

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13



STATEMENT OF ACCOUNTS
2012/13

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

TABLE OF CONTENTS

Introduction	2
Independent Auditor's Report to the Members of Southwark Council	3
Explanatory Foreword	6
Statement of Responsibilities	13
Movement in Reserves Statement	14
Comprehensive Income and Expenditure Statement	17
Balance Sheet	18
Cash Flow Statement	19
Notes to the Accounts	20
Housing Revenue Account	73
Collection Fund	83
Trust Funds & Other Third Party Funds	86
Accounting Policies	88
Pension Fund Accounts	102
Notes to the Pension Fund Accounts	103
Pension Fund Accounting Policies	120
Glossary	123

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

INTRODUCTION

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2011. This Statement of Accounts provides information about the Council's expenditure and income and the overall financial position of the Council at the end of the 2012/13 financial year.

The Comprehensive Spending Review in 2010 heralded for Local Government the most significant changes to the funding of Council services in a generation. In February 2011, the Council agreed indicative budgets for the three years to 2013/14. The budget plan for 2012/13 was updated and agreed by Council Assembly in February 2012.

These Accounts reflect the general achievement of the budget targets for the year. Work is already underway to address further savings targets for 2013/14 and beyond. The financial risk to the Council will remain extremely high for the foreseeable future. Funding from central government continues to reduce and the framework for local government funding as a whole has been fundamentally restructured. Interest rates remained low through 2012/13 while inflation continued to reach levels higher than those expected. These circumstances, alongside continued funding and demand pressures on local services will require the Council to continually review key priorities and supporting financial plans.

Balances and earmarked reserves will be preserved during this period to safeguard the Council against any delay in the delivery of some fundamental changes in Council services required to reduced costs and to provide resources to invest in more ambitious projects and to achieve greater efficiencies across services. Earmarked reserves also remain necessary to underwrite any one off investment required in significant regeneration and development projects that are so important to the future of the borough.

The Council's Pension Fund continues to sustain a reasonable position for schemes of this type. However, the fund will continue to need close monitoring and management by the Pensions Advisory Panel, not least as a consequence of the review of the Local Government Pension Scheme, future market behaviours and the potential for consolidation of funds in the future.

It remains essential that the Council continues to work to promote and enhance the financial management and standing of the Council. This will enable the Council to maintain the quality, value and depth of the services that it provides.

The Council will continue to be guided by the advice offered by the external auditor and especially comments and observations contained within the Annual Audit Letter. The Council respects the importance and the rigour of the external audit process and looks forward to the new relationship with Grant Thornton.

I certify that:

- (a) The Statement of Accounts for the year ended 31 March 2013 has been prepared in the form directed by the Code and under the accounting policies as set out in the Notes to the Accounts, and
- (b) In my opinion the Statement of Accounts gives a true and fair view of the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.

Duncan Whitfield

Strategic Director of Finance and Corporate Services

30 September 2013

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Southwark Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Southwark Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Strategic Director of Finance and Corporate Services Responsibilities, the Strategic Director of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Southwark Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Southwark Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Susan M Exton
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

30 September 2013

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Southwark for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of London Borough of Southwark in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Strategic Director of Finance and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Susan M Exton
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

30 September 2013

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

EXPLANATORY FOREWORD

1. INTRODUCTION

- 1.1. The foreword provides a brief explanation of the statements that comprise the Accounts and a summary of the council's overall financial position, highlighting the more significant matters reported in the Accounts. It also provides information on developments that may influence the Accounts in the future.

2. THE STATEMENT OF ACCOUNTS

- 2.1. These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS) as set out by the Code.
- 2.2. The primary statements of the Accounts are set out below. A full description of the nature and use of each statement is included before each of the statements:
- The Movement in Reserves Statement
 - The Comprehensive Income and Expenditure Statement
 - The Balance Sheet
 - The Cash Flow Statement.
- 2.3. In addition to the primary statements, the Accounts contain:
- Notes explaining or analysing further the figures in the primary statements.
 - Housing Revenue Account (HRA) Statements and explanatory notes. The HRA figures are included in the figures in the primary statements.
 - The Collection Fund, showing the amounts raised and collected through taxation. Only the council's entitlement to taxation is included in the primary statements. The amounts collected on behalf of the government and the Greater London Authority are not included apart from amounts owing to or from those bodies.
 - Trust Funds and Other Third Party Funds. These are funds that the council manages on the behalf of other people or organisations. The balances are not included in the primary statements.
 - Pension Fund Accounts. These are the funds the council manages, to provide future retirement benefits for its employees. The funds are not included within the primary statements.
- 2.4. The Code requires local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The council does not have material interests in such bodies and accordingly is not required to prepare group financial statements.

3. SIGNIFICANT EVENTS

- 3.1. Since the government's October 2010 Spending Review (SR), Southwark has faced cuts in its budget settlements, with £4 million being removed in 2012/13 (£34 million in 2011/12).
- 3.2. The budget for 2012/13 was agreed by Council Assembly on 29 February 2012. The council faces an uncertain funding future from 2013/14 onwards, with the financial impact of business rate retention for local authorities and council tax reforms as yet unknown.
- 3.3. In May 2012 there was a reorganisation of the council's administrative departments and from October 2012 there were five departments being Children's and Adults' Services, Chief Executives, Environment and Leisure, Housing and Community Services, and Finance and Corporate Services.
- 3.4. In December 2012 the council purchased the freehold of its main administrative headquarters, 160 Tooley Street at £170 million plus costs. The purchase is expected to generate savings of £68 million over the next 20 years, through no longer having to pay rent.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

3.5. On 25 March 2013 there was a fire at Walworth Town Hall, which affected the Cuming Museum, Walworth One Stop Shop and Newington Library. The council is continuing to try to make the building safe and secure, following which the council will be able to recover possessions from the building. It is believed that 900 artefacts were on display in the Cuming Museum at the time of the fire. The council is leading on remedial work to the listed fabric of the building. Archives located in the Newington Library are being stored safely and conservation work is being arranged to clean and restore items. The One Stop Shop has suffered significant damage and is likely to be out of service for the foreseeable future.

4. THE REVENUE BUDGET

4.1. The council's expenditure and income is defined as either revenue (spending on day to day services) or capital (spending on items that provide a benefit for more than one year such as major building works). Revenue expenditure and income is divided between 'General Fund' (all services excluding council housing) and the 'Housing Revenue Account' (a separate account for the council acting as a housing landlord).

4.2. In February 2012, the council set a net budget for General Fund services in 2012/13 of £308.197 million. The council's net expenditure for the year was £307.678 million and the balance of £0.519 million was transferred to reserves.

General fund	2012/13 Original budget	Budget movements	2012/13 revised budget	2012/13 forecast outturn	Variance - over / (under)
	£000	£000	£000	£000	£000
Children's services (now one directorate adults and children's services)	85,766	(7,974)	77,792	78,155	363
Adult social care (now one directorate adults and children's services)	107,718	(7,636)	100,082	99,434	(648)
Environment and leisure	70,412	2,195	72,607	72,590	(17)
Housing and community services	44,065	(4,339)	39,726	39,665	(61)
Chief executive's department	19,007	1,161	20,168	20,125	(43)
Finance and corporate services	41,483	(5,138)	36,345	36,232	(113)
Customer services centre	(3,000)	0	(3,000)	(3,000)	0
Support cost recharges	(59,308)	1,069	(58,239)	(58,239)	0
Total general fund services	306,143	(20,662)	285,481	284,962	(519)
Contingency	5,500	(5,500)	0	0	0
Direct revenue funding of capital	0	3,265	3,265	3,265	0
Appropriations to/(from) reserves					
Services	0	15,553	15,553	15,553	0
Aylesbury reserve	1,000	0	1,000	1,000	0
Underwrite base budget	(4,446)	0	(4,446)	(4,446)	0
Technical accounting purposes	0	3,630	3,630	3,630	0
Appropriations to/(from) reserves excluding those related to schools funding	(3,446)	19,183	15,737	15,737	0
Dedicated schools grant / Schools balances	0	3,714	3,714	3,714	0
General fund total	308,197	0	308,197	307,678	(519)

4.3. Support cost reallocations (SCR) are the costs of the central departments (finance and corporate services, chief executive's department and customer services centre), which are recharged to service departments with accompanying budgets.

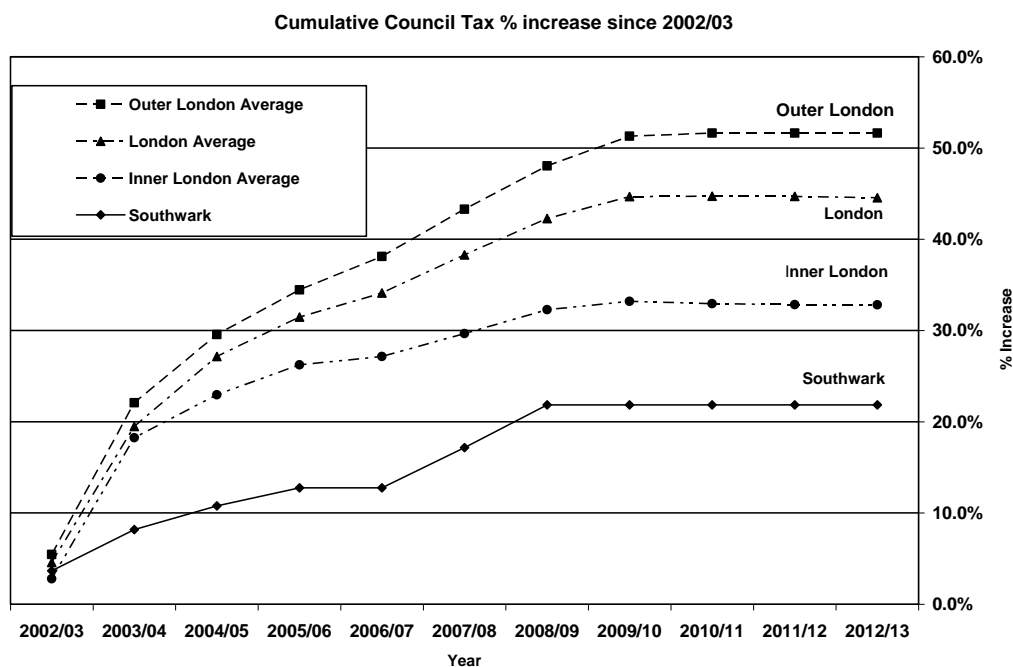
**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Council tax

4.4. As well as collecting council tax to fund its own services, the council collects on behalf of and pays over to the Greater London Authority (GLA) a sum of money for services it provides, such as policing, community support officers, fire services and transport. This is referred to as the GLA precept. This was £30.7 million in 2012/13 (£30.7 million in 2011/12). Therefore the total demand on the council taxpayer is made up of two elements; an amount for GLA services and an amount for services provided by the council. In 2012/13 there was an overall reduction in the council tax demand on the taxpayer. The contributions from the taxpayer, expressed as amounts charged to a Band D taxpayer, were:

	2012/13 £	2011/12 £
Southwark Council Tax requirement	912	912
GLA Precept	307	310
Total Council Tax charge (Band D equivalent)	1,219	1,222

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



**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Housing Revenue Account

4.6. The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The table below summarises the HRA income and expenditure and movement on balances for 2012/13.

	2012/13 £000	2011/12 £000
Income	(257,643)	(268,950)
Expenditure	149,041	284,353
Net cost of services	(108,602)	15,403
Non operating costs	7,382	(143,858)
Net statutory accounting adjustments	96,953	121,544
(Increase)/Decrease in the HRA Balance	(4,267)	(6,911)
HRA Balance at 1 April	(27,488)	(20,577)
(Increase)/Decrease in the HRA Balance	(4,267)	(6,911)
HRA Balance at 31 March	(31,755)	(27,488)

Summary of reserves and balances

4.7. In line with the Medium Term Resources Strategy (MTRS), the council has maintained appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made, and to provide resources to enable service to transform over time. The council has a target of increasing its General Fund balance to £20 million.

Reserve Group	31/03/2013 £000	31/03/2012 £000	31/03/2011 £000
General Fund	18,125	18,133	18,196
Corporate projects and priorities	11,029	9,582	9,863
Service reviews and improvements	19,257	13,570	6,569
Capital programme and other capital investment	32,249	26,168	20,075
Strategic financing, technical liabilities and future financial risks	36,304	35,132	36,518
Schools	16,245	13,734	10,754
HRA and major repairs reserve	72,919	70,702	28,773

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

5. CAPITAL PROGRAMME

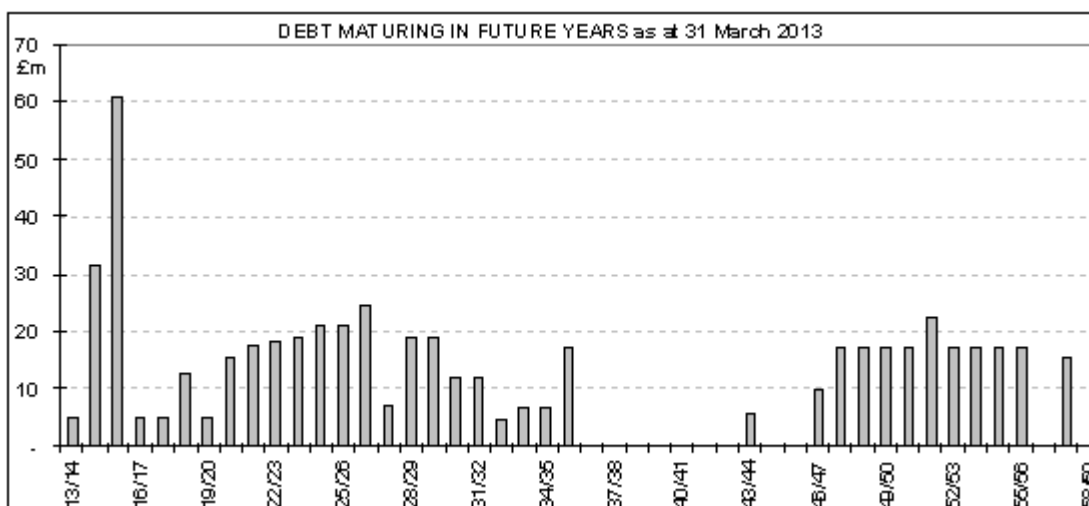
5.1. Southwark has one of the largest capital investment programmes in London, with current plans to spend £643 million (General Fund £322 million 2013/14 – 2021/22, Housing Investment Programme £321 million 2013/14 – 2015/16). The spend in 2012/13 was:

	2012/13 £000	2011/12 £000
Children's services	46,693	47,769
Environment and leisure	16,159	18,166
Housing general fund	3,240	3,513
Finance and corporate services	179,653	731
Chief executive's department	16,316	18,571
Health and community services	231	2,777
Total General Fund	262,292	91,527
Housing Investment Programme	85,681	53,481
Total	347,973	145,008
Financed by:		
Revenue contributions	18,120	22,990
Borrowing internally	178,443	0
Using capital receipts received from the sale of assets	41,927	55,864
Specific grants and other contributions	60,953	62,361
Major Repairs Reserve	48,530	3,793
Total	347,973	145,008

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

6. BORROWING FACILITIES

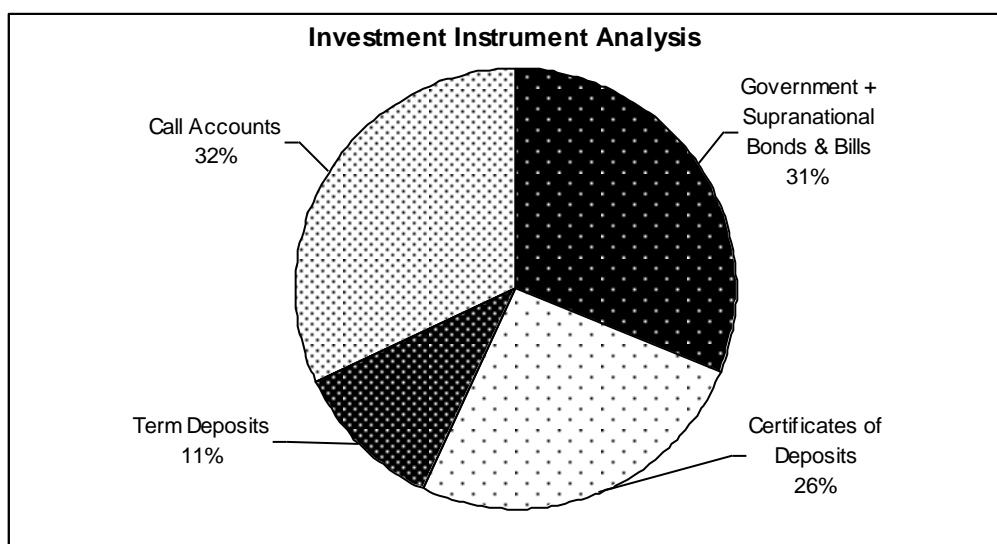
6.1. The council borrows money to support its capital financing requirement, which is set out in the capital expenditure and financing note 40. The borrowing outstanding as at 31 March 2013 is £560 million (£462 million at 31 March 2012), which includes £100m borrowing taken in April 2012. All loans are from the Public Works Loans Board (a body operating within the UK Debt Management Office, an Executive Agency of HM Treasury) at fixed rates. The average rate of interest payable is 5.98% at 31 March 2013 (6.56% at March 2012) and the average life of all loans is 20 years. In March 2012 the government redeemed £199 million in loans as part of HRA self-financing and under it 2011/12 became the final year of Housing Subsidy. The redemption lowered HRA's debt financing cost such that it can be met entirely from HRA's own income from April 2012. The maturity profile of the debt at 31 March 2013 is set out in the chart below.



7. INVESTMENTS

7.1. The council invests its cash in bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities such as the European Investment Bank and the World Bank. The money market investments are in short term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. The cash held in investments at 31 March 2013 was £176m (£187m at 31 March 2012).

7.2. Investments held at 31 March 2013 can be shown by classes of instrument as follows:



**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

7.3. The maturity and ratings of investments held at 31 March 2013 were:

Period remaining	Fitch Long Term Rating			Total
	AAA	AA+ to AA-	A+ to A	
2-5 years	7%			7%
1-2 years	9%			9%
Less than 1 year	14%	1%	69%	84%
Total	30%	1%	69%	100%

7.4. Money Market Funds have no long term rating and in this table Funds' short term ratings are used instead.

8. PENSIONS

8.1. The council offers retirement pensions to its staff and makes contributions to pension schemes on their behalf. These pension schemes include the council's own pension fund, the accounts of which are at page 102. Other pension schemes are operated by the London Pension Fund Authority (LPFA) and the Teachers' Pensions Agency (TPA).

8.2. The council's accounts are prepared in accordance with International Accounting Standard 19 – Employee Benefits (IAS 19), which requires that the accounts reflect the employees' pension rights as they are earned in a year. Each year at 31 March actuaries assess the value of assets in the pension funds, the difference between contributions made and benefits earned, and project these forward using factors, as set out in Note 46, to calculate a figure representing the outstanding liability of the council to each pension fund. These liabilities are:

	LGPS £m	LPFA £m	Total £m
Opening liability	(588.0)	(8.1)	(596.1)
Closing liability	(671.3)	(12.8)	(684.1)
Movement in year	83.3	4.7	88.0
Represented by:			
Actuarial loss	71.7	4.5	76.2
Net difference between actuarial and actual costs charged in the year	11.6	0.2	11.8
Movement in year	83.3	4.7	88.0

8.3. The TPA is run on a different basis from the others above, and is not required to be accounted for in this way under IAS 19. There is no separate liability included in the council's accounts.

8.4. The operation of the council's pension fund is regulated by statute. It is revalued every three years, and this valuation is used to set the level of contributions by the council towards the fund, rather than considering the pensions rights earned per IAS 19. The assumptions under this valuation use a longer timeframe than IAS 19, and incorporate assumptions on the plan to eliminate any outstanding liability, which also is not taken into account under IAS 19 in assessing the outstanding liability at a fixed point. The last revaluation of the council's pension fund on this basis was as at 31 March 2010, giving an actuarial present value of promised retirement benefits of £612.2 million (£330.1 million at the last valuation of 31 March 2007). From this, the actuary recommended to the council, as employer, a revised contribution structure, the details of which are given in Note 5 to the Pension Fund Accounts.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

STATEMENT OF RESPONSIBILITIES

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 Strategic Director of Finance and Corporate Services
- To manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets, and
- To approve the Statement of Accounts.

The Strategic Director of Finance and Corporate Services' responsibilities

The Strategic Director of Finance and Corporate Services is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

In preparing the Statement of Accounts, the strategic director of finance and corporate services has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the local authority Code

The Strategic Director of Finance and Corporate Services has also:

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

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council. Schools' balances, which form part of earmarked reserves, total £16.245 million (£13,734 million in 2011/12)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

MOVEMENT IN RESERVES, 2012/13

	General Fund Reserves		HRA Reserves		Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the council
	General Fund Balance	Earmarked General Fund Reserves	HRA Balance	Major Repairs Reserve					
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2012	18,133	98,186	27,488	43,214	27,108	335	214,464	1,631,439	1,845,903
Movement in reserves during the year									
Surplus/(deficit) on the provision of services	22,246	-	101,220	-	-	-	123,466	-	123,466
Other Comprehensive Income and Expenditure								(13,861)	(13,861)
Total Comprehensive Income and Expenditure	22,246	-	101,220	-	-	-	123,466	(13,861)	109,605
Adjustments between accounting basis & funding basis under regulations (Note 6)	(5,356)	-	(96,953)	(2,050)	2,320	5,644	(96,395)	96,395	-
Net Increase/Decrease before Transfers to Earmarked Reserves	16,890	-	4,267	(2,050)	2,320	5,644	27,071	82,534	109,605
Transfers to/(from) earmarked reserves	(16,898)	16,898	-	-	-	-	-	-	-
Increase/(Decrease) in Year	(8)	16,898	4,267	(2,050)	2,320	5,644	27,071	82,534	109,605
Balance as at 31 March 2013	18,125	115,084	31,755	41,164	29,428	5,979	241,535	1,713,973	1,955,508

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

MOVEMENT IN RESERVES, 2011/12

	General Fund Balance £000	Earmarked General Fund Reserves £000	HRA Reserves HRA Balance £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves of the council £000
Balance as at 1 April 2011	18,196	83,779	20,577	8,196	35,879	8,923	175,550	1,574,246	1,749,796
Movement in reserves during the year									
Surplus/(deficit) on the provision of services	(117,919)	-	128,455	-	-	-	10,536	-	10,536
Other Comprehensive Income and Expenditure								85,571	85,571
Total Comprehensive Income and Expenditure	(117,919)	-	128,455	-	-	-	10,536	85,571	96,107
Adjustments between accounting basis & funding basis under regulations (Note 6)	133,037	-	(121,544)	35,018	(8,771)	(8,588)	29,152	(29,152)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	15,118	-	6,911	35,018	(8,771)	(8,588)	39,688	56,419	96,107
Transfers to/(from) earmarked reserves	(15,181)	14,407	-	-	-	-	(774)	774	-
Increase/(Decrease) in Year	(63)	14,407	6,911	35,018	(8,771)	(8,588)	38,914	57,193	96,107
Balance as at 31 March 2012	18,133	98,186	27,488	43,214	27,108	335	214,464	1,631,439	1,845,903

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		£000	£000	2012/13 £000 Net	£000	£000	2011/12 £000 Net
	Notes	Expenditure	Income		Expenditure	Income	
Central services		70,988	(42,119)	28,869	58,876	(41,476)	17,400
Cultural and related services		38,507	(3,053)	35,454	27,412	(3,390)	24,022
Environmental & regulatory services		47,030	(9,614)	37,416	64,948	(9,457)	55,491
Planning services		18,941	(4,438)	14,503	45,070	(5,438)	39,632
Children's and educational services		334,836	(240,249)	94,587	369,502	(241,095)	128,407
Highways and transport services		38,655	(15,276)	23,379	37,792	(13,576)	24,216
Local authority housing (HRA)		145,696	(251,058)	(105,362)	289,411	(262,349)	27,062
Other housing services		249,756	(230,648)	19,108	240,587	(217,740)	22,847
Adult social care		113,007	(34,678)	78,329	113,401	(24,006)	89,395
Corporate and democratic core		8,882	(915)	7,967	8,777	(657)	8,120
Non distributed costs		2,300	-	2,300	5,500	-	5,500
(Surplus)/Deficit on Continuing Operations		1,068,598	(832,048)	236,550	1,261,276	(819,184)	442,092
PFI derecognition	2			-			35,252
Other Operating Expenditure	13			(11,810)			24,258
Financing and Investment Income and Expenditure	14			37,672			149,220
Taxation and Non-Specific Grant Income	15			(385,878)			(661,358)
(Surplus)/Deficit on Provision of Services				(123,466)			(10,536)
(Surplus)/deficit on revaluation of non current assets	16			(57,120)			(219,185)
(Surplus)/deficit on revaluation of available for sale financial assets	27.7			137			(110)
Actuarial (gain)/losses on pension assets/liabilities	46.3			70,844			133,724
Other Comprehensive Income and Expenditure				13,861			(85,571)
Total Comprehensive Income and Expenditure				(109,605)			(96,107)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31/3/2013 £000	31/3/2012 £000
Property, Plant & Equipment	16	3,070,275	2,622,262
Heritage Assets	17	871	871
Investment Property	18	118,721	133,320
Intangible Assets	19	-	446
Assets held for sale	23	41,186	152,582
Long Term Investments	20.1	27,115	23,620
Long Term Debtors	21	11,037	3,795
Long Term Assets		3,269,205	2,936,896
Short Term Investments	20.1	92,189	123,506
Inventories		836	982
Short Term Debtors	21	77,235	76,414
Cash and Cash Equivalents	22	47,373	24,710
Assets held for sale	23	33,133	36,308
Current Assets		250,766	261,920
Short Term Borrowing	20.2	14,641	5,463
Short Term Creditors	24	105,709	94,704
Provisions	25	1,234	3,090
Grants receipts in advance	38	98,726	63,807
Current Liabilities		220,310	167,064
Long Term Creditors	24	5,568	8,364
Provisions	25	10,691	8,299
Long Term Borrowing	20.2	554,955	462,455
Pension Liabilities	46	678,721	596,071
Other Long Term Liabilities	47	94,218	110,660
Long Term Liabilities		1,344,153	1,185,849
Net Assets		1,955,508	1,845,903
Usable reserves	26	241,535	214,464
Unusable Reserves	27	1,713,973	1,631,439
Total Reserves		1,955,508	1,845,903

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from the recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

	Note	2012/13 £000	2011/12 £000
Net surplus/(deficit) on the provision of services		123,466	10,536
Adjustment to surplus/(deficit) on the provision of services for noncash movements	28	70,106	188,908
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	28	(116,502)	(102,450)
Net cash flows from operating activities		77,070	96,994
Net cash flows from investing activities	29	(141,466)	2,288
Net cash flows from financing activities	30	87,059	(121,608)
Net increase/(decrease) in cash and cash equivalents		22,663	(22,326)
Cash and cash equivalents at the beginning of the reporting period	22	24,710	47,036
Cash and cash equivalents at the end of the reporting period	22	47,373	24,710

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

NOTES TO THE ACCOUNTS

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

- 1.1. The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 has introduced a number of changes in accounting standards that are required from 1 April 2013, as set out below. Except changes relating to IAS 19, adoption of the revised standards will not have a significant impact on the statement of accounts.

IAS 1 presentation of financial statements

- 1.2. The changes require authorities to disclose separately the gains or losses reclassifiable into the surplus or deficit on the provision of services. The changes are presentational and will not impact on the council's reserves and balances.

IAS 19 employee benefits

- 1.3. The main changes to this standard affect the amounts reported in the Comprehensive Income and Expenditure Statement, as follows:
- replacement of "expected return on assets" with "net interest cost", comprising interest income attributable to assets and interest expenses attributable to scheme liabilities, which are both calculated with reference to the discount rate
 - consolidation of "current service cost", "past service cost", "settlements" and "curtailments" into "service cost"
 - inclusion of administrative expenses in service cost. Previously they were deducted from the "actual and expected return on assets".
- 1.4. Had these changes been applied in 2012/13, the impact would have been an increase in the actual return on scheme assets of £0.970 million, and an increase in the charge to the Comprehensive Income and Expenditure Statement of £16.714 million. The increase in charge would be met by the pensions reserve and would not affect the amount chargeable to the taxpayer.

IAS 12 income taxes (deferred tax: recovery of underlying assets)

- 1.5. This standard requires an entity to measure deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The revised standard introduces a presumption that the recovery of the carrying amount of an investment property will normally be through sale. This change is not thought likely to significantly affect the council.

IFRS 7 financial instruments: disclosures (offsetting of financial assets and liabilities)

- 1.6. The amendments to this standard introduce principles based disclosures to assist users with the effect or potential effect of offsetting associated financial assets and liabilities on the Balance Sheet. This may affect the presentation of cash and cash equivalents, but will not affect overall balances.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

St Michael's Catholic College and St Thomas the Apostle College

- 2.1. St Michael's and St Thomas are newly built voluntary aided secondary schools. St Michael's became operational in January 2011, and St Thomas in February 2012. The schools have been built and operated under PFI arrangements, under 25 year contracts with 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd.
- 2.2. The assets of voluntary aided schools are deemed not to be assets of the council for reasons set out in Note 2.6 – 2.7 below. Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd for operating the schools and reimbursement of the capital expense incurred, the council does not have an interest in the assets. In 2011/12, the assets recognised as part of the PFI arrangements for St Michael's and St Thomas were discharged from Property, Plant & Equipment to the Consolidated Income and Expenditure Statement (PFI derecognition), and then moved to the Capital Adjustment Account.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

- 2.3. Further details of the financial arrangements for St Michael's and St Thomas, and the obligations outstanding, can be found in Note 42.

Anchor Homes PFI

- 2.4. In March 2013, the council made an early repayment of £5.614 million as a final settlement for the capital costs associated with the Anchor Homes agreement, which discharged all remaining liabilities at 31 March 2013.
- 2.5. Further details of the Anchor Homes financial arrangements, can be found in Note 42.

Accounting for schools non-current assets

- 2.6. CIPFA has identified that there is uncertainty in the accounting treatment for schools' assets, specifically in relation to foundation, voluntary controlled and voluntary aided schools, as to which schools should be included in the council's Balance Sheet. CIPFA has set up a review group, which has not yet issued a conclusion on the accounting treatment.
- 2.7. Until such time as CIPFA defines clearly the required accounting practice for the treatment of the different categories of school, the previous approach on the recognition of assets on the Balance Sheet will apply, in that voluntary controlled schools are on Balance Sheet, with voluntary aided and foundation schools being off Balance Sheet. This view is supported by considering:
- Admissions policies
 - The tax affairs of voluntary aided and foundation schools are separate from, and different from, the council's
 - Legal title to the assets, and
 - The external accounting opinions received on St Michael's and St Thomas, as set out above, concluded the council does not have an interest in the new build voluntary aided schools' assets when measured against IFRS accounting standards.

Integrated waste management facility

- 2.8. The integrated waste management facility at the Old Kent Road became operational in February 2012. This is a facility constructed by Veolia Environmental Services under a 25 year PFI contract for the collection and disposal of waste in the borough. The scheme has been evaluated in accordance with IFRS accounting practices, and it is considered that the council has an interest in the asset which should be reflected in the council's Balance Sheet, with a matching liability to make capital repayments as part of the unitary charges. Further details of the financial arrangements for the waste management contract, and the obligations outstanding, can be found in Note 42.

HRA depreciation, impairment & valuation losses

- 2.9. Since 1 April 2012, the HRA has operated on a self-financing basis, with transitional arrangements in place for five years. Following this change, no provision exists at present to reverse out charges made to the HRA for impairment and valuation losses relating to non-dwelling assets. This is a change from previous accounting arrangements and has an impact on HRA usable reserves. In 2012/13, £0.726 million was charged to the HRA for non-dwelling revaluation losses. CIPFA is aware of the affordability issues being raised by authorities in respect of impairment and valuation losses being charged to the HRA balance post transition, and consequently is in early discussions with DCLG on possible solutions to this issue, with a view to issuing proposals for consultation later in 2013. There is uncertainty as to whether this is an intended consequence of the implementation of self-financing, but until clarification is provided, the council will continue to follow CIPFA advice and guidance.
- 2.10. During the transitional period, where the depreciation charge for dwellings is greater than the Notional Major Repairs Allowance, authorities are permitted to make an adjustment for the difference so that there is no impact on HRA usable reserves. In 2012/13, the council chose this option and made an adjustment of £0.833 million for excess dwellings depreciation over the Notional Major Repairs Allowance.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

3. ACCOUNTING ESTIMATES

- 3.1. The statement of accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Property, plant & equipment

- 3.2. Assets held in Property, Plant & Equipment are measured at fair value, except for the categories of infrastructure, community assets and assets under construction which are held at depreciated historical cost. Assets held at fair value are therefore subject to judgements which could change the value of assets in the Balance Sheet.
- 3.3. Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase as follows for every year that useful lives had to be reduced.
- The average life of HRA non-dwelling assets is 22.7 years. If the assumptions were to reduce the average life by one year, the depreciation charge to the HRA would increase by £0.19 million.
 - HRA dwelling assets are componentised with a set life for each component, with the average life being 21 years. If the assumptions were to reduce the average life by one year, the depreciation charge to the HRA would increase by £1.79 million.
 - General Fund assets are depreciated over a variety of periods, as set out in the accounting policies. The average life is 22.4 years. If this average was reduced by one year, the depreciation charge to the General Fund is estimated to increase by £1.59 million.

Financial instruments

- 3.4. All council borrowing outstanding at 31 March 2013 is from the Public Works Loans Board and at fixed rates, with an average maturity of 20 years and a modified duration of 12 years. There is no exposure to variable rate debt. The maturity profile of the debt is set out in the Explanatory Foreword. A 1% rise in rates at the Balance Sheet date lowers fair value by £84 million, a 1% fall raises it by £103 million. As debt is held at amortised cost there would be no impact on the Income and Expenditure Account from such changes, unless the debt is extinguished. Legislation would then require the charge to be taken to the Financial Instruments Adjustment Account.
- 3.5. The overall average life of financial assets (i.e. the council's investments) is 0.6 years and the modified duration is 0.5 years. Within that, the available-for-sale investments have an average life of 0.9 years and a modified duration of 0.9 years. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £0.90 million, which is reflected in the Balance Sheet in the available-for-sale reserve. There is no impact on the Income and Expenditure Account, unless the investment is realised. A 1% change in rates on loans and receivable investments at the Balance Sheet date changes the fair value by £0.05 million, but as these are held at amortised cost there is no impact on the Balance Sheet or Income and Expenditure Account unless the investment is extinguished.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Impairment of debtors (bad debt provisions)

- 3.6. At 31 March 2013, the council had a balance of short term debtors of £122.214 million. The different classes of debtors within this balance are individually assessed to determine any potential impairment losses as a result of not being able to collect the moneys due, and for 2012/13 this was assessed as £44.980 million, which is 37% of the total debtor balance as at 31 March 2013. If collection rates were to deteriorate, an increase of 1% in non-collection would require an additional £1.222 million to be set aside as an allowance for the impairment of debtors:

	£000
Council Tax	212
Housing Rents	176
Housing Benefit Overpayments	172
Sundry Debtors	662
Total	<u>1,222</u>

Long term obligations - PFI and similar schemes

- 3.7. The council has entered a number of long term contracts to provide services and assets under PFI and scheme of a similar nature, as set out in Note 42. These contracts commit the council to significant levels of contract payments over the lives of the contracts. At 31 March 2013 the future obligation to make payments totals £858 million, of which £34.843 million falls in 2013/14.
- 3.8. The estimated payments due under each of the schemes are set out in complex models, and there are uncertainties in the prediction of total future costs due to:
- The lengths of the expected contracts (typically 25 years)
 - Variability in the indexation and discount rates to be applied during the contract
 - Changes in usage under the contracts
 - Performance by the contractor under the contract.
- 3.9. The complexity of the payment models and the periods of time concerned mean that small changes in assumptions could lead to material changes in the estimation of total liability under the contracts. Estimates of the range of possible variations have not been costed for the purposes of the Accounts.

Defined benefit pension amounts and disclosures

- 3.10. The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2013 the outstanding liability was assessed at £684.131 million. For the two pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund. These assessments require significant estimation, and the estimates and assumptions are set out in detail in Note 46.
- 3.11. Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pensions liability of changes in individual assumptions can be measured. For example, a 0.5% in the discount rate assumption for the council's scheme would result in a decrease in the pension liability of £138.5 million.
- 3.12. The assumptions interact in complex ways. During 2012/13 the actuaries advised that the net pensions liability for funded LGPS benefits had decreased by £2.8 million from estimates being corrected as a result of experience, and increased by £129.3 million attributable to updating of the underlying assumptions.

Council tax surplus/deficit

- 3.13. As a billing authority, the council is required by law to estimate the surplus or deficit arising on the Collection Fund for the end of each financial year by January 15 of that year. It is also required to apportion the surplus or deficit between authorities according to their respective proportion of the total for demands and precepts for that year. These apportionments are recovered in the following year. The Collection Fund Adjustment Account absorbs the effect of timing differences between statutory requirements and full accruals accounting.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

4. MATERIAL ITEMS OF INCOME AND EXPENSE

Acquisition of council office accommodation

- 4.1. In December 2012, the council purchased the freehold of its main administrative headquarters, 160 Tooley Street, for £170 million plus costs. Previously, the council occupied the property under a 25 year lease, starting in 2009. The value of the asset is reflected in the balance as part of property, plant and equipment, and related notes to the accounts.

5. EVENTS AFTER THE BALANCE SHEET DATE

- 5.1. There are no significant post balance sheet events to be disclosed at the time of preparing these statements.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

- 6.1. This note details the adjustments made to the total comprehensive income and expenditure recognised by the council in the year and to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. This is in accordance with proper accounting practice
- 6.2. The following sets out a description of the reserves that the adjustments are made against.

General Fund balance

- 6.3. The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. However, the balance is not available to be applied to funding HRA services.

Housing Revenue Account balance

- 6.4. The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function.

Major repairs reserve

- 6.5. The council is required to maintain the major repairs reserve, which controls the application of the major repairs allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year end.

Capital receipts reserve

- 6.6. The capital receipts reserve holds the proceeds from the disposal of land and other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

Capital grants unapplied

- 6.7. The capital grants unapplied account holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the income but which has yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and or the financial year in which this can take place.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2012/13

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	24,910	47,312	-	-	-	(72,222)
Revaluation losses on Property, Plant and Equipment	14,145	(67,037)	-	-	-	52,892
Movements in the market value of Investment Properties	(4,164)	2,020	-	-	-	2,144
Amortisation of intangible assets	446	-	-	-	-	(446)
Capital grants and contributions applied	(48,205)	(12,647)	-	-	-	60,852
Revenue expenditure funded from capital under statute	25,835	1,985	-	-	-	(27,820)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	11,634	28,084	-	-	-	(39,718)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(4,989)	-	-	-	-	4,989
Lease & PFI repayment	(9,122)	(49)	-	-	-	9,171
Capital expenditure charged against the General Fund and HRA balances	(5,195)	(11,782)	-	-	-	16,977
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(5,648)	-	-	-	5,648	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(4)	4
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(9,836)	(40,068)	-	49,904	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(43,630)	-	43,630
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	273	642	-	(915)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	3,039	-	-	(3,039)	-	-

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2012/13

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments primarily involving the deferred capital receipts reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,219)	-	-	-	-	7,219
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(46,480)	46,480	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(48,530)	-	-	48,530
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(301)	(239)	-	-	-	540
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	37,727	4,961	-	-	-	(42,688)
Employer's pensions contributions and direct payments to pensioners payable in the year	(27,186)	(3,696)	-	-	-	30,882
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,420)	-	-	-	-	1,420
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(80)	41	-	-	-	39
Total adjustments	(5,356)	(96,953)	(2,050)	2,320	5,644	96,395

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2011/12

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	54,031	133,590	-	-	-	(187,621)
Movements in the market value of Investment Properties	2,969	(6,578)	-	-	-	3,609
Amortisation of intangible assets	999	-	-	-	-	(999)
Capital grants and contributions applied	(52,078)	(1,695)	-	-	-	53,773
Revenue expenditure funded from capital under statute	61,325	1,611	-	-	-	(62,936)
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	46,859	22,640	-	-	-	(69,499)
Derecognition of PFI non-current assets	35,252	-	-	-	-	(35,252)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(4,950)	(61)	-	-	-	5,011
Capital expenditure charged against the General Fund and HRA balances	(2,798)	(19,418)	-	-	-	22,216
Adjustments primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(8,588)	8,588
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(19,497)	(29,850)	-	49,347	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	(55,864)	-	55,864
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	670	-	(670)	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,584	-	-	(1,584)	-	-
Recognise payment made by the Secretary of State as contribution to the repayment of HRA debt	-	(277,156)	-	277,156	-	-
Application of contribution to the repayment of debt	-	-	-	(199,254)	-	199,254
Application of contribution to finance premium on early repayment of debt	-	77,902	-	(77,902)	-	-

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2011/12

	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(38,811)	38,811	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	(3,793)	-	-	3,793
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	3,144	16,026	-	-	-	(19,170)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	36,264	5,391	-	-	-	(41,655)
Employer's pensions contributions and direct payments to pensioners payable in the year	(29,783)	(5,799)	-	-	-	35,582
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(15)	-	-	-	-	15
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(269)	(6)	-	-	-	275
Total adjustments	133,037	(121,544)	35,018	(8,771)	(8,588)	(29,152)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

7. CORPORATE PROJECTS AND PRIORITIES

	Balances as at 31 March 2012	Net movement in reserves	Balances as at 31 March 2013
	£000	£000	£000
Modernisation, service & operational improvement:			
- Customer service and customer access development	-	1,037	1,037
- Other	5,145	(1,877)	3,268
Artefacts replacement & security reserve	579	(4)	575
Business support fund	-	1,000	1,000
Cleaner Greener Safer	-	40	40
Community engagement & Links development	250	-	250
Contract realignment (low paid staff)	1,052	-	1,052
Internal audit & anti fraud	356	-	356
Community safety schemes	-	750	750
Community restoration fund	115	-	115
Voluntary sector transition fund	257	324	581
Welfare hardship fund	-	800	800
Youth fund	469	429	898
Other reserves individually less than £100k	50	(18)	32
Revenue grants	1,309	(1,034)	275
Reserves expended in 2011/12	-	-	-
Total	9,582	1,447	11,029

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

8. SERVICE REVIEWS AND IMPROVEMENTS RESERVES

	Balances as at 31 March 2012	Net movement in reserves	Balances as at 31 March 2013
	£000	£000	£000
Adult workforce development	142	-	142
Blackfriars trust allocation	138	-	138
Children's Services restructure	119	321	440
Dedicated schools grant reserve	7,373	(30)	7,343
Early intervention pilot	435	-	435
Early Years Review	300	-	300
Environmental health & community safety	-	142	142
General litigation costs	172	-	172
Highways winter maintenance	-	576	576
Homelessness	403	-	403
HR transformation	290	-	290
Learning disability & social care reform	-	3,748	3,748
Local flood risk	-	170	170
Managed accounts underspend	451	-	451
Management and administration of elections	409	-	409
Member development	94	48	142
Ofsted inspection	200	-	200
Organisational development	-	1,217	1,217
OT clients adaptations	886	-	886
Other reserves individually less than £100k	15	-	15
Prevention of illegal tobacco distribution	90	30	120
SALIX energy efficiency	200	(139)	61
School improvement	300	-	300
Schools condition survey	775	-	775
SEN/Learning difficulties	140	-	140
Signage	108	-	108
Southwark safe and independent living scheme	-	215	215
Street trading	110	-	110
Street trading account	(645)	4	(641)
Youth service	450	-	450
Camden Society transition funding	300	(300)	-
LD transfer continuing care returned clients	315	(315)	-
Reserves expended in 2011/12	-	-	-
Total	13,570	5,687	19,257

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

9. CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES

	Balances as at 31 March 2012	Net movement in reserves	Balances as at 31 March 2013
	£000	£000	£000
Modernisation, service & operational improvement	6,364	(486)	5,878
ATM & exchequer services development	-	550	550
Regeneration & development	5,996	(85)	5,911
Capital contingency	2,651	(447)	2,204
Aylesbury development	4,231	1,130	5,361
Carefirst procurement	200	-	200
CCTV	250	-	250
Contracts realignment (capital)	1,396	-	1,396
IT and customer service development	3,171	-	3,171
New homes bonus grant capital allocation	-	3,682	3,682
Parking capital projects	-	900	900
Planned preventative maintenance & building compliance	-	2,565	2,565
Resource centre	181	-	181
Building compliance	1,066	(1,066)	-
Burgess Park project	350	(350)	-
Cator Street development	12	(12)	-
RFID for libraries	300	(300)	-
Reserves expended in 2011/12	-	-	-
Total	26,168	6,081	32,249

10. STRATEGIC FINANCING, TECHNICAL LIABILITIES AND FUTURE FINANCIAL RISKS RESERVES

	Balances as at 31 March 2012	Net movement in reserves	Balances as at 31 March 2013
	£000	£000	£000
Planned contribution to support General Fund budget	4,446	1,825	6,271
Financial risk & future liabilities	3,030	76	3,106
Business rate retention risk	-	1,402	1,402
Council tax and housing benefits subsidy equalisation	636	-	636
Insurance	9,106	(1,793)	7,313
Interest and debt equalisation	4,000	-	4,000
Legal and contractual risks	1,804	-	1,804
Queen's Road lease smoothing	673	(383)	290
Schools in financial difficulties, schools closures and academies	482	-	482
Social care demand pressures	-	3,703	3,703
Waste PFI equalisation reserve	10,567	(3,270)	7,297
Unaccompanied asylum seeking children equalisation	388	(388)	-
Reserves expended in 2011/12	-	-	-
Total	35,132	1,172	36,304

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

11. NOTES ON MAJOR RESERVES

- 11.1. Modernisation, service & operational improvement reserve. This reserve is for one-off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, that are designed to modernise and improve service levels and operational efficiency of Southwark's activities. Schemes will range across all Council services but will be especially relevant for transformational priorities such as information technology, customer services and accommodation strategies. Schemes funded by this reserve may be of either a capital or revenue nature.
- 11.2. Regeneration & development reserve. This reserve is to fund one-off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects. Schemes funded by this reserve are predominantly of a capital nature.
- 11.3. Financial risk & future liabilities reserve. This reserve is set aside against future financial risks that may arise. For example, taxation risks, legislative and funding changes including actions involving the Greater London Authority and other government bodies, risks as a result of unavoidable changes in accounting practice, and circumstances in so much as they represent uninsured risks.

12. SCHOOLS BALANCES

	Balances as at 31 March 2012	Net movement in reserves	Balances as at 31 March 2013
	£000	£000	£000
Funds held by schools	13,115	2,759	15,874
Funds held by nursery schools	383	(248)	135
Funds held by pupil referral units	236	-	236
Total	13,734	2,511	16,245

13. OTHER OPERATING EXPENDITURE

	2012/13 £000	2011/12 £000
Levies	1,640	1,642
Payment to the government's housing capital receipts pool	3,039	1,584
(Gains)/losses on the disposal of non-current assets	(16,489)	21,032
Total Other Operating Expenditure	(11,810)	24,258

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

14. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	Note	2012/13 £000	2011/12 £000
Interest payable and similar charges	14.1	41,620	154,581
Grant contributions towards interest costs on PFI schemes		(3,786)	(2,246)
Pensions interest cost and expected return on pensions assets		12,479	9,784
Interest receivable and similar income		(3,140)	(3,101)
Income and expenditure in relation to investment properties and changes in their fair value	14.2	(9,501)	(9,778)
Other investment income and expenditure	14.3	-	(20)
Total Financing and Investment Income and Expenditure		37,672	149,220

14.1. Interest payable and similar charges in 2011/12 include the recognition of £77.902 million premiums met by the government as part of the HRA self-financing debt redemption.

14.2. Income and expenditure from Housing Revenue Account commercial properties is disclosed within net cost of HRA services within the Housing Revenue Account Income and Expenditure Statement.

14.3. Other investment income and expenditure comprises the gains and losses arising from trading operations, see Note 32.

15. TAXATION AND NON-SPECIFIC GRANT INCOME

	2012/13 £000	2011/12 £000
Council tax income	(92,540)	(90,246)
NDR redistribution	(212,950)	(177,760)
Non-ringfenced government grants	(13,888)	(62,423)
Capital grants	(66,500)	(53,773)
HRA self-financing settlement	-	(277,156)
Total Taxation and Non-Specific Grant Income	(385,878)	(661,358)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

**16. PROPERTY, PLANT AND EQUIPMENT (PP&E)
2012/13**

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value									
Opening balance	1,824,086	621,844	40,417	210,069	35,764	10,415	39,251	2,781,846	74,391
Additions	80,100	185,951	3,844	16,659	509	3,248	30,120	320,431	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	12,366	7,698	-	-	719	20,862	-	41,645	-
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,471)	(18,906)	-	-	(392)	(270)	-	(22,039)	(973)
Derecognition – Disposals	(5,594)	-	-	-	-	-	-	(5,594)	-
Derecognition – Other	(76)	(2,051)	(3)	-	-	-	-	(2,130)	-
Assets reclassified (to)/from Held for Sale	(4,600)	(12,695)	-	-	-	97,496	-	80,201	-
Other movements in Cost or Valuation	(18,213)	20,654	19,900	-	-	619	(8,406)	14,554	-
Balance as at 31 March 2013	1,885,598	802,495	64,158	226,728	36,600	132,370	60,965	3,208,914	73,418
Depreciation and Impairment									
Opening balance	38,815	52,740	22,581	43,505	1,842	101	-	159,584	254
Depreciation charge	44,115	14,152	3,822	6,996	878	-	-	69,963	1,991
Depreciation written out on revaluations recognised in the Revaluation Reserve	(12,590)	(2,659)	-	-	(44)	(2)	-	(15,295)	-
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(69,509)	(1,142)	-	-	(69)	-	-	(70,720)	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	(180)	-	-	-	-	-	(180)	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(2,260)	-	-	-	-	-	(2,260)	-
Derecognition – Disposals	(6)	-	-	-	-	-	-	(6)	-
Derecognition - Other	-	(155)	-	-	-	-	-	(155)	-
Other movements in Depreciation and Impairment	(232)	(2,041)	-	-	-	(19)	-	(2,292)	-
Balance as at 31 March 2013	593	58,455	26,403	50,501	2,607	80	-	138,639	2,245
Net Book Value at 31 March 2013	1,885,005	744,040	37,755	176,227	33,993	132,290	60,965	3,070,275	71,173

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2011/12

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value									
Opening balance	1,818,717	547,044	35,724	190,975	34,031	6,093	119,592	2,752,176	10,193
Restatements	16,914	(18,533)	1,490	(1,505)	(668)	-	-	(2,302)	-
Additions	50,265	70,294	4,862	15,104	405	-	52,202	193,132	64,198
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,599	139,701	-	-	2,038	62,081	-	209,419	-
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(58,960)	(61,845)	-	-	(4,125)	(1,547)	-	(126,477)	-
Derecognition - Disposals	(1,193)	(33,624)	(1,659)	-	-	-	(10)	(36,486)	-
Derecognition - Other	0	(17,026)	-	-	-	-	(47,136)	(64,162)	-
Assets reclassified (to)/from Held for Sale	4,504	(40,055)	-	-	(98)	(1,950)	-	(37,599)	-
Other movements in Cost or Valuation	(11,760)	35,888	-	5,495	4,181	(54,262)	(85,397)	(105,855)	-
Balance as at 31 March 2012	1,824,086	621,844	40,417	210,069	35,764	10,415	39,251	2,781,846	74,391
Depreciation and Impairment									
Opening balance	7,228	53,761	19,875	34,814	2,552	340	-	118,570	-
Restatements	-	(586)	(5)	-	(668)	0	-	(1,259)	-
Depreciation charge	38,815	10,054	3,346	5,887	1,292	79	-	59,473	254
Depreciation written out on revaluations recognised in the Revaluation Reserve	-	(1,997)	(48)	-	(15)	(209)	-	(2,269)	-
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(7,213)	(6,441)	328	2,804	(1,319)	(109)	-	(11,950)	-
Derecognition - Disposals	(15)	(838)	(915)	-	-	-	-	(1,768)	-
Derecognition - Other	-	(681)	-	-	-	-	-	(681)	-
Other movements in Depreciation and Impairment	-	(532)	-	-	-	-	-	(532)	-
Balance as at 31 March 2012	38,815	52,740	22,581	43,505	1,842	101	-	159,584	254
Net Book Value as at 31 March 2012	1,785,271	569,104	17,836	166,564	33,922	10,314	39,251	2,622,262	74,137

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

16.1. During 2012/13, the council undertook a detailed review of the PP&E note to bring it in line with Code guidance. The format of the 2011/12 comparative has changed from last year's audited accounts as a result of this review, but the changes made have no impact on the Balance Sheet figures from 2011/12. There has been no change to the Net Book Value (NBV) brought forward for all asset categories, but changes have been made to the Gross Book Value (GBV) and depreciation amounts. The impact of the changes made are summarised below:

- Dwellings depreciation has been reduced from £824.086 million to £38.815 million, and the difference was added to the opening GBV. This is because a full valuation of dwellings is performed annually, which clears out any previous accumulated depreciation brought forward from previous years. The only depreciation that should be carried forward comprises any in-year depreciation plus any impairments during that year.
- Land depreciation of £11.807 million was removed and added to the GBV figure on the top part of Note 16 as there was no accumulated depreciation/impairment against the land assets from previous years.
- Land and buildings categories have been brought together.
- Movements in fair value of Investment Properties and Assets Held for Sale are shown separately in Notes 18 and 23 respectively.
- An additional column has been added to show movement of the PFI Assets Included in property, plant and equipment

16.2. The valuation of assets has been carried out by the council's internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluations and of the rolling cycle of revaluations is 1 April of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.

16.3. The entire housing stock is valued on an annual basis, with estates under development and other potential impairments reviewed during the year. Impairments have been charged to the Comprehensive Income and Expenditure Statement and on to the Capital Adjustment Account.

16.4. There were impairment losses of £2.44 million in 2012/13. Further details can be found in Note 43.

16.5. Infrastructure Assets contains a balance of £82.6 million that represents the depreciated historic cost value of capital expenditure on infrastructure up to 31 March 2007. This balance is effectively treated as a single 'consolidated' asset as we do not currently have sufficient information to disclose at the level of individual assets and obtaining such information would be impracticable. The balance is depreciated on a straight line basis over 40 years in line with the depreciation policy for infrastructure assets that was in place up to 1 April 2007.

16.6. A number of assets held in PP&E Under Construction became operational during the year, leading to their reclassification and transfer within PP&E. Amounts reclassified and transferred are as follows:

	2012/13 £000	2011/12 £000
Council Dwellings	-	90
Buildings	8,406	79,813
Infrastructure assets	-	5,494
Total amount reclassified and transferred	8,406	85,397

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

16.7. Summary of capital expenditure and financing

How the money was spent:

	2012/13 £000	2011/12 £000
Children's services	46,693	47,769
Environment and leisure	16,159	18,166
Housing general fund	3,240	3,513
Finance and corporate services	179,653	731
Chief executive's Department	16,316	18,571
Health and community services	231	2,777
Total General Fund	262,292	91,527
Housing Investment Programme	85,681	53,481
Total	347,973	145,008

How the expenditure was financed:

	2012/13 £000	2011/12 £000
Revenue contributions	18,120	22,990
Borrowing internally	178,443	-
Using capital receipts received from the sale of assets	41,927	55,864
Specific grants and other contributions	60,953	62,361
Major Repairs Reserve	48,530	3,793
Total	347,973	145,008

Expenditure by asset class:

	2012/13 £000	2011/12 £000
Fixed assets	320,707	129,208
Revenue expenditure funded by capital under statute	27,266	15,800
Total	347,973	145,008

16.8. Contractual commitments for the capital programme as at 31 March 2013 can be analysed over the council's services as follows:

Service	2012/13 £m	2011/12 £m
Children's Services	64.1	8.3
Environment and Leisure	0.7	5.5
Housing General Fund	0.5	0.8
Finance and Corporate Services	0.6	1.1
Chief Executive's Dept	0.0	0.5
Health and Community Services	0.2	2.0
Housing Investment Programme	56.4	35.3
Total committed programme	122.5	53.5

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

17. HERITAGE ASSETS

	Note	2012/13 £000	2011/12 £000
Balance as at 1 April		871	-
Revaluation increases to the Revaluation Reserve	17.2	0	871
Balance as at 31 March		871	871

17.1. The council's heritage assets comprise four separate classes of asset as set out below.

Civic insignia

17.2. The council's collection of civic insignia is carried in the Balance Sheet at valuation, based on replacement cost. The valuation was provided by Vaughtons in March 2012 and reviewed in March 2013 to ensure it remains current.

Statues and monuments

17.3. The council does not have reliable cost or valuation information for its statues and monuments because of the diverse nature of the assets held and lack of comparable market values. Consequently, the council does not recognise these assets in the Balance Sheet. As new assets are acquired or constructed they will be recognised in line with the accounting policy for heritage assets.

Art

17.4. The council's art collection is made up of material collected by the council over the years and comprises art and artefacts including a small selection of sculpture, prints, coins and medals. This collection, combined with the collections of the South London Gallery, is known collectively as 'The Southwark Art Collection'. The council's collection is not reported in the Balance Sheet as the cost of obtaining valuations is prohibitive.

Museum collections

17.5. The council's museum collections comprise collections located at the Cuming Museum, and the Local History Library and Archives. The collections are not recognised in the Balance Sheet as no cost or valuation information is currently available and the size of the collections prohibits obtaining valuations for them due to the cost involved.

17.6. The Cuming Museum principally has two collections:

- The Cuming Collection of objects put together by Richard and Henry Syer Cuming between 1782 and 1902. These items were collected from all over the world and include archaeology, social history, decorative art, ethnography, geology, textiles, natural history, prints and coins. The Cumings acquired most of their collection by purchase or gift. Purchases, especially of the overseas archaeology, were mostly from auctions. Many of these auctions were the very first auctions of material from collectors/excavators in Egypt and Italy and hence give some of the collection added significance.
- Post-Cuming bequest material: mainly social history and archaeology from the 19th and 20th century, and collections such as the Lovett collection of Charms and Superstitions and the Phillips bequest of ethnographic material.

17.7. The ethnographic material originates from at least 50 different countries spanning North America (including Inuit), South America, Africa, Oceania and Asia, and provides a resource for projects within the diverse world-wide communities of Southwark. Richard Cuming acquired some of the ethnographic material from the Leverian Museum auction, including a collection from Captain Cook's voyages (more than was given to the British Museum). Many of the items acquired from the Leverian auction are on "permanent loan" to Saffron Walden museum. The importance of the collection is mainly due to the early and verifiable dates of the collection.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

17.8. Around 500 artefacts housed in the Cuming Museum's public galleries were destroyed by the fire on 25 March 2013. The remaining 450 artefacts on public display were recovered and suffered very little major damage. The rest of the museum's collections (circa 26,000 items) were in the adjacent building, the Newington Library, and were untouched by the fire or by water.

18. INCOME, EXPENDITURE AND CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES

18.1. The income and expenditure on investment assets was as follows:

	2012/13 £000	2011/12 £000
Rental income from investment property	(9,974)	(8,974)
Direct operating expenses arising	473	(804)
Net (gain)/loss included in Financing & Investment Income in the CIES	(9,501)	(9,778)

18.2. The movement in the fair value of investment properties held was as follows:

	2012/13 £000	2011/12 £000
Balance as at 1 April	133,320	97,606
Restatements		(182)
Additions:		
Subsequent expenditure	277	1,330
Disposals	(494)	-
Net gains/(losses) from fair value adjustments	2,144	25,224
Transfers		
(to)/from property, plant and equipment	(16,526)	9,342
Balance as at 31 March	118,721	133,320

Properties held under operating leases

18.3. The council holds a number of properties as lessee, held as operating leases, which are then sub-leased out as investment properties. The income and expenditure on these leases is included above in Note 18.1, but being operating leases, are not included with property, plant & equipment.

18.4. The properties held under operating leases are the industrial estates at Sandgate Street and Dockley Road, and workshops on Riley Road. The council also rents out property for shops, community, and commercial use, including the Surrey Quays Shopping Centre on Redriff Road.

19. INTANGIBLE ASSETS

19.1. The council accounts for software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted within the hardware item of property, plant and equipment. Intangible assets include both purchased licences and internally generated software.

19.2. The carrying amount of intangible assets is amortised on a straight-line basis, over a three year period. The amortisation of intangible assets is charged directly to the services using the software or, in the case of corporate wide systems, charged to central budgets and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

	2012/13 £000	2011/12 £000
Gross carrying amounts	6,369	6,369
Accumulated amortisation	(5,923)	(4,924)
Net carrying amount at start of year	446	1,445
Amortisation for the period	(446)	(999)
Net carrying amount at end of year	-	446
Comprising		
Gross carrying amounts	6,369	6,369
Accumulated amortisation	(6,369)	(5,923)
Balance as at 31 March	-	446

20. FINANCIAL INSTRUMENTS

20.1. The following categories of financial instrument assets are carried in the Balance Sheet:

	Long Term 31/3/13 £000	Long Term 31/3/12 £000	Short Term 31/3/13 £000	Short Term 31/3/12 £000
Investments				
Available for Sale	27,115	23,620	72,356	45,999
Loans & Receivables	-	-	21,301	79,054
Less Trust Funds	-	-	(1,468)	(1,547)
Total Investments	27,115	23,620	92,189	123,506
Debtors				
Loans and receivables	11,037	3,795	72,650	70,022
Total debtors	11,037	3,795	72,650	70,022
Cash and cash equivalents				
Cash and bank			(9,296)	(15,267)
Short term deposits			56,669	39,977
Total cash and cash equivalents			47,373	24,710

20.2. The following categories of financial instrument liabilities are carried in the Balance Sheet:

	Long Term 31/3/13 £000	Long Term 31/3/12 £000	Short Term 31/3/13 £000	Short Term 31/3/12 £000
Borrowings				
Financial Liabilities at Amortised Cost	(554,955)	(462,455)	(14,641)	(5,463)
Total Borrowings	(554,955)	(462,455)	(14,641)	(5,463)
Other Long Term Liabilities				
PFI and Finance Lease Liabilities	(93,554)	(107,331)		
Total Other Long Term Liabilities	(93,554)	(107,331)		
Creditors				
Financial Liabilities at Amortised Cost	(5,568)	(8,364)	(93,081)	(83,363)
Total Creditors	(5,568)	(8,364)	(93,081)	(83,363)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

20.3. The following table shows income, expense, gains and losses:

	2012/13				2011/12			
	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total	Financial Liabilities at Amortised Cost	Financial Assets - Loans and Receivables	Financial Assets - Available for Sale	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	33,226	-	-	33,226	52,559	-	-	52,559
Other Charges	121	-	-	121	65	-	-	65
De-recognition – Premiums HRA Self-financing Settlement	-	-	-	-	77,902	-	-	77,902
De-recognition – Premiums Debt financing	-	-	-	-	20,604	-	-	20,604
Total Expenses in Surplus or Deficit on the Provision of Services	33,347	-	-	33,347	151,130	-	-	151,130
Interest Income	-	(1,394)	(1,209)	(2,603)	-	(1,228)	(1,886)	(3,114)
Less Allocated to Other Funds	-	13	-	13	-	13	-	13
Total Income in Surplus or Deficit on the Provision of Services	-	(1,381)	(1,209)	(2,590)	-	(1,215)	(1,886)	(3,101)
Surplus/(deficit) arising on revaluation of financial assets in other Comprehensive Income & Expenditure	-	-	137	137	-	-	(110)	(110)
Net Gain/(Loss) for Year	33,347	(1,381)	(1,072)	30,894	151,130	(1,215)	(1,996)	147,919

Fair values of assets and liabilities

20.4. The fair value of long term borrowing is assessed by calculating the present value of cash flows that will take place over the remaining term of the instrument, using the following assumptions: estimated discount rate at balance sheet date and no early repayment or impairment.

20.5. The fair value short term borrowing, creditors and other long term liabilities approximates to the carrying amount.

20.6. The available for sale long and short term investments are shown at fair value, based on public price quotations where there is an active market for the instrument. The fair value of loans and receivable investments and debtors approximates to the carrying amount.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

	Carrying amount £000	31/3/13 Fair value £000	Carrying amount £000	31/3/12 Fair value £000
Fair values of Assets and Liabilities				
Financial liabilities – long term	(559,955)	(767,572)	(462,455)	(649,890)
Financial liabilities – short term	(9,641)	(9,641)	(5,463)	(5,463)
Creditors – long term	(5,568)	(5,568)	(8,364)	(8,364)
Creditors – short term	(93,081)	(93,081)	(83,363)	(83,363)
Other long term liabilities	(93,554)	(93,554)	(107,331)	(107,331)
Investments – long term	27,115	27,115	23,620	23,620
Investments – short term	139,562	139,562	148,216	148,216
Debtors – long term	11,037	11,037	3,795	3,795
Debtors – short term	72,650	72,650	70,022	70,022
Net Total	(511,435)	(719,052)	(421,323)	(608,758)

20.7. Long term borrowings falling for repayment in the future:

	31/3/13 £000	31/3/12 £000
Less than 1 year	5,000	-
Between 1 and 5 Years	102,104	82,104
Between 5 and 10 Years	69,029	30,751
Between 10 and 20 Years	159,481	123,163
Over 20 Years	224,341	226,437
Total borrowings	559,955	462,455

21. DEBTORS

	31/3/13		31/3/12	
	Short Term Debtors £000	Long Term Debtors £000	Short Term Debtors £000	Long Term Debtors £000
Central government bodies	17,627	-	18,921	-
Other local authorities	15,532	-	5,697	-
NHS bodies	880	-	1,036	-
Public corporations and trading funds	133	-	11	-
Other entities and individuals	88,043	11,037	93,640	3,795
Total before impairment	122,215	11,037	119,305	3,795
Impairment	(44,980)	-	(42,891)	-
Total net of impairment	77,235	11,037	76,414	3,795

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

22. CASH AND CASH EQUIVALENTS

22.1. The balance of cash and cash equivalents is made up of the elements set out below. Bank overdrafts are included in cash and cash equivalents as they are an integral part of the day-to-day cash management of the council.

	31/3/13 £000	31/3/12 £000
Cash held by the council	17	12
Bank current accounts	(9,313)	(15,279)
Short term deposits with banks	56,669	39,977
Total cash and cash equivalents	47,373	24,710

23. ASSETS HELD FOR SALE

	Current 2012/13 £000	Current 2011/12 £000	Non Current 2012/13 £000	Non Current 2011/12 £000
Balance as at 1 April	36,308	30,707	152,582	88,605
Assets newly classified as held for sale:				
Additions	-	25	-	1,161
Transfers between Non-Current Assets and Current Assets Held for Sale during the year	2,495	33,037	(2,495)	(33,037)
Transfers from Property, Plant & Equipment	20,770	28,262	(101,289)	92,064
Revaluation gains/(losses) taken to Surplus or Deficit on the Provision of Services	(980)	(19,855)	(57)	(1,914)
Other revaluation gains/(losses)	-	(3,668)	-	9,823
Assets sold	(25,460)	(32,200)	(7,555)	(4,120)
Balance as at 31 March	33,133	36,308	41,186	152,582

24. CREDITORS

	Short Term Creditors £000	31/3/13 Long Term Creditors £000	Short Term Creditors £000	31/3/12 Long Term Creditors £000
Central government bodies	7,238	-	14,356	-
Other local authorities	10,780	-	7,212	-
NHS bodies	374	-	2,878	-
Public corporations and trading funds	59	-	134	-
Other entities and individuals	87,258	5,568	70,124	8,364
Total	105,709	5,568	94,704	8,364

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

25. PROVISIONS

	Balance as at 1 April 2012 £000	Increase in provision during year £000	Utilised during year £000	Unused amounts reversed £000	Balance as at 31 March 2013 £000
Long term provisions					
Insurance claims (note 25.1)	7,796	5,509	(2,764)	-	10,541
Legal advice – Court of Protection hearing	150	-	-	-	150
Refund of charges for services provided under s117 of the Mental Health Act 1983	353	-	-	(353)	-
Total	8,299	5,509	(2,764)	(353)	10,691
Current provisions					
HMRC claim	54	-	-	(54)	-
Settlement of school leasing contracts	81	-	-	-	81
Employment termination costs	1,656	67	(1,046)	-	677
Legal settlement – Health & Community Services	43	-	-	(43)	-
Legal advice – Court of Protection hearing	62	-	-	-	62
Refund of charges for services provided under s117 of the Mental Health Act 1983	353	-	-	(353)	-
Carbon reduction commitment	422	414	(336)	(86)	414
Housing contractual dispute	419	-	(419)	-	-
Total	3,090	481	(1,801)	(536)	1,234

25.1. The insurance claims provision represents the estimated liability of insurance claims awaiting settlement. Because of their nature, it is not possible to state with any certainty when claims are likely to be settled.

25.2. As a creditor to Mutual Municipal Insurance Limited (MMI), the council is part of a “scheme of arrangement” which allows MMI to claw back claims paid on behalf of scheme creditors from 1 October 1992. The council has been aware of this risk and has held monies in the insurance reserve to cover it. In November 2012, the directors of MMI “triggered” the scheme of arrangement and Ernst & Young, the appointed scheme administrator, has advised the council that it intends to impose a 15% levy to claw back claims. For the council, this amounts to £1.007 million, which forms part of the increase in provision during the year.

26. USABLE RESERVES

26.1. Movements in the council’s usable reserves are detailed in the Movement in Reserves statement on page 15. Reserves are set aside against the General Fund, Housing Revenue Account (HRA) and schools, each of which are subject to restrictions in their use and separate legal duties. A detailed analysis of General Fund earmarked reserves is provided in notes 7 to 11 and of schools balances in note 12. Further analysis of the HRA balance and Major Repairs Reserve is set in notes 7 and 8 to the HRA statements.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

27. UNUSABLE RESERVES

27.1. Unusable reserves are those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. The Unusable Reserves comprise:

	2012/13 £000	2011/12 £000
Capital Adjustment Account	1,990,254	1,850,101
Financial Instruments Adjustment Account	(26,383)	(26,923)
Revaluation Reserve	427,047	411,097
Available for Sale Financial Instruments Reserve	97	234
Pensions Reserve	(678,721)	(596,071)
Deferred Capital Receipts	7,219	-
Collection Fund Adjustment Account	1,329	(91)
Accumulating Compensated Absences Adjustment Account	(6,869)	(6,908)
Total Unusable Reserves	<u>1,713,973</u>	<u>1,631,439</u>

Capital Adjustment Account

27.2. The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

	2012/13 £000	2012/13 £000	2011/12 £000	2011/12 £000
Balance at 1 April		1,850,101		1,789,171
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(72,222)		(197,001)	
Revaluation losses on Property Plant & Equipment	52,892			
Amortisation of intangible assets	(446)		(999)	
Revenue expenditure funded from capital under statute	(27,820)		(62,936)	
Movements in the market value of Investment Properties	2,144		12,712	
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(40,983)		(69,499)	
Amounts of non current PFI liability written off as part of the gain/loss on derecognition to the Comprehensive Income and Expenditure Statement	1,317			
Derecognition of PFI non-current assets	<u>-</u>		<u>(35,252)</u>	
		(85,118)		(352,975)
Transfers from reserves re lease accounting	-		277	
Adjusting amounts written out of the Revaluation Reserve re disposals	33,313		54,366	
Adjusting amounts written out of the Revaluation Reserve re the difference between fair value depreciation and historical cost depreciation	<u>7,857</u>		<u>9,989</u>	
Net written out amount of the cost of non current assets consumed in the year		41,170		64,632
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	43,630		55,864	
Use of the Capital Receipts Reserve to repay debt under the HRA self-refinancing	-		199,254	
Use of the Major Repairs Reserve to finance new capital expenditure	48,530		3,793	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	60,852		53,773	
Application of grants to capital financing from the Capital Grants Unapplied Account	4		8,588	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	14,108		5,011	
Capital expenditure charged against the General Fund and HRA balances	<u>16,977</u>		<u>22,990</u>	
		184,101		349,273
Balance at 31 March		<u>1,990,254</u>		<u>1,850,101</u>

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Financial instruments adjustment account

27.3. The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

27.4. Amongst the transactions on this account are premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the account in the Movement in Reserves Statement. Over time the expense is posted back to the Comprehensive Income and Expenditure Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the Account at 31 March 2013 includes £16.744 million (£17.525 million at 31 March 2012) to be discharged to the HRA over each year until 2050/51, and £6.404 million (£6.645) million to be discharged to the General Fund over each year until 2055/56.

	2012/13 £000	2011/12 £000
Balance at 1 April	(26,923)	(7,753)
New premiums incurred in the year		(20,604)
Proportion of premiums to be charged against the General Fund Balance in accordance with statutory requirements	1,023	1,409
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(483)	25
Balance at 31 March	(26,383)	(26,923)

Revaluation reserve

27.5. The Revaluation Reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

27.6. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2012/13 £000	2012/13 £000	2011/12 £000	2011/12 £000
Balance at 1 April		411,097	-	256,267
Upward revaluation of assets	71,312		291,646	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(14,192)		(72,461)	
Total of surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		57,120		219,185
Adjusting amounts written to the Capital Adjustment Account re disposals and restatements		(33,313)		(54,366)
Difference between fair value depreciation and historical cost depreciation		(7,857)		(9,989)
Balance at 31 March		427,047		411,097

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Available for Sale Financial Instruments Reserve

27.7. The Available for Sale Financial Instruments Reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

	2012/13 £000	2011/12 £000
Balance at 1 April	234	124
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	(137)	110
Balance at 31 March	97	234

Pensions Reserve

27.8. The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13 £000	2011/12 £000
Balance at 1 April	(596,071)	(456,274)
Actuarial (gains)/losses on pensions assets and liabilities	(70,844)	(133,724)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(11,806)	(6,073)
Balance at 31 March	(678,721)	(596,071)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Deferred Capital Receipts Reserve

27.9. The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2012/13 £000	2011/12 £000
Balance at 1 April	-	-
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,219	-
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-
Balance at 31 March	7,219	-

Collection Fund Adjustment Account

27.10. The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2012/13 £000	2011/12 £000
Balance at 1 April	(91)	(106)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,420	15
Balance at 31 March	1,329	(91)

Accumulating Compensated Absences Adjustment Account

27.11. The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012/13 £000	2011/12 £000
Balance at 1 April	(6,908)	(7,183)
Settlement or cancellation of accrual made at the end of the preceding year	6,908	7,183
Amounts accrued at the end of the current year	(6,869)	(6,908)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		39
Balance at 31 March	(6,869)	(6,908)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

28. CASH FLOW FROM OPERATING ACTIVITIES

	2012/13 £000	2011/12 £000
Adjustment to surplus or deficit on the provision of services for non cash movements		
Depreciation	69,963	59,473
Impairment & downward valuation	(52,115)	124,588
Amortisation	446	999
Increase/(decrease) in impairment for bad debts	2,089	(3,713)
Increase/(decrease) in creditors	8,208	(9,450)
(Increase)/decrease in debtors	(10,151)	25,283
(Increase)/decrease in inventories	146	(36)
Movement in pension liability	11,806	6,073
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	39,718	69,499
Other non-cash items charged to the net surplus or deficit on the provision of services	(4)	(83,808)
	70,106	188,908
	70,106	188,908
	2012/13 £000	2011/12 £000
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(49,904)	(48,677)
Capital grants included in "Taxation & non-specific grant income"	(66,598)	(53,773)
Total	(116,502)	(102,450)
	(116,502)	(102,450)

28.1. The cash flows from operating activities include the following amounts:

	2012/13 £000	2011/12 £000
Interest received	(2,503)	(3,142)
Interest paid	37,699	59,980
Net interest	35,196	56,838
	35,196	56,838

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

29. CASH FLOW FROM INVESTING ACTIVITIES

	2012/13 £000	2011/12 £000
Purchase of PP&E, investment property and intangible assets	(320,707)	(145,008)
Proceeds from the sale of PP&E, investment property and intangible assets	49,904	48,677
Proceeds from sale of short and long term investments (not considered to be cash equivalents)	27,820	27,147
Capital grants and contributions received	101,517	71,472
Net cash flows from Investing Activities	(141,466)	2,288

29.1. Short and long term investments are instruments held as part of the cash management activities of the council, not as an investment activity in its own right. The figures above are the net movements in investments held, not gross purchases and sales.

30. CASH FLOWS FROM FINANCING ACTIVITIES

	2012/13 £000	2011/12 £000
Cash receipts of short and long term borrowing	100,000	-
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(10,441)	(1,004)
Repayments of short and long term borrowing	(2,500)	(100,000)
Other payments for financing activities	-	(20,604)
Net Cash flows from Financing Activities	87,059	(121,608)

31. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

31.1. The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the council's Cabinet on the basis of budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- charges for depreciation and defined benefit schemes (IAS19) are reported on an estimated rather than actual basis
- charges for revaluation and impairment losses, gains and losses on disposal of assets and accumulated absences are not reported.

31.2. The income and expenditure of the council's principal services recorded in the budget reports for the year is as follows:

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2012/13

	Children's services	Adult social care	Environment & Leisure	Housing & Community Services	Chief executive's department	Finance & corporate services	HRA	Support cost recharges	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(14,434)	(8,731)	(24,818)	(5,942)	(8,303)	(10,812)	(257,934)	-	(330,974)
Government grants	(227,594)	(21,955)	(6,762)	(1,253)	(855)	(268,782)	-	-	(527,201)
Total income	(242,028)	(30,686)	(31,580)	(7,195)	(9,158)	(279,594)	(257,934)	-	(858,175)
Employee expenses	175,733	15,438	41,036	10,369	17,825	24,594	23,218	-	308,213
Other service expenses	133,770	108,329	51,511	34,905	8,425	279,231	215,513	(1,018)	830,666
Support service recharges	10,680	6,353	11,623	1,586	3,033	8,504	14,936	(56,715)	-
Total expenditure	320,183	130,120	104,170	46,860	29,283	312,329	253,667	(57,733)	1,138,879
Net expenditure	78,155	99,434	72,590	39,665	20,125	32,735	(4,267)	(57,733)	280,704

31.3. The comparative data for 2011/12 has been restated where applicable, to reflect the income and expenditure by department as if the departmental structures in 2012/13 had been in place during 2011/12.

	Children's services	Adult social care	Environment & Leisure	Housing & Community Services	Chief executive's department	Finance & corporate services	HRA	Support cost recharges	Total
	£000	£000	Restated £000	Restated £000	Restated £000	Restated £000	£000	£000	£000
Fees, charges and other service income	(14,087)	(17,296)	(23,106)	(7,193)	(8,586)	(10,201)	(243,112)	-	(323,581)
Government grants	(226,570)	(2,270)	(5,736)	-	(1,107)	(305,740)	(304,202)	-	(845,625)
Total income	(240,657)	(19,566)	(28,842)	(7,193)	(9,693)	(315,941)	(547,314)	-	(1,169,206)
Employee expenses	182,876	15,083	39,427	9,870	17,821	30,359	30,293	-	325,729
Other service expenses	176,931	105,607	68,156	36,289	33,075	238,898	502,306	(1,060)	1,160,202
Support service recharges	13,667	7,194	14,985	-	6,001	10,026	14,715	(66,588)	-
Total expenditure	373,474	127,884	122,568	46,159	56,897	279,283	547,314	(67,648)	1,485,931
Net expenditure	132,817	108,318	93,726	38,966	47,204	(36,658)	-	(67,648)	316,725

31.4. The reconciliation below shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13	2011/12
Net expenditure in the service analysis	280,704	316,725
Amounts included in the service analysis not included in Cost of Services within the Comprehensive Income and Expenditure Statement	(77,724)	129,054
Amounts not reported to management for decision making	33,570	(3,687)
Cost of Services in the Comprehensive Income and Expenditure Statement	236,550	442,092

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

31.5. This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012/13	Service analysis Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Allocation of recharges	Cost of services	Corporate Amounts	Total	
	£000	£000	£000	£000	£000	£000	
Fees, charges and other service income	(322,437)	606	-	3,438	(318,393)	-	(318,393)
Interest and investment income	(11,975)	-	11,975	-	-	(13,114)	(13,114)
Income from council tax	-	-	-	-	-	(92,540)	(92,540)
Government grants and contributions	(527,201)	3,786	9,760	-	(513,655)	(297,124)	(810,779)
Total income	(861,613)	4,392	21,735	3,438	(832,048)	(402,778)	(1,234,826)
Employee expenses	328,729	(4,877)	5,113	(21,635)	307,330	-	307,330
Other service expenses	836,513	12,668	(74,922)	(33,494)	740,765	2,617	743,382
Support service recharges	(56,715)	-	-	56,715	-	-	-
Depreciation, amortisation impairment and revaluations	8,743	21,387	(4,603)	(5,024)	20,503	(2,144)	18,359
Interest payments	33,355	-	(33,355)	-	-	41,620	41,620
Pensions interest cost & expected return on assets	1,120	-	(1,120)	-	-	12,479	12,479
Precepts and levies	1,641	-	(1,641)	-	-	1,640	1,640
Payments to the Housing Capital Receipts Pool	-	-	-	-	-	3,039	3,039
Gain or loss on disposal of fixed assets	(11,069)	-	11,069	-	-	(16,489)	(16,489)
Total expenditure	1,142,317	29,178	(99,459)	(3,438)	1,068,598	42,762	1,111,360
	-	-	-	-	-	-	-
Surplus or deficit on the provision of services	280,704	33,570	(77,724)	-	236,550	(360,016)	(123,466)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2011/12	Service analysis Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Allocation of recharges	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(307,105)	(1,764)	(911)	(4,394)	(314,174)	-
Interest and investment income	(12,067)	-	12,067	-	-	(12,067)
Income from council tax	(15)	-	15	-	-	(90,246)
Government grants and contributions	(845,625)	2,230	338,385	-	(505,010)	(573,359)
Total income	(1,164,812)	466	349,556	(4,394)	(819,184)	(675,672)
Employee expenses	306,066	(4,217)	3	19,663	321,515	(3)
Other service expenses	906,864	(2,107)	(267,574)	51,319	688,502	2,780
Support service recharges	66,588	-	(247)	(66,588)	(247)	247
Depreciation, amortisation impairment and revaluations	22,684	2,171	226,651	-	251,506	(3,608)
Interest payments	150,883	-	(150,883)	-	-	154,335
Pensions interest cost & expected return on assets	-	-	-	-	-	9,784
Precepts and levies	1,642	-	(1,642)	-	-	1,642
Payments to the Housing Capital Receipts Pool	1,584	-	(1,584)	-	-	1,584
Gain or loss on disposal of fixed assets	25,226	-	(25,226)	-	-	21,031
PFI derecognition	-	-	-	-	-	35,252
Total expenditure	1,481,537	(4,153)	(220,502)	4,394	1,261,276	223,044
Surplus or deficit on the provision of services	316,725	(3,687)	129,054	-	442,092	(452,628)

32. TRADING OPERATIONS

32.1. The list below includes operations of the council run on a trading account basis. The profit or loss figures are presented on an IAS 19 basis. Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. The expenditure of these operations is charged to services within the Net Operating Expenditure of Continuing Operations and the net profit or loss on trading operations is charged as Financing and Investment Income and Expenditure (see Note 14).

	Turnover 2012/13 £000	(Profit)/Loss 2012/13 £000	Turnover 2011/12 £000	(Profit)/Loss 2011/12 £000
Building	(10,027)	-	(8,085)	(19)
Street & Metal Work Services	-	-	(3,129)	2
Vehicle Management (Fleet)	-	-	(5,136)	(3)
Total	(10,027)	-	(16,350)	(20)

32.2. Street & metal work services and fleet services ceased operating as trading units from 1 April 2012, and the costs of these activities are now included with the council's net cost of services. Building services' turnover is net of a £805,000 rebate to the council's HRA account (£386,000 in 2011/12).

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

33. POOLED BUDGETS

33.1. The council and Southwark Primary Care Trust operate pooled fund arrangement for the Integrated Community Equipment Service (ICES). The council is the lead authority for the arrangement. Each party accounts separately for its share of the income, expenditure, assets and liabilities of the pooled funds, including any under or overspend at the year-end. This arrangement was set up under Section 31 of the Health Act 1999, which has now been repealed and replaced by Section 75 of the National Health Service Act 2006, which has consolidated NHS legislation. The pooled budget arrangement continues as if made under the new powers. The memorandum account below brings together the income and expenditure for the ICES pooled arrangement:

Integrated Community Equipment Service	2012/13	2011/12
	£000	£000
Income		
Council	(1,156)	(1,156)
Southwark Primary Care Trust	(289)	(289)
	<u>(1,445)</u>	<u>(1,445)</u>
 Expenditure	 1,817	 1,542
 Net over/(under) spend	 <u>372</u>	 <u>97</u>
 Shared as follows:		
Council	116	60
Southwark Primary Care Trust	256	37
	<u>372</u>	<u>97</u>

33.2. From 1 April 2013, Southwark Primary Care Trust ceases to exist and is replaced with the Southwark Clinical Commissioning Group, who will continue with the current arrangement for the ICES.

34. MEMBERS' ALLOWANCES

34.1. The amount of members' allowances and expenses paid in 2012/13 was £1,230,176 (£1,265,215 in 2011/12).

35. OFFICERS' REMUNERATION

35.1. The council is required by the Accounts and Audit Regulations to disclose remuneration information of its senior employees. Senior officers comprise the Chief Officer Team, which is made of the Chief Executive and four Strategic Directors. This senior officer structure was put in place during 2012/13 following a major restructuring that reduced the size of that team in line with targets set for a reduction in the costs of senior management agreed by Council Assembly in February 2012. The following table sets out the remuneration for senior officers

	2012/13		2011/12	
	Total	Council's	Total	Council's
	remuneration	contributions	remuneration	contributions to
		to the Pension		the Pension
		Fund		Fund
Postholder	£	£	£	£
Chief Executive - E Kelly	159,435	23,118	154,270	22,369
Strategic Director of Environment & Leisure - D Collins	150,320	20,374	148,633	20,082
Strategic Director of Housing & Community Services – G Scott	141,496	19,701	139,656	19,434
Strategic Director of Finance & Corporate Services - D Whitfield	141,496	19,701	139,564	19,421
Strategic Director of Children's & Adult Services - R Bowen	112,292	16,282	103,687	15,034

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

35.2. Notes to the above table:

- Total remuneration figures are gross pay before individuals' contributions to the Pension Fund. They include basic salary plus any contracted additions paid during the financial year including flexible benefits and performance related pay where applicable. No performance related pay was awarded to senior officers disclosed in note 35.1 in 2012/13 or 2011/12.
- Remuneration and pension costs reflect actual payments and contributions made in the financial year
- The Strategic Director of Environment & Leisure's remuneration includes payments of £4,183 (£4,510 in 2011/12) for additional duties as the council's returning officer
- During 2012/13, the council's senior management was streamlined. From 1 October 2012 the three posts of strategic director, health and community services, strategic director of communities, law and governance and deputy chief executive were deleted and the responsibilities of those posts re-allocated across the smaller team. The posts of strategic director, children's services and finance director have been renamed strategic director, children's and adults services and strategic director of finance and corporate services respectively. As part of this rationalisation, G Davies, the Strategic Director of Environment and Leisure and S White, the Strategic Director of Health and Community Services left the council's employment on 31 August 2012 and 30 September 2012 respectively. During the year:
 - G Davies received remuneration of £69,258 (£153,756 in 2011/12), payment in lieu of notice of £37,736 and compensation for loss of office of £113,210. The council made pension contributions of £8,780 (£21,478 in 2011/12).
 - S White received remuneration of £73,068 (£148,854 in 2011/12), and compensation for loss of office of £83,607, and the council made pension contributions of £256 (£20,768 in 2011/12). NHS Southwark met 50% of all S White's remuneration costs shown here.

35.3. During 2012/13 the council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

Band (£)	Number of employees		Number of employees 2011/12
	Schools	Non schools	
50,000 - 54,999	88	80	168
55,000 - 59,999	69	74	143
60,000 - 64,999	24	23	47
65,000 - 69,999	24	43	67
70,000 - 74,999	25	7	32
75,000 - 79,999	13	15	28
80,000 - 84,999	11	10	21
85,000 - 89,999	5	4	9
90,000 - 94,999	3	5	8
95,000 - 99,999	3	4	7
100,000 - 104,999	1	1	2
105,000 - 109,999	2	3	5
110,000 - 114,999	1	2	3
115,000 - 119,999	2	-	2
120,000 - 124,999	-	-	-
130,000 - 134,999	1	-	1
135,000 - 139,999	-	-	-
Total	272	271	543

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

36. EXTERNAL AUDIT COSTS

36.1. The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections, and for non-audit services provided by the council's external auditors:

	2012/13 £000	2011/12 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	299	523
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	48	103
Fees payable in respect of other services provided by the appointed auditor during the year (see Note 36.3)	23	50
Total	370	676

36.2. The appointed auditor for 2012/13 was Grant Thornton UK LLP, who took over from the Audit Commission. The fee above is net of a £28,000 rebate from the Audit Commission.

36.3. Other services provided by the appointed auditor included fees relating to dealing with objections to the Accounts (£21,000), and National Fraud Initiative (£2,000).

36.4. Fees payable with regard to the audit of the Pension Fund, of £19,000 (net of £2,000 rebate from the Audit Commission) for 2012/13 (£32,000 2011/12), are met directly by the Pension Fund and are not included in the above table.

37. DEDICATED SCHOOLS GRANT

37.1. The council's expenditure on schools is funded primarily by grant moneys provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

37.2. Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure	Individual Schools Budgets	Total	Total
	£000	£000	2012/13 £000	2011/12 £000
Final DSG before academy recoupment	(27,076)	(197,343)	(224,419)	(219,232)
Academy figure recouped	-	34,423	34,423	24,820
Total DSG after academy recoupment	(27,076)	(162,920)	(189,996)	(194,412)
Brought forward from previous year	(7,373)	-	(7,373)	(4,819)
Agreed budgeted distribution	(34,449)	(162,920)	(197,369)	(199,231)
Actual central expenditure	27,106	-	27,106	28,656
Actual ISB deployed to schools	-	162,920	162,920	163,202
Local Authority Contribution	-	-	-	-
Carry forward including agreed in advance	(7,343)	-	(7,343)	(7,373)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

38. GRANT INCOME

38.1. The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2012/13 £000	2011/12 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(4,128)	(54,966)
Council Tax freeze grant	(2,281)	(2,257)
New homes bonus grant	(4,762)	(3,010)
Local services support grant	(2,177)	(2,181)
Other grants individually less than £1 million	(540)	(9)
HRA self financing settlement	-	(277,156)
Capital Grants and Contributions	(66,500)	(53,773)
Sub total	(80,388)	(393,352)
Credited to Services		
Dedicated Schools Grant	(190,079)	(194,586)
Housing Benefits Subsidy – HRA Rent Rebates	(113,306)	(105,514)
Housing Benefits Subsidy - Rent Allowances	(103,837)	(98,947)
Housing Benefits Subsidy - Non HRA Rent Rebates	(4,486)	(3,996)
Council Tax Benefit Subsidy	(27,705)	(28,011)
Housing Benefit and Council Tax Benefit Administration	(4,234)	(4,240)
Early intervention	(20,479)	(19,485)
Department of Health Care Grant	(14,248)	-
Pupil premium grant	(8,005)	(3,998)
The Private Finance Initiative (PFI)	(7,190)	(2,776)
Department of Health funding to support social care	(4,111)	-
Young People's Learning Agency	(2,071)	(2,228)
Department of Health Winter Pressures Funding	(1,971)	-
Reablement grant	(1,816)	-
Adult Safeguarded Learning	(1,733)	-
Tackling Troubled Families	(1,173)	-
Transforming Social Care	(1,096)	-
Housing Subsidy	-	(25,351)
NHS Section 256 funding	-	(4,284)
Learning disability health and reform grant	-	(2,270)
Standards Fund	-	(1,617)
Other grants individually less than £1 million	(11,613)	(9,954)
Sub total	(519,153)	(507,257)
Total	(599,541)	(900,609)

38.2. The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the moneys or property to be returned to the giver. These revenue grants, held as receipts in advance are:

	2012/13 £000	2011/12 £000
Justice reinvestment project	(514)	-
Drug Interventions Programme	(209)	(133)
Skills Funding Agency	(208)	-
Bed in shed scheme	(163)	-
Warm home project	(129)	-
TFL Southwark Road Bridge project	(103)	-
Social Care Reform Grant	-	(4,796)
DOH Winter pressures funding	-	(991)
Adult learning	-	(260)
Other grants individually less than £100,000	(257)	(55)
Balance as at 31 March	(1,583)	(6,235)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

38.3. Capital grants received in advance and applied towards capital expenditure were:

	2012/13 £000	2011/12 £000
Balance as at 1 April	(63,807)	(46,108)
New capital grants received in advance	(101,517)	(71,472)
Amounts released to the Comprehensive Income and Expenditure Account (conditions met)	66,598	53,773
Balance as at 31 March	<u>(98,726)</u>	<u>(63,807)</u>

38.4. The balance of capital grants unapplied remaining as receipts in advance were:

	2012/13 £000	2011/12 £000
South East London Housing Project	(1,869)	(3,880)
Planning Gains	(74,967)	(37,266)
Lottery Funds	(1,103)	(1,247)
Cleaner Greener, Safer	(276)	(276)
Department of Health	(1,050)	(1,050)
Education	(18,754)	(18,107)
Transport for London	(134)	(134)
Greater London Authority	(320)	(1,652)
Decent Homes Reserve	(243)	-
Other balances less than £100,000	(10)	(195)
Balance as at 31 March	<u>(98,726)</u>	<u>(63,807)</u>

39. RELATED PARTY TRANSACTIONS

39.1. The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. In identifying potential related party interests for councillors, the register of members' interests has been viewed, and for Chief Officers, direct confirmation has been sought and obtained. Related party interests for which transactions exist in 2012/13 were declared by 26 councillors and no chief officers:

- with voluntary bodies or charitable organisations that received funding totalling £2.1 million (£1.3 million in 2011/12)
- with businesses or other organisations that have contracted for goods and services with the council to the value of £2.1 million (£1.9 million in 2011/12). The most significant organisation is Southwark Community Leisure Limited, which operates the Council's leisure centres and was paid £2.0 million in 2012/13 (£1.9 million in 2011/12). The Council has a related party interest through its appointment of three councillors to the management board each year.

39.2. The government is a related party for the council, by virtue of the influence it can exert through the level of grant funding it provides. Grants received from government departments during the year and receipts outstanding at 31 March 2013 are set out in Note 38 to the accounts.

39.3. The Pension Fund is also a related party and the council charged the fund £0.8 million (£0.9 million in 2011/12) for expenses incurred in administering the Pension Fund.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

40. CAPITAL EXPENDITURE AND CAPITAL FINANCING

40.1. The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2012/13 £000	2011/12 £000
Opening Capital Financing Requirement	685,289	807,093
Direct capital expenditure in year		
Property, Plant & Equipment	320,430	213,416
Investment Properties	277	-
Intangible Assets	-	-
Revenue expenditure funded from capital under statute	27,266	15,800
Total capital investment	347,973	229,216
Sources of capital finance		
Capital receipts	(41,927)	(55,864)
Government grants and other contributions	(60,953)	(62,361)
Direct revenue contributions	(18,120)	(22,990)
Major Repairs Reserve	(48,530)	(3,793)
Minimum Revenue Provision	(4,939)	(4,383)
Repayment of finance and PFI/PPP liabilities	(10,488)	(2,375)
HRA Self-financing Settlement	-	(199,254)
Total capital investment financed	(184,957)	(351,020)
Closing Capital Financing Requirement	848,305	685,289
Explanation of movement		
Movement in underlying borrowing	163,016	(6,758)
Assets acquired under finance leases	-	1,220
Assets acquired under PFI/PPP contracts	-	82,988
HRA Self-financing Settlement	-	(199,254)
Net movement in year	163,016	(121,804)

41. LEASES

The council as Lessee – finance leases

41.1. The council has finance leases for vehicles and office equipment such as photocopiers and IT equipment. The assets are included in Property, Plant & Equipment in the Vehicles, Plant, Furniture and Equipment category.

	2012/13 £000	2011/12 £000
Gross book value at 1 April	7,690	8,128
Additions in the year	-	1,221
Disposals in the year	-	(1,659)
	7,690	7,690
Accumulated depreciation	(6,742)	(6,032)
Net book value at 31 March	948	1,658

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

41.2. The minimum payments in 2012/13 under these leases are made up of:

	2012/13 £000	2011/12 £000
Finance lease liabilities		
Current year	799	785
Future years	1,068	1,077
Finance charges	155	327
Total payments to be made	2,022	2,189

41.3. The council has obligations to make minimum lease payments in future periods of:

Period due	31/3/13			31/3/12		
	Finance charges £000	Finance lease liabilities £000	Total £000	Finance charges £000	Finance lease liabilities £000	Total £000
Within 1 year	94	502	596	172	785	957
Within 2 to 5 years	61	566	627	155	1,077	1,232
After 5 years	-	-	-	-	-	-
Total	155	1,068	1,223	327	1,862	2,189

The council as Lessee – operating leases

41.4. The council uses a number of properties and vehicles under operating leases. Some of these property assets have been subleased, including the Sandgate and Dockley Road industrial estates.

41.5. The council also acquires accommodation from housing associations for those in housing need, under three year operating leases.

41.6. The assessment of vehicles under IFRS required some vehicle leases of five years or longer to be treated as finance leases. Leases for office equipment (e.g. photocopiers) have also been assessed as finance leases.

41.7. Expenditure charged to services in the CIES during the year in the use of operating leases:

	2012/13			2011/12		
	Land & buildings £000	Vehicles, plant & equipment £000	Total £000	Land & buildings £000	Vehicles, plant & equipment £000	Total £000
	Minimum lease payments	8,971	1,980	10,951	10,316	2,147
Less sub-lease payments	(878)	-	(878)	(1,099)	-	(1,099)
Total	8,093	1,980	10,073	9,217	2,147	11,364

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

41.8. The council has obligations to make minimum lease payments in future periods of:

	31/3/13		31/3/12			
	Land & buildings	Vehicles, plant & equipment	Land & buildings	Vehicles, plant & equipment		
	£000	£000	£000	£000		
Within 1 year	4,862	1,659	6,521	10,437	1,831	12,268
Within 2 to 5 years	7,687	1,896	9,583	40,323	2,918	43,241
After 5 years	21,936	-	21,936	146,333	-	146,333
Total	34,485	3,555	38,040	197,093	4,749	201,842

The council as Lessor – finance leases

41.9. The council holds no finance leases as lessor.

The council as Lessor – operating leases

41.10. The council has industrial and commercial units which it lets out. The largest industrial sites are on Sandgate Street and Dockley Road. It also lets out workshops on Riley Road.

41.11. The council also rents out property for shops, community, and commercial use, including the Surrey Quays Shopping Centre on Redriff Road.

41.12. The investment assets in the HRA are used as shops and community centres.

41.13. The future minimum rentals receivable under these leases are expected to be:

Period due	31/3/13	31/3/12
	£000	£000
Within 1 year	8,901	9,564
Within 2 to 5 years	23,395	23,931
After 5 years	103,984	107,444
Total due	136,280	140,939

42. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

42.1. Private finance initiatives and similar contracts typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time, in return for a series of payments over the period of the arrangement.

42.2. A contract is determined to meet the definition of a service concession arrangement where the following two tests are met:

- the council controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price
- the council controls any significant residual interest in the property at the end of the term of the arrangement (typically through ownership or beneficial entitlement).

42.3. The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, and
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

42.4. The council has identified four schemes to be accounted for as PFI or similar contracts and one future scheme:

- St Michael's is a new build voluntary aided secondary school, that became operational in January 2011. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd
- St Thomas is a new build voluntary aided secondary school, that became operational in February 2012. The school has been built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Balfour Beatty Education Ltd
- in addition to St Michael's and St Thomas, another new school is under development by 4 Futures Ltd, Sacred Heart Catholic School. This is also a voluntary-aided secondary school. Sacred Heart is expected to be operational in summer 2014. As the school is not yet operational, the liability to make capital repayments has not been recognised on the council's Balance Sheet
- on 11 February 2008 the council entered into a 25-year PFI contract with Veolia Environmental Services for the collection and disposal of waste in the borough. The £682 million contract will enable the council to deliver government targets for waste minimisation, landfill diversion and recycling. Veolia are to provide high specification facilities to receive transfer and treat waste under the PFI contract for a period of 25 years from the date of completion of a new facility at Old Kent Road, a site the council has leased to the company with effect from 9 September 2008
- four of the council's adult residential care homes are operated by an external contractor, Anchor Homes. The four homes are Rose Court, Greenhive, Blue Grove and Waterside. In March 2013, the council made an early repayment of the capital costs associated with the contract and this has cleared the long term liability relating to Anchor Homes and any interest payable.

42.5. The movements in liabilities resulting from PFI (or similar) contracts were as follows:

	St Michael's Catholic College	St Thomas the Apostle College	Integrated Waste Management Facility	Anchor Housing Trust	Total
	£000	£000	£000	£000	£000
Value at 1 April 2011	15,340	-	-	7,316	22,656
New liability incurred	60	18,721	64,207	-	82,988
Repayments made in year	-	-	-	(180)	(180)
Value at 31 March 2012	15,400	18,721	64,207	7,136	105,464
Balances at 1 April 2012	15,400	18,721	64,207	7,136	105,464
New liability incurred	-	635	-	-	635
Repayments made in year	(110)	-	(3,079)	(7,136)	(10,325)
Value at 31 March 2013	15,290	19,356	61,128	-	95,774

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

42.6. The following has been recognised in the balance sheet in respect of PFI (or similar) arrangements:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£000	£000	£000
Net Book Value at 1 April 2011	10,193	-	10,193
Additions	64,198	-	64,198
Transfers	-	-	-
Depreciation & Impairment	(254)	-	(254)
Revaluation	-	-	-
Disposal	-	-	-
Other	-	-	-
Net Book Value at 1 April 2012	74,137	-	74,137
Net Book Value at 1 April 2012	74,137	-	74,137
Additions	-	-	-
Transfers	(19,900)	19,900	-
Depreciation & Impairment	(1,195)	(796)	(1,991)
Revaluation	(973)	-	(973)
Disposal	-	-	-
Other	-	-	-
Net Book Value at 1 April 2013	52,069	19,104	71,173

42.7. The projected payments under the agreements are as follows:

	1 year	2-5 years	5-10 years	10-15 years	15-20 years	20+ years	Total
	£000	£000	£000	£000	£000	£000	£000
St Michael's Catholic College							
Liability	155	840	1,735	2,739	5,361	4,460	15,290
Interest	1,946	7,560	8,622	7,284	4,791	1,008	31,211
Service Charges	631	2,754	4,152	5,193	5,863	3,804	22,397
St Thomas the Apostle College							
Liability	(257)	1,377	2,816	3,670	6,235	5,515	19,356
Interest	1,985	7,808	8,725	7,093	4,705	1,081	31,397
Service Charges	1,203	2,720	3,457	4,359	5,028	3,592	20,359
Lifecycle Payments	2	102	678	1,387	1,483	1,395	5,047
Integrated Waste Management Facility							
Liability	3,134	12,922	16,526	15,335	13,211	-	61,128
Interest	3,154	11,051	10,168	6,493	2,952	-	33,818
Service Charges	18,758	76,702	104,434	117,391	134,726	-	452,011
Lifecycle Payments	-	1,350	4,956	14,627	17,690	-	38,623
Anchor Housing Trust							
Liability	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Service Charges	4,109	16,436	20,544	10,865	-	-	51,954
Sacred Heart (Estimates)							
Unitary Payments (estimates)	24	4,710	7,552	7,723	7,920	47,757	75,686

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

43. IMPAIRMENT LOSSES

43.1. During 2012/13 the council recognised impairment losses of £2.44 million in relation to an operational building severely damaged by fire. The recoverable amount of the building has been reduced to £0 in line with an assessment made by the Borough Valuer and the impairment loss charged to the Comprehensive Income and Expenditure Statement.

44. TERMINATION BENEFITS

Exit package cost band	Number of schools exit packages		Number of non schools exit packages		Total exit packages		Total cost of exit packages in each band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13 £	2011/12 £
£0-£20,000	33	55	134	262	167	317	1,227,840	3,060,280
£20,001-£80,000	10	7	25	109	35	116	975,314	3,388,467
£80,001-£160,000	-	-	2	-	2	-	196,817	-
Total	43	62	161	371	204	433	2,399,971	6,448,747

44.1. The council did not offer a voluntary severance scheme to its staff. Where staff left on redundancy the post that they occupied was subject to deletion or reduction; as such the council does not classify individuals' decisions to leave as either voluntary or compulsory redundancy, and there are no differences in payments.

44.2. At the balance sheet date, provisions of £0.677 million have been set aside to meet termination benefits costs not yet incurred of reorganisations already in progress at 31 March 2013 (£1.536 million at 31 March 2012).

45. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

45.1. Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

45.2. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of the council's Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

45.3. In 2012/13, the council paid £8.56 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 13.6% of pensionable pay (£9.09 million and 14.1% respectively in 2011/12). There were no contributions remaining payable at the year end.

45.4. The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 46 below.

46. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

46.1. As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

46.2. The council participates in two pension fund schemes, the London Borough of Southwark Pension Fund and the London Pension Fund Authority Pension Fund. Both are funded schemes, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension fund's liabilities with investment assets.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Transactions relating to post employment benefits

46.3. The council recognises the cost of retirement benefits in the comprehensive income and expenditure statement (CIES) when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the CIES and the General Fund balance via the Movement in Reserves Statement during the year:

	Council £000	LPFA £000	2012/13 Total £000	Council £000	LPFA £000	2011/12 Total £000
<i>Cost of services:</i>						
- current service cost	27,600	310	27,910	26,100	271	26,371
- past service costs	2,300	-	2,300	5,500	-	5,500
- settlements and curtailments	-	-	-	-	-	-
<i>Financing and investment income and expenditure</i>						
- interest cost	66,700	2,344	69,044	66,300	2,580	68,880
- expected return on scheme assets	(54,700)	(1,865)	(56,565)	(56,900)	(2,196)	(59,096)
Total post employment benefit charged to the Surplus or Deficit on the Provision of Services	41,900	789	42,689	41,000	655	41,655
<i>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</i>						
- actuarial gains and losses	65,799	4,545	70,344	129,500	4,224	133,724
- entity combination	500	-	500	-	-	-
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	108,199	5,334	113,533	170,500	4,879	175,379
<i>Movement in Reserves Statement</i>						
- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	41,900	789	42,689	41,000	655	41,655
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>						
- employers' contributions payable to the scheme	30,315	568	30,883	34,991	591	35,582

Assets and liabilities in relation to post employment benefits

46.4. Reconciliation of present value of the scheme liabilities:

	Council £000	LPFA £000	2012/13 Total £000	Council £000	LPFA £000	2011/12 Total £000
Opening balance at 1 April	1,393,400	52,439	1,445,839	1,229,400	48,139	1,277,539
Current service cost	27,600	310	27,910	26,100	271	26,371
Interest cost	66,700	2,344	69,044	66,300	2,580	68,880
Contributions by scheme participants	8,900	75	8,975	10,300	82	10,382
Actuarial gains and losses	126,500	6,641	133,141	101,600	4,217	105,817
Benefits paid	(44,700)	(3,072)	(47,772)	(45,800)	(2,850)	(48,650)
Past service costs	2,300	-	2,300	5,500	-	5,500
Entity combinations	1,400	-	1,400	-	-	-
Closing balance at 31 March	1,582,100	58,737	1,640,837	1,393,400	52,439	1,445,839

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

46.5. Reconciliation of fair value of the scheme assets:

	2012/13			2011/12		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Opening balance at 1 April	805,384	44,384	849,768	776,893	44,372	821,265
Expected rate of return	54,700	1,865	56,565	56,900	2,196	59,096
Actuarial gains and losses	60,701	2,096	62,797	(27,900)	(7)	(27,907)
Employer contributions	30,315	568	30,883	34,991	591	35,582
Contributions by scheme participants	8,900	75	8,975	10,300	82	10,382
Benefits paid	(44,700)	(3,072)	(47,772)	(45,800)	(2,850)	(48,650)
Entity combinations	900	-	900	-	-	-
Settlements	-	-	-	-	-	-
Closing balance at 31 March	916,200	45,916	962,116	805,384	44,384	849,768

46.6. The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets. The actual returns on scheme assets in the year were as follows:

Scheme	2012/13 £000	2011/12 £000
Council	110,000	29,000
LPFA	3,953	2,189
Total	113,953	31,189

46.7. The fair value of plan assets is shown in the following table. The asset values are at bid value as required by IAS19.

	Council	2011/12 £000	LPFA	2011/12 £000
	2012/13 £000		2012/13 £000	
Cash	21,967	12,162	459	887
Cashflow matching	-	-	14,234	14,199
Corporate bonds	89,698	94,053	-	-
Equities	600,427	492,966	6,428	5,768
Government bonds	91,528	89,999	-	-
Property	112,580	121,620	-	-
Target return portfolio	-	-	24,795	23,516
Other	-	-	-	-
Total	916,200	810,800	45,916	44,370

Scheme history

46.8. The present value of liabilities and fair value of plan assets over the past five years is shown in the following table.

Scheme	2012/13 £000	2011/2 £000	2010/11 £000	2009/10 £000	2008/09 £000
Council					
Present value of liabilities	1,582,100	1,393,400	1,229,400	1,400,600	1,017,500
Fair value of assets	916,200	805,384	776,893	743,279	574,821
Surplus/(Deficit) in the scheme	(665,900)	(588,016)	(452,507)	(657,321)	(442,679)
LPFA					
Present value of liabilities	58,737	52,439	48,139	64,367	44,416
Fair value of assets	45,916	44,384	44,372	38,944	36,833
Surplus/(Deficit) in the scheme	(12,821)	(8,055)	(3,767)	(25,423)	(7,583)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

- 46.9. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £1,641 million has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £679 million. However, statutory arrangements for funding the deficit mean that the council remains healthy. The deficit on both schemes will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries.
- 46.10. The total charges estimated by the actuaries for both schemes in the year to 31 March 2014 are as follows:

	Council £000	LPFA £000	Total £000
Service cost	33,000	385	33,385
Net interest on the defined liability (asset)	28,400	451	28,851
Administration expenses	800	70	870
Total	62,200	906	63,106

Basis for estimating assets and liabilities

- 46.11. Liabilities for the council scheme have been assessed by Aon Hewitt Limited, an independent qualified actuary, on an actuarial basis using the projected unit credit method. To assess the value of the liabilities for the LPFA scheme, the actuary to the LPFA Pension Fund, Barnett Waddingham, has rolled forward the value of the council's liabilities calculated for the triennial valuation as at 31 March 2010, allowing for the different financial assumptions required under IAS 19. The actuary estimates that the approach of rolling forward the previous valuation data to 31 March 2013 should not introduce any material distortions in the results provided that the actual experience of the council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation.

- 46.12. The principal assumptions used by the actuaries have been:

	Council 2012/13	2011/12	LPFA 2012/13	2011/12
Long term expected rate of return on assets in the scheme				
Cash	0.9%	1.8%	3.0%	3.0%
Cashflow matching	-	-	3.3%	4.4%
Corporate bonds	3.8%	3.7%	-	-
Equities	7.8%	8.1%	6.3%	7.2%
Government bonds	2.8%	3.1%	-	-
Property	7.3%	7.6%	-	-
Target return portfolio	-	-	4.5%	5.0%
Other	7.8%	8.1%	-	-
Mortality assumptions				
Longevity at 65 for current pensioners:				
Men (years)	21.3	21.2	19.8	19.7
Women (years)	26.0	25.9	23.0	22.9
Longevity at 65 for future pensioners:				
Men (years)	23.1	23.0	21.9	21.8
Women (years)	28.0	27.9	24.9	24.8
Principal financial assumptions				
Rate of inflation – RPI	3.7%	3.6%	3.2%	3.3%
Rate of inflation – CPI	2.8%	2.6%	2.4%	2.5%
Rate of increase in salaries	4.7%	5.1%	4.1%	4.2%
Rate of increase in pensions	2.8%	2.6%	2.4%	2.5%
Rate for discounting scheme liabilities	4.4%	4.8%	3.6%	4.6%
Take up of option to convert annual pension into retirement lump sum				
Whole entitlement	-	-	50.0%	50.0%
Pre 1 April 2010 entitlements	30.0%	30.0%	-	-
Post 31 March 2010 entitlements	70.0%	70.0%	-	-

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

History of experience gains and losses

46.13. The history of experience gains and losses is shown below

	2012/13 £000	2011/2 £000	2010/11 £000	2009/10 £000	2008/09 £000
Council					
Differences between the expected and actual return on assets	55,300	(27,900)	(20,500)	134,000	(193,500)
Experience gains and losses on liabilities	2,800	(8,500)	93,600	10,800	(3,600)
LPFA					
Differences between the expected and actual return on assets	2,087	(7)	5,058	2,677	(6,101)
Experience gains and losses on liabilities	-	-	5129	-	-
	%	%	%	%	%
Council					
Differences between the expected and actual return on assets	6.0%	(3.4%)	(2.6%)	17.9%	(33.6%)
Experience gains and losses on liabilities	0.2%	(0.6%)	7.6%	0.8%	(0.4%)
LPFA					
Differences between the expected and actual return on assets	4.5%	0.0%	11.4%	6.9%	(16.6%)
Experience gains and losses on liabilities	0.0%	0.0%	10.7%	0.0%	0.0%

47. OTHER LONG TERM LIABILITIES

47.1. Other long term liabilities represent the council's obligations to pay for presumed capital benefits received under long term contracts. The liabilities are:

	31/3/13 £000	31/3/12 £000
Payments due under finance leases	1,068	1,867
Payments due under PFI schemes and similar arrangements:		
Anchor Homes	-	7,136
St Michael's Catholic College	15,136	15,400
St Thomas the Apostle College	19,356	18,721
Integrated Waste Management Facility	57,994	64,207
Deferred rental due on leasing of building assets	664	3,329
Total	94,218	110,660

47.2. Details of payments due under finance leases and PFI schemes and similar arrangements are provided in notes 41 and 42 respectively.

48. CONTINGENT LIABILITIES

48.1. On 3 July 2009 there was a serious fire at Lakanal House (a block of council flats). Direct costs associated with the block and other dwellings in the borough are being met from existing budgets. Civil claims have been presented but potential costs are not possible to estimate at this time.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

49. CONTINGENT ASSETS

- 49.1. The council has entered into a major regeneration scheme at Canada Water, which will significantly improve the extent to which the area will be used and stimulate economic growth for the area, as well as adding significant value for existing business and the council's commercial partners in the scheme. The scheme involves two major partners, BDW Trading Limited (formerly known as Barratt Homes Limited), and British Land Canada Quays Limited (BLCQ) who are the Major Development Partner (MDP) of the council in regenerating the area. The scheme involves managing cash flow to reinvest resources in the regeneration area to meet council objectives and to create future value, by using the proceeds from the sales of assets, processed through the council's accounts. This enables the council to provide both funding and act as catalyst for others' funding of the scheme. Proceeds from the sales come back to the council at different times from the payments initially made by BDW, the amounts and timings as set out under contract in the development agreement. There are opportunities for significant overage at a later date, from both BDW and BLCQ. However, the timings and the amounts are uncertain as at this time, and will depend in part on market conditions. See also Note 51 below.
- 49.2. As a result of unlawful dumping on the council's property at Honor Oak Cemetery, the council instituted civil proceedings against three defendants. The action was successful and the defendants were ordered to pay the council £1.63 million in damages and approximately 60% of the council's costs. The council is now seeking to recover costs from the defendants.
- 49.3. A fire on Green Acre building site on 29 November 2009 caused damage to council buildings. Such damage is covered by the council's insurers with an excess on the policy of approximately £1 million. The council has joined insurers in a claim against Green Acres to recover the council's uninsured costs.

50. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

- 50.1. The council holds financial instruments in the normal course of its operations and therefore has exposure to liquidity, credit and market risks. The council has in place arrangements to control and report key financial instrument risks at both council and operational levels, as required by statutory regulations and guidelines, as well as the Treasury Management in the Public Services Code of Practice and the Prudential Code of Capital Finance in Local Authorities, both produced by the Chartered Institute of Public Finance and Accountancy.
- 50.2. Investments are managed prudentially, with capital preservation and liquidity being high priorities. Cash and investments are used to finance the council's working capital operations. Borrowing pays for capital spend incurred in previous years or due to occur in coming years.
- 50.3. Trade receivables arise from the carrying out of the council's functions and the provisions of goods and services.
- 50.4. The council does not trade in financial instruments or hold derivatives.
- Liquidity risk*
- 50.5. The council has access to long term loan facilities from the Public Works Loans Board to fund maturing debt and capital finance requirements. Investment may also be realised for working capital requirements.
- 50.6. The maturity profiles of council debt and investments at 31 March 2013 can be found in the Explanatory Foreword.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Credit risk

50.7. The council draws on credit ratings published by major rating agencies in assessing counterparties in which investments may be placed. A high priority is placed on capital preservation and is reflected in the high rating demanded from investment counterparties. Credit risk is further diversified by allocating investments across several counterparties, which include the UK government and supranational entities. The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2013 were:

Period remaining	Fitch Long Term Rating			Total
	AAA	AA+ to AA-	A+ to A	
2-5 years	7%			7%
1-2 years	9%			9%
Less than 1 year	14%	1%	69%	84%
Total	30%	1%	69%	100%

50.8. In the normal course of carrying out its responsibilities, the council is exposed to the potential risk of default from individuals, firms and organisations that it deals with. Credit is assessed prior to being granted in commercial transactions, for example commercial rents. Debts arising are actively managed and collection targets are used to raise receipts. Debt outstanding is pursued and in appropriate cases further credit is suspended. For some debts, a charge is placed on property, but the bulk of the exposure is unsecured and subject to credit risk and notably concentrated within the council's geographical boundary.

Market risk

50.9. The council has exposure to interest rate movements in its borrowing and investments.

50.10. Council borrowing outstanding at 31 March 2013 is at fixed rates, with an average maturity of 20 years and a modified duration of 12 years. The debt maturity profile is set out in the Explanatory Foreword. A 1% rise in rates at the Balance Sheet date lowers fair value by £84 million and a 1% fall raises it by £103 million. As debt is held at amortised cost there would be no impact on the Comprehensive Income and Expenditure Statement from such changes, unless the debt is extinguished. Legislation would then require the charge to be taken to the Financial Instruments Adjustment Account.

50.11. The overall average life of the council's investments is 0.6 years and the modified duration is 0.5 years. Within that, the available for sale investments have an average life of 0.9 years and a modified duration of 0.9 years. A 1% change in rates on available-for-sale investments at Balance Sheet date changes the fair value by £0.90 million, which is reflected in the Balance Sheet in the available for sale reserve. There is no impact on the Comprehensive Income and Expenditure Statement, unless the investment is realised. A 1% change in rates on loans and receivable investments at the Balance Sheet date changes the fair value by £0.05 million, but as these are held at amortised cost there is no impact on the Balance Sheet or the Comprehensive Income and Expenditure Statement.

50.12. Investments are held in short term deposits or certificate of deposits with major banks and building societies. Money is also held in money market funds and treasury bills, and investments of more than one year are usually held in UK government gilts or supranational bonds. The investments are managed by fund managers and an in-house operation. At 31 March 2013 two fund managers managed £101 million, and remainder was managed in-house.

Foreign exchange risk

50.13. The council has no financial assets or liabilities denominated in foreign currencies, and therefore has no exposure to losses arising from movements in exchange rates.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

51. JOINTLY CONTROLLED OPERATIONS (JCO)

- 51.1. The council has entered into a major regeneration scheme at Canada Water, which will significantly improve the extent to which the area will be used and stimulate economic growth for the area, as well as adding significant value for existing business and the council's commercial partners in the scheme. The scheme involves two major partners, BDW Trading Limited (formerly known as Barratt Homes Limited), and British Land Canada Quays Limited (BLCQ) who are the Major Development Partner (MDP) of the council in regenerating the area. The partnership with BLCQ operates as a JCO.
- 51.2. The council finances the regeneration of Canada Water by depositing part of the proceeds from its sales of assets into a third party account. The costs of regeneration incurred by BLCQ as MDP on behalf of the council, and the redistribution back to the council of the proceeds of the sales, are met from the third party account. The transactions of the third party account are incorporated in the council's accounts as if the transactions had been incurred directly by the council. At 31 March 2013 the third party account held £0.823 million of council funds (£4.157 million 31 March 2012) included in long term debtors, representing the balance of receipts to be returned to the council, or to be applied as future investment into this programme.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Local authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

	Note	2012/13 £000	2011/12 £000
Income			
Dwelling rents		(185,946)	(170,944)
Non dwelling rents		(10,234)	(9,995)
Charges for services and facilities		(58,642)	(58,365)
Contributions towards expenditure		(2,821)	(4,295)
HRA subsidy receivable (including MRA)	3	-	(25,351)
Total income		(257,643)	(268,950)
Expenditure			
Repairs and maintenance		57,047	49,157
Supervision and management		104,279	105,163
Rents, rates, taxes and other charges		1,992	915
Depreciation and impairment of fixed assets	4	(16,979)	127,026
Debt management costs		257	286
Increase in provisions for bad debts		460	195
Revenue expenditure funded from capital under statute	5	1,985	1,611
Total expenditure		149,041	284,353
Net Cost of HRA Services included in the Comprehensive Income and Expenditure Statement		(108,602)	15,403
HRA share of CDC costs		1,095	1,106
Net Cost of HRA Services		(107,507)	16,509
Gains and losses on the sales of HRA fixed assets		(11,342)	(6,540)
Interest payable and similar charges		29,539	44,075
Premiums arising from debt refinancing	14	-	95,092
Interest and investment income		(695)	(177)
Pensions interest cost and expected return on pensions assets		1,432	1,437
Capital grants and contributions receivable		(12,647)	(1,695)
Exceptional item – self-financing debt adjustment	14	-	(277,156)
Total (surplus)/deficit for the year		(101,220)	(128,455)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

This is a reconciliation statement summarising the differences between the outturn on the HRA Income and Expenditure Statement and the HRA Balance.

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources generated and used in the last twelve months. However, a number of items have to be included or removed from the HRA Income and Expenditure Statement to comply with the statutory requirements of accounting for the HRA.

	Note	2012/13 £000	2011/12 £000
(Surplus)/deficit for the year on HRA services		(101,220)	(128,455)
Net additional amounts required by statute	6	96,953	121,544
(Increase)/decrease in the HRA Balance		<u>(4,267)</u>	<u>(6,911)</u>
HRA Balance brought forward		(27,488)	(20,577)
Balance carried forward	7	<u>(31,755)</u>	<u>(27,488)</u>

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

HRA PROPERTY, PLANT AND EQUIPMENT

2012/13	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets	TOTAL PP&E
	£000	£000	£000	£000	£000
Gross Book Value					
Opening balance	1,824,086	67,071	616	4,615	1,896,388
Additions	80,100	-	280	3,248	83,628
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	12,366	1,694	-	3,547	17,607
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,471)	(455)	-	-	(2,926)
Derecognition - Disposals	(5,594)	-	-	-	(5,594)
Derecognition - Other	(76)	-	-	-	(76)
Assets reclassified (to)/from Held for Sale	(4,600)	-	-	44,905	40,305
Other movements in Cost or Valuation	(18,213)	24,395	45	(2,250)	3,977
Balance as at 31 March 2013	1,885,598	92,705	941	54,065	2,033,309
Depreciation and Impairment					
Opening balance	38,815	2,111	547	79	41,552
Depreciation charge	44,115	3,156	43	-	47,314
Depreciation written out on revaluations recognised in the Revaluation Reserve	(12,590)	(2,120)	-	(2)	(14,712)
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(69,509)	(62)	-	-	(69,571)
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Derecognition - Disposals	(6)	-	-	-	(6)
Derecognition - Other	-	-	-	-	-
Other movements in Depreciation and Impairment	(232)	189	(3)	(77)	(123)
Balance as at 31 March 2013	593	3,274	587	-	4,454
Net Book Value as at 31 March 2013	1,885,005	89,431	354	54,065	2,028,855

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2011/12	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets	TOTAL PP&E
	£000	£000	£000	£000	£000
Gross Book Value					
Opening balance	1,818,717	68,088	381	5,643	1,892,829
Restatements	16,914	(16,674)	-	-	240
Additions	50,265	427	-	-	50,692
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,599	48,245	-	57,318	111,162
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(58,960)	(30,233)	-	(1,357)	(90,550)
Derecognition - Disposals	(1,193)	-	-	-	(1,193)
Derecognition - Other	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	4,504	(319)	-	(55,969)	(51,784)
Other movements in Cost or Valuation	(11,760)	(2,463)	235	(1,020)	(15,008)
Balance as at 31 March 2012	1,824,086	67,071	616	4,615	1,896,388
Depreciation and Impairment					
Opening balance	7,228	2,864	293	318	10,703
Restatements	-	-	-	-	-
Depreciation charge	38,815	1,966	73	79	40,933
Depreciation written out on revaluations recognised in the Revaluation Reserve	-	(95)	-	(209)	(304)
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	(7,213)	(2,627)	-	(109)	(9,949)
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Derecognition - Disposals	(15)	-	-	-	(15)
Derecognition - Other	-	-	-	-	-
Other movements in Depreciation and Impairment	-	3	181	-	184
Balance as at 31 March 2012	38,815	2,111	547	79	41,552
Net Book Value as at 31 March 2012	1,785,271	64,960	69	4,536	1,854,836

The opening gross book value for council dwellings, and the opening depreciation and impairment, have been restated to be consistent with Note 16 to the Balance Sheet. There is no movement in the opening or closing net book values for council dwellings as a result of this change.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

1.1. The Housing Revenue Account is a record of expenditure on, and income from, the provision of local authority housing, and the form and content of the Account is prescribed by statute. The Housing Revenue Account is "ringfenced" and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the General Fund) are limited to special circumstances.

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling		Number of bedrooms				Total	
		1	2	3+	Other	31/3/13	31/3/12
Houses and bungalows	31/03/13	407	746	2,902	-	4,055	
	31/03/12	407	750	2,910	-		4,067
Low rise flats	31/03/13	2,947	634	364	-	3,945	
	31/03/12	2,952	637	369	-		3,958
Medium rise flats	31/03/13	6,905	7,385	6,328	-	20,618	
	31/03/12	6,940	7,424	6,375	-		20,739
High rise flats	31/03/13	3,158	4,907	1,850	-	9,915	
	31/03/12	3,180	4,937	1,855	-		9,972
Non permanent	31/03/13	-	-	-	5	5	
	31/03/12	-	-	-	7		7
Multi occupied	31/03/13	-	-	-	249	249	
	31/03/12	-	-	-	247		247
TOTALS	31/03/13	13,417	13,672	11,444	254	38,787	
	31/03/12	13,479	13,748	11,509	254		38,990

2.1. In addition to the numbers shown in the table above, as at 31 March 2013 there were also 1,361 void properties (1,263 at 31 March 2012). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure they have not yet been demolished.

2.2. The vacant possession value of dwellings as at 1 April 2013 was £7,540.020 million (£7,138.803 million as at 1 April 2012). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

3. HRA SUBSIDY

3.1. Until the end of 2011/12 housing subsidy has been 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 formed a notional account (see below), the balance of which forms the 'Housing Element' of subsidy.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

- 3.2. The HRA was charged for any limitation of (General Fund) Housing Benefit Subsidy. Average rent and relevant service charges were within the rebate rent limit in 2011/12, and therefore there was no limitation deduction in that year.
- 3.3. Under the Localism Act 2011, housing subsidy was abolished for English authorities from April 2012. Authorities were given a debt adjustment in late March 2012, in order to leave them with a level of future debt charges which would be affordable from the annual surplus of rent and other income over expenditure. See also the Exceptional Item note regarding debt redemption in the 2012/13 accounts below.

	2012/13 £000	2011/12 £000
Management & Maintenance allowances	-	(105,042)
Major Repairs Allowance	-	(38,811)
Capital Charges subsidy	-	(54,122)
Interest on Receipts deduction	-	16
Guideline rent income deduction	-	172,608
Total Housing Subsidy	-	(25,351)

4. DEPRECIATION AND IMPAIRMENT CHARGES

	2012/13 £000	2011/12 £000
Dwellings depreciation	44,115	38,811
Other property depreciation	3,198	2,104
Impairment and revaluation losses	(64,292)	86,111
Total	(16,979)	127,026

- 4.1. Impairment arises from capital expenditure carried out on dwellings which has not changed the value of those dwellings, or from reductions in the value of assets in excess of any carrying values held in the Revaluation Reserve.
- 4.2. All depreciation and impairment charges are reversed out of the HRA to the Capital Adjustment Account. The values have no net effect on rents or other HRA income.

5. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

- 5.1. REFCUS is a class of expenditure that may meet statutory definitions of capital expenditure, but is of a nature that is not consistent with the accounting standards definitions of additions to Property Plant and Equipment. Examples include expenditure incurred on assets that are not owned by the council, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises, but is then charged to the Capital Adjustment Account to be financed from capital resources. For the HRA this expenditure would include cash incentive payments (grants to tenants as an incentive to vacate their properties and purchase private accommodation), and statutory home loss payments where the council necessarily relocates tenants to other accommodation.
- 5.2. In 2012/13, £1.985 million was incurred in the HRA as REFCUS (£1.611 million in 2011/12).

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

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

6.1. The following table shows items included in the HRA Income and Expenditure Account but which are excluded from the movement on HRA Balance for the year:

	2012/13 £000	2011/12 £000
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	239	(16,026)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(41)	6
Gain or loss on sale of HRA non current assets	11,342	6,540
HRA share of contributions to or from the Pensions Reserve	(1,265)	408
Capital expenditure funded by the HRA	11,782	19,418
Transfer to/from the Major Repairs Reserve	46,480	38,811
Transfer to/from the Capital Adjustment Account	28,416	(126,867)
HRA self financing settlement	-	199,254
Net additional amount required by statute to be charged to the HRA	96,953	121,544

7. HRA BALANCE

7.1. HRA reserves at 31 March 2013 are £31.7 million and are allocated as follows:

	2012/13 £m	2011/12 £m
Regeneration and Development Reserve	5.5	5.6
Modernisation, Service and Operational Improvement Reserve	4.5	0.7
Financial Risk Reserve	19.7	17.6
Other earmarked reserves	2.0	3.6
Total	31.7	27.5

7.2. The Regeneration and Development Reserve of £5.5 million relates in the main to the redevelopment of the Aylesbury Estate

7.3. The Modernisation, Service and Operational Improvement Reserve of £4.5 million comprises £0.5 million for IT modernisation, including general infrastructure, and £4.0 million for investment in heating systems.

7.4. The Financial Risk Reserve, £19.7 million, includes £4.8 million Contingency reserve, broadly representing 1.6% of gross HRA revenue spend and Housing Investment Programme spend. The Reserve also provides £2.0 million to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £10.0 million set aside for debt refinancing, and £2.9 million Heating Account Reserve, which represents the cumulative balance available to mitigate energy cost pressures and minimise future increases in heating charges.

7.5. The other earmarked reserves, £2.0 million, comprise a range of specific resources for the tenants' fund, leaseholders' fund, Browning EMB, etc, totalling £0.9 million. The balance also includes one-off (non-recurring) schemes and projects aimed at improving customer service and delivery across the housing service, and to meet specific cost pressures outside the existing revenue budget.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

8. MAJOR REPAIRS RESERVE

	2012/13 £000	2011/12 £000
Balance 1 April	43,214	8,196
Transfers from the Capital Adjustment Account	47,313	40,915
Transfer to the HRA	(833)	(2,104)
Financing of capital expenditure	(48,530)	(3,793)
Balance 31 March	41,164	43,214

9. CAPITAL EXPENDITURE AND FINANCING

	2012/13 £000	2011/12 £000
Capital Investment		
Operational assets	83,696	51,870
REFCUS	1,985	1,611
Total	85,681	53,481
Funding Source:		
Revenue contributions	11,782	19,418
Supported borrowing approvals	-	-
Capital receipts from the sales of assets	12,646	28,575
Grants and other contributions	12,723	1,695
Major Repairs Reserve	48,530	3,793
Total	85,681	53,481

10. CAPITAL RECEIPTS FROM DISPOSAL OF LAND, HOUSES AND OTHER PROPERTY WITHIN THE HOUSING REVENUE ACCOUNT

	2012/13 £000	2011/12 £000
Council dwellings		
Right to Buy	(8,247)	(3,632)
Discounts repaid	(19)	-
Non Right to Buy	(8,420)	(18,360)
Other receipts		
Land sales	(22,704)	(7,175)
Mortgages	(36)	(60)
	(39,426)	(29,227)
Less: Pooled (paid to central government)	3,039	1,584
Total	(36,387)	(27,643)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

11. HOUSING TENANTS ACCOUNTS

	2012/13 £000	2011/12 £000
Gross arrears as at 1 April	16,485	15,832
Prior year payments	(6,052)	(5,828)
Arrears as at 1 April	10,433	10,004
Charges due in the year	226,395	211,496
Rent rebates	(110,389)	(105,620)
Write-offs	(1,804)	(2,056)
Adjustments	(5,064)	(4,208)
Cash collected	(108,342)	(99,183)
Net arrears as at 31 March	11,229	10,433
Payments in advance	6,401	6,052
Gross arrears as at 31 March	17,630	16,485

11.1. The arrears position as at 31 March 2013 comprises all dwelling stock and non-residential properties, hostels and Browning EMB. It excludes temporary accommodation, i.e. bed and breakfast, private sector leasing, and travellers' sites, as these are General Fund services.

12. IMPAIRMENT OF DEBTORS

	2012/13 £000	2011/12 £000
Rents	9,507	8,781
Income from hostels	343	223
Court costs	794	793
Commercial rents	484	487
Total	11,128	10,284

13. PENSIONS COSTS

13.1. The HRA is charged with the costs of pensions for its employees in accordance with IAS 19. The costs are then reversed out of the HRA to the Pensions Reserve. The values have no net effect on rents or other HRA income.

13.2. The apportionment of charges to the HRA under IAS 19 is based on the ratio of employer payroll costs incurred by the council of staff charged to the HRA against those employed for the council as a whole. This apportionment is also applied to actuarially assessed items such as pensions interest cost, the expected return on pension assets, and actuarial gains and losses.

	2012/13 £000	2011/12 £000
Current service cost	3,530	3,954
Expected return on employer assets	(6,513)	(8,691)
Interest on pension scheme liabilities	7,945	10,128
Actuarial (gains)/losses	8,567	19,748
Total IAS 19 charges	13,529	25,139
Less Pensions costs attributable to the HRA	(3,696)	(5,799)
Movement on the Pensions Reserve	9,833	19,340

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

14. EXCEPTIONAL ITEM RE DEBT REDEMPTION

- 14.1. Since 1 April 2012 the HRA has operated on a self-financing basis. This has entailed the cessation of housing subsidy, and the expectation that the HRA contains its expenditure within the income generated from housing rents and other sources. As part of the transition to self-financing, on 28 March 2012 the government prematurely repaid £199.254 million of the council's debt as held by the Public Works Loan Board, in order to bring debt financing costs to the HRA as part of total costs to an affordable level. In prematurely repaying this debt, the government also incurred premiums totalling £77.902 million.
- 14.2. Although the government met these costs directly, and no funds passed through the council's books, accounting practice required that the HRA, as part of the Consolidated Income and Expenditure Statement (CIES), recognised a nominal receipt of grant to meet the debt and premium cost. The premiums incurred by the government were also shown as expenditure within the HRA. The debt repayment was reflected as a Balance Sheet item and did not get discharged to the HRA or elsewhere in the CIES.
- 14.3. The premium cost to the HRA also included £17.190 million from other debt refinancing by the council in 2011/12.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

INCOME AND EXPENDITURE ACCOUNT

	Notes	2012/13 £000	2011/12 £000
Income			
Income from Council Tax	1	(98,537)	(95,574)
Transfer from the General Fund, Council Tax benefits		(27,431)	(27,566)
Income collectable from business ratepayers	2	(185,744)	(179,353)
Income collectable in respect of Business Rate Supplements	3	(5,811)	(6,238)
Contribution from preceptors towards previous year's Collection Fund deficit	4	(166)	(87)
Total Income		(317,689)	(308,818)
Expenditure			
Precepts and Demands			
Greater London Authority (GLA)		30,682	30,670
London Borough of Southwark		91,213	90,296
Non Domestic Rates	2		
Payment to National Pool		185,081	178,689
Cost of collection		663	664
Business Rate Supplements (BRS)	3		
Payment to GLA's BRS Revenue Account		5,783	6,207
Administrative costs		28	31
Council Tax Impairment of debts			
Allowance for impairment		1,336	(7,195)
Council Tax write offs		1,005	9,437
Contribution to preceptors from previous year's Collection Fund surplus	4	0	0
Total Expenditure		315,791	308,799
Net deficit/(surplus) for the year		(1,898)	(19)
Deficit/(surplus) at 1 April		123	142
Deficit/(surplus) at 31 March		(1,775)	123

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

- 1.1. Council tax is a property-based tax, which is assessed on the value of residential property. For this purpose, the Valuation Office Agency has set residential properties into eight valuation bands, of A to H, using estimated market value at 1 April 1991. The council tax charges are calculated by estimating the amount of income required from the Collection Fund by the council and preceptors for the forthcoming year, and dividing this by the council tax base, which is the total number of properties liable to tax, expressed as a band D equivalent.
- 1.2. In 2012/13 the estimated income required from the Collection Fund for all preceptors was £121.924 million (£120.967 million in 2011/12). The amount of council tax for a band D property (£1,218.86 in 2012/13 and £1,221.96 in 2011/12) is multiplied by the "ratio" specified for the particular band to give the council tax due from properties in other bands. The table below shows how the council tax base was set and the resulting band D council tax:

Band	Estimated number of properties after effect of discounts		Ratio	Equivalent number of Band D properties	
	2012/13	2011/12		2012/13	2011/12
A	10,033.85	10,102.65	6/9	6,688.73	6,734.40
B	30,820.10	31,005.55	7/9	23,971.19	24,115.43
C	28,715.95	28,568.45	8/9	25,525.29	25,394.18
D	18,322.35	17,960.05	1	18,322.35	17,960.05
E	12,210.20	11,945.55	11/9	14,923.58	14,600.12
F	5,163.75	5,097.20	13/9	7,458.75	7,362.62
G	3,650.45	3,611.10	15/9	6,084.08	6,018.50
H	477.35	466.70	18/9	954.70	933.40
Total	109,394.00	108,757.25		103,928.67	103,118.70
Less adjustment for collection rate				(3,897.33)	(4,124.75)
Council Tax Base for year				100,031.34	98,993.95
Estimated Income Required from Collection Fund				£121,924,199	£120,966,650
Band D Council Tax				£1,218.86	£1,221.96

2. NATIONAL NON DOMESTIC RATES

- 2.1. National Non-Domestic Rates (NNDR) or business rates are collected from local businesses by the council. The rates collected are then paid into a national pool administered by the government. The government then redistributes the total paid into the pool back to local authorities on the basis of a fixed amount per head of the population. This arrangement has changed from 1 April 2013 with the introduction of the Business Rates Retention scheme, whereby instead of redistribution of business rates from the national pool the council will be able to keep a proportion (30%) of the business rates revenue, and the remaining proportion is paid to the government (50%) and the GLA (20%).
- 2.2. The business rates are based on local rateable values and a multiplier set by the government. The non-domestic rating multiplier set by the government for 2012/13 was 45.8p and 45.0p for small business (43.3p and 42.6p respectively for 2011/12). Local businesses pay NNDR calculated by multiplying their rateable value by these rates and subject to certain reliefs and deductions.
- 2.3. The total rateable value in the council at 31 March 2013 was £509.505 million (£528.961 million at 31 March 2012).

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

3. BUSINESS RATE SUPPLEMENT

- 3.1. The Business Rate Supplement (BRS) or Crossrail BRS is collected from local businesses by the council, on behalf of the Greater London Authority.
- 3.2. The BRS is based on local rateable values, as with the general business rate (NNDR) and was introduced by the Mayor of London in April 2010. The levy set for 2012/13 was 2p on non-domestic properties with a rateable value of over £55,000 in London, which is same as the levy set for 2011/12 and 2010/11.

4. CONTRIBUTION TO PRECEPTORS OF THE PREVIOUS YEAR'S ESTIMATED COLLECTION FUND DEFICIT

- 4.1 As a billing authority, the council is required to make an estimate of the surplus or deficit on the Collection Fund for the year, by the 15 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing the council tax if there is a surplus or increasing the council tax if there is a deficit. In January 2012, the council estimated an accumulated deficit balance of £165,725 for 2011/12 as follows:

	£
Deficit as at 31 March 2011	142,383
Add estimated deficit for 2011/12	23,342
Estimated deficit as at 31 March 2012	<u>165,725</u>

- 4.2 The estimated deficit was apportioned between the council and the Greater London Authority based on their respective demands and precepts on the Collection Fund (74.6% and 25.4%) as follows:

Distribution of previous year's estimated Collection Fund deficit

	£
Greater London Authority	42,094
London Borough of Southwark	123,631
Estimated deficit for 2011/12, redistributed in 2012/13	<u><u>165,725</u></u>

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

TRUST FUNDS & OTHER THIRD PARTY FUNDS

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

1. Funds where the council is the sole trustee

	Balance at 31/3/12	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/13
	£	£	£	£
Adult Social Care Funds				
Individual bequests	53,697	518	-	54,215
Comforts Funds/residents' savings	5,200,374	5,397,066	(5,141,928)	5,455,512
Children's Service Trusts				
Miscellaneous	30,593	1,533	-	32,126
Environment and Leisure Trusts				
Pullens Gardens maintenance fund	118,332	1,053	-	119,385
Corporate Services Trusts				
Mayor's Charity	10,626	24,296	(31,846)	3,076
Total	5,413,622	5,424,466	(5,173,774)	5,664,314

1.1. The purposes of the funds are listed below:

Individual Bequests	
Joseph Taylor	Ex London County Council bequest
Frank Bezer	To provide Christmas extras to children in the Hollies or any replacement accommodation
George Baker	For the benefit of persons living in residential accommodation in Southwark
Daniel Steele	To provide extras for residents of Nye Bevan Lodge
Comforts funds/residents' savings	This comprises numerous separate funds to provide "comforts" to residents of the various Social Services establishments, and savings accounts administered on behalf of the residents of those establishments
Miscellaneous	Bequests set up to provide prizes or financial assistance to students at relevant schools in the borough
Pullens Gardens maintenance fund	To meet the maintenance cost of Pullens Gardens
Mayor's Charity	The Mayor's Charity account supports the activities associated with the Mayor's annual charity appeal

2. Funds where the council is not the sole trustee

	Balance at 31/3/12	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/13
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common	937,075	8,340	(30,000)	915,415
Borough Market Trustees	810	8	-	818
Leisure Trusts				
Cumming Bequest	9,719	86	-	9,805
Total	947,604	8,434	(30,000)	926,038

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2.1. The purposes of the funds are listed below:

Walworth Common	To provide rate relief in the former parish of St Mary Newington
Borough Market Trustees	To reduce parochial rates for the parish of St Saviour
Cuming Bequest	To provide for display of furniture and coins at Cuming Museum

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

General Principles

1.1. The Statement of Accounts summarises the council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice for Local Authorities (SeRCOP), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

1.2. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council
- Revenue relating to council tax is measured at the full amount receivable (net of any impairment losses) as it is a non-contractual, non-exchange transaction with no difference between the delivery and payment dates. It is recognised in the financial statements when it is probable that the economic benefits associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- Where the Council is acting as an agent, such as for the billing and collection of Non Domestic Rates (NNDR) on behalf of the Government, transactions are not be reflected in the financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position is included in financing activities in the cash flow statement. Although the Council does not recognise the NNDR income that it bills and collects, it does receive and recognise its share of NNDR income collected nationally, which is redistributed by the Government from the national pool. This income is recognised on the same basis as income from government grants.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3. Where the amount due is unknown then an estimated amount has been allowed for.

1.4. For year end purposes a de minimis of £5,000 applies for accruals of income and expenditure, except for capital expenditure accruals where a de minimis of £50,000 applies.

Cash and Cash Equivalents

1.5. Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Exceptional Items

- 1.6. When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the accounts, depending on how significant the items are to an understanding of the council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

- 1.7. Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.
- 1.8. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
- 1.9. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Carbon Reduction Commitment

- 1.10. The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the Comprehensive Income and Expenditure Statement, and is apportioned to services on the basis of energy consumption.

Charges to Revenue for Non-Current Assets

- 1.11. Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:
- depreciation attributable to the assets used by the relevant service
 - revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
 - amortisation of intangible assets attributable to the service.
- 1.12. The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance (England and Wales), and set out in the treasury strategy report approved annually by Council Assembly. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance with the Minimum Revenue Provision by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Employee Benefits - Benefits Payable During Employment

1.13. Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. Such entitlements are expected to be taken within three months of the end of the financial year, and the accrual is made at the wage and salary rates applicable in the accounting year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Employee Benefits - Termination benefits

1.14. Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

1.15. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Employment Benefits - The Local Government Pension Scheme

1.16. The Local Government Scheme is accounted for as a defined benefits scheme. The council contributes to two pension funds – its own, the London Borough of Southwark Pension Fund, and that of the London Pension Fund Authority Pension Fund.

1.17. The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures on Note 46 to the Accounts set out the discount rates and assumptions applied by each fund.

1.18. The assets of funds attributable to the council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

1.19. The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

1.20. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.21. The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Employment Benefits - The Teachers' Pension Scheme

1.22. Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

1.23. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of the council's statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

1.24. On this basis, no liability for the future payments of benefit is recognised in the Balance Sheet. The Children's and Educational Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

Events After the Balance Sheet Date

1.25. Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

1.26. Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Financial Instruments

- 1.27. Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.
- 1.28. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.
- 1.29. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- 1.30. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund and the HRA Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- 1.31. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- 1.32. Financial assets are classified into two types:
- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
 - available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.
- 1.33. Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

- 1.34. The council has made a number of loans or agreed deferred payment arrangements with debtors at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the debtor, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Some soft loans have been grouped into portfolios and interest and amortised costs has been modelled based on portfolio characteristics. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- 1.35. Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.
- 1.36. Financial assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:
- instruments with quoted market prices – the market price
 - other instruments with fixed and determinable payments – discounted cash flow analysis.
- 1.37. Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.
- 1.38. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).
- 1.39. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.
- 1.40. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Foreign Currency Translation

- 1.41. Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Government Grants and Contributions

- 1.42. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:
- the council will comply with the conditions attached to the payments, and
 - the grants or contributions will be received.
- 1.43. Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.
- 1.44. Moneys advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.
- 1.45. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.
- 1.46. A Business Improvement District (BID) scheme may apply across the whole of the council, or to specific areas of the council. Schemes are funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under these schemes, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Heritage Assets

- 1.47. Heritage assets are assets with historical, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. These may be tangible or intangible assets.
- 1.48. Where an asset meeting the above definition is newly acquired or constructed then that asset will be recognised in the Balance Sheet at cost. For existing assets where no information on cost or value is available, the asset will not be recognised in the Balance Sheet, but will be disclosed in the Notes to the Accounts. If an existing heritage asset is subsequently revalued then the asset will be recognised in the Balance Sheet at valuation.
- 1.49. For assets held in the Balance Sheet depreciation will be provided for only where a heritage asset has a determinable finite useful life. Depreciation methodology will be consistent with that applied for property, plant and equipment (PP&E), i.e. by the systematic allocation of its depreciable amount over its useful life. Heritage assets will be reviewed annually for evidence of impairment and where impairment is identified the accounting treatment for PP&E shall be followed. Disposals are expected to be rare and would be accounted for in the same way as disposals of PP&E.

Intangible Assets

- 1.50. Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.
- 1.51. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

- 1.52. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.
- 1.53. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.
- 1.54. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Inventories and long term contracts

- 1.55. Stocks and stores are recorded and charged in the Accounts at average price.
- 1.56. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Investment property

- 1.57. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
- 1.58. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.
- 1.59. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Jointly Controlled Operations and Jointly Controlled Assets

- 1.60. Jointly controlled operations are activities undertaken by the council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.
- 1.61. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Leases

- 1.62. Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.
- 1.63. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
- 1.64. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The council as Lessee – Finance leases

- 1.65. Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.
- 1.66. Lease payments are apportioned between:
- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
 - a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- 1.67. Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).
- 1.68. The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The council as Lessee - Operating Leases

- 1.69. Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The council as lessor – finance leases

- 1.70. Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.
- 1.71. Lease rentals receivable are apportioned between:
- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
 - finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

- 1.72. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.
- 1.73. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

The council as lessor – operating leases

- 1.74. Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

- 1.75. The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:
- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation
 - Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.
- 1.76. These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the surplus or deficit on continuing operations.

Property, plant and equipment

- 1.77. Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Property, plant and equipment - Recognition

- 1.78. Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.
- 1.79. The council has no de minimis for recognising capital expenditure charged to specific resources only available for capital purposes (borrowing, proceeds from the sales of assets, the receipt of specified grants). However, the value of General Fund assets and HRA non-dwellings is deemed not to have been enhanced if the value of capital works on an individual asset is less than £10,000. This expenditure is written out to the Income and Expenditure Account. If the amount of expenditure on an individual asset within Other Land and Buildings is above £300,000, details of the works are provided to the Valuer with a request to revalue the asset.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Property, plant and equipment - Measurement

1.80. Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

1.81. The council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

1.82. Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

1.83. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end:

- All HRA assets are revalued on an annual basis. Dwellings are valued using the Beacon method
- All other fair value assets are valued as part of a 5 year rolling cycle
- Individual assets or classes of assets may be revalued outside the 5 year cycle, for reasons of capital expenditure incurred, physical impairment, or material changes in the value of assets in a sector.

1.84. The effective date of annual revaluations and of the rolling cycle of revaluations is 1 April of the relevant accounting period. The effective date of valuations arising from capital expenditure, physical impairment, or material changes in the value of assets in a sector, is 31 March of the relevant accounting period.

1.85. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

1.86. Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

1.87. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Property, plant and equipment - impairment

1.88. Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

1.89. Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

1.90. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Property, plant and equipment - depreciation

1.91. Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

1.92. The depreciation method for council housing was changed in 2012/13 as a result of the move to the self-financing of the HRA, a consequence of which is that depreciation should be determined directly rather than using the Major Repairs Allowance as a proxy. To this end component accounting was extended in 2012/13 to include council housing; dwellings are now depreciated over differing periods depending on the useful life of the component. Depreciation is calculated on the following bases:

- Council housing and other buildings, 5-100 years
- Vehicles, furniture & IT hardware, 5 years
- Plant, fittings & play equipment, 15 years
- Infrastructure assets, 5 - 50 years
- Community assets, 10 - 100 years
- Intangible assets, 3 years.

1.93. Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

1.94. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Property, plant and equipment - disposals and non-current assets held for sale

1.95. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

1.96. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

1.97. Expected sales under the Right to Buy are not included in Assets Held for Sale, due to the uncertainty in achieving the sales and the number of assets that have subsequently been reclassified back to operational assets.

1.98. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

- 1.99. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.
- 1.100. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.
- 1.101. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Private Finance Initiative (PFI) and similar contracts

- 1.102. PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.
- 1.103. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council
- 1.104. The amounts payable to the PFI operators each year are analysed into five elements:
- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
 - finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
 - lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Provisions, contingent liabilities and contingent assets

- 1.105. Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.
- 1.106. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

- 1.107. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.
- 1.108. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.
- 1.109. Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.
- 1.110. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.
- 1.111. A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.
- 1.112. A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

- 1.113. The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.
- 1.114. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and do not represent usable resources for the council – these reserves are explained in the relevant policies above.

Revenue expenditure funded from capital under statute

- 1.115. Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

VAT

- 1.116. VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2012/13 £000	2011/12 £000
Contributions	9	(42,871)	(47,930)
Transfers in from other pension funds	10	(6,492)	(7,719)
Other income		(1)	(1)
Total income		(49,364)	(55,650)
Benefits	11	45,586	50,214
Payments to and on account of leavers	12	4,371	6,174
Other Payments		135	144
Administrative expenses	13	864	949
Total expenditure		50,956	57,481
Net addition from dealing with members of the fund		1,592	1,831
Investment income	14	(14,104)	(17,249)
Profit and losses on disposal of investments and changes in market value of investments	16.2	(108,990)	(17,366)
Taxes on income	3.3	338	91
Investment management expenses	15	2,615	4,425
Net returns on investments		(120,141)	(30,099)
Net (increase)/decrease in the net assets available for benefits during the year		(118,549)	(28,268)
Opening net assets of the scheme		(876,147)	(847,879)
Net assets of the scheme available to fund benefits at 31 March		(994,696)	(876,147)

NET ASSETS STATEMENT

	Note	2012/13 £000	2011/12 £000
Investment assets	16.1	974,745	863,013
Investment liabilities	16.1	-	-
Current assets	17	22,213	16,446
Current liabilities	17	(2,262)	(3,312)
Net assets of the scheme available to fund benefits at 31 March		994,696	876,147

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

- 1.1. The Pension Fund is a defined benefit scheme that provides benefits for former employees of the Council and other admitted organisations. The benefits provided include retirement pensions and widows' pensions, death grants and lump sum payments depending on the circumstances.
- 1.2. The day to day operations of the fund are financed mainly by contributions from employees and employers but the fund is also supported by a portfolio of investment assets for the longer term.
- 1.3. The Pension Fund Accounts provides information about the performance and position of the fund. It also summarises the transactions of the scheme and the net assets at the disposal of the Strategic Director of Finance and Corporate Services on the recommendation of the Pensions Advisory Panel.
- 1.4. The Pension Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future (beyond 31 March 2013). Information regarding future liabilities can be found in the Actuary's statement in Note 5.

2. BASIS OF PREPARATION

- 2.1. The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.2. The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 47 of the main accounts, on page 74.

3. OPERATION AND MEMBERSHIP OF THE FUND

- 3.1. The Council contributed 21% of pensionable pay in 2012/13 (21% in 2011/12). A one off payment of £2.29 million was made as a special contribution for early and ill health retirements (£6.69 million in 2011/12). In addition, external bodies admitted to the Southwark Fund contributed a total of £2.70 million (£2.75 million in 2011/12).
- 3.2. The Council is required to ensure that any surplus on the Pension Fund is invested. To ensure that the investment of the Fund is carried out to the best possible advantage, investment managers deal with the day to day investment of the Fund. Investments are managed by the following companies: BlackRock and Legal and General Investment Management who manage an "indexed" portfolio of global equities and fixed and index-linked gilts; Newton Investment Management who manage an unconstrained global equities portfolio; and Henderson Global Investors, who manage a property portfolio.
- 3.3. Irrecoverable tax on dividends for 2012/13 was £338,200 (£91,470 in 2011/12).
- 3.4. The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Strategic Director of Finance and Corporate Services, taking account of the advice of the Pensions Advisory Panel.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

3.5. At 31 March 2013 the membership of the Fund was as follows:

	2012/13	2011/12
Number of contributors to the Fund	6,061	6,046
Number of contributors and dependants receiving allowances	6,645	6,518
Number of contributors who have deferred their pensions	7,236	6,971

3.6. Other organisations participating in the Pension Fund comprise:

- The following admitted bodies:
 - Southwark Law Centre
 - Fusion
 - Odyssey (ceased 1 November 2012)
 - Centre for Literacy in Primary Education
 - South London Gallery
 - APCOA
 - Charter Security (ceased 1 February 2013)
 - Chequers (ceased 26 April 2011)
 - Together (formerly Castle Day Centre, ceased paying contributions 1 June 2012)
 - HATS (formerly Olympic South)
 - Morrison (ceased paying contributions 3 October 2012)
 - Veolia
 - Camden Society
 - Leather Market
 - RSM Tenon (ceased 1 May 2012)
 - Balfour Beatty
 - Browning Tenant Management Organisation (from 1 April 2012)
 - Chequers 2 (from 1 June 2012)
 - Mears (from 3 October 2012)
 - Brandon Trust (from 1 November 2012)
 - Capita (from 1 February 2013)
 - Interserve (from 1 February 2013)
 - Sherman & Waterman (from 1 March 2013)

- The following scheduled bodies:
 - Academy at Peckham
 - Bacons College
 - Dulwich Hamlet Junior School Academy
 - Globe Academy
 - Goose Green (from 1 October 2012)
 - Harris Academy Bermondsey
 - Harris Girls Academy
 - Harris Boys Academy
 - Harris Primary Academy, Peckham Park
 - Harris Free School
 - Kingsdale Foundation School
 - Redriff Primary Academy
 - St Michael's & All Angels CE Academy
 - The Charter School Educational Trust
 - Walworth Academy

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

4. MANAGEMENT AND INVESTMENT OF FUNDS REGULATIONS

- 4.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 deal with the choice of investment managers, terms of their appointment, review of their performance, and the use and investment of pension fund money together with restrictions on such investments. In managing the Fund the investment manager must take into account:
- That Fund money must be invested in a wide variety of investments
 - The suitability of those types of investment for the Fund
 - The suitability of any particular investment of that type.
- 4.2. The Council has to keep the investment managers' performance under review and at least once every three months review the investments made, and periodically consider whether or not to retain the manager.
- 4.3. In addition the Council is under a duty to invest any Fund money not needed immediately to make payments, with power to vary those investments and a duty to formulate an investment policy with a view to:
- the advisability of investing Fund money in a wide variety of investments
 - the suitability of particular investments and types of investments.
- 4.4. In carrying out all the above functions, the Council must obtain proper advice, at reasonable intervals, which is defined as the advice of a person who is reasonably believed by them to be qualified by his/her ability in, and practical experience of, financial matters (including any suitable officer of theirs).

5. ACTUARIAL POSITION OF THE FUND

Introduction

- 5.1. The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.
- 5.2. The following section on the Actuarial Position of the fund, paragraphs 4.3 – 4.13, has been prepared by the actuary for the sole use of Southwark Council, and should not be relied on by any other party. The statements should not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Actuarial Position

- 5.3. Rates of contributions paid by the participating employers during 2010/11 were based on the previous actuarial valuation which was carried out as at 31 March 2007.
- 5.4. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased from 82% at the previous valuation with the market value of the Fund's assets (of £789.3 million) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
- 5.5. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2011 is:
- 13.6% of pensionable pay p.a. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.
plus
 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 23 years from 1 April 2011, amounting to £8.5 million in 2011/12, £10.6 million in 2012/13, £12.8 million in 2013/14, and increasing by 5.3% p.a. thereafter.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

- 5.6. This would imply an average employer contribution rate of about 20.5% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.
- 5.7. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
- 5.8. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to the actuary's report of the same date on the actuarial valuation.
- 5.9. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
- 5.10. The main actuarial assumptions were as follows:

Discount rate for periods in service	
Scheduled Bodies	7.0% p.a.
Admitted Bodies	6.25% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	7.0% p.a.
Admitted Bodies	4.75% p.a.
Rate of pay increases:	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.3% p.a.

- 5.11. The assets were valued at market value. Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.
- 5.12. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. No such reviews have been completed since the 2010 valuation of the Fund.
- 5.13. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

Actuarial Present Value of Promised Retirement Benefits

- 5.14. IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2010.

	Value as at 31 March 2010 £m	Value as at 31 March 2007 £m
Fair value of net assets	786.8	754.4
Actuarial present value of promised retirement benefits	(1,399.0)	(1,084.5)
Surplus/(deficit) in the fund as measured for IAS26	(612.2)	(330.1)

- 5.15. The actuarial advisor has estimated the IAS26 liability for the Southwark Fund at 31 March 2013 would be of the order of £1,640 million on market conditions at 31 March 2013 (£1,500 million at March 2012) compared to the £1,399 million calculated as at 31 March 2010.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

6. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

- 6.1. The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 5. This estimate is subject to significant variances based on changes to underlying assumptions.

7. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

- 7.1. The Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This applies particularly to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied. The actuarial position is set out in Note 5 and the critical judgements applied are explained in Note 6.

8. EVENTS AFTER THE BALANCE SHEET DATE

- 8.1. Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified: those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Adjusting event

- 8.2. In June 2013, the Pension Fund received £1.003 million from the London Pension Fund Authority in respect of the bulk transfer of staff formerly employed by WS Atkins. As the bulk transfer occurred before 31 March 2013, the accounts have been adjusted to reflect the transaction as at 31 March 2013

Non adjusting event

- 8.3. Henderson Global Investors, the property managers for the fund commenced the purchase of an additional investment property at the end of March 2013 and the sale was completed on April 10, 2013. The property was acquired for £5.750 million, this effectively reduced the cash and deposits held by Henderson at year end from £13.390 million to £7.640 million in April 2013 (please see note 16.8). As the acquisition occurred after 31 March 2013, the accounts have not been adjusted.

9. CONTRIBUTIONS

- 9.1. Contributions represent the total amount receivable from employees and employers of the scheme. Contributions to the fund are analysed as follows:

	2012/13		2011/12			
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark Council	(8,878)	(30,318)	(39,196)	(9,340)	(34,880)	(44,220)
Admitted bodies	(396)	(1,354)	(1,750)	(430)	(1,445)	(1,875)
Scheduled bodies	(583)	(1,342)	(1,925)	(531)	(1,304)	(1,835)
Total Contributions	(9,857)	(33,014)	(42,871)	(10,301)	(37,629)	(47,930)

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

9.2. Contributions receivable from employers are shown below:

	2012/13 £000	2011/12 £000
Normal	(20,006)	(20,603)
Early retirement strain	(2,287)	(6,822)
Deficit funding	(10,721)	(10,386)
Augmentations	-	182
Total contributions from employers	(33,014)	(37,629)
Contributions from employees	(9,857)	(10,301)
Total Contributions	(42,871)	(47,930)

9.3. During 2012/13 employees made Additional Voluntary Contributions (AVCs) of £336,007 (£123,742 in 2011/12). AVCs are managed by external providers who invest them separately from the rest of the Pension Fund. The main AVC provider is Scottish Equitable, with Prudential being the provider for those employees who are members of the London Pension Fund Authority. AVCs are not included in the Pension Fund Accounts in accordance with the Pension Scheme (Management and Investment of Funds) Regulations 2009, section 4(2)(b). The value of the AVCs at 31 March 2013 was £1.697 million (£1.281 million at 31 March 2012).

10. TRANSFERS IN FROM OTHER PENSION FUNDS

10.1. Transfers in from other pension funds were as follows:

	2012/13 £000	2011/12 £000
Group transfers	(2,198)	-
Individual transfers	(4,294)	(7,719)
Total transfers in from other pension funds	(6,492)	(7,719)

10.2. Group transfers relate to staff transferred in from the following employer bodies; Prospects (£0.873 million), Balfour Beatty (£0.322 million) and WS Atkins (£1.003 million). The transfer from WS Atkins is an adjusting post balance sheet event reported in note 8.2.

11. BENEFITS PAYABLE

11.1. The total below shows the total benefits payable grouped by entities:

	Pensions £000	Lump sums £000	2012/13 Total £000	Pensions £000	Lump sums £000	2011/12 Total £000
Southwark Council	37,126	6,846	43,972	34,950	13,640	48,590
Admitted bodies	965	317	1,282	827	610	1,437
Scheduled bodies	104	228	332	80	107	187
Total Contributions	38,195	7,391	45,586	35,857	14,357	50,214

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

11.2. The table below shows the types of benefit payable.

	2012/13 £000	2011/12 £000
Pensions	38,195	35,857
Commutation of pensions and lump sum retirement benefits	6,270	13,004
Lump sums – death benefits	1,121	1,353
Total benefits payable	45,586	50,214

12. LEAVERS

12.1. Payments to and on account of leavers are classified as follows:

	2012/13 £000	2011/12 £000
Refund of contributions	11	8
State Scheme Premiums	1	-
Individual transfers out to other schemes	4,359	6,166
Total payments	4,371	6,174

13. ADMINISTRATIVE EXPENSES

13.1. Administrative expenses to the fund are analysed as follows:

	2012/13 £000	2011/12 £000
Southwark Council recharges	845	917
Audit fees	19	32
Total administrative expenses	864	949

14. INVESTMENT INCOME

14.1. A break-down of the investment income shown in the accounts is as follows

	2012/13 £000	2011/12 £000
Dividends from equities	(4,934)	(8,369)
Income from pooled investment vehicles	(2,582)	(2,626)
Net rent from properties	(6,460)	(6,117)
Interest on cash deposits	(72)	(64)
Other income	(56)	(73)
Total investment income	(14,104)	(17,249)

14.2. Other income includes £39,365 of income received from stock lending (£57,712 in 2011/12).

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

15. INVESTMENT EXPENSES

15.1. A break-down of the investment expenses shown in the accounts is as follows

	2012/13 £000	2011/12 £000
Management fees	2,362	
Custody fees	45	43
Performance monitoring service	30	31
Actuarial fees	154	192
Other	24	-
Total investment expenses	2,615	4,425

16. INVESTMENT ASSETS

16.1. Investment assets shown in the net asset statement are analysed below:

2012/13	Total 31/3/13 £000	Analysed by			
		Quoted (UK) £000	Quoted (Overseas) £000	Unquoted (UK) £000	Unquoted (Overseas) £000
Fixed Interest Securities – Public Sector	27,547	23,991	3,556	-	-
Fixed Interest Securities – Other	-			-	-
Equities	82,989	11,915	71,074		-
Index linked securities	75,193	75,193	-	-	-
Managed Funds – Property (Freehold)	72,230	-	-	72,230	
Managed Funds – Property (Leasehold)	8,650	-	-	8,650	-
Unit Trusts – Property	40,954	40,954		-	-
Unitised insurance policies	662,306	140,608	521,698	-	
Derivatives Forward Currency	80	-	-	-	80
Cash Deposits	4,796	-	-	4,796	-
Total investment assets	974,745	292,661	596,328	85,676	80
Investment Liabilities: Derivatives Forward Currency	-	-	-	-	-
Net Investment Assets	974,745	292,661	596,328	85,676	80

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

2011/12	Total 31/3/12 £000	Analysed by			
		Quoted (UK) £000	Quoted (Overseas) £000	Unquoted (UK) £000	Unquoted (Overseas) £000
Fixed Interest Securities – Public Sector	26,794	23,602	3,192	-	-
Fixed Interest Securities – Other Equities	101,010	101,010	-	-	-
Index linked securities	341,632	21,342	320,290	-	-
Managed Funds – Property (Freehold)	73,541	73,541	-	-	-
Managed Funds – Property (Leasehold)	74,480	-	-	74,480	-
Unit Trusts – Property	9,670	-	-	9,670	-
Unitised insurance policies	46,224	46,224	-	-	-
Derivatives Forward Currency	184,694	24,010	160,684	-	-
Cash Deposits	88	-	-	-	88
	4,880	-	-	4,880	-
Total investment assets	863,013	289,729	484,166	89,030	88
Investment Liabilities: Derivatives Forward Currency	-	-	-	-	-
Net Investment Assets	863,013	289,729	484,166	89,030	88

Reconciliation of movements in investments

16.2. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Value at 31/3/12 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/3/13 £000
Fixed Interest:						
UK public sector	23,602	7,894	(12,566)	5,061	-	23,991
UK quoted	101,010	-	(108,071)	7,061	-	-
UK Equities	21,342	1,116	(14,415)	3,872	-	11,915
Overseas public sector	3,192	20,701	(20,594)	257	-	3,556
Overseas Equities	320,290	37,207	(296,475)	10,052	-	71,074
Index linked Securities	73,541	1,642	(7,880)	7,890	-	75,193
Managed Funds:						
Property (freehold)	74,480	-	-	(2,250)	-	72,230
Property (leasehold)	9,670	-	-	(1,020)	-	8,650
Unit Trusts - Property	46,224	7,196	(7,191)	(5,275)	-	40,954
Unitised insurance policies	184,694	429,805	(34,974)	82,781	-	662,306
Derivatives:						
Forward currency	88	608	(1,192)	576	-	80
Cash Deposits	4,880	197	(266)	(15)	-	4,796
Total Net Investment Assets	863,013	506,366	(503,624)	108,990	-	974,745
Cash held at managers	7,229				6,852	14,081
Investment Debtors	1,464				1,146	2,610
Total Net Investments	871,706	506,366	(503,624)	108,990	7,998	991,436

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

	Value at 31/3/11	Purchases	Sales	Change in market value	Cash movement	Value at 31/3/12
	£000	£000	£000	£000	£000	£000
Fixed Interest:						
UK public sector	23,453	7,899	(12,165)	4,415	-	23,602
UK quoted	92,924	-	(150)	8,236	-	101,010
UK Equities	21,928	4,244	(4,350)	(480)	-	21,342
Overseas public sector	-	12,863	(9,596)	(75)	-	3,192
Overseas Equities	306,220	49,690	(40,989)	5,369	-	320,290
Index linked Securities	70,368	7,130	(16,900)	12,943	-	73,541
Managed Funds:						
Property (freehold)	57,665	16,600	-	215	-	74,480
Property (leasehold)	6,500	3,520	-	(350)	-	9,670
Unit Trusts - Property	56,234	20	(9,845)	(185)	-	46,224
Unitised insurance policies	188,892	12,615	(3,650)	(13,163)	-	184,694
Derivatives:						
Forward currency	(81)	585	(827)	411	-	88
Cash Deposits	4,151	1,828	(1,788)	30	659	4,880
Total Net Investment Assets	828,254	116,994	(100,260)	17,366	659	863,013
Cash held at managers	10,705	-	-	-	(3,476)	7,229
Investment Debtors	1,431	-	-	-	33	1,464
Total Net Investments	840,390	116,994	(100,260)	17,366	(2,784)	871,706

- 16.3. In May 2012, the Pension Fund appointed Legal and General Investment Management and BlackRock to manage its passive equities and bonds portfolios, with funds transitioned in July 2012. The transition resulted in significant movement of funds between some asset classes, notably overseas equities, fixed interest securities and unitised insurance policies, the net effect of which are disclosed within purchases (£388.7 million) and sales (£391.9 million).
- 16.4. The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, our active equity fund manager to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.
- 16.5. Cash held by Henderson on deposit and current accounts was £4.796 million and £2.595 million respectively (£4.810 million and £2.542 million at 31 March 2012). A further £6.000 million was being held in an escrow account in anticipation of completion of the purchase of an investment property in early April. Hence the total cash held at year end was £13.390 million (£7.352 million at 31 March 2012). Henderson's strategy is to continue to look for the right opportunity to invest within the property market thereby reducing cash holdings in the long term (see note 8.3).
- 16.6. The total amount of direct transaction costs on all investment types was £3.006 million (£2.924 million in 2011/12), made up of equities £0.166 million (£0.083 million in 2011/12) and property £2.840 million (£2.841 million in 2011/12).
- 16.7. The valuation of direct property managed by Henderson Global Investors is carried out by Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2013. All properties have been valued at market value.
- 16.8. The Statement of Investment Principles can be found in appendix 6 of the pension fund annual report. This can be accessed on the Council's website via the following link. http://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report. Alternatively an electronic copy can be obtained by email from Dave.Howes@southwark.gov.uk or on request from the Strategic Director of Finance and Corporate Services, Southwark Council, Finance and Corporate Services, PO Box 64529, London SE1P 5LX.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

16.9. Investments exceeding 5% within each class of security are as follows:

Asset Class	Fund Manager	Value at 31/3/2013 £000	% within asset class
Fixed interest securities			
United States Government Gilts	BlackRock	3,192	12%
Aquila Life Over 15 Year UK Gilt Index Series 1	BlackRock	23,991	88%
		27,183	100%
Index linked securities			
BlackRock PML Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	75,193	100%
Managed funds (property)			
11/77 Castle Street + 10/18 Castle Meadow, Norwich	Henderson	5,700	7%
190-208 Ingram Street, Glasgow	Henderson	9,650	12%
9 - 11 High Street, Winchester	Henderson	6,000	7%
Cathedral Park, Belmont Industrial Estate, Durham	Henderson	4,600	6%
Units 1, 2, 4 and 7 Edinburgh Interchange, Newbridge	Henderson	5,100	6%
Hope House, 45 Great Peter Street, London	Henderson	9,450	12%
Quay Point, Cosham	Henderson	3,850	5%
Bennet Court, Reading	Henderson	3,780	5%
		48,130	60%
Unit Trusts Property			
Aberdeen Eurozone Fund of Funds	Henderson	3,965	10%
Blackrock UK Property Fund	Henderson	5,540	14%
Henderson Central London Office Fund	Henderson	9,936	24%
Henderson UK Retail Fund	Henderson	6,474	16%
Henderson UK Shopping Centre Fund	Henderson	12,932	32%
Hercules Unit Trust	Henderson	2,107	5%
		40,954	100%
Unitised Insurance Policies			
Aquila Life All Stocks Corporate Bond Index Fund		45,973	7%
Aquila Life Emerging Market Fund		35,340	5%
Aquila Life european Equity Index Fund		55,668	8%
Aquila life Japanese Equity Index Fund		45,026	7%
Aquila Life UK Equity Index Fund Series 1		44,440	7%
Aquila Life US Equity Index Fund series 1		155,322	23%
Europe (ex UK) Equity Index Fund		33,721	5%
Investment Grade Corporate bonds All Stocks Index		50,194	8%
North America Equity Index		112,335	17%
		578,019	87%
Cash deposits			
Liquidity fund cash deposit	Henderson	4,795	100%

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Asset Class	Fund Manager	Value at	% within
Security Description	Account Name	31/3/2012	asset class
Fixed interest			
Aquila Life corporate bond index all stock series 1	BlackRock	101,009	79%
Aquila Life over 15 year UK gilt index series 1	BlackRock	23,602	18%
		124,611	95%
Index Linked Securities Total			
BlackRock PML Aquila Life over 5 years IL index fund series 1	BlackRock	73,541	100%
Managed Funds			
190-208 Ingram Street, Glasgow	Henderson	9,650	11%
Hope House, 45 Great Peter Street, London	Henderson	8,650	10%
11/77 Castle St and 10/18 Castle Meadow, Norwich	Henderson	5,975	7%
9/11 High Street, Winchester	Henderson	5,950	7%
Cathedral Park, Belmont industrial estate, Durham	Henderson	5,000	6%
Units 1, 2, 4 & 7 Edinburgh Interchange, Newbridge	Henderson	4,675	6%
Bennet Court, Reading	Henderson	4,600	5%
Unit 2, Rhosili Road, Northampton	Henderson	4,400	5%
Quay Point, Cosham, Southampton	Henderson	4,250	5%
		53,150	63%
Unit Trusts Property			
Henderson UK retail warehouse fund	Henderson	13,322	29%
Henderson central London office fund	Henderson	9,922	21%
RREEF UK industrial property fund	Henderson	6,581	14%
Henderson UK shopping centre fund	Henderson	5,169	11%
Henderson indirect property fund (Europe)	Henderson	4,659	10%
Aberdeen eurozone fund of funds	Henderson	4,254	9%
Hercules unit trust	Henderson	2,316	5%
		46,224	100%
Unitised Insurance policies			
Aquila Life European equity index series 1	BlackRock	44,652	24%
Aquila Life emerging markets fund inc	BlackRock	33,542	18%
Aquila Life UK equity index fund series 1	BlackRock	23,067	12%
BlackRock emerging markets index fund	BlackRock (warehouse)	22,616	12%
Aquila Life Japanese equity index fund series 1	BlackRock	21,166	11%
Aquila Life pacific rim equity index series 1	BlackRock	20,249	11%
		165,291	89%
Cash deposits			
Liquidity fund cash deposit	Henderson	4,810	99%

16.10. Investments representing more than 5% of the net assets available to pay benefits are as follows:

Name of Investment	Fund Manager	Value at	% of net
		31/3/13	assets
		£000	
BlackRock PML Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	75,193	7%
Aquila Life european Equity Index Fund	Blackrock and Legal & General	55,668	6%
Aquila Life US Equity Index Fund series 1	Blackrock and Legal & General	155,322	16%
		50,194	
Investment Grade Corporate bonds All Stocks Index	Legal & General		5%
North America Equity Index	Legal & General	112,335	11%
Total		448,712	45%

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

16.11. The market value of assets (including cash and accruals) managed by the investment managers at the balance sheet date has been set out in the table below.

Fund Manager	Market value of fund at 31/3/13	% market value held at 31/3/13	Market value of fund at 31/3/12	% market value held at 31/3/12
	£000	%	£000	%
BlackRock	364,640	36.81	495,216	56.81
BlackRock (warehouse)	96,798	9.77	162,957	18.70
Alliance Bernstein (Growth)	27		11	
Alliance Bernstein (Value)	148	0.01	32	
Legal & General Investment Managers	300,640	30.35	-	
Newton Investment Management	92,021	9.29	75,763	8.69
Henderson Global Investors	137,162	13.77	137,727	15.80
Total	991,436	100.00	871,706	100.00

17. CURRENT ASSETS AND LIABILITIES

17.1. The current assets of the fund are analysed as follows:

	2012/13 £000	2011/12 £000
Contribution due from employers	977	2,196
Other current assets	4,163	1,500
Cash at managers	14,518	7,229
Cash and bank	2,555	5,521
Total	22,213	16,446

17.2. The amount of current liabilities at 31 March 2013 was £2.261 million (£3.312 million at 31 March 2012). There were no unpaid benefits at the end of the period and the current liabilities comprise mainly amounts owed to LB Southwark for support services (£0.135 million Note 9), professional fees (£0.559 million) and taxes (£0.537 million).

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

18.1. Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. They are carried in the net assets statement at fair value and are analysed as follows:

	2012/13 £000	2011/12 £000
Financial assets		
Loans and receivables	22,213	16,446
Financial assets at fair value through profit or loss	974,745	863,013
Financial liabilities		
Financial liabilities at amortised cost	(2,262)	(3,312)
Financial liabilities at fair value through profit or loss	-	-
Total	994,696	876,147

18.2. The Pension Fund's activities in relation to financial instruments expose it to a variety of financial risks. These risks and how they are managed are set out in Notes below.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Credit Risk

- 18.3. This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid out. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.
- 18.4. The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity Risk

- 18.5. This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However this trend has begun to change. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.
- 18.6. The Fund currently has two bank accounts. One is held by the Global Custodian and holds cash relating to investment activities, the other is the Pension Fund Bank Account which holds the cash relating to member activities.
- 18.7. There is a strategy in place to ensure that if the Fund found itself in a position where it did not have the funds available to meet its commitments, alternative moneys could be drawn down. Funds could be called back from investment managers within a short period of time. Periodic cash flow forecasts are prepared to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

Market Risk

- 18.8. Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix
- 18.9. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.
- 18.10. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price Risk – Sensitivity Analysis

- 18.11. Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.
- 18.12. The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.
- 18.13. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Price Risk – Sensitivity Analysis

18.14. Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

2012/13				
Asset Type	Value £000	% Change	Value on Increase £000	Value on Decrease £000
Total Equity	649,127	12.35%	729,294	568,960
UK Govt Bonds	23,991	10.16%	26,428	21,554
UK Corp Bonds	45,973	4.61%	48,093	43,854
Overseas Corporate Bonds	50,194	7.40%	53,909	46,480
UK Index Linked	75,193	8.33%	81,456	68,929
Property	121,834	2.45%	124,819	118,849
Cash	22,429	0.02%	22,434	22,425
Forward Currency	80	0.00%	80	80
Investment Debtors	2,615	0.00%	2,615	2,615
Total Assets	991,436		1,089,128	893,746

2011/12				
Asset Type	Value £000	% Change	Value on Increase £000	Value on Decrease £000
Total Equity	529,518	14.90%	608,416	450,620
UK Govt Bonds	23,602	10.60%	26,104	21,100
UK Corp Bonds	101,010	5.10%	106,162	95,858
UK Index Linked	73,541	7.60%	79,130	67,952
Property	130,374	7.00%	139,500	121,248
Cash	12,109	0.00%	12,109	12,109
Forward Currency	88	0.00%	88	88
Investment Debtors	1,464	0.00%	1,464	1,464
Total Assets	871,706		972,973	770,439

18.15. This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid out. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

18.16. The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

18.17. The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

18.18. Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Interest Rate Risk

18.19. The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

18.20. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Interest Rate Sensitivity Analysis

18.21. The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

18.22. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

Asset type	Carrying amount as at 31 March 2013 £000	Change in year in the net assets available to pay benefits	
		+100bps £000	-100bps £000
Cash and Cash Equivalents	4,796	48	(48)
Cash Balances	14,081	141	(141)
Fixed Interest Securities	99,184	992	(992)
Total change in net assets available	118,061	1,181	(1,181)

Asset type	Carrying amount as at 31 March 2012 £000	Change in year in the net assets available to pay benefits	
		+100bps £000	-100bps £000
Cash and Cash Equivalents	4,880	49	(49)
Cash Balances	7,229	72	(72)
Fixed Interest Securities	127,804	1,278	(1,278)
Total change in net assets available	139,913	1,399	(1,399)

Currency Risk

18.23. Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£ Sterling). The fund holds both monetary and non-monetary assets denominated in currencies other than £ Sterling.

18.24. The fund's currency risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk – Sensitivity Analysis

18.25. Following analysis of historical data in consultation with the fund investment advisers, the council considers the likely volatility associated with foreign exchange rate movements to be 5.3% (9.9% for 2011/12).

18.26. A 5.3% fluctuation in the currency is considered reasonable based on the fund adviser's analysis of long term historical movements in the month-end exchange rates over a rolling 36-month period.

18.27. This analysis assumes that all other variables, in particular interest rates, remain constant.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

18.28. A 5.3% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Asset Value as at	Change to Net Assets Available	
	31 March 2013	to Pay benefits	
	£000	+5.3%	-5.3%
Overseas Equities	592,772	624,189	561,355
Overseas Public Sector	3,556	3,745	3,368
Global Bonds	50,194	52,855	47,534
Total Change in Assets Available	646,522	680,789	612,257

Currency Exposure - Asset Type	Asset Value as at	Change to Net Assets Available	
	31 March 2012	to Pay benefits	
	£000	+9.9%	-9.9%
Overseas Equities	319,735	351,389	288,082
Overseas Public Sector	3,192	3,508	2,876
Total Change in Assets Available	322,927	354,897	290,958

19. RELATED PARTY TRANSACTIONS

- 19.1. The Pension Fund 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.
- 19.2. Through its administration of the Fund, the Council has a related party interest with the Pension Fund, and the costs charged by the Council are disclosed in Note 36.
- 19.3. Management of the Pension Fund is the responsibility of the Council's Strategic Director of Finance and Corporate Services. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 13. The Strategic Director of Finance and Corporate Services' remuneration is disclosed in Note 36 of the Council's Statement of Accounts.
- 19.4. The council is also the single largest employer of members of the pension fund and contributed £30.3 million to the fund in 2012/13 (£34.9 million in 2011/12).
- 19.5. There were no related party transactions other than those disclosed elsewhere in the accounts.

20. CONTINGENT ASSETS AND LIABILITIES

- 20.1. There are no contingent asset or liabilities.

PENSION FUND ACCOUNTING POLICIES

1. Summary of significant accounting policies

Fund account – contributions income

- 1.1. Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.
- 1.2. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Fund account – transfers to and from other schemes

- 1.3. Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.
- 1.4. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Fund account – investment income

- 1.5. Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- 1.6. Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- 1.7. Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- 1.8. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.
- 1.9. Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and or losses during the year.

Fund account – benefits payable

- 1.10. Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Fund account – taxation

- 1.11. The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Fund account – administrative expenses

- 1.12. All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Fund account – investment management expenses

- 1.13. All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net assets statement – financial assets

- 1.14. Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund. The values of investments as shown in the net assets statement have been determined as follows:

- Equity investments, unit trusts and unitised insurance policies at their market bid price on 31 March each year.
- Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.
- End of year balances on foreign currency transactions have been translated at the exchange rate on 31 March each year.
- Property assets have been included in the accounts at market value as at 31 March each year. The valuation of direct property managed by Henderson Global Investors is carried out each year by an independent valuer.
- Investment assets have been valued and included in the accounts at bid price, except for direct property (freehold and leasehold) which have been valued at market value and derivative contracts which are valued on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

- 1.15. The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

- 1.16. Cash comprises cash in hand and demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

- 1.17. The cost of acquisitions of investment assets including property is treated as revenue expenditure.

- 1.18. There are no restrictions affecting the ability of the scheme to realise its assets at the values quoted.

Net assets statement – financial liabilities

- 1.19. The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

Actuarial Present Value of Promised Retirement Benefits

- 1.20. The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note in the net assets statement.

Additional voluntary contributions

- 1.21. The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Scottish Equitable as its AVC provider. In accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093), AVCs are not included in the accounts but are disclosed as a note only.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

GLOSSARY

ACCOUNTING STANDARDS

These are the 'proper accounting practices' that the council must follow. They comprise laws and regulations, which are set out in Acts of Parliament and in codes of practice recommended by professional bodies (e.g. the Best Value Accounting Code of Practice). These standards ensure that all organisations within a particular sector report their financial performance the same way, which enables the financial performance to be compared with other organisations.

ACCRUAL

An accounting principle where income and expenditure is recognised as it is earned or spent rather than when money is received or paid. This concept is reflected in the accounts by the inclusion of debtors and creditors.

ACTUARY

A person who assesses risks and costs, in particular those relating to investments and insurance.

AMORTISATION

The writing off of a loan or other balance to the Comprehensive Income and Expenditure Statement over a period of time.

ASSET

An item having value to the council in monetary terms. Assets are categorised as either current or fixed:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A fixed asset provides benefits to the council and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

BALANCE SHEET

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

BALANCES

- (1) The amounts remaining at the year-end, on the various funds and accounts of the council.
- (2) Unallocated reserves held to meet future unpredictable expenditure demands.

BUDGET

Statement of the spending plans for the year.

BUSINESS RATES

See National Non Domestic Rates.

CAPITAL ADJUSTMENT ACCOUNT

An account to reflect the movements in valuations and financing transactions of the council's fixed assets, arising from disposals, acquisitions, revaluations and impairments.

CAPITAL CHARGES

Depreciation charges made to service department revenue accounts, based on the value of the assets used by the service.

CAPITAL EXPENDITURE

Expenditure on assets that has a lasting value, generating benefits for many years. For example land, buildings and large items of equipment such as computers or vehicles.

CAPITALISATION

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

CAPITAL RECEIPTS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)

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

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

CIPFA/LASAAC

The joint committee of CIPFA and the Local Authority Scotland Accounts Advisory Committee, who together are responsible for producing the Code.

CODE

The Code of Practice on Local Authority Accounting the United Kingdom. Issued annually by CIPFA, this is a code of proper accounting practice with which local authorities in England and Wales must comply in preparing their financial statements; in particular it provides guidance on differences from Generally Accepted Accounting Practice as a result of the government's legislative requirements.

COLLECTION FUND

This is a statutory account, which records income and expenditure on Council Tax, National Non Domestic Rates, payments to the precepting authorities and transfers to the council's General Fund.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

CONTINGENCIES

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

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's accounts.

CONTINGENT LIABILITY

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

COUNCIL TAX

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

COUNCIL TAX BENEFIT

Assistance provided by the council to adults on low incomes to help them pay their Council Tax bill. The cost to the council of Council Tax benefit is largely met by government grant.

CREDITORS

Organisations and individuals to whom the council owes money.

CURRENT LIABILITIES

Those amounts which will become payable or could be called upon in the next accounting period, e.g. creditors, debtors and cash overdrawn.

CURRENT SERVICE COST (PENSIONS)

The increase in value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

CURTAILMENT

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

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

DCLG

Department for Communities and Local Government

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13

DEBTORS

Organisations and individuals who owe money to the council.

DEFRA

Department of Environment, Food and Rural Affairs

DEPRECIATION

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

DSO (DIRECT SERVICE ORGANISATION)

A term used to cover both Direct Labour Organisations (DLO) established under the Local Government and Planning Act 1980 and DSOs set up under the Local Government Act 1988. This is a unit operating within the council on a quasi-contractual footing, which provides services won in competition with private sector firms.

EARMARKED RESERVES

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

FINANCE LEASES

These are financing arrangements with a third party. A finance lease transfers substantially all of the risks and rewards of ownership to the lessee. It is often a lease of land or buildings and is treated under the government's capital control system as a credit arrangement as if it were similar to borrowing (see operating leases).

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT (FIAA)

An account to reflect the movements in assets and liabilities measured at fair value, where the movement in fair value is taken to the Income and Expenditure Account but cannot be charged to Council Tax.

FINANCIAL YEAR

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

GENERAL FUND

This is the main revenue account of the council and includes the net cost of all services (except council housing) financed by local tax payers and government grants.

HISTORIC COST

The actual amount of money originally paid for a particular item as opposed to its current value.

HOUSING REVENUE ACCOUNT (HRA)

This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the council's housing stock. The government defines the items of income and expenditure that must be included in the account. Under the Local Government and Housing Act 1989, this account is kept separate from the General Fund and the account must balance. The council is not allowed to make up any deficit in the HRA from the General Fund.

HOUSING SUBSIDY

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

HRA

See Housing Revenue Account above.

IAS

See International Financial Reporting Standards

IFRS

See International Financial Reporting Standards

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

From 2010/11 local authorities are required to present their Accounts in a form consistent with IFRS as set out by the Code. IFRS is a set of accounting standards that are used consistently internationally and by organisations within the UK, that allow readers of the Accounts ease of use in comparing one set of accounts with another. IFRS is made up of set of numbered standards referenced, for example International Accounting Standard 19 (IAS 19) (Employee benefits) or International Financial Reporting Standard 5 (IFRS 5) (Non-current assets held for sale)

IMPAIRMENT

A reduction in the value of a fixed asset, greater than normal depreciation, through economic consumption or through a fall in price.

INFRASTRUCTURE ASSETS

A classification of fixed assets, whose life is of indefinite length and which are not usually capable of being sold, e.g. highways, street lighting and footpaths.

INTANGIBLE ASSETS

Non-financial assets that do not have physical substance but are identifiable and are controlled by the council, for example, purchased software licences, patents and trademarks.

INVESTMENT PROPERTIES

Interest in land and/or buildings, which are held for their investment potential or rental income.

LIABILITY

A liability is where the council owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A long term liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

MEMORANDUM ACCOUNT

An account that is not part of the council's formal statutory accounts and is included in the statement for added information.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year and set aside as provision for credit liabilities, as required by the Local Government Act 2003.

MRA

Major Repairs Allowance

MRR

Major Repairs Reserve

NATIONAL NON DOMESTIC RATES (NNDR)

Another name for business rates. NNDR are collected by each council and paid into a central pool managed by the government. The government, in turn, pays back to each council their share of the pool at a standard rate per head of the local adult population.

NET EXPENDITURE

Gross expenditure less specific service income but before deduction of Revenue Support Grant and local taxation.

NON DISTRIBUTED COSTS

These include overheads from which no user now benefits and which should not be apportioned to services. Examples include spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

OPERATING LEASES

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

OPERATIONAL ASSETS

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

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

OUTTURN

The actual level of income and expenditure for the year.

PFI

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

PP&E

See property, plant and equipment

PRECEPT

A levy made by those authorities that do not collect local taxation themselves but require other bodies to collect the required income from local tax payers on their behalf. In London, the precepting body is the Greater London Authority (GLA).

PROPERTY, PLANT AND EQUIPMENT

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

PROVISIONS

Amounts set aside for liabilities and losses which are likely to occur but where the exact amount or timing is uncertain. Payments or contributions to provisions are counted as service expenditure when made. The provision is released into the service revenue account as income to offset the expenditure liability when it arises.

PWLB

The Public Works Loan Board, a central government agency, which is used to fund local government borrowing.

RECHARGES

The transfer of costs from one account to another.

REFCUS

See Revenue Expenditure Funded from Capital Under Statute

RESERVES

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure that is not related to fixed assets but statutory regulations allow the cost to be funded from capital resources. The expenditure is recorded in the Comprehensive Income and Expenditure Statement as it arises.

REVENUE SUPPORT GRANT (RSG)

A grant paid by central government in aid of local authority services in general as opposed to specific grants that may only be used for specific purposes.

REVALUATION RESERVE

An account to reflect the changes in value of the council's assets.

SECTION 31 AGREEMENT

A partnership agreement, made under section 31 of the Health Act 1999, between a local authority and an NHS body to jointly provide certain functions of the NHS body and certain health related functions of the local authority, using a pooled funding arrangement. Now repealed and replaced by Section 75 (see below).

SECTION 75 AGREEMENT

A partnership agreement, made under section 75 of the National Health Service Act 2006, between a local authority and an NHS body to jointly provide certain functions of the NHS body and certain health related functions of the local authority, using a pooled funding arrangement.

**SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2012/13**

SECTION 106 FUNDING

Payments received from developers to compensate for additional infrastructure costs required as a result of a new development.

SPECIFIC GRANTS

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

WHOLE OF GOVERNMENT ACCOUNTING

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector. This requires all public sector bodies to compile and report their accounts in a consistent manner to enable consolidation in WGA.