

Statement of accounts 2004-2005





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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. These Accounts also contain for the first time a fully comprehensive statement on the System of Internal Control. This helps to ensure that services are provided economically, effectively and efficiently and risks are managed appropriately.

In reporting on how the Council's finances have been managed, its financial position and internal control environment, 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 new CPA framework is being introduced and this will include a new 'Use of Resources' judgment which will assess the quality of the Council's financial reporting and controls by looking at the following five elements:

- Financial reporting (how good are the council's financial accounting and reporting arrangements?)
- Financial management (how well does the council plan and manage its finances?)
- Financial standing (how well does the council safeguard its financial standing?)
- Internal control (how well does the council's internal control environment enable it to manage its significant business risks?)
- Value for money.

The position as reported in these Accounts will form an integral part of the new process.

These Accounts were presented and approved by Council Assembly on 20th July 2005. 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: 28th October, 2005

INDEPENDENT AUDITOR'S REPORT TO SOUTHWARK COUNCIL

I have audited the statement of accounts on pages 6 to 69 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 17 to 21 and the Pension Fund accounts, on pages 70 to 75, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 71 to 75.

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 Financial Officer and Auditor

As described on page 5 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year,
- 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 benefits after the end of the scheme year.

I review whether the statement on internal control on pages 6 to 12 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 whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards 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 judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

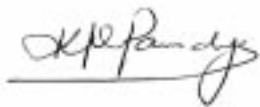
Opinion

In my opinion the statement of accounts presents fairly the financial position of Southwark Council as at 31 March 2005 and its income and expenditure for the year then ended.

In my opinion the financial statements present fairly the financial transactions of Southwark Council Pension Fund during the year ended 31 March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Certificate

I have carried out the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The audit cannot be concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the statement of accounts.



Kash Pandya
District Auditor & Relationship Manager

31 November 2005

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

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.

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 2005.

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 SORP
- 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, 2004/05

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 (England) 2003 and also the CIPFA Code of Practice on UK Local Authority Accounting 2004: A Statement of Recommended Practice (SORP). Transitional arrangements applied for 2003/04, with 2004/05 being the first year requiring a fully comprehensive version of the statement to be produced.

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 2005 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.

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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 1 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, 2004/05

- ***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:

- 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
- 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

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:

- A revised strategy and policy that will more clearly define responsibilities and set out the authority's "risk appetite"

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- Development and implementation of departmental quarterly reporting on a range of risk and governance issues
- A reappraisal of the existing risk management information system to ensure it meets both current and future needs
- 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
- Greater emphasis on risk management in the business planning process
- Inclusion of risk management responsibilities in job descriptions and performance plans

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 for securing continuous improvement***

The best value team was replaced by a service review and improvement team which has a programme of service and organisational reviews, including efficiency and business process reviews. Through the council's change programme, Forward@Southwark, an organisational development strategy and action plan was implemented.

A corporate efficiency programme steering group has been set up to take a strategic overview of the council's corporate efficiency programme in the context of government requirements arising from the Gershon review of public sector efficiency and opportunities for efficiency savings and improvements in customer services arising from the implementation of the customer service centre.

- ***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 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 'Forward to Sound Financial Management' initiative, which was set up under the Forward@Southwark agenda, with the aim of making sound financial management real across the authority, was mainstreamed into a new Financial Governance team. This has responsibility for ensuring that there are effective financial control processes underpinning all activities and that appropriate financial training is made available.

- ***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

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underperformance where relevant. At departmental level, departmental business plans form the basis of departmental monitoring. This ensures that performance, budget, risk and project delivery issues are all covered. Departmental level performance is monitored at the senior management team meetings, and there are regular meetings between the strategic director and relevant executive member. The 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 2005, they stated that the council has made significant progress since the last corporate assessment and that it has a robust planning and performance management framework. This is reflected in the council's rating of Good.
- 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, 2004/05

6. SIGNIFICANT 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 2005. For each exception identified the council's action to resolve the problem is recorded alongside.

Control Exception	Council Response
<p>The council's arrangements for disaster recovery, emergency planning and business continuity need further development to ensure that they are sufficiently robust to ensure continued service provision in all circumstances</p>	<p>Significant work has been carried out in relation to emergency planning to make the council compliant with its obligations under the Civil Contingencies Act, and key milestones in response capability and assessment have been achieved. Work is ongoing to achieve full compliance. In relation to business continuity/civil resilience, a strategy paper will be considered by the chief officer team in summer 2005 outlining current capability, a gap analysis and recommendations on how gaps can be bridged. It will also identify critical services to be retained in an emergency and detail continuity requirements to ensure their continuation</p>
<p>The Council's risk management strategy was still in the process of being fully implemented during the year to 31.03.05 and although there are areas of good practice, these are department or project specific. Further work is required to embed risk management throughout the council</p>	<p>Following the appointment of a corporate risk manager, an action plan has been agreed and work will continue on its implementation. This includes a revised strategy and policy, regular reporting of risk and governance issues, the development and implementation of risk performance indicators, greater emphasis on risk management in the business planning process and the inclusion of risk management responsibilities in job descriptions and performance plans</p>
<p>Full compliance with all financial procedures and procurement protocols has not always operated during the year. Internal audit reviews have identified weaknesses in the following areas:</p> <p>Procurement</p> <ul style="list-style-type: none"> ● Raising of purchase orders prior to placing orders with suppliers, contract tender documentation and compliance with purchasing procedures 	<p>The corporate procurement section has revised contract standing orders and produced new procurement guidelines and new protocols. Steps are being taken to ensure compliance with standardised procedures. In addition, a procurement intranet site, help desk and email service have been set up</p>

STATEMENT ON INTERNAL CONTROL FOR SOUTHWARK COUNCIL, 2004/05

Control Exception	Council Response
<p>Financial procedures</p> <ul style="list-style-type: none"> ● Reconciliations between the council's main accounting systems and feeder systems/interfaces ● Authorised signatory lists ● Audit trails / supporting documentation of transactions ● Budget monitoring <p>Management Information</p> <ul style="list-style-type: none"> ● Awareness of and adherence to requirements of Freedom of Information Act and Data Protection Act 	<p>Through Forward to Sound Financial Management@ Southwark, the Financial Governance team is working with departments to ensure that there are effective processes in place and that agreed action plans which identify responsibilities and target dates are implemented</p> <p>The council has a new information strategy and new protocols for managing information. Departmental records managers have been appointed to address data protection and freedom of information issues</p>
<p>Advice and support provided to ensure that levels of insurance are appropriate and that reports and losses are reported in the correct manner was identified as an area of weakness in some departments</p>	<p>This will be addressed by raising awareness through the inclusion of regular bulletins in staff updates in the education department and the circulation of guidance and procedures from the revised Business Managers' Handbook in the environment & leisure department</p>
<p>Arrangements for the administration and operation of section 106 planning agreements and building control and planning application income were found to be inadequate</p>	<p>Appropriate action plans with clear responsibilities and target dates have been agreed to address the weaknesses identified. These include the development of written guidelines, development of a training programme, and improved information management and reporting</p>

Signature of Chief Executive  Date 26/5/05

Signature of Lead Member  Date 26/5/05

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 2005.
- 1.2 The Council's Accounts for the year 2004/05 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 2005. 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 22.

	Budget £000	Actual £000	Difference £000
Net Expenditure on Services	407,492	399,822	(7,670)
Collection Fund Deficit	8	8	0
	<u>407,500</u>	<u>399,830</u>	<u>(7,670)</u>
Less Income: -			
Revenue Support Grant	(264,300)	(264,234)	66
Business Rates	(70,200)	(70,202)	(2)
Council Tax	(73,000)	(73,033)	(33)
Net deficit/(surplus) for the year	<u>0</u>	<u>(7,639)</u>	<u>(7,639)</u>
Balance at 1 st April 2004	(8,073)	(8,073)	0
Balances taken to reserves	0	6,724	6,724
Balance at 31st March 2005	<u>(8,073)</u>	<u>(8,988)</u>	<u>(915)</u>

2.2 General Fund direct services generated a net £1.566 million favourable variance on a gross General Fund budget of £984 million. Within this, Housing benefits and other housing general fund services generated £2.769 million, of which £2.684 million has been set aside to meet expected losses from changes to the Council's entitlement to housing benefits subsidy. Services other than housing have a net imbalance of expenditure over income of £0.92 million.

2.3 Investment income increased significantly in 2004/05. This was due principally to unplanned benefits from interest rates rising throughout the financial year, and from cash balances being higher than expected, largely due to slippage on the capital programme and the volume of capital receipts in the year. The surplus of investment income, plus the receipt of a number of one-off miscellaneous incomes, has:

- funded the residual departmental overspends £1.203 million
- met £1.598 million one-off growth items for 2005/06 planned as part of the budget framework for 2004/05 leading to setting the 2005/06 budget
- added £2.725 million to the Modernisation, Service and Operational Improvement Reserve, and
- increased the General Fund balance by £0.915 million, to meet the objectives of the Medium Term Financial Strategy agreed by Council Assembly in February 2005, of increasing general balances by £2 million over a number of years.

SUMMARY OF THE ACCOUNTS

3. CAPITAL FINANCING

- 3.1 The Council has set a de minimis of £10,000 for the valuation of fixed assets (£1,000 for DSO assets).
- 3.2 In 2004/05 the Council spent £134 million on capital projects, including £83 million on Council dwellings and other housing.
- 3.3 This expenditure was financed from the use of supported borrowing (13%), with the permitted proportion from the sale of assets (22%), grants and other contributions (14%), and contributions from revenue and the Major Repairs Reserve (51%).
- 3.4 Capital expenditure under supported borrowing was financed from the permitted use of capital receipts and the requirement to make the Minimum Revenue Provision. There was no new long term borrowing in the year, and long term debt reduced in the year by £3 million, from £652 million to £649 million. This was as a result of existing debt maturing and from making additional repayments under a debt reduction strategy.

4. ARREARS

- 4.1 Arrears on recurring debt reduced by £1.2 million as at 31st March 2005.

Arrears	Gross arrears £m	Payments in advance £m	31/3/05	31/3/04
			Net arrears £m	Net arrears £m
Housing rents	17.2	(2.9)	14.3	15.6
Homelessness	2.0	(0.2)	1.8	1.8
Non domestic rates	8.0	(5.1)	2.9	(1.8)
Council Tax	18.3	(1.4)	16.9	18.7
Other debtors	11.8	(1.2)	10.6	13.4
	57.3	(10.8)	46.5	47.7

- 4.2 The Council's level of provisions for the write off of arrears on recurring debt has increased by £2.5 million in 2004/05. Of this, £3.2 million is a new provision in 2004/05, against the collection of non domestic rates. Excluding this new provision, the level of provisions on other recurring arrears reduced by £0.7 million in 2004/05.
- 4.3 In previous years' accounts, the Council has not made provision for non domestic rate arrears on the basis that the liability falls on the Government rather than the Council. From 2004/05 the Council will make full provision for non domestic rate arrears and will adjust contributions to the Government's national non domestic rates pool accordingly. There is no net effect on the Collection Fund or the Consolidated Revenue Account as a result of this change.

SUMMARY OF THE ACCOUNTS

	31/3/05	31/3/04
	£m	£m
Provisions		
Housing rents	10.3	12.0
Homelessness	1.6	1.6
Non domestic rates	3.2	0.0
Council Tax	11.8	13.9
Other debtors	11.2	8.1
	38.1	35.6

5. FUTURE COMMITMENTS

CAPITAL PROGRAMME

- 5.1 The Council plans its capital programme on a 3-year cycle, i.e. current year plus two further years, and the programme is only approved on the basis of being fully funded. Future commitments to the programme can be analysed over the Council's services as follows:

Service	Contractually Committed Expenditure
	£m
Education	0.9
Housing	45.1
Leisure	1.6
Regeneration	5.9
Social Services	0.2
Strategic Services	1.4
Total committed programme	<u>55.1</u>

6. PARTNERSHIPS

- 6.1 From 1st April 2001 the Council entered into a contract with Atkins Education for delivery of the great majority of the Council's responsibilities as a Local Education Authority (LEA). The contract was to run initially until 31st March 2006 and possibly to 31st March 2011 under extensions.
- 6.2 In March 2003 Atkins Education informed the Council of its wish to terminate the contract, which was then ended on 31st July 2003. From 1st August 2003 Cambridge Education Associates (CEA) stepped in to assist the Council's LEA functions, working as part of the Council's management structure rather than as an arm's length contract as with Atkins Education. From 1st August 2005 the LEA functions have now been transferred fully back to the Council, though some CEA staff remain within the organisation to assist transition and until key posts are filled permanently by Council officers.

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 2004 (the "SORP"), the Best Value Accounting Code of Practice 2004 ("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.

EXCEPTIONS TO ACCOUNTING STANDARDS

- 2.2 These statements comply with all relevant accounting standards with the exception of the following:
- SSAP 6, Extraordinary items and prior year adjustments. 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 15 to the Consolidated Revenue Account, page 31). 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 18.3 to the Consolidated Balance Sheet (page 53).
 - Preparation of Group Accounts. Under the changes for the SORP for 2004/05, the Council is required to prepare group accounts in the required format, if the Council has interests in organisations that require consolidation. Transitional arrangements in the SORP allow the Council to not present group accounts in 2004/05 only, if there are difficulties in preparing group accounts in the first year, or if there is uncertainty over whether the entities require consolidation. After review there are only two organisations, Fusion and Groundwork Southwark, that may need to be consolidated into group accounts, but are considered unlikely. Further advice is being sought to determine whether these organisations do meet the criteria for consolidation. Therefore, for 2004/05, the Council is applying the transitional arrangements not to produce group accounts until the status of the organisations has been confirmed.

DEBTORS AND CREDITORS

- 2.3 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 2004/05 they are accounted for accordingly. Likewise, income due in for goods and services relating to 2004/05 is accounted for in 2004/05.
- 2.4 Where the amount due is unknown then an estimated amount has been allowed for.
- 2.5 All interest payable on external borrowing and interest receivable on investments are accounted for in the period to which they relate.

STATEMENT OF ACCOUNTING POLICIES

RESERVES AND PROVISIONS

- 2.6 The Consolidated Balance Sheet contains a number of reserves and provisions. In accordance with accounting practice under the SORP and Financial Reporting Standard 12, provisions are sums set aside for liabilities and obligations that are likely to arise but the exact timing and amounts are unknown. Provisions do not reflect continuing contractual commitments or underspends set aside for future use. Reserves are for moneys set aside from underspends for meeting contractual commitments or future expenditure that is non-specific at this moment in time.

REPAYMENT OF DEBT

- 2.7 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.
- 2.8 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

- 2.9 There has been an allocation of Central Administrative Expenses over all services, based on Service Level Agreements. Any surpluses or deficits on these internal trading accounts are taken to the General Fund.

BASIS OF VALUATION OF INVESTMENTS

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

WORKS IN PROGRESS, STOCKS AND STORES

- 2.11 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.
- 2.12 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.

STATEMENT OF ACCOUNTING POLICIES

- 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 2004 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.
- 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.

STATEMENT OF ACCOUNTING POLICIES

- 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.
- 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 2004/05 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 2004/05. Of the 76 declarations requested, 17 declared interests with voluntary bodies or charitable organisations which have received funding totalling £2,141,278; or businesses that have contracted for goods and services with the Council to the value of £732,797 in 2004/05.
- 4.3 Three Councillors declared an interest in Fusion Leisure Service.

STATEMENT OF ACCOUNTING POLICIES

- 4.4 The Council's register of Members' interests is available for inspection together with their declarations of any related party transactions at Peckham Town Hall.
- 4.5 The Government is a related party for the Council, by virtue of the influence it can exert through the level of grant funding its supplies. The Council received £692 million grant funding in 2004/05 (£605 million 2003/04), as shown in Note 2 to the cashflow statement, page 68.

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	Income	2004/05 Net Expenditure	2003/04 Net Expenditure
		£000	£000	£000	£000
Education		266,969	(87,438)	179,531	175,583
Social Services	1	178,066	(52,132)	125,934	106,270
Housing Services - Housing Revenue Account	2	304,140	(270,770)	33,370	3,243
Housing Services - General Fund		227,570	(203,356)	24,214	21,186
Highways and Transportation		29,494	(13,745)	15,749	13,523
Cultural, Environmental and Planning	3, 4	118,498	(50,556)	67,942	59,323
Coroners service		1,158	(931)	227	166
Central Services	5, 6	53,577	(57,252)	(3,675)	3,159
Corporate and Democratic Core		17,325	(2,776)	14,549	15,215
Non distributed costs	7	2,974	0	2,974	6,120
Net Cost of Services	8 - 13	1,199,771	(738,956)	460,815	403,788
Net (surplus)/loss on internal trading accounts	8			1,155	(1,165)
Interest Receivable				(11,768)	(5,711)
Transfers to/(from) AMRA	14			(64,961)	(74,701)
Contribution of housing capital receipts to the Government Pool	15			108,229	0
Deferred Credits				(559)	(572)
Deferred Debits				4,779	4,536
Levies				741	1,944
Amounts due to precepting authorities				21,253	19,187
Pensions interest cost and expected return on pensions assets				5,200	8,800
Net Operating Expenditure				524,884	356,106
Appropriations -					
Transfers to/(from) HRA Fund				(10,316)	15,167
Contributions to/(from) earmarked reserves				12,814	6,487
Contributions to/(from) capital reserves					
- Financing capital expenditure				27,886	27,974
- Deferred Charges				(8,284)	(7,810)
- Deferred Grants				1,010	1,470
- Transfer from Usable Capital Receipts					
Reserve equal to the contribution to Housing Pooled Receipts	15			(108,229)	0
MRP/Depreciation adjustment	16			(6,486)	2,131
Contribution from the pension reserve				(5,480)	(4,229)
Amounts to be met from Government Grants & Taxation				427,799	397,296
Sources of Finance:					
Council Tax payers				(94,286)	(88,426)
Deficit from previous years Collection fund				8	2,358
General Government Grant				(264,234)	(240,677)
Contributions from non domestic pool				(70,202)	(71,851)
Net General Fund (surplus)/deficit				(915)	(1,300)
Balance brought forward				(8,073)	(6,773)
Balance carried forward				(8,988)	(8,073)
Schools' balances at 31 st March				(11,935)	(5,958)

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. In 2004/05 the Council (LBS) and Southwark Primary Care Trust (PCT) operated a pooled fund arrangement for the Learning Disabilities Service. LBS was the host body. The Consolidated Revenue Account does not include the transactions of the PCT. The memorandum account for the combined pooled fund is shown as:

	2004/05 £000	2003/04 £000
Income		
Surplus brought forward	(597)	355
LBS	(16,018)	(17,166)
PCT	(8,209)	(8,065)
	(24,824)	(25,586)
Expenditure	24,241	24,989
Net underspend carried forward	(583)	(597)

- 1.2 Since 2003/04, 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 combined pooled fund is shown as:

	2004/05 £000	2003/04 £000
Income		
LBS	(7,416)	(8,906)
PCT	(40,210)	(36,199)
	(47,626)	(45,105)
Expenditure	48,468	45,475
Net overspend carried forward	(842)	(370)

- 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 deficit for 2004/05 was £0.550 million (£0.185 million in 2003/04).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

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 statements on page 33, is £34.36 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:

	2004/05 £000	2003/04 £000
Cost of Services, Consolidated Revenue Account	33,370	3,243
Corporate and Democratic Core	990	750
Net Cost of Services, HRA	34,360	3,993

3. COMMERCIAL INCOME

- 3.1 The Council undertook commercial refuse collection in addition to its statutory refuse collection. In 2004/05 a surplus of £397,000 (£296,000 in 2003/04) occurred on a turnover of £2,914,000 (£2,768,000 in 2003/04).
- 3.2 The Council operates a number of industrial estates in the area. These produced an income of £1,303,000 (£1,385,000 in 2003/04) against expenditure of £910,000 (£1,065,000 in 2003/04).
- 3.3 The Council also rents out commercial properties. These produced an income of £1,699,000 (£1,436,000 in 2003/04) against expenditure of £1,288,000 (£1,604,000 in 2003/04).
- 3.4 The Council operates a Parking Trading Account. In 2004/05 parking generated a surplus of £3,572,000 (£3,273,000 in 2003/04). The surplus has been fully applied to meet other transport costs of road maintenance £1,585,000, street lighting £1,269,000 and other highways expenditure of £718,000 (£992,000, £1,363,000 and £918,000 in 2003/04, 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

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.

	Chargeable £000	Non Chargeable £000	2004/05 Total £000	2003/04 Total £000
Expenditure				
Employees	628	371	999	959
Premises	33	19	52	38
Transport	11	7	18	17
Supplies & Services	86	51	137	229
Support Services	200	118	318	286
Total Expenditure	958	566	1,524	1,529
Income				
Building Regulation Charges	(823)	0	(823)	(1,044)
Deferred Charges	(299)	0	(299)	(119)
Miscellaneous Income	0	(2)	(2)	(65)
Dangerous Structures Income	0	(73)	(73)	(91)
Deferred Income	(132)	0	(132)	(140)
Total Income	(1,254)	(75)	(1,329)	(1,459)
(Surplus)/Deficit for the year	(296)	491	195	70

5. MEMBERS' ALLOWANCES

5.1 The amount of members' allowances paid in 2004/05 was £1,138,132 (£959,483 in 2003/04).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

6. AUDIT REMUNERATION

6.1 In 2004/05 the Council incurred the following fees relating to external audit and inspection:

	2004/05 £000	2003/04 £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)	608	719
Fees payable to the Audit Commission in respect of statutory inspection (Best Value inspections and related work)	88	206
Fees payable to the Audit Commission for the certification of grant claims and returns	210	305
Fees payable in respect of other services provided by the appointed auditor (see Note 6.2)	27	162
	933	1,392

6.2 The £27,000 fees for other services payable in 2004/05 related to:

	£000
Public interest report, Imperial Gardens	21
National Fraud Initiative	2
Management Validation	3
Other	1
	27

7. NON DISTRIBUTED COSTS

7.1 The Best Value Accounting Code of Practice requires the disclosure of Unallocated Central Overheads. The costs are:

	2004/05 £000	2003/04 £000
London Pension Fund Authority levy	1,474	1,520
Pension contributions, past service costs	1,500	4,600
Total	2,974	6,120

7.2 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

8. TRADING ACTIVITIES

8.1 Best Value Accounting requires the disclosure of turnover and net profit for all internal trading accounts. The list below includes operations of the Council run on a trading account basis as well as DSO trading activities. The profit or loss figures are presented on an FRS 17 basis.

	Note	Turnover 2004/05 £000	(Profit)/Loss 2004/05 £000	Turnover 2003/04 £000	(Profit)/Loss 2003/04 £000
Building		(13,581)	127	(12,928)	290
Street & Metal Work Services		(3,994)	(16)	(3,614)	(384)
Refuse		(6,599)	54	(5,439)	(156)
Vehicle Management (Fleet)		(5,806)	(70)	(4,699)	(467)
Building Design Services		(6,351)	11	(4,659)	(57)
Integrated Cleaning Contract		(19,149)	387	(19,510)	(121)
Passenger Services		(2,426)	6	(3,409)	(67)
DSO SLA overhang costs	8.2	0	539	0	308
Social Services – Orchard Lodge	8.3	(7,194)	117	(7,406)	(21)
Total		(65,100)	(1,155)	(61,664)	(675)

8.2 DSO SLA overhang costs are associated with trading accounts that no longer exist, but for which some residual costs remain.

8.3 Orchard Lodge is currently being externalised. It is expected that this will now be completed in 2005/06. The facility will then cease to be the responsibility of the Council. Until then, the ongoing business is expected to break even, apart from any notional FRS 17 costs, which were £117,000 in 2004/05.

8.4 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 2004/05 £000	(Profit)/Loss 2004/05 £000	Turnover 2003/04 £000	(Profit)/Loss 2003/04 £000
Translation Unit	8.5	(163)	(38)	(111)	(30)
Parking Services		(9,954)	(3,572)	(9,502)	(3,273)
Total		(10,117)	(3,610)	(9,613)	(3,303)

8.5 In the 2003/04 Accounts, all activities of the Translation Service had been included in this Note to the Accounts, though the trading activity relates just to the use of sessional translators. The turnover and net profit on the service for 2004/05 and 2003/04 now reflect only the trading activity.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

9. LIABILITY IN RESPECT OF LEASED ASSETS

9.1 The Council has a number of assets that have been provided through hire agreements. The value of the rental payments are shown below:

	2004/05 £000	2003/04 £000
Cost of repayments in 2004/05		
Operating leases - Council vehicles	3,219	2,977
Operating leases - staff vehicles	820	806
Hire purchase – fixed plant	12	116
Property leases	6,387	4,528
	10,438	8,427

9.2 Council vehicles are provided on both short term and long term contract hire. The rentals remaining to be paid on the longer term contracts as at 31st March 2005 totalled £8.6 million (£6.1 million 31st March 2004).

9.3 The rentals remaining on staff vehicles at 31st March 2005 totalled £1.5 million (£1.4 million 31st March 2004). Approximately 78% of the cost of employee vehicles is borne by the Council, the remainder falling to the employees.

9.4 The increase in property rentals is due largely to the take on of leases with housing associations for rental accommodation. Future rentals on property leases are estimated at £7.1 million per annum.

9.5 The Council has rental liabilities for office and other equipment, of £1.8 million per annum, which is not included in the table above.

10. PUBLICITY

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

	2004/05 £	2003/04 £
Recruitment advertising	1,629,612	1,381,733
Council newspapers and other publications	191,963	187,585
Consultations and other publicity	3,080,652	2,321,034
	4,902,277	3,890,352

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

11. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

- 11.1 In 2001/02 the London Borough of Hackney commissioned the Council's Building Design Service to assist in the development of a planned maintenance programme. The Council continued to receive commission for this work in 2004/05.

	2004/05 £000	2003/04 £000
Income received		
Hackney: Building Design Commission	81	86
Atkins: Information Technology	0	95
Atkins: Transport	0	856
Bromley: Broadband IT support	0	17
	81	1,054

12. EMPLOYEES PENSION COSTS

- 12.1 *Teachers' pension costs.* Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teacher's 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 2004/05 the Council paid £12.36 million to the TPA in respect of teachers' pension costs, which represents 15.6% 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 2004/05 these amounted to £416,000.
- 12.2 *Employees who were transferred from the GLC or ILEA.* In 2004/05 the Council paid £490,000 to the London Pension Fund Authority in respect of the pension costs for former employees of the GLC or ILEA. This represents 19.83% 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 2004/05 these amounted to £75,221.
- 12.3 *Other employees' pension costs.* In 2004/05 the Council paid an employer contribution of £22.27 million into the Pension Fund, representing 17.7% of pensionable pay. The proportion of this contribution, which was estimated by the actuary to be attributable to current employees' liabilities (11.1%), has been charged to the relevant service and the remainder in respect of past employees has been charged as a corporate cost. The £22.27 million includes a one off lump sum contribution of £7.31 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 31/3/04. 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 2004/05 these amounted to £2.869 million, representing 2.0% of pensionable pay.
- 12.4 The last triennial revaluation of the Fund took place as at 31/3/04. 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 £20.8 million, representing 16.5% of pensionable pay. The FRS17 disclosure is shown fully at Note 20 of the Consolidated Balance Sheet (page 58). The movement in the Pensions Reserve is shown at Note 18.7 of the Consolidated Balance Sheet (page 55).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

- 12.5 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 2004/05, funded by the Pension Fund	437	0.3%
Capital cost of discretionary added years awarded in years before 2004/05, funded by the Pension Fund	33,562	
Capital cost of discretionary added years awarded in 2004/05, funded by the Council	100	0.08%
Capital cost of discretionary added years awarded in years before 2004/05, funded by the Council	28,618	

13. REMUNERATION OF EMPLOYEES

- 13.1 During 2004/05 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
			2004/05	2003/04
50,000 - 59,999	111	66	177	141
60,000 - 69,999	23	24	47	46
70,000 - 79,999	8	13	21	18
80,000 - 89,999	6	2	8	9
90,000 - 99,999	3	0	3	6
100,000 - 109,999	0	4	4	2
110,000 - 119,999	0	2	2	0
120,000 - 129,999	0	0	0	2
130,000 - 139,999	0	1	1	0
140,000 - 149,999	0	0	0	0
150,000 - 159,999	0	0	0	1
160,000 - 169,999	0	1	1	0
	151	113	264	225

- 13.2 In 2004/05 many of the Council's responsibilities as a Local Education Authority were operated by Cambridge Education Associates (see Note 6 page 16). A number of senior Education Department managers were therefore employed under contract and are not reflected in the employee remuneration table above.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

14. ASSET MANAGEMENT REVENUE ACCOUNT (AMRA)

- 14.1 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).
- 14.2 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).

	2004/05 £000	2003/04 £000
Income		
Capital charges - General Fund	(26,714)	(27,629)
Capital charges - Housing Revenue Account	(142,701)	(155,824)
Transfer from Grants Deferred Account	(1,010)	(1,470)
	(170,425)	(184,923)
Expenditure		
Provision for depreciation - General Fund	8,267	9,169
Provision for depreciation - Housing Revenue Account	38,083	40,858
External interest charges	59,114	60,195
	105,464	110,222
Balance to the Consolidated Revenue Account	(64,961)	(74,701)
Analysed as:		
General Fund	(15,142)	(17,435)
Housing Revenue Account	(49,819)	(57,266)
Balance to the Consolidated Revenue Account	(64,961)	(74,701)

15. CONTRIBUTION OF HOUSING CAPITAL RECEIPTS TO THE GOVERNMENT POOL

- 15.1 Until 2003/04, part of the proceeds from the sale of housing assets were required to be "set aside", or "reserved", in the Council's Accounts, for the redemption of loan debt, of 75% from the sales of dwellings and 50% from the sale of land or other assets. From 2004/05, under the Local Government Act 2003, these reserved receipts are now required to be paid to the Government. The payment is reflected in the Consolidated Revenue Account, matched by a release from the Usable Capital Receipts Reserve.
- 15.2 The amount paid to the Government in respect of 2004/05 was £108.229 million. The equivalent amount set aside in the Council's Accounts in 2003/04 was £82.126 million. See also Notes 18.2 and 18.3 to the Balance Sheet (page 52) and Note 5 to the Cashflow statement (page 69).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

16. MINIMUM REVENUE PROVISION (MRP)

16.1 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. There are minimum levels for this requirement, set at 2% (HRA) or 4% (General Fund) of a prescribed notional calculation. The Council can elect to set aside more than the minimum levels.

16.2 From 2004/05 the SORP no longer requires a charge for MRP to the HRA.

16.3 Accounting practice for local authorities also requires that the depreciation charged to the AMRA (note 14 above) is reversed out so that there is no impact on Council Tax or Housing rents. 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.

	2004/05 £000	2003/04 £000
General Fund amount	1,781	1,172
Housing amount	0	12,643
Minimum Revenue Provision	1,781	13,815
General Fund amount	1,781	1,172
Less General Fund depreciation	(8,267)	(9,169)
	(6,486)	(7,997)
Housing amount	0	12,643
Less HRA depreciation	(38,083)	(40,858)
Receipt of Major Repairs Allowance	36,639	38,823
Transfer to the Major Repairs Reserve	1,444	2,035
	0	12,643
Balance to the Consolidated Revenue Account	6,486	4,646
Technical adjustments for earlier years (Note 16.4)	0	(2,131)
Balance to the Consolidated Revenue Account	(6,486)	2,131

16.4 An adjustment was made in the 2003/04 Accounts, as a result of an overstatement arising from errors in the Government's guidance on how to calculate a technical adjustment following the Government's commutation of specific debt held by local authorities in 1992/93. The error in the technical adjustment was an issue for all local authorities involved in the Government's repayment of debt. The correction to the technical adjustment was fully implemented in 2003/04 with no further correction required in 2004/05.

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

	2004/05 £000	2003/04 £000
INCOME		
Dwelling rents (gross)	(137,976)	(139,186)
Non dwelling rents (gross)	(9,321)	(7,690)
Charges for services and facilities	(46,137)	(35,320)
Contributions towards expenditure	(5,422)	(7,147)
HRA subsidy receivable (including MRA)	(69,644)	(161,334)
Reductions in provisions	(2,270)	(18,508)
TOTAL INCOME	(270,770)	(369,185)
EXPENDITURE		
Repairs and maintenance	52,043	47,500
Supervision and management	100,905	83,024
Rents, rates, taxes and other charges	3,092	2,839
Rent rebates	0	79,000
Increases in provisions	5,557	4,420
Cost of capital charge	104,335	114,928
Depreciation and impairment of fixed assets	38,083	40,858
Amortisation of deferred charges	832	335
Leasing charges	12	38
Debt management expenses	271	236
TOTAL EXPENDITURE	305,130	373,178
Net Cost of Services	34,360	3,993
Asset Management Revenue Account balance	(54,835)	(62,039)
Amortised premiums and discounts	5,016	4,772
HRA Investment Income	(1,055)	(1,337)
Net Operating Expenditure	(16,514)	(54,611)
Revenue Contribution to Capital Expenditure	27,417	26,910
HRA Contribution to MRP	0	12,643
Transfer to/(from) Major Repairs Reserve	(1,444)	(2,035)
Contribution to the pension reserve	857	1,926
Total (Surplus)/Deficit for the year	(10,316)	(15,167)
Balance brought forward	(37,846)	(22,679)
Balance carried forward	(27,530)	(27,846)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling	Number of bedrooms				Total	
	1	2	3+	Other	31/3/05	31/3/04
Houses and bungalows	31/3/05	414	774	3,039	0	4227
	31/3/04	409	772	3,069	0	4,250
Low rise flats	31/3/05	3,177	729	396	0	4,302
	31/3/04	3,276	756	417	0	4,449
Medium rise flats	31/3/05	7,393	7,901	6,897	0	22,191
	31/3/04	7,662	8,259	7,234	0	23,155
High rise flats	31/3/05	4,043	5,796	2,070	0	11,909
	31/3/04	4,216	6,077	2,156	0	12,449
Non permanent	31/3/05	0	0	0	36	36
	31/3/04	0	0	0	56	56
Multi occupied	31/3/05	0	0	0	198	198
	31/3/04	0	0	0	196	196
TOTALS	31/3/05	15,027	15,200	12,402	234	42,863
	31/3/04	15,563	15,864	12,876	252	44,555

2. ASSET VALUATIONS

2.1 The values of HRA operational assets, as included in Note 2 to the Balance Sheet on page 41 are shown in the table below. There are no non operational HRA assets.

	31/3/05	31/03/04
	£000	£000
Dwellings	2,858,282	2,739,201
Other land and buildings	70,852	63,151
	2,929,134	2,802,352

2.2 The vacant possession value of dwellings within the HRA at 1st April 2004 was £6,096 million. 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 On 27th September 2005, the Executive agreed in principle to a substantial redevelopment of the Aylesbury Estate. The redevelopment is subject to further preliminary work and funding arrangements, and is not yet contractually committed by the Council. The scheme, if progressed, would take place over a number of years, and could affect the value of council dwellings in Tangible Fixed Assets, but it is not possible at this time to measure the impact on future valuations. The gross book value of the Aylesbury Estate in Note 2.1 above is £108 million.

NOTES TO THE HOUSING REVENUE ACCOUNT

3. MAJOR REPAIRS RESERVE

	2004/05 £000	2003/04 £000
Balance at 1 st April 2004	(25,399)	(5,205)
Transfers from the Capital Financing Reserve	(38,083)	(40,858)
Transfer to the HRA	1,444	2,035
Interest received	(1,070)	(528)
Financing of capital expenditure	39,825	19,157
Balance at 31st March 2005	(23,283)	(25,399)

- 3.1 The balance on the Major Repairs Reserve arises as a result of delays in the Stock Condition Survey and the introduction of the Leasehold and Commonhold Reform Act 2002. This is carried forward to 2005/06 to meet Decent Homes and investment needs generally.

4. HRA BALANCE

- 4.1 HRA reserves at 31st March 2005 are £27.53 million. The decrease in the reserves from £37.85 million arises from the release of bad debts provisions, housing subsidy provisions and improved income collection, and the application of the Decent Homes and Stockloss reserves. The reserves are allocated as follows:

	2004/05 £m	2003/04 £m
Earmarked reserves	18.0	11.7
Decent Homes reserve	0.0	12.2
General one-off balances	9.5	13.9
Balance at 31st March	27.5	37.8

- 4.2 Earmarked reserves comprise:

- Contingency Fund, £7.8 million - reserve held similar to that in the General Fund, representing 3% of gross HRA.
- Insurance reserve, £2.0 million - self-insurance fund against risk of subsidence in housing owned stock.
- Office accommodation, £0.8 million - planned maintenance and office refurbishment programme.
- Heating account, £1.5 million - provision against potential increases in fuel costs part-way through 2005/06.
- Customer Services Centre, £2.7 million - amortisation of the first year of costs attributable to the HRA. The full costs will be written down over 4 years.
- IT Modernisation, £3.2 million - investment in infrastructure, e-government and customer access.

NOTES TO THE HOUSING REVENUE ACCOUNT

4.3 The Decent Homes reserve, £12.2 million, was a one-off windfall resource to fund the Decent Homes programme, and was applied in full in 2004/05.

4.4 General one-off balances comprise:

- Non-base budget funded service improvements, £4.9 million - primarily to repair and maintain the housing stock and improvements and new initiatives to enhance service provision to tenants and leaseholders.
- Corporate initiatives, £4.4 million - HRA contribution towards costs of corporate priorities, i.e. modernisation agenda, stock options appraisal, estate signage and redevelopment of the Elephant & Castle.
- Best value reviews, £0.2 million - one-off costs associated with the implementation of service reviews, in this instance relating to the Central Arrears team.

5. CAPITAL

CAPITAL EXPENDITURE	2004/05 £000	2003/04 £000
Funding Source:		
Borrowing	11,109	13,213
Usable capital receipts	4,263	9,217
Grants and contributions	307	231
Revenue contributions	27,417	26,910
Major Repairs Reserve	39,825	19,157
Total HRA capital expenditure	82,921	68,728
RECEIPTS FROM ASSET DISPOSALS	2004/05 £000	2003/04 £000
Land	14,688	494
Buildings	163,844	121,757
Other receipts	83	0
Total HRA capital receipts	178,615	122,251

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

	2004/05 £000	2003/04 £000
Dwellings	36,639	38,823
Other property	1,444	2,035
	38,083	40,858

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 44):

	2004/05 £000	2003/04 £000
Balance at 1 st April	0	0
Expenditure in the year	832	335
Amortisation in the year	(832)	(335)
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 20 on page 58.

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. Until 2003/04 the remaining subsidy was a reimbursement of the majority of the cost of rent rebates granted by Southwark for their Council tenancies. From 2004/05 the Housing Benefit element is no longer payable through the HRA but from the General Fund.

	2004/05 £000	2003/04 £000
Management & Maintenance allowances	(97,239)	(102,686)
Major Repairs Allowance	(36,639)	(38,823)
Capital Charges subsidy	(67,379)	(79,269)
Other Expenditure (leased assets) subsidy	(1,622)	(1,608)
Interest on Receipts deduction	106	133
Guideline rent income deduction	133,129	136,207
Housing Element subsidy	(69,644)	(86,046)
Housing Benefit subsidy limitation deduction	2,213	2,588
Housing Benefit subsidy	0	(77,876)
Total Housing Subsidy	(67,431)	(161,334)

12. HOUSING TENANTS ACCOUNTS

	2004/05 £000	2003/04 £000
Arrears at 1 st April 2004	16,319	17,470
Charges due in the year	151,889	152,629
Rent Rebates	(74,797)	(72,230)
Write offs	(3,361)	(2,991)
Adjustments	343	36
Cash collected	(75,636)	(78,595)
Arrears at 31 st March 2005	14,757	16,319

- 12.1 The arrears position as at 31st March 2005 includes Neighbourhoods, Browning EMB, hostels and miscellaneous properties. It excludes Tenant Management Organisations, Bed & Breakfast and Travellers Sites.

CONSOLIDATED BALANCE SHEET

BALANCES AT	Note	31/3/05 £000	31/3/05 £000	31/3/04 £000	31/3/04 £000
Intangible Assets	1		269		558
Tangible Fixed Assets	2				
Operational assets					
- Council dwellings		2,858,282		2,739,201	
- other land and buildings		544,496		506,534	
- vehicles, plant and equipment		1,149		1,672	
- infrastructure assets		63,791		54,779	
- community assets		12,442		10,154	
- work in progress		14,031		21,742	
Non operational assets					
- investment properties		618		1,254	
			3,494,809		3,335,336
Deferred charges	3	0		0	
Deferred debtors	4	1,233		1,263	
Long term debtors	5	2,078		1,619	
			3,311		2,882
Total long term assets			3,498,389		3,338,776
Current Assets					
- stocks and work in progress		1,036		1,930	
- debtors	6	137,072		127,392	
- less provision for bad debts	7	(46,170)		(44,984)	
- investments	8	294,922		211,035	
			386,860		295,373
Current Liabilities					
- borrowing repayable on demand or within 12 months	9	(65)		(65)	
- creditors	10	(139,444)		(114,751)	
- cash and bank		(19,865)		(8,962)	
			(159,374)		(123,778)
Total assets less current liabilities			3,725,875		3,510,371
Long term borrowing	11		(648,843)		(652,054)
Deferred receipts	12		(985)		(977)
Provisions	13		(33,105)		(35,508)
Pension scheme liability	14		(273,052)		(126,329)
Total assets less liabilities	17		2,769,890		2,695,503
Represented by :					
Fixed asset restatement account	18.1		(2,074,838)		(1,984,133)
Capital financing account	18.2		(719,912)		(676,936)
Usable capital receipts reserve	18.3		(70,032)		(21,174)
Grants deferred account	18.4		(73,397)		(42,547)
Major Repairs Reserve			(23,283)		(25,399)
Deferred debits	18.5		17,996		22,158
Deferred credits	18.6		(5,535)		(6,094)
Pensions reserve	18.7		273,052		126,329
Earmarked reserves	18.8		(56,137)		(41,881)
Balances					
- General Fund			(8,988)		(8,073)
- Housing Revenue A/c			(27,530)		(37,846)
- Collection Fund	18.8		(1,286)		93
Total Equity			(2,769,890)		(2,695,503)

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. INTANGIBLE ASSETS

	2004/05 £000	2003/04 £000
Original cost	866	866
Accumulated amortisation	(308)	(19)
Balance as at 1st April	(558)	847
Expenditure in Year	0	0
Amortisation in year	(289)	(289)
Balance as at 31st March	269	558

- 1.1 Until 2003/04 intangible assets were included within tangible fixed assets (vehicles, plant & equipment). As a result of a change in the SORP for 2004/05, intangible assets are now shown separately. The 2003/04 figures have been restated accordingly.
- 1.2 The expenditure on intangible assets refers to software acquired and installed as part of the corporate capital programme to enhance the Council's ICT infrastructure. For example, the GIS (Geographical Information System) to support the strategic management of service delivery. These assets are amortised over a three-year lifespan.
- 1.3 The outstanding balance on intangible assets reflects expenditure occurred on the following items:

	£000
IT procurement	58
Geographical Information System	217
Care First	591
	<u>866</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

2. TANGIBLE FIXED ASSETS

2.1 Movement of Fixed Assets 2004/05

	Council Housing £000	Other Land & Buildings £000	Vehicles Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Investment Properties £000	Work in Progress £000	TOTAL £000
Gross Book Value @ 01/4/04	2,776,794	523,557	16,912	67,867	10,154	1,254	21,742	3,418,280
Restatements	0	(12,436)	0	0	(275)	(636)	0	(13,347)
Revaluations	161,453	47,325	0	0	0	0	0	208,778
Additions	81,130	29,599	46	10,855	2,563	0	(7,711)	116,482
Disposals	(125,876)	(19,484)	0	0	0	0	0	(145,360)
Gross Book Value @ 31/3/05	2,893,501	568,561	16,958	78,722	12,442	618	14,031	3,584,833
Accumulated Depreciation b/f	(37,593)	(17,023)	(14,951)	(13,088)	0	0	0	(82,655)
Depreciation for Restatements	0	(120)	0	0	0	0	0	(120)
Depreciation for Revaluations	37,593	(118)	0	0	0	0	0	37,475
Depreciation for the year	(36,639)	(6,827)	(858)	(1,843)	0	0	0	(46,167)
Depreciation on assets sold	1,420	23	0	0	0	0	0	1,443
Depreciation Balance @ 31/3/05	(35,219)	(24,065)	(15,809)	(14,931)	0	0	0	(90,024)
Net Book Value @ 31/3/05	2,858,282	544,496	1,149	63,791	12,442	618	14,031	3,494,809

- 2.2 The opening balance for vehicles, plant & equipment has been restated to reflect the separate disclosure of intangible assets, note 1.1 above.
- 2.3 Restatements reflect the change in value of non-dwellings assets following a review of the Council's asset register in October to December 2004. The restatements also include a transfer to deferred charges (Note 3 below).
- 2.4 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.
- 2.5 The valuation of Council dwellings has been carried out by Andrew Smith BSc MRICS IRRV of FPDSavills. The valuation of all other fixed assets has been carried out by the Council's internal valuation service, led by Matthew Jackson MRICS BSc.

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 £000	Other Land & Building £000	Vehicles Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Investment Properties £000	Work in Progress £000	TOTAL £000
Assets valued at Historic Cost	0	0	1,149	63,791	12,442	618	14,031	92,031
Assets valued at Current Value								0
As at 01/04/99	1,121,681	333,974						1,455,655
As at 01/04/00	715,018	564						715,582
As at 01/04/01	177,825	63,092						240,917
As at 01/04/02	732,612	92,177						824,789
As at 01/04/03	(7,935)	16,727						8,792
As at 01/04/04	119,081	37,962						157,043
	2,858,282	544,496	1,149	63,791	12,442	618	14,031	3,494,809

2.7 In 2004/05, the swimming pool at the Peckham Pulse Leisure Centre had to be closed, due to leaks. Works have started in 2005/06 to correct the fault, which will restore the pool to full use. The rest of the facilities at the Centre remain available for use. The loss of the use of the swimming pool is an impairment at the Leisure Centre. However, as the rest of the facility remains in use, the reduction in the value of the asset is not materially significant. The net book value as at 31st March 2005 in paragraph 2.1 above is £11.603 million, whereas the impaired value of the asset is assessed at £10.9 million, a reduction of £0.703 million. As this is a minor change in the valuation, and is of a temporary nature only, the values in the Accounts have not been amended for this impairment.

2.8 Apart from paragraph 2.7, there have been no impairment losses on fixed assets that were caused by physical damage or deterioration in the condition of specific assets. The whole housing stock is valued on an annual basis, and any impairment not otherwise 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.

2.9 On 27th September 2005, the Executive agreed in principle to a substantial redevelopment of the Aylesbury Estate. The redevelopment is subject to further preliminary work and funding arrangements, and is not yet contractually committed by the Council. The scheme, if progressed, would take place over a number of years, and could affect the value of council dwellings in Tangible Fixed Assets, but it is not possible at this time to measure the impact on future valuations. The gross book value of the Aylesbury Estate in Note 2.1 above is £108 million.

NOTES TO THE CONSOLIDATED BALANCE SHEET

2.10 Summary of assets

	2004/05 Quantity in Numbers	2003/04 Quantity in Numbers
Council Dwellings	42,863	44,555
Operation Assets		
Town & Public Halls	1	1
Office Buildings	47	47
Coroners Courts	1	1
Depots	2	2
Social Services - Residential Care	3	3
Social Services - Day Care Facilities	10	10
Social Services - Other/Offices	12	12
Cemeteries and Crematoria	4	4
Sports and Recreation Centres	11	11
Swimming Pools	4	4
Nurseries & Early Years	14	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	582	586
Industrial Sites	7	7
Car Parks	4	4
Community Assets		
Parks	131	131
Infrastructure Assets		
Roads (in km)	337	337

2.10.1 The above listing shows assets owned by the Council and included in the Consolidated Balance Sheet, and excludes services provided in properties that are rented. An exception is the schools, 92 in total, which include 24 voluntary primary and 7 voluntary secondary schools.

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.

	2004/05 £000	2003/04 £000
Deferred charges as at 1 st April	0	0
Transferred from Tangible Fixed Assets	1,253	0
Expenditure in the year	7,031	7,810
Amortisation	(8,284)	(7,810)
Balance as at 31st March 2005	0	0

- 3.2 All deferred charges are fully amortised in the year they arise.
- 3.3 The transfer from Tangible Fixed Assets follows the 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 has been reclassified as a deferred charge, and written off in the year.

4. DEFERRED DEBTORS

	2004/05 £000	2003/04 £000
Balance as at 1 st April 2004	1,263	1,546
New advances in the year	216	0
Repayments in the year	(246)	(283)
Balance as at 31st March 2005	1,233	1,263
Represented by :		
Housing Associations	190	200
Right to Buy mortgages	835	1,050
Charges over Right to Buy for major works	208	0
Other	0	13
Balance as at 31st March 2005	1,233	1,263

- 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 of the Housing Act 1985 can be deferred until death of the owner or sale of the property.

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. LONG TERM DEBTORS

	2004/05 £000	2003/04 £000
Deferred payment schemes for Section 20 works	2,060	1,388
Housing association partnership schemes	0	212
Works in default	18	19
	2,078	1,619

- 5.1 Deferred payments for Section 20 works are where leaseholders are in a fixed plan for the repayment of costs due, compared with the deferred debtors (Note 4) 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.
- 5.2 Housing association partnership schemes are part of Peckham Partnership, where costs have been deferred on behalf of housing associations until such time as assets are sold to the associations. Final payments under these schemes were received in 2004/05.

6. DEBTORS

- 6.1 Until 2003/04 Council Tax and Business Rate debtors were shown net of prepayments and other receipts in advance. From 2004/05 debtors are now shown gross, with prepayments and receipts in advance now included within creditors. Debtors for 2003/04 have been restated to be comparable with 2004/05, and have been increased by £16.877 million from the £110.515 million previously in the 2003/04 Accounts.

7. PROVISIONS FOR BAD DEBTS

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
Rent allowances	0	(180)	(180)
Housing Benefits overpayments	(4,844)	1,066	(3,778)
Rent arrears	(11,837)	1,901	(9,936)
Hostels	(884)	47	(837)
Housing court costs	(205)	(189)	(394)
RTB Leaseholders	(1,548)	(95)	(1,643)
RTB Section 20	(3,508)	(947)	(4,455)
Commercial rent arrears	(353)	(14)	(367)
Bed & breakfast	(622)	9	(613)
Travellers	(112)	(4)	(116)
Private Sector Leasing	(111)	(220)	(331)
On street parking	(2,520)	(1,651)	(4,171)
Section 74	(146)	(424)	(570)
Highways	(116)	5	(111)
Trade waste	(102)	62	(40)
Council Tax	(13,940)	2,105	(11,835)
Council Tax summons costs	(1,150)	(99)	(1,249)
Non domestic rates collection	0	(3,178)	(3,178)
BCCI loss	(458)	0	(458)
Education services	(638)	(115)	(753)
Social Services	(1,252)	595	(657)
Other provisions less than £100,000	(638)	140	(498)
	(44,984)	(1,186)	(46,170)

NOTES TO THE CONSOLIDATED BALANCE SHEET

8. INVESTMENTS

	31/3/05 £000	31/3/04 £000
Temporary investments	297,039	213,061
Less: Sums invested on behalf of Trust Funds	(2,117)	(2,026)
	294,922	211,035

- 8.1 Temporary investments include funds managed externally on behalf of the Council. The book cost at 31st March of investments managed externally was £24.454 million (£23.325 million 2003/04), with market value of £23.706 million (£23.592 million 2003/04).

9. BORROWING REPAYABLE ON DEMAND OR WITHIN 12 MONTHS

- 9.1 Long term loans that are repayable immediately or have less than 12 months remaining as at 31st March were previously reported together with the other long term loans, as long term long liabilities. These are now shown separately under current liabilities.

	Range of Interest rates payable (%)	Total outstanding	
		31/3/05 £000	31/3/04 £000
Stock		(54)	(54)
Mortgages	3.25 to 5.06	(11)	(11)
		(65)	(65)

10. CREDITORS

- 10.1 Until 2003/04 Council Tax and Business Rate debtors were shown net of prepayments and other receipts in advance. From 2004/05 debtors are now shown gross, with prepayments and receipts in advance now included within creditors. Creditors for 2003/04 have been restated to be comparable with 2004/05, and have been increased by £16.877 million from the £97.874 million previously in the 2003/04 Accounts.

NOTES TO THE CONSOLIDATED BALANCE SHEET

11. LONG-TERM BORROWING

11.1 Long term loans that are repayable on demand or have less than 12 months remaining as at 31st March is now disclosed separately, Note 9 above.

11.2 Sources of loans:

	Range of Interest rates payable (%)	Total outstanding 31/3/05 £000	31/3/04 £000
Mortgages	3.25 to 5.06	(134)	(145)
PWLB loans	4.25 to 11.5	(648,709)	(651,909)
		(648,843)	(652,054)

11.3 Maturity dates of loans:

	31/3/05 £000	31/3/04 £000
from 1 year to 2 years	(11)	(11)
from 2 years to 5 years	(74,400)	(24,598)
from 5 years to 10 years	(263,567)	(212,650)
after 10 years	(310,865)	(414,795)
	(648,843)	(652,054)

12. DEFERRED RECEIPTS

12.1 The balance is made up as follows :

	31/3/05 £000	31/3/04 £000
Where the Council has granted a mortgage but no cash advance:		
Sale of Council houses	(749)	(974)
Miscellaneous	0	(3)
Charges over Right to Buy for major works	(236)	0
	(985)	(977)

NOTES TO THE CONSOLIDATED BALANCE SHEET

13. PROVISIONS

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
Insurance claims	(6,623)	658	(5,965)
Taxation	(91)	(50)	(141)
ICT contracts	(137)	137	0
Education severance costs	(1,085)	671	(414)
Education grants	(110)	(285)	(395)
Recoupment	(199)	0	(199)
HRA	(250)	250	0
Subsidy loss rebates	(2,806)	1,030	(1,776)
Tax on leasing agreements	(2,877)	1,438	(1,439)
Tax on leasing subsidy	(17,721)	0	(17,721)
RTB insurance claims	0	(457)	(457)
Housing Benefits subsidy loss	(1,163)	(406)	(1,569)
Regeneration - redundancy costs	(13)	(145)	(158)
Potters Field legal costs	0	(100)	(100)
s117 Social Services claims	(1,612)	158	(1,454)
Other Social Services	0	(575)	(575)
DSO sub-contractors	(130)	130	0
Other provisions individually less than £100,000	(691)	(51)	(742)
	(35,508)	2,403	(33,105)

13.1 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.

13.2 Southwark 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.

14. PENSION SCHEME LIABILITY

14.1 The Pension Scheme Liability is an account arising from the full implementation of FRS 17 in 2003/04. The balance on the account represents the actuarially assessed liability of the Council to meet the outstanding costs of its defined benefit pension scheme. The movements on the account reflect the change in the value of the assets of the Pension Fund and the changes in the outstanding liabilities, offset by the payments the Council has made into the Pension Fund during the year.

NOTES TO THE CONSOLIDATED BALANCE SHEET

- 14.2 The movements in the provision are determined by the Council's actuary, the details included in Note 20 on FRS 17 (page 58). The movement in the liability in 2004/05 of £146.723 million, from £126.329 million to £273.052 million, arises largely from changes in the actuarial assumptions, predominantly from the change in the discount rate used to calculate future liabilities, as a result of changes to the SORP. The rate moved from the Government Actuary's discount rate (6.4%) to AA rated corporate bonds index (5.3%). The change in actuarial assumptions makes up nearly all of the movement in the liability in the year, £146.9 million against a movement of £146.723 million.
- 14.3 The outstanding liability £273.052 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 the deficit on the Pension Fund will be made good by increased employer's contributions over the remaining working life of the employees, as assessed by the Council's actuary. Details of these additional contributions are set out in Note 2 to the Pension Fund on page 71.
- 14.4 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 the scheme is therefore 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.

15. CONTINGENT LIABILITIES

- 15.1 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.
- 15.2 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 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 £1.454 million for such claims going back to 1993, see Note 13 above, which represents 100% 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.

NOTES TO THE CONSOLIDATED BALANCE SHEET

16. INSURANCE

16.1 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	104,100	1 st Oct 2004
Liability	100,000	1 st May 2003
Fidelity guarantee	10,000	1 st May 2002

16.2 Provisions of £5.965 million (£6.623 million 2003/04) have been made for outstanding claims and £5.912 million (£4.038 million 2003/04) have been reserved out of General Fund balances to meet other potential losses.

16.3 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 18.8 below).

17. ANALYSIS OF NET ASSETS

	31/3/05 £000	31/3/04 £000
Housing Revenue Account	2,452,363	2,390,339
General Fund	317,527	305,164
Net assets shown in the balance sheet	2,769,890	2,695,503

NOTES TO THE CONSOLIDATED BALANCE SHEET

18. STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Capital Reserves £000	Revenue Reserves £000	Total 2004/05 £000	Total 2003/04 £000
Balance at 1 st April 2004	(2,274,790)	29,287	(2,695,503)	(2,490,754)
Net (deficit) / surplus for year		139,002	139,002	(92,562)
Unrealised (loss)/gains from revaluation of fixed assets	(232,878)		(232,878)	(151,314)
Effects of disposals of fixed assets:				
Cost or value of assets disposed of	142,173		142,173	192,062
Proceeds of disposals	(186,503)		(186,503)	(225,677)
Net surplus/(deficit)	(44,330)		(44,330)	(33,615)
Grant funding received	(38,830)		(38,830)	(20,857)
Financing of fixed assets and debt	102,649		102,649	93,599
Balance at 31 st March 2005	(2,938,179)	168,289	(2,769,890)	(2,695,503)

Capital reserves

	Fixed Asset Restatement Reserve £000	Capital Financing Reserve £000	Usable Capital Receipts £000	Grants deferred account £000	TOTAL 2004/05 £000	Total 2003/04 £000
Balance at 1 st April 2004	(1,984,133)	(676,936)	(21,174)	(42,547)	(2,724,790)	(2,612,603)
Unrealised loss/(gains) from revaluation of fixed assets	(232,878)				(232,878)	(151,314)
Effects of disposals of fixed assets:						
Cost or value of assets disposed of	142,173				142,173	192,062
Proceeds of disposals		(86)	(186,417)		(186,503)	(225,677)
Net (surplus)/deficit	142,173	(86)	(186,417)		(44,330)	(33,615)
Grant funding received				(38,830)	(38,830)	(20,857)
Financing of fixed assets and debt		(42,890)	137,559	7,980	102,649	93,599
Balance at 31 st March 2005	(2,074,838)	(719,912)	(70,032)	(73,397)	(2,938,179)	(2,724,790)

Revenue reserves

	Major Repairs Reserve £000	Deferred Debits £000	Deferred Credits £000	Pensions Reserve £000	Specific Reserves £000	General Fund £000	HRA £000	TOTAL £000	Total 2003/04 £000
Balance 1 st April 2004	(25,399)	22,158	(6,094)	126,329	(41,788)	(8,073)	(37,846)	29,287	121,849
Net (deficit) / surplus	2,116	(4,162)	559	146,723	(15,635)	(915)	10,316	139,002	(92,562)
Balance 31 st March 2005	(23,283)	17,996	(5,535)	273,052	(57,423)	(8,988)	(27,530)	168,289	29,287

NOTES TO THE CONSOLIDATED BALANCE SHEET

18.1 FIXED ASSET RESTATEMENT RESERVE

	HRA £000	General Fund £000	2004/05 Total £000	2003/04 Total £000
Balance as at 1 st April 2004	(1,896,695)	(87,438)	(1,984,133)	(2,024,881)
Adjustments for previous years	0	13,892	13,892	(3,403)
Transfer to the Capital Finance Account	0	(9,112)	(9,112)	0
Unrealised losses and gains from the revaluation of fixed assets	(208,858)	(28,800)	(237,658)	(147,911)
Value of assets disposed of	141,161	1,012	142,173	192,062
Balance at 31st March 2005	(1,964,392)	(110,446)	(2,074,838)	(1,984,133)

18.1.1 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.

18.1.2 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 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.

18.2 CAPITAL FINANCING ACCOUNT

	HRA £000	General Fund £000	2004/05 Total £000	2003/04 £000
Balance as at 1 st April 2004	(466,933)	(210,003)	(676,936)	(495,288)
Capital receipts set aside				
- cash capital receipts	0	0	0	(82,126)
- additional debt redemption	0	(86)	(86)	(10,000)
Capital financing				
- capital receipts	(4,263)	(24,981)	(29,244)	(24,585)
- revenue	(27,417)	(469)	(27,886)	(27,974)
- Section 106	0	(476)	(476)	(3,488)
- capital grants applied	0	(4,757)	(4,757)	(12,421)
- MRA applied	(39,825)	0	(39,825)	(19,157)
Amortisation of deferred charges	832	7,452	8,284	7,811
Excess of depreciation over MRP				
- 2004/05	0	6,486	6,486	7,998
- HRA depreciation	38,082	0	38,082	28,215
- adjustment for previous years	0	0	0	2,515
Other accounting entries				
- grants amortisation	(182)	(828)	(1,010)	(1,470)
- write down premiums for debt redemption	0	86	86	2,107
- grants write down for changes to work in progress	(231)	(1,506)	(1,737)	(49,031)
- other adjustments	0	(5)	(5)	(42)
Transfer from the Fixed Asset Restatement Account	0	9,112	9,112	0
Balance as at 31st March 2005	(499,937)	(219,975)	(719,912)	(676,936)

NOTES TO THE CONSOLIDATED BALANCE SHEET

- 18.2.1 Until 2003/04, certain percentages of the proceeds from the sale of housing assets were required to be "set aside", or "reserved", in the Council's Accounts, for the redemption of loan debt, of 75% from the sales of dwellings and 50% from the sale of land or other assets. From 2004/05, under the Local Government Act 2003, these reserved receipts are now required to be paid to the Government. The payment is reflected in the Consolidated Revenue Account, matched by a release from the Usable Capital Receipts Reserve.
- 18.2.2 The amount paid to the Government in respect of 2004/05 was £108.229 million. The equivalent amount set aside in the Council's Accounts in 2003/04 was £82.126 million. See also Note 15 to the Consolidated Revenue Accounts (page 31), Note 18.3 below, and Note 5 to the Cashflow statement (page 69).
- 18.2.3 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 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.

18.3 USABLE CAPITAL RECEIPT RESERVE

	2004/05 £000	2003/04 £000
Balance as at 1 st April 2004	(21,174)	(4,334)
Gross capital receipts from sale of assets	(186,417)	(133,551)
Less:		
Capital receipts set aside for debt redemption ("reserved receipts")	0	82,126
Transfer to the Consolidated Revenue Account	108,229	0
Capital receipts additionally set aside for debt redemption	86	10,000
Capital receipts used for financing capital expenditure	29,244	24,585
Balance as at 31st March 2005	(21,174)	(4,334)

- 18.3.1 Until 2003/04, certain percentages of the proceeds from the sale of housing assets were required to be "set aside", or "reserved", in the Council's Accounts, for the redemption of loan debt, of 75% from the sales of dwellings and 50% from the sale of land or other assets. From 2004/05, under the Local Government Act 2003, these reserved receipts are now required to be paid to the Government. The payment is reflected in the Consolidated Revenue Account, matched by a release from the Usable Capital Receipts Reserve.
- 18.3.2 The amount paid to the Government in respect of 2004/05 was £108.229 million. The equivalent amount set aside in the Council's Accounts in 2003/04 was £82.126 million. See also Note 15 to the Consolidated Revenue Accounts (page 31), Note 18.2 above, and Note 5 to the Cashflow statement (page 69).

NOTES TO THE CONSOLIDATED BALANCE SHEET

18.4 GRANTS DEFERRED ACCOUNT

	2004/05 £000	2003/04 £000
Balance as at 1 st April 2004	(42,547)	(88,100)
Capital grants received in the year	(38,830)	(20,857)
Amortisation	1,010	1,470
Transfers to Capital Finance Reserve		
- Capital grant funding	4,757	12,421
- Section 106 funding	476	3,488
- Grants written down	1,737	49,031
Balance as at 31st March 2005	(73,397)	(42,547)
Represented by :		
Grants "applied" to be amortised to revenue accounts over the life of the completed scheme	(47,316)	(36,065)
Grants unapplied, with no planned expenditure commitments	(26,081)	(6,482)
Balance as at 31st March 2005	(73,397)	(42,547)

184.1 Included in the above totals is £13.530 million in respect of planning gains at 31st March 2005 (£12.525 million at 31st March 2004).

184.2 Grants unapplied of £26.081 million includes £16.432 million of Education standards fund grant earmarked for works to school buildings from 2005/06.

184.3 In 2003/04 adjustments were made between the Grants Deferred Account and the Capital Financing Account, to reflect the book values of the assets which the grants had been applied to. Similar adjustments were not required in 2004/05, and the movements to the Capital Financing Account reflect the financing of capital expenditure in the year.

18.5 DEFERRED DEBITS

185.1 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.

	2004/05 £000	2003/04 £000
Balance brought forward	22,158	9,086
New premiums in year	703	19,715
Amounts written off to revenue	(4,865)	(6,643)
Balance as at 31st March 2005	17,996	22,158

NOTES TO THE CONSOLIDATED BALANCE SHEET

18.6 DEFERRED CREDITS

18.6.1 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.

	2004/05 £000	2003/04 £000
Balance as at 1 st April 2004	(6,094)	(6,666)
New discounts in the year	0	0
Less: Amounts written to revenue	559	572
Balance as at 31st March 2005	(5,535)	(6,094)

18.7 PENSIONS RESERVE

18.7.1 The Pensions Reserve is a new non-distributable reserve required from 03/04 under the full implementation of the accounting for pensions under FRS 17.

	2004/05 £000	2003/04 £000
Balance at 1 st April 2004	126,329	184,300
Actuarial (gain)/loss	141,243	(62,200)
Settlement of actual pensions' contributions against liabilities due, to the Consolidated Revenue Account	5,480	4,229
Balance at 31st March 2005	273,052	126,329

18.7.2 The movement in the actuarial gains and losses are shown in more detail in Notes 20.6 and 20.7 below.

NOTES TO THE CONSOLIDATED BALANCE SHEET

18.8 DETAILS OF SPECIFIC RESERVES

1881 Funds held by schools and other Education establishments. The totals are net balances:

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
Funds held by schools	(5,958)	(4,881)	(10,839)
Nursery school balances	0	(1,096)	(1,096)
	(5,958)	(5,977)	(11,935)

1882 Funds set aside to finance specific projects or meet future planned commitments:

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
SAP hardware refresh	(207)	174	(33)
Systems mapping and consultancy	(190)	140	(50)
Housing Benefits system replacement	(1,000)	0	(1,000)
Customer Service Centre	(400)	400	0
Legal ICT enhancements	(159)	111	(48)
Town Hall building enhancements	(100)	44	(56)
South House building enhancements	(141)	106	(35)
E-procurement	(115)	0	(115)
CSC advance payment (Note 18.8.3)	0	(4,763)	(4,763)
Corporate IT hardware	(100)	0	(100)
Sheltered wardens	(483)	368	(115)
GIS	(130)	0	(130)
Asylum seekers	(193)	0	(193)
CareFirst	(519)	0	(519)
Planned Maintenance Fund	(1,687)	293	(1,394)
Housing Benefits Subsidy equalisation	0	(2,684)	(2,684)
Future pensions commitments (Note 18.8.4)	0	(3,000)	(3,000)
	(5,424)	(8,811)	(14,235)

1883 CSC advance payment (£4.763 million, above). 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 fully 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 not relating to 2004/05, required to be spread over 2005/06 - 2007/08.

NOTES TO THE CONSOLIDATED BALANCE SHEET

1884 Future pensions commitments (£3 million, above). The Government introduced new regulations for local authority pensions from 2005/06, increasing retirement ages. Due to public pressure 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 2005/06, which this reserve will meet a large proportion thereof. The reserve has been separated from the Financial Risk Reserve to specifically recognise this liability.

1885 Departmental under/over spends and balances carried forward:

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
DSO	(726)	0	(726)
Regeneration, cleaner, greener initiatives	0	(517)	(517)
Strategic Services management and development	0	(100)	(100)
Signage	0	(678)	(678)
Waste PFI	0	(200)	(200)
On street parking	0	(304)	(304)
One-off growth programme 2005/06 (Note 18.8.6)	0	(1,598)	(1,598)
Services (under)/over spends	429	(274)	155
	(297)	(3,671)	(3,968)

1886 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.

1887 Funds set aside to meet future risks or programmes not yet fully committed:

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
Interest equalisation	(2,000)	(500)	(2,500)
Commutation adjustment	(1,708)	0	(1,708)
Accommodation strategy	0	(2,000)	(2,000)
Financial Risk Reserve	(10,179)	4,477	(5,702)
Modernisation, Service and Operational Improvement Reserve	(11,666)	5,079	(6,587)
Capital Investment Reserve	0	(1,000)	(1,000)
Insurance	(4,038)	(1,874)	(5,912)
Other Reserves individually less than £100,000	(611)	21	(590)
	(30,202)	(4,203)	(25,999)

NOTES TO THE CONSOLIDATED BALANCE SHEET

18.88 Total, all reserves:

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
Schools and other Education	(5,958)	(5,977)	(11,935)
Specific projects and planned commitments	(5,424)	(8,811)	(14,235)
Departmental (under)/over spends	(297)	(3,671)	(3,968)
Future risks and programmes not yet fully committed	(30,202)	4,203	(25,999)
Collection Fund deficit/(surplus)	93	(1,379)	(1,286)
	(41,788)	(15,635)	(57,423)

19. EURO DISCLOSURE

19.1 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.

20. FRS 17 - PENSIONS DISCLOSURE

20.1 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.

20.2 London Borough of Southwark participates in the Local Government Pension Scheme, and acts as an Administering Authority. The Local Government Pension Scheme is a defined benefit scheme based on 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 2005. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

NOTES TO THE CONSOLIDATED BALANCE SHEET

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

	31/3/05 % p.a.	31/3/04 % p.a.
Discount rate for scheme liabilities	5.3	6.4
Discount rate for pension cost over following year	5.3	5.4
Rate of increase in salaries	4.4	4.4
Rate of increase in pensions in payment	2.9	2.9
Rate of inflation	2.9	2.9
Rate of return on Equities	7.7	7.7
Rate of return on Government Bonds	4.7	4.7
Rate of return on Corporate Bonds	5.3	5.5
Rate of return on Property	6.7	6.7
Rate of return on Other assets	4.8	4.2
Average long term expected rate of return	7.0	7.0

20.4 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 2005 and 31st March 2004 are as follows:

	31/3/05 %	31/3/04 %
Equities	66	66
Bonds	20	21
Property	13	12
Other	1	1

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

	31/3/05 £000	31/3/04 £000
Share of assets in London Borough of Southwark Pension Fund	(542,048)	(479,700)
Estimated liabilities in London Borough of Southwark Pension Fund	815,100	606,000
London Borough of Southwark's deficit in the scheme	273,052	126,300

NOTES TO THE CONSOLIDATED BALANCE SHEET

20.6 The deficit above should be borne in mind when considering the amount of overall reserves held (see Note 18 page 51). The movement in the net deficit in 2004/05 can be shown as follows:

	£000	£000
Net deficit at 31 st March 2004		126,300
Movement in the year:		
Current service cost	20,900	
Past service costs	1,500	
Gain/loss on any settlements or curtailments	0	
Contributions	(22,148)	
Finance Income:		
Expected return on Pension Fund assets	(33,700)	
Interest cost	38,900	
Actuarial (gain)/loss	<u>141,300</u>	146,752
Total movement in the year		
Net deficit at 31st March 2005		<u>273,052</u>

20.7 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:

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

20.8 The actuary to the London Borough of Southwark Pension Fund estimates the charge to the Consolidated Revenue Account in 2005/06 will be:

	2005/06 £000
Current service cost	18,600
Past service costs	0
Total operating charge	<u>18,600</u>
Expected return on Pension Fund assets	(37,300)
Interest on Pension Fund liabilities	43,500
	5,700
Total charge 2005/06	<u>24,300</u>

MISCELLANEOUS TRUST FUNDS

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

1. Trusts Funds where the Council is the sole trustee

	Balance at 31/3/04 £	Increase in fund balance £	(Decrease) in fund balance £	Balance at 31/3/05 £
Social Service Funds				
Individual bequests	37,763	1,743	0	39,506
Comforts Funds/residents savings	691,049	771,646	(649,570)	813,125
Education & Culture Trusts				
Blackfriars Road	128,320	5,776	0	134,096
Miscellaneous	14,835	6,051	(675)	20,211
St Mary Newington clock	1,635	0	0	1,635
Potters Field	260,096	11,707	0	271,803
Environment & Leisure Trusts				
Pullens Gardens maintenance fund	95,000	0	0	95,000
Maintenance of Graves	22,028	0	(22,028)	0
Miscellaneous Trusts (see note 1)	2,877	0	(2,877)	0
	1,253,603	796,923	(675,150)	1,375,376

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
Maintenance of graves	Moneys received for the maintenance of graves. The fund has been closed in the year and the balance transferred to the cemeteries budget

MISCELLANEOUS TRUST FUNDS

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

	Balance at 31/3/04	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/05
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common Estate	915,320	42,834	(26,205)	931,949
Borough Market Trustees	4,631	2,442	(4,221)	2,852
Leisure Trusts				
Cuming Bequest	7,808	0	0	7,808
Miscellaneous Trusts (see note 1)	368	0	(368)	0
	928,127	45,276	(30,794)	942,609

Any cash not required for immediate use is invested externally either directly in approved investments or as part of the Council's short term investments.

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

Note 1: Miscellaneous trusts comprise old trusts that have now been closed.

SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

HOW THE MONEY WAS SPENT

	2004/05 £000	2003/04 £000
Education	12,882	16,054
Environment and Leisure	14,274	5,222
Housing General Fund	5,290	7,216
Regeneration	12,540	12,115
Strategic Services	1,224	1,008
Social Services	5,030	1,519
Total General Fund	51,240	43,134
HRA	82,921	68,728
	134,161	111,862

HOW THE EXPENDITURE WAS FINANCED

Revenue contributions	27,886	27,974
Using credit approvals	17,976	23,154
Using capital receipts received from the sale of assets	29,244	24,585
Specific grants and other contributions	19,230	16,992
Major Repairs Allowance	39,825	19,157
	134,161	111,862

DETAIL

Fixed assets	111,358	72,698
Deferred charges	7,031	7,811
Enhancements and work in progress	15,772	31,353
	134,161	111,862

RECONCILIATION OF EXPENDITURE FOR CAPITAL ACCOUNTING TO STATUTORY CAPITAL EXPENDITURE FOR 2004/05

	£000
Expenditure capitalised as fixed assets	132,225
Decrease (increase) in capital creditors	1,936
Expenditure for capital control purposes	134,161
Less	
Expenditure to be financed by application of capital receipts or capital grants and contributions	(48,474)
Expenditure to be financed by Single Capital Pot	(17,976)
Capital expenditure to be financed direct from revenue	67,711
Revenue contributions applied from the Housing Revenue Account including the application of the Major Repairs Allowance	67,242
Capital expenditure met from Revenue	469
	67,711

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	2004/05 £000	2004/05 £000	2003/04 £000
Income				
Income from Council Tax	1	(74,387)		(68,954)
Transfer from the General Fund, Council Tax benefits		(23,690)		(22,342)
			(98,077)	
Income collectable from business ratepayers	2		(89,036)	(80,721)
Contribution towards previous year's Collection Fund deficit	3		(10)	(2,839)
Total Income			(187,123)	(174,856)
Expenditure				
Precepts and Demands				
GLA		21,253		19,187
London Borough of Southwark		73,006		69,234
			94,259	
Non domestic rates				
Payment to National Pool		88,426		80,112
Cost of collection allowance		610		609
			89,036	
Provision for bad and doubtful debts				
Council Tax		(2,301)		(6,176)
Council Tax write offs		4,750		8,838
			2,449	
Total Expenditure			185,744	171,804
Net Deficit/(surplus) for the year			(1,379)	(3,052)
Deficit/(surplus) at 1 st April			93	3,145
Deficit/(surplus) at 31 st March			(1,286)	93

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 (£1,070.54 in 2004/05 and £1,034.18 in 2003/04) 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	
	2004/05	2003/04		2004/05	2003/04
A	9,064.25	9,402.75	6/9	6,042.1	6,268.0
B	29,638.25	29,156.00	7/9	23,052.0	22,676.9
C	24,975.15	24,003.25	8/9	22,200.1	21,336.2
D	14,672.70	14,420.00	1	14,672.7	14,420.0
E	9,474.85	9,408.75	11/9	11,580.4	11,499.6
F	4,398.25	4,322.50	13/9	6,353.0	6,243.6
G	3,363.50	3,240.50	15/9	5,605.8	5,400.8
H	406.50	377.00	18/9	813.0	754.0
Total				90,319.1	88,599.1
Add adjustment for contribution paid in lieu				5.3	5.3
Less adjustment for collection rate				(2,258.1)	(3,101.1)
Council Tax Base for year				88,066.3	85,503.3
Band D tax rate multiplier				£1,070.54	£1,034.18
Estimated Council Tax due in the year (Council Tax base x Council Tax)				£94,278,497	£88,425,803

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

21 National Non Domestic Rates (NNDR) are organised on a national basis. The Government specifies an amount (45.6p in 2004/05 and 44.4p in 2003/04) 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 NNDR 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 2004	252,259,087
Rateable value at 31 st March 2005	248,811,455

2.2 The NNDR income after relief for voids etc. of **£89.036 million** (£80.721 million for 2003/04) 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 deficit brought forward on the fund at the start of the year and the accumulated (net) balance. The surplus for the year 2004/05 is applied to the balance brought forward to reduce the net deficit on the account.

CASH FLOW STATEMENT FOR THE YEAR

	2004/05 £000	2003/04 £000
REVENUE ACTIVITIES		
Cash outflows		
Cash paid to and on behalf of employees	348,035	303,331
Other operating costs	553,091	464,705
Housing benefit (excluding rent rebates)	52,759	48,086
Payments into NNDR pool	88,426	80,112
Payments to preceptors	21,251	18,706
Payment to Capital Receipts Pool	88,492	0
	1,152,054	914,940
Cash inflows		
Rents (net of rebates)	(141,424)	(146,966)
NNDR receipts	(91,349)	(81,172)
Contribution from Collection Fund	(68,751)	(74,963)
Government Grants	(692,468)	(604,707)
Sales and charges for services	(194,491)	(174,792)
	(1,188,483)	(1,082,600)
Net cash flow from revenue activities	(36,429)	(167,660)
SERVICING OF FINANCE		
Cash outflows		
Interest paid	65,554	74,487
Interest element of leasing payments	13	38
	65,525	74,917
Cash inflows		
Interest received	(14,198)	(5,585)
	(14,198)	(5,585)
CAPITAL ACTIVITIES		
Cash outflows		
Purchase of fixed assets	125,877	104,052
Deferred charges and deferred debtors	8,284	7,810
	134,161	111,862
Cash inflows		
Sale of fixed assets	(186,417)	(133,551)
Capital grants	(39,056)	(18,161)
Other capital cash receipts	178	(30)
	(225,295)	(151,742)
NET CASH FLOW BEFORE FINANCING	(76,194)	(138,600)
FINANCING		
Cash outflows		
Repayment of long term loans	3,210	67,915
Repayment of short term loans	0	0
	3,210	67,915
Cash inflows		
New long term loans	0	0
New short term loans	0	0
	0	0
MANAGEMENT OF LIQUID RESOURCES	91,077	45,206
Increase in liquid resources		
(INCREASE)/DECREASE IN CASH AND EQUIVALENTS	18,093	(25,479)
REPRESENTED BY MOVEMENTS IN CASH AND CASH EQUIVALENTS		
Net (increase)/decrease in bank balance overdrawn	(10,903)	439
Net increase/(decrease) in realisable investments	(7,190)	25,040
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS	(18,093)	25,479

NOTES TO THE CASH FLOW STATEMENT

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

	2004/05		2003/04	
	£000	£000	£000	£000
Net expenditure/(income) on General Fund		(915)		(1,300)
Net expenditure/(income) on HRA and Major Repairs Reserve		(12,432)		(35,362)
Net expenditure/(income) on Collection Fund		(1,379)		(3,052)
Total		(10,138)		(39,714)
Net revenue income as per cash flow statement		(36,429)		(167,660)
Net interest paid as per cash flow statement		51,369		68,940
Add:				
Decrease in stocks and works in progress	894		0	
Decrease in debtors	0		6,312	
Increase in creditors	41,571		22,004	
Depreciation and capital payments	75,063		79,487	
Increase in deferred credits	4,162	121,690	0	107,803
Less:				
Increase in deferred debits	0		(13,072)	
Decrease in deferred credits	(559)		(572)	
Increase in stocks and works in progress	0		(1,195)	
Decrease in debtors	(26,892)		0	
Decrease in Provisions and Reserves	(99,041)	(126,492)	(33,958)	(48,797)
Total		10,138		(39,714)

2. ANALYSIS OF GRANTS SHOWN IN CASH FLOW STATEMENT

	2004/05	2003/04
	£000	£000
Revenue support grant and pool contribution	(339,681)	(316,354)
Housing subsidy	(72,788)	(79,178)
Students awards	255	(769)
Other Education grants	(27,698)	(33,606)
Housing benefits (excluding rent rebates)	(84,476)	(75,888)
Other grants	(168,080)	(98,912)
	(692,468)	(604,707)

NOTES TO THE CASH FLOW STATEMENT

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

	2004/05 £000	2003/04 £000
Long term loans		
Balance as at 1 st April	652,119	720,034
Repayments of amounts borrowed	(3,210)	(67,915)
New borrowings	0	0
Balance as at 31 st March	648,909	652,119
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 39) is as follows:

	Balance 31/3/04 £000	Movement in 04/05 £000	Balance 31/3/05 £000
Investments, liquid resources	156,248	91,077	247,325
Investments, realisable investments	54,787	(7,190)	47,597
Investments, Consolidated Balance Sheet	211,035	83,887	294,922

5. PAYMENTS TO THE CAPITAL RECEIPTS POOL

- 5.1 Until 2003/04, certain percentages of the proceeds from the sale of housing assets were required to be "set aside", or "reserved", in the Council's Accounts, for the redemption of loan debt, of 75% from the sales of dwellings and 50% from the sale of land or other assets. From 2004/05, under the Local Government Act 2003, these reserved receipts are now required to be paid to the Government. The payment is reflected in the Consolidated Revenue Account, matched by a release from the Usable Capital Receipts Reserve.
- 5.2 The amount paid to the Government in respect of 2004/05 was £108.229 million. The equivalent amount set aside in the Council's Accounts in 2003/04 was £82.126 million. See also Note 15 to the Consolidated Revenue Account (page 31), and Notes 18.2 and 18.3 to the Balance Sheet (page 53).
- 5.3 The difference of £19.737 million between the amount paid in the cashflow statement (£88.492 million) and the amount shown in the Consolidated Revenue Account and Balance Sheet (£108.229 million) is the creditor for the amount due as at 31st March but not paid until 30th April.

PENSION FUND 2004/05

	Note	2004/05 £000	2003/04 £000
Contributions and Benefits			
Contributions receivable	5.1		
-from employers (including admitted bodies)		(22,273)	(19,322)
-from employees (including admitted bodies)		(7,926)	(7,490)
Transfers in		(8,798)	(3,539)
Total income		(38,997)	(30,351)
Benefits payable	5.2		
-Pensions		21,699	20,826
-Lump sums (incl. retirement and death grants)		3,402	3,189
Payments to and on account of leavers			
-Refunds of contributions		330	329
-Transfers out		7,048	5,104
Administrative expenses borne by the scheme		1,148	840
Total Expenditure		33,627	30,288
Net (addition)/reduction from dealing with members of the fund		(5,370)	(63)
Returns on Investment			
Investment Income		(13,807)	(12,576)
Change in Market value of Investments		(44,903)	(77,725)
Investment Management Expenses		1,792	1,433
Net decrease in Fund for the year		(62,288)	(88,931)
Opening Net assets of the scheme		(492,785)	(403,854)
Closing Net assets of the scheme		(555,073)	(492,785)
NET ASSETS STATEMENT 2004/05			
Investment Assets			
Fixed Interest Securities – UK public sector		21,474	19,480
Fixed Interest Securities – UK quoted		24,043	23,273
Equities		256,006	244,373
Index linked securities		67,474	62,975
Managed Funds - Property (Freehold)		40,760	34,400
Managed Funds - Property (Leasehold)		5,800	7,450
Unit Trusts - Property		27,168	15,866
Unit Trusts - Other		106,373	83,096
Total Investment Assets		549,098	490,913
Net Current assets and liabilities			
Cash held at managers		831	3,147
Interest and dividends accrued		2,222	2,308
Creditors		(534)	(957)
Cash at Council		(3,456)	(2,626)
Total net current assets and liabilities		5,975	1,872
Closing net assets of the Scheme		555,073	492,785

PENSION FUND 2004/05

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 2004/05 contributions to the Fund were made by employees at 6% of salaries and wages. The Council contributed 240% of the employees' contribution plus additional contribution of £8.57 million. Of this, £1.26 million is a special contribution for early and ill health retirements. In addition, external bodies admitted to the Southwark Fund contributed £1.18 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 manage an "indexed" portfolio containing UK equities and 'in house' unit trusts of overseas equities, and fixed and index linked gilts. During 2004/05 the other investment managers were Deutsche Asset Management Limited (UK Equities and Corporate Bonds), Putnam Investments (Overseas Equities) and Henderson Global Investors (Property). The portfolio in UK Equities with Deutsche Asset Management was terminated during the year as a result of its poor performance. The funds were transferred to Barclays Global Investors as a temporary measure until a new equities fund manager is appointed. The overall investment strategy is the responsibility of the Council. During the year this was delegated to the Pensions Advisory Panel.

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

	2004/05	2003/04
Number of contributors to the Fund	6,167	5,813
Number of contributors and dependants receiving allowances	5,637	5,579
Number of contributors who have deferred their pensions	4,504	4,555

3. ACCOUNTING POLICIES

- 3.1 The Accounts have been prepared in accordance with the recommendations of SORP 1 on Pension Scheme Accounts, the CIPFA Code of Practice on Local Authority Accounting and FRS 18. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end (31st March 2005).

PENSION FUND 2004/05

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.

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.

3.4 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 2004/05

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 2004/05 are analysed as follows:

	Employees £000	Employers £000	2004/05 Total £000	2003/04 Total £000
Southwark Council	7,565	21,447	29,012	25,767
Admitted bodies	361	826	1,187	1,245
Total	7,926	22,273	30,199	26,812

During 2004/05 employees made Additional Voluntary Contributions (AVCs) of £84,805. 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 2004/05 are analysed as follows:

	Pensions £000	Lump sums £000	2004/05 Total £000	2003/04 Total £000
Southwark Council	21,575	3,371	24,946	23,809
Admitted bodies	124	31	155	206
Total	21,699	3,402	25,101	24,015

PENSION FUND 2004/05

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

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:

● Deutsche Asset Management Limited	£24.31 million	4.40%
● Putnam Investments Limited	£72.69 million	13.17%
● Henderson Global Investors	£74.00 million	13.40%
● Barclays Global Investors Limited	£381.06 million	69.03%

7.2 Investments include £205.42 million UK Equities and £72.06 million Overseas Equities, which are the only foreign investments of the fund. Sales and purchases by the investment managers were £216.6 million and £203.6 million respectively.

PENSION FUND 2004/05

- 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 31st March 2005. All properties have been valued at market value.
- 7.4 Contributions receivable include a contribution from admitted bodies of £1.18 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 OF ACCOUNTING TERMS

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).

GLOSSARY OF ACCOUNTING TERMS

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.

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.

GLOSSARY OF ACCOUNTING TERMS

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.

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 have been prepared on this basis for the first time in 2003/04.

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.

GLOSSARY OF ACCOUNTING TERMS

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.

HOUSING SUBSIDY

A government grant paid towards the cost of providing, managing and maintaining the Council's housing stock.

INFRASTRUCTURE ASSETS

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

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.

OPERATIONAL ASSETS

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

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 administer the local taxation on those that do requiring them to collect the required income from local taxpayers on their behalf.

GLOSSARY OF ACCOUNTING TERMS

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.

