communities and Local Government).

15. PENSION SCHEME LIABILITY

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

- 15.2 The movements in the provision are determined by the actuary to each pension fund, the details included in Note 22 on FRS 17, page 63. The reduction in the liability in 2005/06 of £21.732 million, from £281.862 million to £260.130 million, arises largely from changes (improvement) in the actuarial assumptions of the projected value and performance of the Council's fund, of £25.852 million, offset by adverse movements in the actuarial assumptions on the LPFA fund of £4.120 million.
- 15.3 The total outstanding liability of the Council towards these pension funds, of £260.130 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.
- 15.4 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 on the basis 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.

16. CONTINGENT LIABILITIES

- 16.1 The Department of Work and Pensions (DWP) and more recently, the Office of the Deputy Prime Minister (ODPM), have raised the specific issue of agency staff employed by the authority in the determination of housing benefit claims going back as far as 1997/98. They contend that determinations by agency staff are not eligible for subsidy purposes and have indicated they would seek to reclaim relevant amounts. The Council has contested the matter with both government departments, but no final decision has been reached and the potential liability remains to be determined.
- 16.2 The Court of Appeal has ruled that patients held under section 117 of the Mental Health Act 1983 are entitled to receive certain services from local authorities free of charge. The Council has stopped charging for these services with effect from October 2000. There is, however, a liability for repayment of income received back to the date the Mental Health Act came into force in 1983. The Council has made specific provision of £146,000 for such claims going back to 1993, see Note 14 above, which represents 14% of the identified potential total liability for this period, and is seen as a sensible and prudent provision. The provision does not include potential claims for people sectioned and discharged in the period 1983 to 1992, as records are not complete enough for that period to determine the extent of claims, if any. Following a 3 year intensive review period only a total of £492,000 has been reimbursed hence a reduction in the provision at 31st March 2005 has been made in accordance with FRS12 (length and appropriateness of provision).

NOTES TO THE CONSOLIDATED BALANCE SHEET

16.3 The Home Office advised the Council on 17th July 2006 that it intended to reclaim £5.9 million of asylum seeker grant paid to the Council for the financial years 2002/03, 2003/04 and 2004/05 as a result of data mismatches between the Home Office records and those of the Council. The Council is of the view that expenditure has been properly incurred under the grant conditions set by the Home Office, and does not accept the Home Office contention that grant should be re-paid. As the Council is currently in discussions with the Home Office to resolve this matter and does not accept it has a liability to repay this sum, no specific provision has been made in the Statement of Accounts for 2005/06.

17. INSURANCE

17.1 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
- housing fire	100,000	1 st May 2002
All risks	100,000	1 st May 2002
Motor	108,370	1 st Oct 2005
Liability	100,000	1 st May 2003
Fidelity guarantee	10,000	1 st May 2002

17.2 Provisions of £5.773 million (£5.965 million 2004/05) have been made for outstanding claims and £8.651 million (£5.912 million 2004/05) have been reserved out of General Fund balances to meet other potential losses.

17.3 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 in its general balance (see Note 19.10 below).

18. ANALYSIS OF NET ASSETS

	2005/06 £000	2004/05 £000
Housing Revenue Account	1,917,968	2,454,228
General Fund	401,186	306,852
Net assets shown in the balance sheet	2,319,154	2,761,080

NOTES TO THE CONSOLIDATED BALANCE SHEET

19. STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Capital Reserves £000	Revenue Reserves £000	Total 2005/06 £000	Total 2004/05 £000
Balance as at 1 st April 2005	(2,938,179)	177,099	(2,761,080)	(2,693,813)
Net (surplus)/deficit		(45,438)	(45,438)	146,122
Unrealised loss/(gains) from revaluation of fixed assets	503,989		503,989	(232,878)
Net (surplus)/deficit from asset disposals	(35,581)		(35,581)	(44,330)
Grant funding received	(31,433)		(31,433)	(38,830)
Financing of fixed assets and debt, and payments to DCLG	50,389		50,389	102,649
Balance as at 31 st March 2006	(2,450,815)	131,661	(2,319,154)	(2,761,080)

Capital reserves

	Fixed Asset Restatement Account £000	Capital Financing Account £000	Usable Capital Receipts £000	Grants Deferred Account £000	TOTAL 2005/06 £000	Total 2004/05 £000
Balance as at 1 st April 2005	(2,074,838)	(719,912)	(70,032)	(73,397)	(2,938,179)	(2,724,790)
Unrealised loss/(gains) from revaluation of fixed assets	503,989				503,989	(232,878)
Effects of disposals of fixed assets:						
Cost or value of assets sold	58,866				58,866	142,173
Proceeds of disposals			(94,447)		(94,447)	(186,503)
Net (surplus)/deficit from asset disposals	58,866		(94,447)		(35,581)	(44,330)
Grant funding received				(31,433)	(31,433)	(38,830)
Financing of fixed assets and debt, and payments to DCLG		(37,379)	80,875	6,893	50,389	102,649
Balance as at 31 st March 2006	(1,511,983)	(757,291)	(83,604)	(97,937)	(2,450,815)	(2,938,179)

Revenue reserves

	Major Repairs Reserve £000	Deferred Debits £000	Deferred Credits £000	Pensions Reserve £000	Specific Reserves £000	General Fund £000	HRA £000	TOTAL 2005/06 £000	Total 2004/05 £000
Balance as at 1 st April 2005	(23,283)	17,996	(5,535)	281,862	(57,423)	(8,988)	(27,530)	177,099	30,977
Net (surplus)/deficit	12,551	(9,014)	4,986	(21,732)	(21,197)	(6,568)	(4,464)	(45,438)	146,122
Balance as at 31 st March 2006	(10,732)	8,982	(549)	260,130	(78,620)	(15,556)	(31,994)	131,661	177,099

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.1 FIXED ASSET RESTATEMENT RESERVE

	HRA £000	General Fund £000	2005/06 Total £000	2004/05 Total £000
Balance as at 1 st April 2005	(1,964,392)	(110,446)	(2,074,838)	(1,984,133)
Adjustments for previous years	0	(8,611)	(8,611)	13,892
Transfer to the Capital Finance Account	0	0	0	(9,112)
Unrealised loss/(gains) from revaluation of fixed assets	531,878	(19,278)	512,600	(237,658)
Value of assets disposed of	45,047	13,819	58,866	142,173
Balance as at 31st March 2006	(1,387,467)	(124,516)	(1,511,983)	(2,074,838)

19.1.1 Adjustments for previous years reflect the change in value of non-dwellings assets following a review of the Council's asset register in October to December 2004, and subsequent updates to the property management system, Manhattan.

19.1.2 The Local Government Act 2003 changed the Code of Practice on capital accounting and financing arrangements for local authorities from 2004/05. The transfer to the Capital Finance Account in 2004/05 was a reconciling item arising from the change in the Code of Practice in the determination of debt financing costs, affecting the calculation of the Minimum Revenue Provision for 2004/05 and later years.

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.2 CAPITAL FINANCING ACCOUNT

	HRA £000	General Fund £000	2005/06 Total £000	2004/05 £000
Balance as at 1 st April 2005	(499,937)	(219,975)	(719,912)	(676,936)
Capital receipts set aside				
- additional debt redemption	0	0	0	(86)
Capital financing				
- capital receipts	(7,420)	(18,869)	(26,289)	(29,244)
- revenue	(8,462)	0	(8,462)	(27,886)
- Section 106	0	(516)	(516)	(476)
- capital grants applied	0	(3,933)	(3,933)	(4,757)
- MRA applied	(49,219)	0	(49,219)	(39,825)
Amortisation of deferred charges	859	4,725	5,584	8,284
Excess of depreciation over MRP				
- 2005/06	0	7,119	7,119	6,486
- HRA depreciation	36,986	0	36,986	38,082
- impairment	0	2,715	2,715	0
Other accounting entries				
- grants amortisation	(95)	(953)	(1,048)	(1,010)
- write down premiums for debt redemption	0	0	0	86
- grants write down for changes to work in progress	(306)	(2)	(308)	(1,737)
- other adjustments	(1)	(7)	(8)	(5)
Transfer from the Fixed Asset Restatement Account	0	0	0	9,112
Balance as at 31st March 2006	(527,595)	(229,696)	(757,291)	(719,912)

19.2.1 The Local Government Act 2003 changed the Code of Practice on capital accounting and financing arrangements for local authorities from 2004/05. The transfer from the Fixed Asset Restatement Account in 2004/05 is a reconciling item arising from the change in the Code of Practice in the determination of debt financing costs, affecting the calculation of the Minimum Revenue Provision for 2004/05 and later years.

19.3 USABLE CAPITAL RECEIPT RESERVE

	2005/06 £000	2004/05 £000
Balance as at 1 st April 2005	(70,032)	(21,174)
Gross capital receipts from sale of assets	(94,447)	(186,417)
Less:		
Transfer to the Consolidated Revenue Account	54,586	108,229
Capital receipts set aside for debt redemption	0	86
Capital receipts used for financing capital expenditure	26,289	29,244
Balance as at 31st March 2006	(83,604)	(70,032)

19.3.1 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 reflected in the Consolidated Revenue Account, matched by a release from the Usable Capital Receipts Reserve.

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.4 GRANTS DEFERRED ACCOUNT

	2005/06 £000	2004/05 £000
Balance as at 1 st April 2005	(73,397)	(42,547)
Capital grants received in the year	(31,433)	(38,830)
Amortisation	1,048	1,010
Transfers to Capital Financing Account		
- Capital grant funding	3,933	4,757
- Section 106 funding	516	476
- Grants written down	308	1,737
Adjustment for prior years' debtors	1,088	0
Balance as at 31st March 2006	(97,937)	(73,397)
Represented by :		
Grants "applied" to be amortised to revenue accounts over the life of the completed scheme	(77,105)	(47,316)
Grants earmarked for future capital commitments	(20,832)	(26,081)
Balance as at 31st March 2006	(97,937)	(73,397)

194.1 Included in the above totals is £13.203 million in respect of planning gains at 31st March 2006 (£13.530 million at 31st March 2005).

19.5 DEFERRED DEBITS

195.1 Deferred debits arise from premiums paid on restructuring the Council's external loan debt. Premiums generated before 1996/97 are amortised to revenue in line with the periods remaining on the loans redeemed early. Premiums generated since 1996/97 are either amortised fully in the year that they arise (for debt redemption) or over the life of the new loans taken out (for debt refinancing), in accordance with the revised code of practice in effect from 1996/97.

	2005/06 £000	2004/05 £000
Balance brought forward	17,996	22,158
New premiums in year	0	703
Amounts written off to revenue	(4,586)	(4,865)
Additional amortisation	(4,428)	0
Balance as at 31st March 2006	8,982	17,996

195.2 In 2005/06 additional amortisation was carried out, to fully write down the General Fund share of the outstanding premiums. The balance at 31st March 2006 represents premiums attributable to the Housing Revenue Account only, which will continue to be amortised over periods matching the entitlement to receive Housing Subsidy.

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.6 DEFERRED CREDITS

19.6.1 Deferred credits arise from discounts received on restructuring the Council's external loan debt, either from Council internal policy to refinance or from the Government's "grant commutation". In accordance with the revised code of practice the discounts are now written to revenue account in line with the period of the loans redeemed.

	2005/06 £000	2004/05 £000
Balance as at 1 st April 2005	(5,535)	(6,094)
Amounts written to revenue	559	559
Additional amounts written to revenue	4,427	0
Balance as at 31st March 2006	(549)	(5,535)

19.6.2 In 2005/06 additional charges to revenue were carried out, to fully write down the General Fund share of the outstanding discounts. The balance at 31st March 2006 represents discounts attributable to the Housing Revenue Account only, which will continue to be amortised over periods matching the requirement to charge against the receipt of Housing Subsidy.

19.7 PENSIONS RESERVE

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

	2005/06 £000	2004/05 £000
Balance at 1 st April 2005	281,862	128,019
Actuarial (gain)/loss - Council pension fund	(33,400)	141,243
Actuarial (gain)/loss - LPFA pension fund	3,819	6,957
Settlement of actual pensions' contributions against liabilities due, to the Consolidated Revenue Account	8,214	5,665
Reconciling items to the Pensions Liability	(365)	(22)
Balance as at 31st March 2006	260,130	281,862

19.7.2 Movement in the actuarial gains and losses are shown in more detail in Note 22 below.

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.8 MODERNISATION, SERVICE & OPERATIONAL IMPROVEMENT RESERVE

19.8.1 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 Financial Strategy.

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Modernisation, Service & Operational Improvement Reserve	(8,885)	39	(8,846)

19.9 REGENERATION & DEVELOPMENT RESERVE

19.9.1 In a similar way to the Modernisation, Service & Operational Improvement Reserve, 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, Waste PFI, and land acquisitions associated with these projects. The creation and movement in the year is partly from the consolidation of other balances as well as new resources in 2005/06.

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Regeneration and Development Reserve	(1,000)	(7,330)	(8,330)

19.10 FINANCIAL RISK RESERVE

19.10.1 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 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Financial Risk Reserve	(5,702)	(1,976)	(7,678)

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.11 SCHOOLS' BALANCES

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

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Funds held by schools	(10,839)	(746)	(11,585)
Nursery school balances	(1,096)	(496)	(1,592)
	(11,935)	(1,242)	(13,177)

19.12 OTHER EARMARKED RESERVES

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

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Equalities programme	0	(134)	(134)
Internal audit contracts	0	(235)	(235)
Housing Benefits system replacement	(1,000)	1,000	0
Town Hall complex building enhancements	(143)	(142)	(285)
CSC advance payment (Note 19.12.2)	(4,763)	1,655	(3,108)
CSC back office developments	0	(722)	(722)
IT de-commissioning	0	(472)	(472)
Sheltered wardens	(115)	100	(15)
GIS	(130)	0	(130)
Peckham Pulse	0	(2,150)	(2,150)
Schools asset management plans	0	(100)	(100)
Asylum seekers	(193)	193	0
CareFirst	(519)	519	0
Planned Maintenance Fund	(1,394)	193	(1,201)
Housing Benefits Subsidy equalisation	(2,684)	0	(2,684)
Housing Benefits losses on claims	0	(3,805)	(3,805)
Future pensions commitments (Note 19.12.3)	(3,000)	0	(3,000)
	(13,941)	(4,100)	(18,041)

19.12.2 CSC advance payment, £3.108 million. 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 Consolidated Revenue Account in the year the payment is made, but spread over the years in which the benefit from the upfront payment arises. This item represents the balance of funding required to be spread over the remaining years, 2006/07 - 2007/08.

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.12.3 Future pensions commitments, £3 million, above. 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 2006/07 and later years, which this reserve will meet a proportion thereof.

19.12.4 Departmental under/over spends and balances carried forward:

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
DSO	(726)	665	(61)
Regeneration cleaner, greener initiatives	(517)	375	(142)
Strategic Services management and development	(100)	(50)	(150)
Signage	(678)	329	(349)
Schools reorganisation costs	0	(315)	(315)
Blackfriars trust allocation	0	(138)	(138)
Waste PFI	(200)	0	(200)
On street parking	(304)	0	(304)
Election costs	0	(800)	(800)
Every Child Matters	0	(163)	(163)
One-off growth programme 2005/06 (Note 19.12.5)	(1,598)	1,535	(63)
Local Public Sector Agreements	0	(1,802)	(1,802)
Local Authority Business Growth Incentive	0	(1,469)	(1,469)
Services (under)/over spends	155	(155)	0
	(3,968)	(1,988)	(5,956)

19.12.5 One-off growth programme 2005/06 (£1.598 million, above). As part of the budget framework for 2004/05, leading to setting the 2005/06 budget, savings were identified in 2004/05 which could be carried forward to 2005/06 to meet a programme of one-off growth items planned as part of the 2005/06 budget.

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

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Schools in financial difficulties	0	(400)	(400)
Schools Closures and Academies	0	(803)	(803)
Interest equalisation	(2,500)	(1,500)	(4,000)
Commutation adjustment	(1,708)	0	(1,708)
Insurance	(5,912)	(2,739)	(8,651)
Other reserves individually less than £100,000	(586)	84	(502)
	(10,706)	(5,358)	(16,064)

NOTES TO THE CONSOLIDATED BALANCE SHEET

19.12.7 Summary of other earmarked reserves:

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Specific projects and planned commitments	(13,941)	(4,100)	(18,041)
Departmental (under)/over spends	(3,968)	(1,988)	(5,956)
Future risks and programmes not yet fully committed	(10,706)	(5,358)	(16,064)
	(28,615)	(11,446)	(40,061)

20. GENERAL FUND BALANCE

20.1 The General Fund balance has increased by £6.568 million, from £8.988 million to £15.556 million. The increase is from the specific movement of a balance from recoveries of overpayments to the Government's NNDR pool. The balance was accumulated over a number of years, previously held in creditors as receipts in advance. Although there is a risk of claim against the Council, the risk is considered low such that no specific provision is recognised. The balance has therefore been applied to increase general balances, which is in accordance with the Medium Term Financial Strategy, and still preserves the balance should claims arise.

21. EURO DISCLOSURE

21.1 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.

22. FRS 17 - PENSIONS DISCLOSURE

22.1 In accordance with Financial Reporting Standard 17 - Retirement Benefits (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' Pension Agency. Information relating to the Council's pension fund are given in paragraphs 22.2 - 22.8, and the London Pension Fund Authority pension fund in paragraphs 22.9 - 22.15. The pension scheme operated by the Teachers' Pension Agency is run on a different basis and does not meet FRS 17 disclosure requirements.

NOTES TO THE CONSOLIDATED BALANCE SHEET

LONDON BOROUGH OF SOUTHWARK PENSION FUND

22.2 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 2004, 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 2006. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

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

	2005/06 % p.a.	2004/05 % p.a.
Discount rate for scheme liabilities	4.9	5.3
Discount rate for pension cost over following year	4.9	5.3
Rate of increase in salaries	4.5	4.4
Rate of increase in pensions in payment	3.0	2.9
Rate of inflation	3.0	2.9
Rate of return on Equities	7.3	7.7
Rate of return on Government Bonds	4.3	4.7
Rate of return on Corporate Bonds	4.9	5.3
Rate of return on Property	6.3	6.7
Rate of return on Other assets	4.6	4.8
Average long term expected rate of return	6.6	7.0

22.4 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 at 31st March 2006 and 31st March 2005 are as follows:

	2005/06 %	2004/05 %
Equities	67	66
Bonds	19	20
Property	11	13
Other	3	1

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

	2005/06 £000	2004/05 £000
Share of assets in London Borough of Southwark Pension Fund	(679,200)	(542,048)
Estimated liabilities in London Borough of Southwark Pension Fund	926,400	815,100
London Borough of Southwark's deficit in the scheme	247,200	273,052

NOTES TO THE CONSOLIDATED BALANCE SHEET

22.6 The deficit above should be borne in mind when considering the amount of overall reserves held (see Note 19 page 55). The movement in the net deficit in 2005/06 can be shown as follows:

	£000	£000
Net deficit as at 31 st March 2005		273,052
Movement in the year:		
Current service cost	22,400	
Past service costs	3,000	
Gain/loss on any settlements or curtailments	0	
Contributions	(23,300)	
Finance Income:		
Expected return on Pension Fund assets	(37,700)	
Interest cost	43,200	
Actuarial (gain)/loss	<u>(33,452)</u>	
Total movement in the year		(25,852)
Net deficit as at 31st March 2006		<u>247,200</u>

22.7 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:

	2005/06		2004/05		2003/04		2002/03	
	£000	%	£000	%	£000	%	£000	%
Actual return less expected return on assets	(100,000)	(14.7)	(20,900)	(3.9)	(61,500)	(12.8)	120,700	30.7
Experience (gain) and losses on pension liabilities	(500)	0.1	15,300	1.9	600	0.1	0	0.0
Changes in assumptions underlying the present value of pension liabilities	67,048	7.2	146,900	18.0	(1,300)	0.2	(5,500)	(1.0)
Total actuarial loss/(gain)	<u>(33,452)</u>		<u>141,300</u>		<u>(62,200)</u>		<u>115,200</u>	

22.8 The actuary to the London Borough of Southwark Pension Fund estimates the charge to the Consolidated Revenue Account in 2006/07 will be:

	2006/07 £000
Current service cost	24,100
Past service costs	0
Total operating charge	<u>24,100</u>
Expected return on Pension Fund assets	(44,400)
Interest on Pension Fund liabilities	<u>45,400</u>
	1,000
Total charge 2006/07	<u>25,100</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

LONDON PENSION FUND AUTHORITY PENSION FUND

22.9 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 2004, 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 2006. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

22.10 The main assumptions used for the purposes of FRS 17 are shown below. The LPFA Pension Fund amended its investment strategy in 2005/06, and the table reflects the underlying benchmarks or proxies for those benchmarks arising from the revised investment strategy.

	2005/06 % p.a.	2004/05 % p.a.
Discount rate	4.9	5.4
Rate of increase in salaries	4.6	4.4
Rate of increase in pensions in payment	3.1	2.9
Rate of inflation	3.1	2.9
Rate of return on Equities	7.4	7.7
Rate of return on Bonds	-	4.8
Rate of return on Cash	4.6	4.8
Rate of return on Cashflow matching	4.2	-

22.11 The proportions of total assets held in each asset type by the Fund as a whole at 31st March 2006 and 31st March 2005 are as follows:

	2005/06 %	2004/05 %
Equities	14	15
Bonds	-	77
Cash	3	8
Cashflow matching	83	-

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

	2005/06 £000	2004/05 £000
Share of assets in LPFA Pension Fund	(42,440)	(39,770)
Estimated liabilities in LPFA Pension Fund	55,370	48,580
London Borough of Southwark's deficit in the scheme	12,930	8,810

NOTES TO THE CONSOLIDATED BALANCE SHEET

22.13 The deficit above should be borne in mind when considering the amount of overall reserves held (see Note 19 page 55). The movement in the net deficit in 2005/06 can be shown as follows:

	£000	£000
Net deficit as at 31 st March 2005		8,810
Movement in the year:		
Current service cost	530	
Past service costs	0	
Gain/loss on any settlements or curtailments	0	
Contributions	(763)	
Finance Income:		
Net (return)/loss on assets	534	
Actuarial (gain)/loss	3,819	
Total movement in the year		4,120
Net deficit as at 31st March 2006		12,930

22.14 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):

	2005/06		2004/05	
	£000	%	£000	%
Actual return less expected return on assets	(1,576)	(3.7)	(214)	(0.5)
Experience (gain) and losses on pension liabilities	7	0.0	271	0.6
Changes in assumptions underlying the present value of pension liabilities	5,388	9.7	6,900	14.2
Total actuarial loss/(gain)	3,819		6,957	

22.15 The actuary to LPFA Pension Fund estimates the charge to the Consolidated Revenue Account in 2006/07 will be:

	2006/07 £000
Current service cost	604
Past service costs	0
Total operating charge	604
Expected return on Pension Fund assets	(1,949)
Interest on Pension Fund liabilities	2,686
	737
Total charge 2006/07	1,341

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 31/3/05	Increase in fund balance	(Decrease) in fund balance	Balance 31/3/06
	£	£	£	£
Social Service Funds				
Individual bequests	39,506	6,364	0	45,870
Comforts Funds/residents savings	813,125	388,216	(136,861)	1,064,480
Education & Culture Trusts				
Blackfriars Road	134,096	3,725	(137,821)	0
Miscellaneous	20,211	2,913	(1,650)	21,474
St Mary Newington clock	1,635	0	(1,635)	0
Potters Field	271,803	12,328	(24,035)	260,096
Environment & Leisure Trusts				
Pullens Gardens maintenance fund	95,000	4,383	0	99,383
	<u>1,375,376</u>	<u>417,929</u>	<u>(302,002)</u>	<u>1,491,303</u>

1.1 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
Comfort 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
Blackfriars Road	To provide education and health services for Bermondsey children
Miscellaneous	Bequests set up to provide prizes or financial assistance to students at relevant schools in the Borough
St Mary Newington Clock	To provide for the maintenance of the clock at St Mary Newington
Potters Field	To maintain open space adjoining London Bridge City
Pullens Gardens maintenance fund	To meet the maintenance cost of Pullens Gardens

MISCELLANEOUS TRUST FUNDS

- 1.2 An audit carried out by HM Revenue & Customs (HMRC) during the year has identified that income tax is due on interest credited to comfort fund accounts. The Council estimates £20,387 is due but the amount has not been agreed with HMRC. A provision for this amount has therefore been established to meet this liability. This is reflected in a reduction in the balance for Comforts Funds/Residents Savings.

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

	Balance 31/3/05	Increase in fund balance	(Decrease) in fund balance	Balance 31/3/06
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common Estate	931,949	53,390	(52,000)	933,339
Borough Market Trustees	2,852	129	(2,600)	381
Leisure Trusts				
Cuming Bequest	7,808	354	0	8,162
	942,609	53,873	(54,600)	941,882

- 2.1 The purposes of the trust funds are listed below:

Walworth Estate 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

SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

HOW THE MONEY WAS SPENT

	2005/06 £000	2004/05 £000
Education	26,426	12,882
Environment and Leisure	12,283	14,274
Housing General Fund	4,183	5,290
Regeneration	12,881	12,540
Strategic Services	4,065	1,224
Social Services	2,132	5,030
Total General Fund	61,970	51,240
HRA	89,821	82,921
	151,791	134,161

HOW THE EXPENDITURE WAS FINANCED

Revenue contributions	8,462	27,886
Using supported borrowing approvals	32,228	17,976
Using capital receipts received from the sale of assets	26,289	29,244
Specific grants and other contributions	35,593	19,230
Major Repairs Allowance	49,219	39,825
	151,791	134,161

EXPENDITURE BY ASSET CLASS

Fixed assets	138,330	111,358
Deferred charges	5,584	7,031
Enhancements and work in progress	7,877	15,772
	151,791	134,161

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

	Note	2005/06 £000	2004/05 £000
Income from Council Tax	1	(77,027)	(74,387)
Transfers from the General Fund, Council Tax benefits		(24,049)	(23,690)
Income collectable from business ratepayers	2	(102,040)	(89,036)
Contribution from preceptors towards previous year's Collection Fund deficit	3	0	(10)
Total Income		(203,116)	(187,123)
Expenditure			
Precepts and Demands			
GLA		22,820	21,253
London Borough of Southwark		75,599	73,006
Non Domestic Rates			
Payment to National Pool		101,385	88,426
Cost of collection allowance		655	610
Provision for bad and doubtful debts			
Council Tax		159	(2,301)
Council Tax write offs		3,254	4,750
Contribution to preceptors from previous year's Collection Fund surplus	3	1	0
Total Expenditure		203,873	185,744
Net deficit/(surplus) for the year		757	(1,379)
Deficit/(surplus) at 1 st April		(1,286)	93
Deficit/(surplus) at 31 st March		(529)	(1,286)

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

1.1 Council Tax derives from charges raised according to the value of residential properties that have been classified into 8 valuation bands using estimated 1st April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and preceptors for the forthcoming year and dividing this by the Council Tax base (the total number of properties liable to tax, expressed as a band D equivalent). This basic amount of Council Tax for a band D property (£1,098.76 in 2005/06 and £1,070.54 in 2004/05) is multiplied by the proportion specified for the particular band to give an individual amount due.

1.2 Council Tax bills were based on the following:

Band	Estimated number of properties after effect of discounts		Ratio	Equivalent number of Band D properties	
	2005/06	2004/05		2005/06	2004/05
A	9,132.75	9,064.25	6/9	6,087.97	6,042.1
B	29,521.15	29,638.25	7/9	22,960.89	23,052.0
C	25,501.80	24,975.15	8/9	22,668.27	22,200.1
D	15,018.00	14,672.70	1	15,018.00	14,672.7
E	9,763.95	9,474.85	11/9	11,933.72	11,580.4
F	4,581.85	4,398.25	13/9	6,618.23	6,353.0
G	3,454.95	3,363.50	15/9	5,758.25	5,605.8
H	435.30	406.50	18/9	870.60	813.0
Total				91,915.93	90,319.1
Add adjustment for contribution paid in lieu				5.30	5.3
Less adjustment for collection rate				(2,298.03)	(2,258.1)
Council Tax Base for year				89,623.20	88,066.3
Band D tax rate multiplier				£1,098.76	£1,070.54
Estimated Council Tax due in the year (Council Tax base x Council Tax)				£98,474,387	£94,278,497

1.3 The difference between these estimated sums and those shown below and included in the revenue accounts is due to revaluations occurring during the year.

NOTES TO THE COLLECTION FUND

2. NATIONAL NON DOMESTIC RATES

- 2.1 National Non Domestic Rates (NNDR) are organised on a national basis. The Government specifies an amount (42.2p in 2005/06 and 45.6p in 2004/05, and 41.5p for small businesses, new rate in 2005/06) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into a national pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities general funds on the basis of a fixed amount per head of the population.

	£
Rateable value at 31 st March 2005	248,811,455
Rateable value at 31 st March 2006	373,904,190

- 2.2 The NNDR income after relief for voids etc. of **£102.040 million** (£89.036 million for 2004/05) was based on the average rateable value for the Council area for the year. The actual rateable value fluctuates considerably throughout the year due to revaluations, voids etc.

3. CONTRIBUTIONS TO COLLECTION FUND SURPLUSES AND DEFICITS

- 3.1 The Income and Expenditure Account includes the surplus brought forward on the fund at the start of the year. The deficit for the year 2005/06 is applied to the balance brought forward to reduce the net surplus on the account.

CASH FLOW STATEMENT

	2005/06 £000	2004/05 £000
REVENUE ACTIVITIES		
Cash outflows		
Cash paid to and on behalf of employees	369,513	348,035
Other operating costs	616,111	553,091
Housing benefit (excluding rent rebates)	56,049	52,759
Payments into NNDR pool	101,385	88,426
Payment to preceptors	22,820	21,251
Payment to the Capital Receipts Pool	65,954	88,492
	1,231,832	1,152,054
Cash inflows		
Rents (net of rebates)	(152,576)	(141,424)
NNDR receipts	(101,761)	(91,349)
Contribution from Collection Fund	(68,750)	(68,751)
Government Grants	(699,213)	(692,468)
Sales and charges for services	(222,024)	(194,491)
	(1,244,324)	(1,188,483)
Net cash flow from revenue activities	(12,492)	(36,429)
SERVICING OF FINANCE		
Cash outflows		
Interest paid	54,878	65,554
Interest element of leasing payments	12	13
	54,890	65,567
Cash inflows		
Interest received	(13,755)	(14,198)
	(13,755)	(14,198)
CAPITAL ACTIVITIES		
Cash outflows		
Purchase of fixed assets	147,595	125,877
Deferred charges and deferred debtors	5,584	8,284
	153,179	134,161
Cash inflows		
Sale of fixed assets	(84,971)	(186,417)
Capital grants	(26,447)	(39,056)
Other capital cash receipts	375	178
	(111,043)	(225,295)
NET CASH FLOW BEFORE FINANCING	70,779	(76,194)
FINANCING		
Cash outflows		
Repayment of long term loans	0	3,210
Repayment of short term loans	0	0
	0	3,210
Cash inflows		
New long term loans	(44,989)	0
New short term loans	0	0
	(44,989)	0
MANAGEMENT OF LIQUID RESOURCES	25,791	0
Increase in liquid resources	(33,715)	91,077
(INCREASE)/DECREASE IN CASH AND EQUIVALENTS	(7,924)	18,093
REPRESENTED BY MOVEMENTS IN CASH AND CASH EQUIVALENTS		
Net (increase)/decrease in bank balance	(3,855)	(10,903)
Net increase/(decrease) in realisable investments	11,779	(7,190)
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS	7,924	(18,093)

NOTES TO THE CASH FLOW STATEMENT

1. RECONCILIATION OF NET REVENUE DEFICIT/(SURPLUS) FOR THE YEAR

	2005/06		2004/05	
	£000	£000	£000	£000
Net expenditure/(income) on General Fund		(6,568)		(915)
Net expenditure/(income) on HRA and Major Repairs Reserve		8,086		12,432
Net expenditure/(income) on Collection Fund		758		(1,379)
Total		(2,276)		10,138
Net revenue income as per cash flow statement		(12,492)		(36,429)
Net interest paid as per cash flow statement		41,135		51,369
Add:				
Decrease in stocks and work in progress	398		894	
Increase in creditors	0		44,755	
Depreciation and capital payments	58,275		75,063	
Decrease in deferred debits	9,014	67,687	4,162	124,874
Less:				
Decrease in deferred credits	(4,986)		(559)	
Increase in debtors	(18,356)		(30,076)	
Decrease in creditors	(41,792)		0	
Decrease in Provisions and Reserves	(28,920)	(94,054)	(99,041)	(129,676)
Total		2,276		10,138

2. ANALYSIS OF GRANTS SHOWN IN CASH FLOW STATEMENT

	2005/06 £000	2004/05 £000
Revenue support grant and pool contribution	(354,652)	(339,681)
Housing subsidy	(65,460)	(72,788)
Students awards	0	255
Other Education grants	(28,111)	(27,698)
Housing benefits (excluding rent rebates)	(132,500)	(84,476)
Other grants	(118,490)	(168,080)
	(699,213)	(692,468)

NOTES TO THE CASH FLOW STATEMENT

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

	2005/06 £000	2004/05 £000
Long term loans		
Balance as at 1 st April	648,909	652,119
Repayments of amounts borrowed	0	(3,210)
New borrowings	44,988	0
Balance as at 31 st March	693,897	648,909
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

4. LIQUID RESOURCES

4.1 The reconciliation of the movement in liquid resources to the Consolidated Balance Sheet (page 42) is as follows:

	Balance 31/3/05 £000	Movement in 05/06 £000	Balance 31/3/06 £000
Investments, liquid resources	247,325	(33,715)	213,610
Investments, realisable investments	47,597	11,779	59,376
Investments, Consolidated Balance Sheet	294,922	(21,936)	272,986

PENSION FUND

FUND ACCOUNT	Note	2005/06 £000	2004/05 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable	5.1		
From employers (including admitted bodies)		(23,558)	(22,273)
From employees (including admitted bodies)		(8,512)	(7,926)
From employees (AVCs)		(74)	(85)
Transfers in		(8,456)	(8,798)
Total income		(40,600)	(39,082)
Benefits payable	5.2		
Pensions		22,798	21,699
Lump sums (incl. retirement and death grants)		3,332	3,402
Payments to and on account of leavers			
Refunds of contributions		116	330
Transfers out		7,404	7,048
Administrative expenses borne by the scheme		1,083	1,148
Total Expenditure		34,733	33,627
Net addition from dealing with members of the fund		(5,867)	(5,455)
Returns on Investment			
Investment Income			
Income from securities and pooled investment vehicles		(10,869)	(9,210)
Income from property pooled vehicles		(879)	(619)
Net rent from properties		(2,609)	(2,710)
Interest on cash deposits		(999)	(1,115)
Other income		(182)	(153)
Change in Market value of Investments		(125,712)	(44,903)
Investment Management Expenses		2,747	1,877
Net increase in Fund for the year		(144,370)	(62,288)
Opening Net assets of the scheme		(555,073)	(492,785)
Closing Net assets of the scheme		(699,443)	(555,073)
NET ASSETS STATEMENT			
Investment Assets			
Fixed Interest Securities - UK public sector		25,112	21,474
Fixed Interest Securities - UK quoted		26,032	24,043
Equities		353,516	277,480
Index linked securities		80,064	67,474
Managed Funds - Property (Freehold)		39,730	40,760
Managed Funds - Property (Leasehold)		4,880	5,800
Unit Trusts - Property		33,415	27,168
Unit Trusts - Other		113,160	84,899
Total Investment Assets		675,909	549,098
Net Current assets and liabilities			
Cash held at managers		13,489	831
Debtors		2,710	2,222
Creditors		(459)	(534)
Cash at Council		7,794	3,456
Total net current assets and liabilities		23,534	5,975
Closing net assets of the Scheme		699,443	555,073

PENSION FUND

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 2005/06 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 £1.18 million was made as a special contribution for early and ill health retirements. In addition, external bodies admitted to the Southwark Fund contributed £1.38 million.

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 the change 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. Barclays Global Investors Ltd manages an “indexed” portfolio containing UK equities and ‘in house’ unit trusts of overseas equities, and fixed and index linked gilts. During 2005/06 the other investment managers were Aberdeen Fund Management Limited (Corporate Bonds), Putnam Investments (Overseas Equities) and Henderson Global Investors (Property).

2.4 The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Pensions Advisory Panel.

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

	2005/06	2004/05
Number of contributors to the Fund	6,526	6,167
Number of contributors and dependants receiving allowances	5,667	5,637
Number of contributors who have deferred their pensions	4,640	4,504

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 2006).

PENSION FUND

- 3.2 In order to comply with these recommendations 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 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.

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 ability in and practical experience of financial matters (including any suitable officer of theirs).

4. ACTUARIAL POSITION OF THE FUND

- 4.1 A full revaluation of the Fund was carried out as at 31st March 2004. This revealed that the Fund showed an actuarial deficit of £165 million, a level of funding of 75%. The market value of investments as at 31st March 2004 was £493 million.
- 4.2 In order to eliminate the past service deficit the actuary has recommended that the Employers contribute at the rate of 275% of members' contributions with effect from 1st April 2005. They advise that, if their assumptions are borne out in practice, this rate is likely to be required for about 18 years before reverting to the long term rate of 175% of members' contributions. Special contributions should be paid for early retirements and ill health retirements since the assessment does not make any allowance for the extra liabilities arising from such retirements.

PENSION FUND

4.3 The contribution rates have been calculated using the smoothed market related valuation of assets and the projected unit method of valuing liabilities. The following financial assumptions have been used:

Rate of return on assets	- after retirement	Admitted Bodies	5.2% p.a.
		Other Employers	6.2% p.a.
	- before retirement	Admitted Bodies	5.2% p.a.
		Other Employers	6.2% p.a.
	- long term		6.55% p.a.
Rate of pay increases			4.4% p.a.
Rate of pensions increases			2.9% p.a.

5. CONTRIBUTIONS RECEIVABLE AND BENEFITS PAYABLE

5.1 The total contributions receivable for 2005/06 are analysed as follows:

	Employees £000	Employers £000	2005/06 Total £000	2004/05 Total £000
Southwark Council	8,137	22,550	30,687	29,012
Admitted bodies	375	1,008	1,383	1,187
Total	8,512	23,558	32,070	30,199

During 2005/06 employees made Additional Voluntary Contributions (AVCs) of £73,925. 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.

5.2 The total benefits payable for 2005/06 are analysed as follows:

	Pensions £000	Lump sums £000	2005/06 Total £000	2004/05 Total £000
Southwark Council	22,630	3,167	25,797	24,946
Admitted bodies	168	165	333	155
Total	22,798	3,332	26,130	25,101

PENSION FUND

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
 - Putnam Investments Limited
 - Aberdeen Fund Management Limited
- The following admitted bodies:
 - Southwark Home Care Trust
 - St Mary Newington
 - Christchurch United Charities
 - Borough Market
 - Southwark Law Centre
 - Fusion
 - Botes
 - Odyssey
 - Gristwood & Toms
 - PricewaterhouseCoopers
 - Centre for Literacy in Primary Education
 - South London Gallery
 - Shaftesbury Homes

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:

● Aberdeen Fund Management	£26.03 million	3.76%
● Putnam Investments	£100.65 million	14.54%
● Henderson Global Investments	£90.20 million	13.04%
● Barclays Global Investors	£475.05 million	68.66%

PENSION FUND

- 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 31/3/05	Purchases	Sales	Change in market value	Value at 31/3/06
	£m	£m	£m	£m	£m
Derivatives	1.38	22.97	(18.49)	1.48	7.34
UK equities	211.92	16.54	(20.06)	48.63	257.03
Overseas equities	149.78	90.33	(89.99)	53.71	203.83
Fixed interest	45.52	1.87	-	3.76	51.15
Index linked	67.47	6.39	-	6.2	80.06
Property	73.73	11.86	(20.65)	13.09	78.03
Cash	2.26	-	-	12.23	14.49
Total	552.06	149.96	(149.19)	139.10	691.93

- 7.3 In relation to the valuation of direct property managed by Henderson Global Investors, the employing firm is Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2006. All properties have been valued at market value.
- 7.4 Contributions receivable include a contribution from admitted bodies of £1.38 million for employers' and employees' contributions from contractors and charities.
- 7.5 No stock-lending is allowed under investment agreements.
- 7.6 A Statement of Investment Principles has been prepared and is available from the Finance Director, Southwark Town Hall.

GLOSSARY

ACCRUAL

The recognition of income and expenditure as it is earned or spent rather than as cash is received or paid. An amount charged to the Accounts for goods or services received or given during the year for which payments have not yet been made or income is due but not yet received.

AGENCY SERVICES

Services which are performed by or for another public body where the principal (the organisation responsible for the service) reimburses the agent (the organisation carrying out the work) for the cost of the work carried out.

ASSET MANAGEMENT REVENUE ACCOUNT (AMRA)

An account required under capital accounting arrangements so that the asset rent transactions are reversed out to leave just the historic debt charges impacting on Council Tax levels.

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 Non Domestic Rate.

CAPITAL EXPENDITURE

Spending on assets that have a lasting value. For example land, buildings and large items of equipment such as computers or vehicles.

CAPITAL EXPENDITURE MET FROM REVENUE ACCOUNTS (CERA)

This is revenue contributions towards capital expenditure. However, accounting requirements now require these to be shown as one figure in the consolidated revenue account rather than shown against individual services' expenditure.

CAPITAL FINANCING ACCOUNT (CFA)

An account required as a result of the introduction of asset rents. It is not an account that has a usable balance, but contains the balance of depreciation against the MRP, additional debt repayments over the MRP, reserved capital receipts and usable capital receipts/grants/planning gains applied to meet capital expenditure.

CAPITAL CHARGES

Charges made to service department revenue accounts, based on the value of the assets used by the service, and consisting of interest and depreciation (where appropriate).

CAPITAL RECEIPTS

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

GLOSSARY

CENTRAL SUPPORT SERVICES

The cost of the central administration of the Council.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

This institute produces standards and codes of practice that must be followed in preparing the Council's financial statements.

CODE OF PRACTICE

Generally taken to refer to the Accounting Code of Practice issued by CIPFA. This is a code of proper accounting practice which local authorities in England and Wales must comply with in preparing their financial statements.

COLLECTION FUND

This is a statutory "ring fenced" account. It records income and expenditure on Council Tax, 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.

CONSOLIDATED BALANCE SHEET

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

CONTINGENCIES

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

CONTINGENT LIABILITY

A loss which is likely to be incurred in the future.

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.

GLOSSARY

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.

DEPRECIATION

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

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.

EARMARKED RESERVES

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

FINANCE LEASES

A lease that transfers substantially all of the risks and rewards of ownership to the lessee. It is often 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)

FIXED ASSET RESTATEMENT ACCOUNT (FARA)

An unusable account required on the implementation of asset rents. It contains the balance on the revaluation of fixed assets from the net historic cost previously shown in the accounts to the current asset rent basis and any subsequent movement arising from revaluations or disposals of those assets.

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 taxpayers and government grants.

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. This account is ring fenced under the Local Government and Housing Act 1989, thereby preventing any cross subsidy with the General Fund.

GLOSSARY

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.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use, e.g. highways and footpaths.

LATS - LANDFILL ALLOWANCE TRADING SCHEME

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.

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.

NATIONAL NON DOMESTIC RATES (NNDR)

Another name for non-domestic rates.

NET EXPENDITURE

Gross expenditure less specific service income but before deduction of revenue support grants and local taxation.

NON DOMESTIC RATE (NDR)

A levy on businesses based on national "rateable value" of the premises occupied. NDR is collected by the Council in line with national criteria, paid into a national pool and then redistributed to all local and police authorities on the basis of population.

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.

ODPM

Office of the Deputy Prime Minister. The Government department with overall responsibility for local government affairs, though other Government departments also have responsibilities for specific functions. Replaced in May 2006 by the Department for Communities and Local Government.

OPERATIONAL ASSETS

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

GLOSSARY

OPERATING LEASE

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.

PRECEPT

A levy made by those authorities that do not raise local taxation themselves but require other bodies to collect the required income from local taxpayers on their behalf.

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 meet the expenditure liability when it arises.

RECHARGES

The transfer of costs from one account to another.

RESERVES

Amounts set aside to cover potential liabilities. 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.

SPECIFIC GRANTS

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

SORP

The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice. The SORP sets out the accounting framework for local authorities, in particular guiding on differences from Generally Accepted Accounting Practice as a result of the Government's legislative requirements.