

Statement of accounts

Financial Management Services

2006-2007

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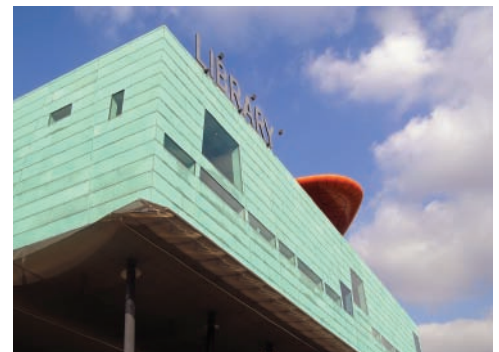


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FOREWORD

This Statement of Accounts is produced in accordance with current legislation and in particular with the Accounts and Audit Regulations 2003 and 2006.

The Statement of Accounts provides information about the Council's expenditure and income for the year and its overall financial position at the end of the financial year. In reporting on how the Council's finances have been managed and its financial position, the Statement of Accounts forms a key part of the comprehensive performance assessment (CPA) process. This aims to measure the effectiveness of services being delivered and value for money being achieved.

For 2005/06, the Audit Commission judged that the Council's Use of Resources was "Good". While this matched the result for the previous two years, given the ever more demanding and wider assessment criteria, we remain very pleased with this outcome.

However, despite this very encouraging result, we will continue to work to promote and enhance the financial management and standing of the Council so that we can continue to support the quality and improvement of the services that we provide.

We will be guided especially by the advice offered by the District Auditor in his annual audit letter. He reminds us in particular of the need to continuously monitor our overall finances given the significance of the Council's investment plans for regeneration and housing. He further advises that to ensure that these developments stay on track, the Council should continue to ensure that its risk and project management processes and governance arrangements remain robust. I support this guidance and will be taking appropriate steps to ensure that the financial standing of the Council is maintained and strengthened within future strategies.

The Accounts were presented to and approved by the Audit Committee on 28th June 2007. The Accounts have now been audited, and the District Auditor's opinion and certificate on the Accounts are included within these Statements.

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



Duncan Whitfield
Finance Director

28th September 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of Southwark Council for the year ended 31st March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Southwark Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

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

- The financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2nd April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

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

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31st March 2007 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31st March 2007, and the amount and disposition of the fund's assets and liabilities as at 31st March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.



Kash Pandya
District Auditor

30th September 2007

Audit Commission
1st Floor Millbank Tower
London SW1P 4HQ

CONCLUSION ON ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

Authority's responsibilities

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

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

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Southwark Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best value performance plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 5 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



Kash Pandya
District Auditor

30th September 2007

Audit Commission
1st Floor Millbank Tower
London SW1P 4HQ

SUMMARY OF THE ACCOUNTS

1. THE STATEMENT OF ACCOUNTS

- 1.1 This section provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main features of the Council's financial position at 31st March 2007.
- 1.2 The Council's Accounts for the year 2006/07 are set out in the following pages. The presentation of the statements has changed significantly from that in previous years. This is because the SORP (the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice) for the 2006/07 Accounts has changed from that required to be used for the 2005/06 Accounts. The Accounts have now been prepared in accordance with the new SORP. Comparative figures for 2005/06 have also been restated to be in accordance with the new SORP.
- 1.3 The main changes to previous years' Accounts as a result of the new SORP include:
- The introduction of new statements - the Income and Expenditure Account and the Statement of Movement on the General Fund Balance replacing the single Consolidated Revenue Account, and a new item, the Statement of Total Realised Gains and Losses
 - Certain items in the Balance Sheet (deferred credits, deferred debits, and the grants deferred account) have been moved from the net equity or reserve section to current assets and liabilities
 - A prescribed order for the most significant statements, which is listed below
 - The removal of an internal "notional interest" charge in allocating capital finance charges to services. This also removes the need for the Asset Management Revenue Account previously included in the Consolidated Revenue Account, and
 - The amortisation of capital grants is now charged direct to individual services rather than the Asset Management Revenue Account
- 1.4 Accounting standards, and how they apply to local authorities, continue to change. The SORP planned for the 2007/08 Accounts will change how the 2006/07 Accounts are presented here, mainly around the treatment of loan debt and investments, and in accounting for fixed assets. The 2008/09 Accounts will then further change, to comply with International Accounting Standards, which will be a common theme across the public sector, and under the requirements of Whole of Government Accounting.
- 1.5 The statements now included in these Accounts, and in the order prescribed by the SORP, are:
- The Income and Expenditure Account - covering income and expenditure on all goods and services relating to the Council's activities
 - The Statement of Movement on the General Fund Balance - reconciles the Income and Expenditure Account with charges required to be made by statute, and balances against the need to raise Council Tax
 - The Statement of Total Recognised Gains and Losses - a new statement showing the movement in the value of the Council's assets or net worth

SUMMARY OF THE ACCOUNTS

- The Balance Sheet - which sets out the financial position of the Council as at 31st March 2007. It incorporates the balances on the Council's revenue and capital accounts, consolidated advances and borrowing pool and the Collection Fund. The assets and liabilities of the Pension Fund and Trust Funds are excluded and are shown separately
- The Cash Flow Statement - which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes
- Notes to the above Accounts
- The Housing Revenue Account (HRA) statements - which show income and expenditure on Council Housing. Similar to the main statements, this is now made up of the HRA Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, and notes to these accounts
- The Collection Fund - which shows transactions of the charging authority relating to Non Domestic Rates and Council Tax, and the way these have been distributed to preceptors and the General Fund
- Trust Funds and other balances - which show the movements and the final balances on the various trusts and bequests administered by the Council
- The Pension Fund statements - which set out the financial position of the Council's Pension Fund. The statements include the Pension Fund Account, the Pension Fund Net Assets Statements, and notes to these accounts.

2. THE REVENUE BUDGET

- 2.1 As forecast in the quarterly reports to the Executive through 2006/07, the General Fund budget outturn shows a broadly balanced overall position, although there were some significant variations in Adult Social Care (£4.4 million) and Children's Social Care (£0.9 million) due largely to placement and care package pressures. These pressures were offset within the General Fund by additional interest earnings on balances (£4.26 million) and the provision set aside for prudential borrowing (£1 million) which was not required in 2006/07. The planned use of corporate reserves offset specific project and one-off costs, including Southwark Schools for the Future (£2.14 million), Every Child Matters (£1.08 million) and Peckham Pulse (£2.15 million). Also, as planned in setting the budget for 2006/07, £1.488 million of the Local Authority Business Growth Incentive (LABGI) grant was utilised to support the overall General Fund budget. The General Fund balance as at 31st March 2007 is £16.8 million, an increase of £1.3 million over the previous year. The HRA balance stands at £37.4 million, an increase of £5.4 million. The Collection Fund deficit as at 31st March 2007 was £1.3 million.

3. PENSIONS

- 3.1 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 as operated under the Local Government Pension Scheme, the accounts of which are at page 81. Other pension schemes are operated by the London Pension Fund Authority (LPFA) and the Teachers' Pensions Agency (TPA).

SUMMARY OF THE ACCOUNTS

3.2 The Council's own accounts are prepared in accordance with Financial Reporting Standard 17 - Retirement Benefits (FRS 17), which requires that the accounts reflect the employees' pension rights as they are earned in a year, which is different from the level of contributions being made by the employees and the employer in the year towards those pensions. Each year at 31st March actuaries assess the value of assets in the pension funds, the difference between contributions made and benefits earned, and project these forward using factors, as set out in Note 16 page 38, to calculate a figure representing the outstanding liability of the Council to each pension fund. These liabilities are:

- For the Council's own pension fund, the liability of the Council to its fund at 31st March 2007 was £244.401 million, a reduction of £3.199 million from £247.600 million as at 31st March 2006. The reduction in the balance is from an actuarial gain of £6.700 million, the difference of £3.501 million being due to costs required under FRS 17 being higher than the actual level of contributions made in the year.
- The liability of the Council to the LPFA reduced by £1.419 million, from £12.930 million to £11.511 million at 31st March 2007, as advised by the LPFA's actuaries. The reduction in the liability is largely due to changes in actuarial assumptions for this Fund.
- The TPA is run on a different basis from the others above, and is not required to be accounted for in this way under FRS 17. There is no separate liability included the Council's accounts.

3.3 The operation of the Council's pension fund is regulated by statute. It is revalued every three years, and this valuation is used to set the level of contributions by the Council and the employees towards the fund, rather than considering the pensions rights earned per FRS 17. The assumptions under this valuation use a longer timeframe than FRS 17, and incorporate assumptions on the plan to eliminate any outstanding liability, which again is not taken into account under FRS 17 in assessing the outstanding liability at a fixed point. The last revaluation of the Council's pension fund on this basis was as at 31st March 2004, giving an outstanding liability at that time of £165 million. From this, the actuary recommended the Council, as employer, makes higher contributions to the fund over an 18 year period, which is included within the Council's base budget. The next revaluation is currently in progress as at the time of preparing these Accounts, with a valuation date of 31st March 2007. The revaluation will not affect the assets or liabilities presented in the Balance Sheet, but will be used to determine actual contributions to the Pension Fund from the 2008/09 budget onwards.

4. CAPITAL FINANCING

- 4.1 The Council has set a de minimis of £10,000 for the valuation of fixed assets (£1,000 for DSO assets).
- 4.2 In 2006/07 the Council spent £147 million on capital projects (£152 million 2005/06), including £79 million on Council dwellings and other housing (£90 million 2005/06).
- 4.3 This expenditure was financed from the use of supported borrowing (18%), capital receipts from the sale of assets (24%), grants and other contributions (27%), and contributions from revenue and the Major Repairs Reserve (31%).

SUMMARY OF THE ACCOUNTS

4.4 Capital expenditure under supported borrowing was financed from internal borrowing and the requirement to make the Minimum Revenue Provision. No new long term debt was taken out in the year.

5. FUTURE COMMITMENTS

5.1 CAPITAL PROGRAMME

5.2 The Council has in place a 10 year capital programme aligned with its substantial regeneration programme for the borough. Contractual commitments for the programme as at 31st March 2007 can be analysed over the Council's services as follows:

Service	Contractually Committed Expenditure £m
Education	14.06
Environment & Housing	75.56
Regeneration	1.56
Strategic Services	0.84
Total committed programme	<u>92.02</u>

STATEMENT ON INTERNAL CONTROL 2006/07

1. BACKGROUND

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

2. SCOPE OF RESPONSIBILITY

Southwark Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Southwark Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Southwark Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.

3. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Southwark Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place at Southwark Council for the year ended 31st March 2007 and up to the date of approval of the annual report and accounts.

4. THE COUNCIL'S FRAMEWORK OF INTERNAL CONTROL

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

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

The Community Strategy sets out three strategic themes (people, places and services) and the Corporate Plan, which is agreed by the Council annually, and identifies how the Council will deliver against them. These strategic themes are in turn addressed in the Policy and Resources Strategy which aligns the business and budget planning process and enables members to support, fund and deliver their medium term objectives by matching resources to priorities.

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

A ten-year capital programme has been agreed which is aligned to and includes priorities that are articulated in the Community Strategy. The capital programme includes contingencies for urgent and unavoidable items.

STATEMENT ON INTERNAL CONTROL 2006/07

The authority has a four-year medium-term financial strategy which includes a strategy on reserves and balances to mitigate the risks inherent in the extensive regeneration programme.

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

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

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

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

The executive is the part of the Council which is responsible for most day-to-day decisions. The executive has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council Assembly as a whole to decide. When major decisions are to be discussed or made, these are published in the executive's forward plan in so far as they can be anticipated. Both Council Assembly and executive meetings are normally open to the public unless matters are discussed which must be kept confidential.

Since 1st July 2004, the Council has allowed individual executive decision making, whereby decisions on certain executive functions are taken by an individual member of the executive, rather than by the executive as a whole. The benefits are that decision making is speeded up, the size of agendas of the full executive is reduced, and greater responsibility can be taken by individual members for their areas.

The Council has established eight community councils, which act as a focal point for discussion and consultation on matters that affect the borough. There is also an overview & scrutiny committee and five subcommittees that support the work of the executive and the Council as a whole. They allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. The overview and scrutiny committee may also be consulted by the executive or the Council Assembly on forthcoming decisions and on the development of policy.

The main policy documents of the Council as set out in the policy and budget framework are approved either by the Council Assembly or by the executive and action to facilitate the implementation of policies is generally delegated to strategic directors and delegated further in line with the departmental schemes of management and the Scheme of Delegation for Financial Authority and Accountability. There is robust corporate and departmental support to members in policy and decision making, with report templates to help ensure that members are presented with the appropriate information to make decisions – including the key issues for consideration and advice on financial and legal implications. All member level decisions are made on the basis of reports and recorded.

STATEMENT ON INTERNAL CONTROL 2006/07

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

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

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

The strategic director of legal and democratic services is responsible for certain statutory functions such as acting with the standards committee to maintain legal standards and for the Council's whistle blowing policy. As monitoring officer, she is also responsible for ensuring that decisions made are lawful and fair. The finance director, as the Council's section 151 officer, is responsible for ensuring that the administration of the Council's financial affairs is in compliance with statutory obligations and with all relevant professional codes of practice and for ensuring that decisions made are lawful and financially prudent. Either officer may decide to report to the Council Assembly or executive if they consider that any proposal, decision or course of action is unlawful, would give rise to maladministration, would involve incurring unlawful expenditure or would be likely to cause a loss or deficiency.

Individual responsibilities for compliance are embodied in the performance management scheme.

- ***Embedding risk management in the activity of the authority***

The Council's risk management strategy, which was formally adopted by the Executive in June 2005, describes how the authority manages the risks inherent in achieving its objectives. The authority uses a range of methods for identifying, assessing and managing its risks, as well as implementing a series of actions to ensure that risk management becomes embedded in the culture of the organisation.

Corporately, the finance director is responsible for risk management, with the executive member for resources taking responsibility at member level and the newly-formed audit committee overseeing the risk management process. Strategic directors are responsible for risk management in their departments and each department has a risk champion who provides guidance to managers in identifying and managing their business risks, all of which are recorded and monitored using the corporate risk management system, JCAD.

Risk management is an integral part of business planning and project management across the Council. Business planning templates and guidance notes require consideration of current risks and potential ones over the medium term, and how they are managed and mitigated. Risk management is also an important element of the Prince2 project management methodology, which has been adopted for all the Council's projects.

The Council's internal auditors use a risk-based approach to compiling the annual audit plan and planning individual audits. They also review the risk management process itself.

STATEMENT ON INTERNAL CONTROL 2006/07

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

The Council's Efficiency Strategy was agreed in September 2006 alongside the Medium Term Financial Strategy to ensure that Southwark has a robust four year resources framework within which business plans are delivered. This approach recognises efficiency as a shared responsibility that is integral to the Council's policy and resources strategy.

The Efficiency Strategy incorporates five themes:

- Sustaining efficiency
- Adopting new techniques to assist in driving out efficiency gains
- Challenging the limits that are sometimes placed on achieving efficiency gains
- Removing barriers to realisation of benefits from the efficiency programme
- Making the most of opportunities.

The plan of work that follows from the strategy is structured on four work streams, people, process, property and procurement. Activity is at three levels: strategic, service/management and operational.

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

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

The executive member for resources has portfolio responsibility for the efficiency programme and the strategic director of customer & corporate services is the lead officer.

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

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

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

Performance is monitored at all levels on a regular basis. The corporate plan includes key projects and performance indicators, plus project milestones. Performance is monitored on an exception basis quarterly at meetings of the executive, scrutiny committees and chief officer team. The quarterly performance reports use a traffic light system and include action plans to address underperformance where relevant. At departmental level, departmental business plans form the basis of departmental monitoring. This ensures that performance, budget, risk and project delivery issues are all covered. Departmental level performance is monitored at the senior management team meetings, and there are regular meetings between the strategic director and relevant executive member. The performance management framework is based on a hierarchy of indicators to ensure a key split between strategic deliverables and more specific indicators at a departmental level.

STATEMENT ON INTERNAL CONTROL 2006/07

5. REVIEW OF INTERNAL AUDIT

Regulation 6 of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires the Council to review the effectiveness of its system of internal audit once a year. The Council's system of internal audit was reviewed with reference to the CIPFA Code of Practice for internal audit in local government, which concluded that the system of internal audit showed strong compliance with the Code of Practice (minor exceptions have been addressed through the implementation of an audit committee). Partial compliance was identified in one area, namely the code requirement that 'the Head of Internal Audit is managed by a member of the corporate management team'. Whilst the Head of Audit and Risk reports directly to the Assistant Finance Director (Risk & Financial Control), there is a regular liaison between the Head of Audit and Risk and the Finance Director. Therefore, whilst not strictly in line with the code, it is considered that this provides an adequate reporting mechanism to comply with the essence of the code to allow serious audit issues to be dealt with in an appropriate manner.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS

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

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

- The Council's internal audit coverage, which is planned using a risk based approach. As part of the Council's monitoring arrangements, the internal auditors, PricewaterhouseCoopers, meet monthly with Council staff to report the outcomes of reviews and internal control issues. In their annual report, they provide an overall assessment on the adequacy of the Council's internal control environment and areas of weakness to be addressed.
- External audit express an opinion on the adequacy of the internal audit service and in their annual letter comment on financial aspects of corporate governance and performance management and other reports. The Audit Commission also carry out the comprehensive performance assessment (CPA) and in their annual letter of March 2007, they stated that the Council had another successful year and has continued to deliver service improvements in key corporate priority areas. This is reflected in their conclusion that the Council is improving well and is demonstrating a three-star overall performance.
- The newly formed Audit Committee will agree the annual audit plan and will receive, consider and challenge the internal auditors' Annual Audit Report, the District Auditor's Governance Report, Use of Resources assessment and Annual Audit and Inspection Letter. The committee will also consider reports on risk management, fraud issues, and other internal control/governance issues.
- The monitoring officer has a duty to maintain the constitution, which is reviewed each year by the Council at its annual meeting, and to promote and maintain high standards of conduct through the provision of support to the standards committee.
- Annual self-assessment declarations on the adequacy of the internal control framework in departments, which include action plans to address significant weaknesses in internal control arrangements, are made by strategic directors.

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

STATEMENT ON INTERNAL CONTROL 2006/07

7. SIGNIFICANT INTERNAL CONTROL ISSUES

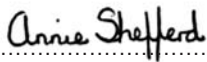
The table which follows identifies those issues that represent the most significant exceptions to the generally sound system of internal control operating within the Council during the year ended 31st March 2007. For each exception identified, the Council's action to resolve the problem is recorded alongside.

Control Exception	Agreed Action
<p>Over the past year the authority has undergone a major restructure to enable it to better meet the increased demands and expectations facing it. To build on the improvements already made, further work is required to enhance governance and accountability across the authority with partnership working being fully captured in the performance management regime. This is particularly the case with anticipated budgetary pressures arising from uncontrollable demand for services (especially in health and social care), the extensive regeneration programme and in the context of reduced resources under Comprehensive Spending Review 2007.</p>	<p>An enhanced approach to performance management has been agreed which will include quarterly performance review 'clinics' to tackle key issues; further integration with business planning, including a review and update of business planning guidance; and greater clarity of roles in the process. A programme of policy reviews is underway at the request of the executive which requires each strategic director to review and update the policy framework of key services, including strategies and practices and the costs of, and outputs from, discretionary services.</p> <p>The medium term financial strategy which was extended from three to four years and which aligns financial priorities with local priorities as set out in the community strategy and corporate plan is being refreshed.</p>
<p>Audit reviews in the past year have identified areas for improvement in contract and project management in several areas and in the management of our partnership arrangements, including tenant management organisations and grants to third party organisations.</p>	<p>Following the creation of the new Major Projects department, the interim strategic director will review the project management arrangements for major projects. In addition, reviews of project activities by the Audit Commission and PricewaterhouseCoopers are programmed for the coming year.</p> <p>Improvements in the monitoring of grants to third parties are underway in departments, and the arrangements for monitoring and supporting tenant management organisations are to be revised.</p>
<p>There are strong imperatives to improve office accommodation within the authority, including the poor state of offices occupied by some staff and the need to provide modern, fit-for-purpose accommodation to support the development of integrated services, for example, children's services.</p>	<p>The Council has agreed an office accommodation strategy which will enable further consolidation of functions and help to promote more efficient working and enhanced performance, through integration of services, the co-location of significant numbers of staff and a reduction in the Council's carbon footprint.</p>

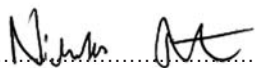
STATEMENT ON INTERNAL CONTROL 2006/07

Control Exception	Agreed Action
<p>A review of the new IT strategy identified an inclusive approach but highlighted a number of areas for consideration, which included clarification on how distributed data and systems would be managed and the role of the IT function within Southwark. Reviews of individual IT systems identified improvements needed in access and security of data.</p>	<p>As part of the new IT strategy, the management and support of ICT has been centralised in the new information services division (ISD) of the corporate and customer services department. All IT security, risk management and business continuity planning will now be covered centrally. A new contract with SERCO, starting in July 2007, will include the introduction of a CITRIX system, which will provide improved security.</p>
	<p>Data management, including standards, policies and procedures is under review by the corporate knowledge management section of ISD.</p>
<p>The internal control environment within the authority has continued to improve and work is ongoing to further improve compliance with all financial regulations, policies, procedures and protocols throughout the authority and there remains scope to further improve overall financial discipline and control</p>	<p>Restructuring within the financial management services department has resulted in greater focus on both audit and governance matters which will help to sustain improvements being made. In particular, additional resources have now been allocated to the authority's counter-fraud arrangements, which should be recognised by improved results from the on-going national fraud initiative exercise.</p>
	<p>Action plans to address the issues raised in internal audit reviews have been agreed and are in the process of being implemented.</p>

Signature of Chair of Audit Committee  Date 28/06/07

Signature of Chief Executive  Date 13.7.07

Signature of Finance Director  Date 2.7.07

Signature of Leader of the Council  Date 5.7.07

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

- 1.1 The general principles adopted in compiling and presenting these accounts are those contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the "SORP"), the Best Value Accounting Code of Practice 2006 ("BVACOP"), and all relevant legislation and statements of good practice.
- 1.2 The 2006/07 Accounts have been presented in accordance with the 2006 SORP, which is different from the 2005 SORP used to compile the 2005/06 Accounts, as explained on page 5. Comparative figures for 2005/06 have been restated to comply with the 2006 SORP.

2. COMPLIANCE WITH ACCOUNTING STANDARDS

EXCEPTIONS TO ACCOUNTING STANDARDS

- 2.1 These statements comply with all relevant accounting standards with the exception of the following:
 - Legislation does not empower local authorities to credit capital receipts to the General Fund (apart from payments of capital receipts to the DCLG, see Note 18 page 45). Capital receipts are applied to finance new capital expenditure, repay outstanding loan debt, or remain unapplied at the end of the financial year.

GROUP ACCOUNTS

- 2.2 At the time of preparing the Accounts, the Council has no interests in other organisations that require consolidation as group accounts. If at a later date the Council acquires, receives or develops interests that require consolidation then the full set of additional group accounts statements will be produced in accordance with the SORP.

SCHOOLS' ACCOUNTS

- 2.3 Schools' accounts, excluding academies, are fully consolidated within the Income and Expenditure Account, Balance Sheet and all other statements and notes. As schools' activities are seen as part of the Local Education Authority function of the Council, the SORP requires inclusion within the single entity accounts of the Council rather than being treated as group accounts.

DEBTORS AND CREDITORS

- 2.4 The Accounts are compiled on an accruals basis, which is a system of recognising income and expenditure attributable to the year rather than when the income or expenditure is actually incurred. Therefore, if goods or services have been received in 2006/07 they are accounted for accordingly. Similarly, income due in for goods and services relating to 2006/07 is accounted for in 2006/07.
- 2.5 Where the amount due is unknown then an estimated amount has been allowed for.

STATEMENT OF ACCOUNTING POLICIES

- 2.6 All interest payable on external borrowing and interest receivable on investments is accounted for in the period to which it relates.

RESERVES AND PROVISIONS

- 2.7 The Balance Sheet contains a number of reserves and provisions. In accordance with the SORP, which incorporates Financial Reporting Standard 12, provisions are sums set aside for liabilities and obligations arising out of the current or previous years' activities but where the exact timing of the payment or the amount to be paid are not certain. Provisions do not reflect continuing contractual commitments or underspends set aside for future use. Reserves are moneys set aside from underspends to meet contractual commitments or future expenditure plans, including meeting risks or liabilities that may arise at a later date.

REPAYMENT OF DEBT

- 2.8 All loans are raised under powers contained in the Local Government Act 2003, and are paid into a pool. Sums are advanced to meet capital expenditure on the various Council services.
- 2.9 Each year the Council is required to charge to revenue a minimum amount for debt redemption, as specified in the Local Government Act 2003. Additional payments may also be made above the minimum required.

ALLOCATION OF CENTRAL ADMINISTRATION EXPENSES OVER SERVICES

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

BASIS OF VALUATION OF INVESTMENTS

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

LANDFILL ALLOWANCES TRADING SCHEME

- 2.12 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) in the United Kingdom to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS), which applies only to WDAs in England and commenced operation on 1st April 2005. The scheme allocates tradable landfill allowances to each WDA in England.
- 2.13 The SORP requires the receipt of the LATS allocation and their use in the year to be recognised as income and expenditure in the Income and Expenditure Account, under Cultural, Environmental and Planning. The receipt of the allowance is also recognised on the Balance Sheet as landfill usage allowance, and the amounts used as a liability to DEFRA for the BMW landfill usage. The unused LATS are recognised in earmarked reserves.

STATEMENT OF ACCOUNTING POLICIES

- 2.14 The values of the LATS received, used and unapplied are all recognised using the weighted average value of all trades made through DEFRA in 2006/07. Revaluation gains or losses only arise on the value of LATS brought forward from the previous year.

WORKS IN PROGRESS, STOCKS AND STORES

- 2.15 Works in progress are generally valued at cost (except for the stores element, which is valued at average price). However, works carried out by a DSO are shown at the lower of valuation or cost.
- 2.16 Stocks and stores are recorded and charged in the accounts at average price.

3. CAPITAL ACCOUNTING

INTANGIBLE ASSETS

- 3.1 Intangible assets under the 2006 SORP include software licences. These are valued at historic cost less amortisation. The charge to revenue is based on writing down the historic cost over the appropriate life of the asset.

FIXED ASSETS

- 3.2 All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts, provided that the fixed asset yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets that are charged direct to services within the Income and Expenditure Account.
- 3.3 Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance notes issued by The Royal Institution of Chartered Surveyors (RICS). The Housing Revenue Account stock valuation is carried out under the Guidance on stock valuation for resource accounting available from the Department of Communities and Local Government (DCLG).
- 3.4 The DCLG Guidance is confirmed as proper practice in the 2006 SORP Guidance. In following the DCLG Guidance, the Council has adopted the approach of monitoring for “trigger events” which may indicate a change of value has occurred. The trigger event of planned redevelopment or disposal of blocks or estates will result in those assets being transferred to the archetype group of “property awaiting redevelopment”. This group is then carefully monitored for further trigger events which relate to the levels of occupancy of the blocks and indicate when they require re-categorisation and revaluation as non-operational assets.
- 3.5 Fixed assets are classified into the groupings recommended by CIPFA:

Operational assets

- Council dwellings
- Other land and buildings
- Vehicles, plant, furniture and equipment

STATEMENT OF ACCOUNTING POLICIES

- Infrastructure assets
 - Community assets
- Non-operational assets
- Investment properties
 - Assets under construction
 - Surplus assets, held for disposal
- 3.6 Operational properties are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. The following valuation bases are used to determine net current replacement cost:
- non-specialised operational properties are valued on the basis of existing use value (EUV)
 - specialised operational properties are valued on the basis of depreciated replacement cost
 - dwellings are valued on the basis of existing use value for social housing (EUV-SH).
- 3.7 Vehicles, plant and equipment are included at historic cost less depreciation. Infrastructure assets are included in the Balance Sheet at historic cost less depreciation. Community assets are included at historic cost.
- 3.8 Non-operational assets, which include investment and commercial properties and assets that are surplus to requirements, are valued at EUV or market value, as appropriate.
- 3.9 Revaluations of General Fund fixed assets are undertaken on the basis of a five-year rolling programme, although any material changes to asset values will be identified and adjusted in the interim period. The HRA stock is revalued on an annual basis using the Beacon method recommended by DCLG. Any surpluses or deficits from revaluation are taken to the Fixed Asset Restatement Account.
- 3.10 The Council has no finance leases at this time. If the Council entered into finance leases, the assets acquired would be capitalised in the Council's accounts, together with the liability to pay future rentals. Rental payments under finance leases would be apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals would then be charged to the Income and Expenditure Account.
- 3.11 Rentals payable under operating leases are charged to the Income and Expenditure Account on an accruals basis.
- 3.12 Income from the disposal of fixed assets is accounted for on an accrual basis. The portions of HRA receipts that are required to be pooled by DCLG are paid on a quarterly basis. The remaining HRA receipts, if covered by the Council's Capital Allowance, and receipts from the disposal of General Fund assets are used to meet the cost of capital expenditure or additional repayments of debt, with the balance of unused receipts being shown in the Balance Sheet as the usable capital receipts reserve.

STATEMENT OF ACCOUNTING POLICIES

DEPRECIATION

- 3.13 Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:
- All assets are charged with depreciation, unless the amount of depreciation is immaterial, or the asset is non-depreciable land or non-operational investment properties.
 - Newly acquired assets are depreciated from the year following acquisition, although assets in the course of construction are not depreciated until they are brought into use, and
 - Depreciation is calculated on a straight-line basis.

CHARGES TO THE INCOME AND EXPENDITURE ACCOUNT

- 3.14 All Council accounts are charged with depreciation for all fixed assets used in the provision of services. The charge made to the Housing Revenue Account is an amount equivalent to the Major Repairs Allowance (MRA). This is intended to represent the estimated average annual cost of maintaining the condition of the housing stock over a 30-year period, and is a reasonable estimate of depreciation for HRA properties.
- 3.15 The overall charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.

DEFERRED CHARGES

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

GOVERNMENT GRANTS AND CONTRIBUTIONS

- 3.17 Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the grants deferred account. Amounts are released to the service accounts over the useful life of the asset to match the depreciation charged on the asset to which the grant relates.

4. RELATED PARTY TRANSACTIONS

- 4.1 The Council is required to disclose details of its financial relationship with related third parties. This has been defined as where the related party has, or is perceived to have, real influence over any transaction between the parties.
- 4.2. In addition to maintaining the register of Members' interests, the Council has obtained specific declarations from Councillors and Chief Officers for the financial year 2006/07. 104 declarations were requested and, at the time of preparing these Accounts, 94 have been completed and returned. Interests were declared by 22 Councillors and Chief Officers:
- With voluntary bodies or charitable organisations that received funding totalling £2.6 million in 2006/07 (£2.3 million in 2005/06).

STATEMENT OF ACCOUNTING POLICIES

- With businesses or other organisations that have contracted for goods and services with the Council to the value of £25.5 million in 2006/07 (£11.6 million in 2005/06). Within this balance, the two largest entities transacting with the Council were Liberata UK Ltd, with payments of £13.1 million, and Southwark Primary Care Trust, with payments of £11.7 million.
- 4.3 The Council register of Members' interests is available for inspection together with their declarations of any related party transactions at Peckham Town Hall.
- 4.4 The Government is a related party for the Council, by virtue of the influence it can exert through the level of grant funding it provides. The Council received £652 million grant funding in 2006/07 (£699 million 2005/06), as shown in Note 48 to the Cash Flow Statement, page 65.

5. GRANT CLAIMS

- 5.1 The Accounts are prepared on the basis of accruals for claims of grants from the Government. At the time of signing the Accounts a number of end of year grant claims had not been finalised, including material claims such as Housing Subsidy, Housing Benefits Subsidy, Asylum Seekers and others. The Accounts are therefore presented using the best estimates available. Any audit amendments to these claims may have a material effect on the Accounts presented.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE COUNCIL'S RESPONSIBILITIES

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Southwark that officer is the Finance Director
- To manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets, and
- To approve the Statement of Accounts.

THE FINANCE DIRECTOR'S RESPONSIBILITIES

The Finance Director is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP).

In preparing the Statement of Accounts, the Finance Director has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the SORP
- Kept proper accounting records which were up to date, and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and used in providing services and managing the Council during the year. It includes day-to-day expenses and related income on an accruals basis. It also includes transactions reflecting the value of fixed assets used in the year (depreciation) and the real projected value of retirement benefits earned by employees in the year.

	Note	Gross Expenditure £000	Gross Income £000	2006/07 Net Expenditure £000	2005/06 Net Expenditure £000
Services' Income and Expenditure	1				
Central services to the public		61,017	(70,449)	(9,432)	(13,952)
Cultural, environmental & planning services	2 - 5	132,801	(52,076)	80,725	79,439
Education services	6	325,046	(303,057)	21,989	182,588
Highways, roads and transport services		26,188	(14,273)	11,915	10,289
Local authority housing (HRA)		197,038	(269,155)	(72,117)	(67,891)
Other housing services		246,213	(225,056)	21,157	18,919
Social services	7	202,998	(53,261)	149,737	131,728
Coroners service		1,172	(938)	234	222
Corporate and democratic core	8	21,932	(2,298)	19,634	14,071
Non distributed costs	9	3,268	0	3,268	2,790
Net Cost of Services	10 - 16	1,217,673	(990,563)	227,110	358,203
(Surplus)/loss on the disposal of fixed assets				(1,819)	0
Precepts				26,433	22,986
(Surplus)/deficit on trading undertakings not included in Net Cost of Services	17			1,124	2,010
Interest payable and similar charges				64,753	62,982
Contribution of housing capital receipts to the Government pool	18			18,126	54,586
Interest and investment income				(13,697)	(12,683)
Pensions interest cost and expected return on pensions assets	16			2,156	6,134
Net Operating Expenditure				324,186	494,218
Demand on the Collection Fund				(103,764)	(98,475)
General government grants	19			(38,389)	(278,503)
Non-domestic rates redistribution	19			(173,305)	(84,581)
(Surplus)/deficit for the year				8,728	32,659

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

This is a reconciliation statement summarising the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources generated and used in the last twelve months. However, the Council is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed (depreciated)
- The payment to the Government of a share of capital receipts from the sales of housing assets is shown as a payment in the Income and Expenditure Account. The payment is met from the usable capital receipts balance rather than Council Tax
- Retirement benefits are charged as amounts payable to pension funds and pensioners rather than as future benefits are earned.

	Note	2006/07 £000	2005/06 £000
(Surplus)/deficit for the year on the Income and Expenditure Account		8,728	32,659
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	20	(8,600)	<u>(40,469)</u>
(Increase)/decrease in General Fund Balance for the Year		128	(7,810)
General Fund Balance brought forward		(28,733)	(20,923)
General Fund Balance carried forward		(28,605)	<u>(28,733)</u>

For the purposes of this Statement, the General Fund Balance and the movement in that balance is made up of the combination of balances held by the Council, attributable to the setting of Council Tax, and the balances held by schools for schools' purposes. The closing balance is analysed as:

	2006/07 £000	2005/06 £000
Amount of General Fund Balance held by governors under schemes to finance schools	(11,771)	(13,177)
Amount of General Fund Balance, Council balances	(16,834)	(15,556)
	(28,605)	<u>(28,733)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in net worth.

	Note	2006/07 £000	2005/06 £000
(Surplus)/deficit for the year on the Income and Expenditure Account		8,728	32,659
(Surplus)/deficit arising on the revaluation of fixed assets	21	(146,126)	524,455
Actuarial (gain)/losses on pension fund assets and liabilities		(8,767)	(29,633)
Movement in the Collection Fund balance	21	1,827	758
Total recognised (gains)/losses for the year		(144,338)	528,239

BALANCE SHEET

BALANCES AT	Note	31/3/07 £000	31/3/07 £000	31/3/06 £000	31/3/06 £000
Intangible Assets	22		2,619		1,547
Tangible Fixed Assets	23				
Operational assets					
- Council dwellings		2,388,729		2,322,010	
- other land and buildings		562,179		594,922	
- vehicles, plant and equipment		5,101		7,017	
- infrastructure assets		97,301		81,900	
- community assets		18,524		17,032	
- work in progress		26,857		4,550	
Non operational assets					
- investment properties		122,333		618	
			3,221,024		3,028,049
Deferred charges	24	0		0	
Deferred debtors	25	2,387		1,600	
Long term debtors	26	276		4,903	
Deferred debits	27	4,489		8,982	
			7,152		15,485
Total long term assets			3,230,795		3,045,081
Current Assets					
- stocks and work in progress		759		638	
- debtors	28	161,399		158,612	
- less provision for bad debts	29	(42,124)		(41,898)	
- investments	30	254,966		272,986	
- landfill usage allowance	4	1,084		1,208	
			376,084		391,546
Current Liabilities					
- borrowing repayable on demand or within 12 months	31	(54)		(65)	
- creditors	32	(112,636)		(100,837)	
- landfill usage liability	4	(831)		(1,192)	
- cash and bank		(20,445)		(23,719)	
			(133,966)		(125,813)
Total assets less current liabilities			3,472,913		3,310,814
Long term borrowing	33		(693,709)		(693,832)
Provisions	34		(23,745)		(27,234)
Grants deferred account	35		(123,128)		(97,937)
Deferred receipts	36		(2,366)		(1,482)
Deferred credits	37		(465)		(549)
Pension scheme liability	16		(255,912)		(260,530)
Total assets less liabilities	38		2,373,588		2,229,250

BALANCE SHEET

	Note	31/3/07 £000	31/3/06 £000
Represented by:			
Capital financing account	39	(801,744)	(757,291)
Fixed asset restatement account	40	(1,613,780)	(1,511,983)
Pensions reserve	41	255,912	260,530
Usable capital receipts reserve	42	(75,871)	(83,604)
Major Repairs Reserve		(13,966)	(10,732)
Modernisation, Service & Operational Improvement Reserve	43	(4,982)	(8,846)
Regeneration & Development Reserve	44	(14,161)	(8,330)
Financial Risk Reserve	45	(5,627)	(7,678)
Schools' balances	46	(11,771)	(13,177)
Other earmarked reserves	47	(34,641)	(40,061)
Balances			
- General Fund		(16,834)	(15,556)
- Housing Revenue Account		(37,422)	(31,994)
- Collection Fund		1,299	(528)
Total Equity		(2,373,588)	(2,229,250)

CASH FLOW STATEMENT

	Note	2006/07 £000	2005/06 £000
REVENUE ACTIVITIES			
Cash outflows			
Cash paid to and on behalf of employees		375,872	369,513
Other operating costs		632,921	616,111
Housing benefit (excluding rent rebates)		59,324	56,049
Payments into NNDR pool		117,468	101,385
Payment to preceptors		26,439	22,820
Payment to the Capital Receipts Pool		15,226	65,954
		1,227,250	1,231,832
Cash inflows			
Rents (net of rebates)		(153,451)	(152,576)
NNDR receipts		(108,425)	(101,761)
Contribution from Collection Fund		(85,846)	(68,750)
Government Grants	48	(651,729)	(699,213)
Sales and charges for services		(336,001)	(222,024)
		(1,335,452)	(1,244,324)
Net cash flow from revenue activities	49	(108,202)	(12,492)
SERVICING OF FINANCE			
Cash outflows			
Interest paid		52,290	54,878
Interest element of leasing payments		12	12
		52,302	54,890
Cash inflows			
Interest received		(11,475)	(13,755)
		(11,475)	(13,755)
CAPITAL ACTIVITIES			
Cash outflows			
Purchase of fixed assets		145,820	147,595
Deferred charges and deferred debtors		8,403	5,584
		154,223	153,179
Cash inflows			
Sale of fixed assets		(56,004)	(84,971)
Capital grants		(17,035)	(26,447)
Other capital cash receipts		804	375
		(72,235)	(111,043)
NET CASH FLOW BEFORE FINANCING		14,613	70,779
FINANCING			
Cash outflows			
Repayment of long term loans		134	0
Repayment of short term loans		0	0
		134	0
Cash inflows			
New long term loans		0	(44,989)
New short term loans		0	0
		14,747	25,791
MANAGEMENT OF LIQUID RESOURCES			
Increase in liquid resources	51	(64,112)	(33,715)
(INCREASE)/DECREASE IN CASH AND EQUIVALENTS		(49,365)	(7,924)
REPRESENTED BY MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Net (increase)/decrease in bank balance		3,273	(3,855)
Net increase/(decrease) in realisable investments		46,092	11,779
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS		49,365	7,924

NOTES TO THE ACCOUNTS

1. NET COST OF SERVICES

- 1.1 The segmental reporting in Net Cost of Services is in accordance with the classification of services in the Best Value Accounting Code of Practice.

2. COMMERCIAL INCOME

- 2.1 The Council undertook commercial refuse collection in addition to its statutory refuse collection. In 2006/07 a surplus of £426,000 (£344,000 in 2005/06) occurred on a turnover of £3,236,000 (£3,031,000 in 2005/06).
- 2.2 The Council operates a number of industrial estates in the area. These produced an income of £1,422,000 (£1,429,000 in 2005/06) against expenditure of £742,000 (£901,000 in 2005/06).
- 2.3 The Council also rents out commercial properties. These produced an income of £1,695,000 (£1,514,000 in 2005/06) against expenditure of £1,100,000 (£1,242,000 in 2005/06).

3. BUILDING CONTROL FEE EARNING ACCOUNT (BCFE Account)

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

			2006/07	2005/06
	Chargeable	Non	Total	Total
	£000	Chargeable	£000	£000
		£000		
Expenditure				
Employees	691	231	922	1,114
Premises	96	32	128	82
Transport	10	4	14	20
Supplies & Services	79	27	106	75
Support Services	252	84	336	253
Total Expenditure	1,128	378	1,506	1,544
Income				
Building Regulation Charges	(708)		(708)	(835)
Deferred Charges	(257)		(257)	(341)
Miscellaneous Income				0
Dangerous Structures Income		(104)	(104)	(58)
Deferred Income	(19)		(19)	(132)
Total Income	(984)	(104)	(1,088)	(1,366)
(Surplus)/Deficit for the year	144	274	418	178

NOTES TO THE ACCOUNTS

4. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

4.1 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) such as the Council to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS). The Government allocates an allowance each year to each authority for landfill. If more landfill is needed in a year, a WDA must purchase an allowance from other authorities or pay a penalty. Any allowances not used in a year can be carried forward or sold within the trading scheme. The scheme came into effect for the first time in 2005/06.

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

	2006/07 £000	2005/06 £000
Balance brought forward	(16)	0
LATS grant income	(1,070)	(1,208)
Allowances used in the year	831	1,192
Changes in valuation	2	0
Unused allowances carried forward	(253)	(16)

4.3 Accounting practice requires the receipt of the allowance to be recognised as a current asset in the Balance Sheet, and the use of the allowance as a deferred liability. Unused allowances, £253,000 (£16,000 in 2005/06), are carried forward within other earmarked reserves, Note 47.

4.4 There were no allowances bought or sold with the trading scheme in 2006/07 for use in 2006/07 or future years.

5. BUSINESS IMPROVEMENT DISTRICT SCHEMES

5.1 The Council is the billing authority for two business improvement districts (BIDs): Better Bankside and London Bridge. The Better Bankside BID started in April 2005, the London Bridge BID in April 2006.

5.2 BID companies manage the BID schemes in Southwark, working with local organisations to provide a variety of projects additional to services provided by the Council. Projects include enhanced cleaning, safety and promotion of the districts.

5.3 The Council acts as agent for the Southwark BIDs, collecting levies for the BID companies from business ratepayers within the respective BID areas. The Council pays the total amounts collected to the BID companies. In 2006/07, the Council paid £655,616 to Better Bankside (£530,679 in 2005/06) and £687,945 to London Bridge (new for 2006/07).

5.4 In addition, the Council charges the BIDs for administration costs including the cost of collecting and passing on the levy. In 2006/07 the costs for Better Bankside were £17,415 (£17,368 in 2005/06) and for London Bridge £19,947 (new in 2006/07).

NOTES TO THE ACCOUNTS

6. DEDICATED SCHOOLS GRANT (DSG)

- 6.1 In 2006/07 the Government changed its funding for schools through local authority accounts. Previously funding was received through general Government grant (Revenue Support Grant), but is now paid as a specific grant (Dedicated Schools Grant, DSG). Presentationally, DSG is included in Net Cost of Services, whereas Revenue Support Grant is included below Net Operating Costs. Comparisons between 2005/06 and 2006/07 are therefore distorted, and have not been adjusted.
- 6.2 DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately.
- 6.3 Details of the deployment of DSG receivable for 2006/07 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the Council's budget	23,614	148,009	171,623
Adjustment to finalised grant allocation	869	(4,829)	(3,960)
DSG receivable for the year	24,483	143,180	167,663
Actual expenditure for the year	(19,289)	(142,294)	(161,583)
(Over)/underspend for the year	5,194	886	6,080
Planned top-up funding of ISB from Council resources	0	0	0
Use of schools balances brought forward	0	(211)	(211)
(Over)/underspend from prior year	0	0	0
(Over)/underspend carried forward to 2007/08	5,194	675	5,869

NOTES TO THE ACCOUNTS

7. POOLED FUNDS

7.1 Section 31 of the Health Act 1999 enables joint working arrangements between NHS bodies and local authorities. The Council (LBS) and Southwark Primary Care Trust (PCT) operate pooled fund arrangements for the Learning Disabilities Service and the Integrated Community Equipment Service. LBS is the lead authority for both arrangements. Each party accounts separately for its share of the income, expenditure, assets and liabilities of the pooled funds, including any under or overspend at the year-end. The memorandum accounts below bring together the income and expenditure for the pooled arrangements:

Learning Disabilities Service	2006/07	2005/06
	£000	£000
Income		
LBS	(17,930)	(17,069)
PCT	(8,838)	(8,656)
	(26,768)	(25,725)
Expenditure	28,474	25,962
Net over/(under) spend	1,706	237
Shared as follows:		
LBS	1,143	156
PCT	563	81
	1,706	237
Integrated Community Equipment Service	2006/07	2005/06
	£000	£000
Income		
LBS	(1,214)	(1,189)
PCT	(255)	(249)
	(1,469)	(1,438)
Expenditure	1,518	1,527
Net over/(under) spend	49	89
Shared as follows:		
LBS	41	18
PCT	8	71
	49	89

NOTES TO THE ACCOUNTS

- 7.2 In addition, LBS and the PCT operated a lead commissioning arrangement for Mental Health Services, with the PCT as the lead body. This is not a pooled fund arrangement, but is reported here to reflect all arrangements between the Council and the PCT. The Income and Expenditure Account does not include the transactions of the PCT. The memorandum account for the lead commissioning arrangement is shown as:

	2006/07 £000	2005/06 £000
Income		
LBS	(8,863)	(8,286)
PCT	(42,090)	(41,839)
	(50,953)	(50,125)
Expenditure	52,551	51,278
Net over/(under) spend	1,598	1,153

- 7.3 The overspend is reflected in the accounts of the Council and PCT in accordance with the terms of the lead commissioning arrangement. The Council's share of the overspend for 2006/07 was £0.799 million (£0.701 million in 2005/06).

8. MEMBERS' ALLOWANCES

- 8.1 The amount of members' allowances paid in 2006/07 was £1,259,680 (£1,230,913 in 2005/06).

9. NON DISTRIBUTED COSTS

- 9.1 Non distributed costs consist of:

	2006/07 £000	2005/06 £000
London Pension Fund Authority levy	1,441	1,490
Pension contributions, past service costs	1,827	1,300
Total	3,268	2,790

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

NOTES TO THE ACCOUNTS

10. AUDIT REMUNERATION

10.1 In 2006/07 the Council incurred the following fees relating to external audit and inspection:

	2006/07 £000	2005/06 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor (audit of the Accounts and related work)	534	502
Fees payable to the Audit Commission in respect of statutory inspection	26	16
Fees payable to the Audit Commission for the certification of grant claims and returns	411	191
Fees payable in respect of other services provided by the appointed auditor (see Note 10.3)	86	2
	1,057	711

10.2 The increase in fees for grant claim work is due to a change in the SORP, to conform to good practice on the recognition of audit fees. 2006/07 is the transition year in showing fees in this way, and the fees recognised in 2006/07 include all fees paid and future costs that relate to 2006/07, plus those fees that relate to 2005/06 but were not recognised in the 2005/06 accounts.

10.3 The £85,975 fees for other services payable in 2006/07 are made up of £20,000 for Electors queries, £1,250 for national fraud initiative and £550 for school survey, all of which related to work in 2006/07. Fees payable in 2006/07 for work in 2005/06 are £30,000 for Data Quality, £34,000 for Diversity project and £175 for housing benefit publication and crime conference.

11. LIABILITY IN RESPECT OF LEASED ASSETS

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

	2006/07 £000	2005/06 £000
Assets used on a continuing basis:		
Operating leases - Council and staff vehicles	3,583	3,325
Operating leases - property	9,402	8,113
Hire purchase - fixed plant	12	12
Assets used on a one-off or occasional basis	739	963
	13,736	12,413

NOTES TO THE ACCOUNTS

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

	2006/07	2005/06
	£000	£000
From 1 to up to 2 years		
Operating leases - Council and staff vehicles	3,447	3,255
Operating leases - property	10,642	8,969
Hire purchase - fixed plant	12	12
From 2 to up to 5 years		
Operating leases - Council and staff vehicles	5,069	6,771
Operating leases - property	19,289	20,727
Hire purchase - fixed plant	37	50
From 5 years upward		
Operating leases - Council and staff vehicles	20	83
Operating leases - property	15,846	16,317
	54,362	56,184

11.3 The Council has rental liabilities for office and other equipment, of £2.3 million per annum (£1.8 million 2005/06), which is not included in the table above.

12. PUBLICITY

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

	2006/07	2005/06
	£000	£000
Recruitment advertising	1,304	1,070
Council newspapers and other publications	307	228
Consultations and other publicity	3,446	3,334
	5,057	4,632

NOTES TO THE ACCOUNTS

13. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

13.1 The Council is empowered by this Act to provide goods and services to other public bodies. During 2006/07 the Council received income for services provided as follows:

	2006/07 £000	2005/06 £000
Income received:		
LB Hackney: Building Design Commissions	0	12
Southwark PCT: Building Design Commission	0	10
Corporation of London: Signage work	0	5
Various: Community safety warden training	22	0
	22	27

14. REMUNERATION OF EMPLOYEES

14.1 During 2006/07, the Council employed staff whose taxable remuneration, including payment on termination of employment, was £50,000 or more for the year. A breakdown of these employees in bands of £10,000 is as follows:

Band (£)	Schools	Non schools	Number of employees	Number of employees
			2006/07	2005/06
50,000 - 59,999	129	103	232	199
60,000 - 69,999	68	38	106	85
70,000 - 79,999	20	16	36	26
80,000 - 89,999	4	14	18	20
90,000 - 99,999	7	5	12	7
100,000 - 109,999	1	2	3	-
110,000 - 119,999		2	2	2
120,000 - 129,999		2	2	4
130,000 - 139,999		3	3	-
140,000 - 149,999		2	2	1
150,000 - 159,999		-	-	-
160,000 - 169,999		-	-	-
170,000 - 179,999		-	-	1
210,000 - 219,999		1	1	
	229	188	417	345

NOTES TO THE ACCOUNTS

15. EMPLOYEES PENSION COSTS

- 15.1 *Teachers' pension costs.* Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2006/07 the Council paid £13.4 million to the TPA in respect of teachers' pension costs, which represents 19.5% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2006/07 these amounted to £84,955.
- 15.2 *Employees who were transferred from the GLC or ILEA.* In 2006/07 the Council paid £360,000 to the London Pension Fund Authority in respect of the pension costs for former employees of the GLC or ILEA. This represents 19.1% of pensionable pay. In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2006/07 these amounted to £77,315.
- 15.3 *Other employees' pension costs.* In 2006/07 the Council paid an employer contribution of £26.5 million into the Pension Fund, representing 16.5% of pensionable pay. The proportion of this contribution, which was estimated by the actuary to be attributable to current employees' liabilities (10.5%), has been charged to the relevant service and the remainder in respect of past employees has been charged as a corporate cost. The £26.5 million includes a one-off lump sum contribution of £6.65 million. The contribution rate is determined by the Fund's actuary, based on triennial valuations, the last full review on which these rates were based being at 31/03/04. Under Pension Fund regulations contribution rates are set to meet the overall liabilities of the Fund. In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2006/07 these amounted to £1.92 million, representing 1.3% of pensionable pay.
- 15.4 The last triennial revaluation of the Fund took place as at 31/03/04. Based on this valuation, to meet the requirements of FRS 17, Accounting for pension costs, the Council would have been required to make a contribution of £23.91 million, representing 16.5% of pensionable pay. The FRS17 disclosure is shown fully at Note 16 to the Balance Sheet (page 38). The movement in the Pensions Reserve is shown at Note 41 to the Balance Sheet (page 61).

NOTES TO THE ACCOUNTS

- 15.5 The Council may make discretionary increases to pension entitlements, funded either by the Council or the Pension Fund. The capital costs of the increases made in the year, and arising from earlier years against which payments are still being made, are identified as:

	£000	% of total pensionable pay
Capital cost of discretionary added years awarded in 2006/07, funded by the Pension Fund	592	0.3%
Capital cost of discretionary added years awarded in years before 2006/07, funded by the Pension Fund	38,579	
Capital cost of discretionary added years awarded in 2006/07, funded by the Council	195	0.07%
Capital cost of discretionary added years awarded in years before 2006/07, funded by the Council	29,651	

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

- 16.1 The Council's Accounts are prepared in accordance with Financial Reporting Standard 17 - Retirement Benefits (FRS 17), which requires that the accounts reflect the employees' pension rights as they are earned in a year, which is different from the level of contributions being made by the employees and the employer in the year towards those pensions.
- 16.2 In following FRS 17, the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Council employees contribute to one of three pension funds - the Council's own fund, that of the London Pension Fund Authority, or the Teachers' Pensions Agency. Information for FRS 17 relating to the Council's pension fund are given in paragraphs 16.3 - 16.10, and for the London Pension Fund Authority pension fund in paragraphs 16.11 - 16.17. The pension scheme operated by the Teachers' Pensions Agency is run on a different basis and does not meet FRS 17 disclosure requirements. The activities of the Council's Pension Fund are reported at page 81.

London Borough of Southwark Pension Fund

- 16.3 The London Borough of Southwark participates in the Local Government Pension Scheme, and is the Administering Authority. The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary. The most recent valuation was carried out as at 31st March 2004, and has been updated by independent actuaries to the London Borough of Southwark Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the Fund as at 31st March 2007. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

NOTES TO THE ACCOUNTS

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

	2006/07 % p.a.	2005/06 % p.a.
Discount rate for scheme liabilities	5.3	4.9
Discount rate for pension cost over following year	5.3	4.9
Rate of increase in salaries	4.7	4.5
Rate of increase in pensions in payment	3.0	3.0
Rate of inflation	3.2	3.0
Rate of return on Equities	7.7	7.3
Rate of return on Government Bonds	4.7	4.3
Rate of return on Corporate Bonds	5.3	4.9
Rate of return on Property	6.7	6.3
Rate of return on Other assets	5.6	4.6
Average long term expected rate of return	7.0	6.6

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

	2006/07 %	2005/06 %
Equities	62	67
Bonds	16	19
Property	19	11
Other	3	3

16.6 As part of preparing the 2006/07 valuation, the actuary revisited the 2005/06 valuation, and advised of changes to that valuation. The changes moved £1.7 million between past service costs and current service costs as charged to the Income and Expenditure Account, and increased the outstanding pension liability by £0.4 million. These changes have been reflected in the 2005/06 comparatives, and in the opening balance of the pensions liability and reserve for 2006/07.

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

	2006/07 £000	2005/06 £000
Share of assets in London Borough of Southwark Pension Fund	(731,499)	(679,600)
Estimated liabilities in London Borough of Southwark Pension Fund	975,900	927,200
London Borough of Southwark's deficit in the scheme	244,401	247,600

NOTES TO THE ACCOUNTS

- 16.8 The deficit above should be borne in mind when considering the amount of overall reserves held. The movement in the net deficit in 2006/07 can be shown as follows:

	£000	£000
Net deficit as at 31 st March 2006		247,600
Movement in the year:		
Current service cost	28,600	
Past service costs	1,800	
Gain/loss on any settlements or curtailments	0	
Contributions	(28,299)	
Finance Income:		
Net (return)/loss on assets	1,400	
Actuarial (gain)/loss	(6,700)	
Total movement in the year	<u>(3,199)</u>	(3,199)
Net deficit as at 31st March 2007		244,401

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

	2006/07		2005/06		2004/05		2003/04		2002/03	
	£000	%	£000	%	£000	%	£000	%	£000	%
Actual return less expected return on assets	(4,100)	0.6	(100,000)	14.7	(20,900)	3.9	(61,500)	12.8	120,700	30.7
Differences between actuarial assumptions about liabilities and actual experience	2,000	0.2	(300)	0.03	15,300	1.9	600	0.1	0	0.0
Changes in assumptions underlying the present value of pension liabilities	(4,600)	0.5	67,200	7.2	146,900	18.0	(1,300)	0.2	(5,500)	1.0
Total actuarial loss/(gain)	(6,700)		(33,100)		141,300		(62,200)		115,200	

NOTES TO THE ACCOUNTS

16.10 The actuary to the London Borough of Southwark Pension Fund estimates the charge to the Income and Expenditure Account in 2007/08 will be:

	2007/08 £000
Current service cost	29,200
Past service costs	0
Total operating charge	29,200
Expected return on Pension Fund assets	(50,600)
Interest on Pension Fund liabilities	51,800
	1,200
Total charge 2007/08	30,400

London Pension Fund Authority Pension Fund

16.11 The London Pension Fund Authority (LPFA) participates in the Local Government Pension Scheme, and is the Administering Authority for its fund. The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary. The most recent valuation was carried out as at 31st March 2004, and has been updated by independent actuaries to the LPFA Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the Fund as at 31st March 2007. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

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

	2006/07 % p.a.	2005/06 % p.a.
Discount rate	5.4	4.9
Rate of increase in salaries	4.7	4.6
Rate of increase in pensions in payment	3.2	3.1
Rate of inflation	3.2	3.1
Rate of return on Equities	7.8	7.4
Rate of return on Cash	4.9	4.6
Rate of return on Cashflow matching	4.5	4.2

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

	2006/07 %	2005/06 %
Equities	14	14
Cash	2	3
Cashflow matching	84	83

NOTES TO THE ACCOUNTS

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

	2006/07 £000	2005/06 £000
Share of assets in LPFA Pension Fund	(42,768)	(42,440)
Estimated liabilities in LPFA Pension Fund	54,279	55,370
London Borough of Southwark's deficit in the scheme	11,511	12,930

16.15 The deficit above should be borne in mind when considering the amount of overall reserves held. The movement in the net deficit in 2006/07 can be shown as follows:

	£000	£000
Net deficit as at 31 st March 2006		12,930
Movement in the year:		
Current service cost	641	
Past service costs	5	
Gain/loss on any settlements or curtailments	22	
Contributions	(787)	
Finance Income:		
Net (return)/loss on assets	756	
Actuarial (gain)/loss	(2,056)	
Total movement in the year		(1,419)
Net deficit as at 31st March 2007		11,511

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

	2006/0		2005/06		2004/05	
	£000	%	£000	%	£000	%
Actual return less expected return on assets	1	0.0	(1,576)	3.7	(214)	0.5
Differences between actuarial assumptions about liabilities and actual experience	2	0.0	7	0.0	271	0.6
Changes in assumptions underlying the present value of pension liabilities	(2,059)	3.8	5,388	9.7	6,900	14.2
Total actuarial loss/(gain)	(2,056)		3,819		6,957	

NOTES TO THE ACCOUNTS

16.17 The actuary to LPFA Pension Fund estimates the charge to the Income and Expenditure Account in 2007/08 will be:

	2007/08 £000
Current service cost	518
Past service costs	0
Total operating charge	518
Expected return on Pension Fund assets	(2,083)
Interest on Pension Fund liabilities	2,880
	797
Total charge 2007/08	1,315

Pension Scheme Liability

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

16.19 The movements in the provision are determined by the actuary to each pension fund, the details included above. The reduction in the liability in 2006/07 of £4.618 million, from £260.530 million to £255.912 million, arises largely from changes (improvement) in the actuarial assumptions of the projected value and performance of the two funds, of £8.756 million, offset by the difference (underpayment) between actual contributions and actuarially required contributions to the funds, of £4.138 million.

16.20 The total outstanding liability of the Council towards these pension funds, of £255.912 million, has a substantial impact on the net worth of the Council. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy as, under the requirements of the Local Government Pension Scheme, the deficit on the pension funds will be made good by increased employer's contributions over the remaining working life of the employees, as assessed by the funds' actuaries.

16.21 With regard to the Teachers' Pensions Scheme, there were no contributions remaining payable at the year end. The Scheme is a defined benefit scheme, administered by the Teachers Pensions Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as a basis for calculating the employers' contribution rate paid by Local Education Authorities. However, it is not possible for the TPA to identify to the Council a share of the underlying liabilities in the scheme attributable to the Council's employees. For the purposes of the Accounts, and in accordance with the SORP, the scheme is accounted for on the basis as a defined contribution scheme, and the liabilities are not included within the Council's balances, though any benefits awarded upon early retirement outside of the Teachers' scheme are fully accrued within the Council's liabilities.

NOTES TO THE ACCOUNTS

17. TRADING ACTIVITIES

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

	Note	Turnover (Profit)/Loss 2006/07 £000		Turnover (Profit)/Loss 2005/06 £000
Building		(15,701)	105	(11,840) 849
Street & Metal Work Services		(3,823)	207	(3,766) 409
Refuse		(7,743)	100	(7,675) 16
Vehicle Management (Fleet)		(6,246)	(41)	(5,996) (21)
Building Design Services		(6,352)	(181)	(6,690) 196
Integrated Cleaning Contract		(21,012)	502	(19,964) 394
Passenger Services		(762)	13	(2,544) 5
Social Services – Orchard Lodge	17.2	0	0	(6,434) 162
Total		(61,639)	705	(64,909) 2,010
Reallocation of profits/losses	17.3		419	0
Total in Net Operating Expenditure			1,124	2,010

17.2 The assets and function of the secure unit at Orchard Lodge were sold on 31st March 2006 and are no longer the responsibility of the Council.

17.3 In 2006/07 the Building division made a profit before FRS 17 adjustments of £418,769 from its housing repairs and maintenance activities. In accordance with the Best Value Accounting Code of Practice from CIPFA, this sum, being a material balance, was transferred back to the Housing Revenue Account Income and Expenditure Account.

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

	Note	Turnover (Profit)/Loss 2006/07 £000		Turnover (Profit)/Loss 2005/06 £000
Translation Unit	17.5	0	0	(37) 7
Parking Trading Account	17.6	(10,422)	(3,439)	(9,968) (3,507)
Total		(10,422)	(3,439)	(10,005) (3,500)

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

NOTES TO THE ACCOUNTS

17.6 The Parking Trading Account surplus has been fully applied to meet other transport costs of road maintenance £1,757,000, street lighting £718,000 and other highways expenditure of £964,000 (£1,522,000, £1,265,000 and £720,000 in 2005/06 respectively). There is no residual balance brought forward nor carried forward, as any surplus on the account is fully applied to appropriate purposes in the year it arises.

18. CONTRIBUTION OF HOUSING CAPITAL RECEIPTS TO THE GOVERNMENT POOL

18.1 The Local Government Act 2003 requires that part of the proceeds from the sale of housing assets are paid to the Government, on the basis of 75% from the sales of dwellings and 50% from the sale of land or other housing assets. The payment is shown in the Income and Expenditure Account, matched by a release from the Usable Capital Receipts Reserve to the Statement of Movement on the General Fund Balance.

19. GENERAL GOVERNMENT GRANT

19.1 In 2006/07 the Government made a significant change in the way that local authorities are funded. A specific grant called the Dedicated Schools Grant (DSG) was introduced to fund education in schools, which reduced the total level of RSG within the overall formula grant, which then increased NNDR. Presentationally, Dedicated Schools Grant is included in Net Cost of Services, whereas Revenue Support Grant is included below Net Operating Costs. Comparisons between 2005/06 and 2006/07 are therefore distorted, and have not been adjusted. In 2006/07 the Council received £167.663 million Dedicated Schools Grant (Note 6 above).

19.2 General government grant includes the receipt in 2006/07 of £3.555 million for Local Area Business Growth Incentive (£1.469 million 2005/06) and £1.379 million for Local Public Sector Agreements (£1.396 million 2005/06).

NOTES TO THE ACCOUNTS

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

Note	2006/07 £000	2005/06 £000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
	(502)	(269)
	(8,962)	(11,510)
	15,857	5,289
	(8,403)	(5,584)
	1,991	0
	(33,224)	(32,063)
	(33,243)	(44,137)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
20.1	2,204	1,945
	11,969	8,462
	(18,126)	(54,586)
	29,075	23,749
	25,122	(20,430)
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
	5,428	4,464
	(5,907)	19,634
	(479)	24,098
Net additional amount required to be credited to the General Fund Balance for the year		
	(8,600)	(40,469)

20.1 Minimum Revenue Provision (MRP). Accounting practice for local authorities requires that the Accounts show a charge to the General Fund to set funds aside to repay debt incurred for capital expenditure purposes. The minimum level for the General Fund is 4% of a prescribed notional calculation, and is recognised in the Statement of Movement in the General Fund Balance. For 2006/07 this was £2.204 million (£1.945 million 2005/06).

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

NOTES TO THE ACCOUNTS

21. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

21.1 The Statement of Total Recognised Gains and Losses (STRGL) shows the movement in the Balance Sheet from changes in valuations that do not pass through the Income and Expenditure Account before being appropriated to reserves. In addition to the revaluations of fixed assets, pensions assets/liabilities and the surplus/deficit from the Income and Expenditure Account, there are items which affect the net worth of the Balance Sheet, and are considered necessary to be included in this statement to show the true movement in net worth. These items include the direct receipt of cash from the sale of assets (capital receipts), the Major Repairs Allowance, and the movement in the Collection Fund.

22. INTANGIBLE ASSETS

	2006/07 £000	2005/06 £000
Original cost	1,547	866
Accumulated amortisation	0	(597)
Balance as at 1st April	1,547	269
Expenditure in the year	1,574	1,547
Amortisation in the year	(502)	(269)
Balance as at 31st March	2,619	1,547

22.1 Expenditure on intangible assets refers to software acquired and installed as part of the corporate capital programme to enhance the Council's Information & Communication Technology infrastructure. These assets are amortised over a three-year lifespan.

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

	£000
IT procurement	2,481
Geographical Information System	135
Care First	3
	2,619

22.3 IT procurement includes expenditure on the Business Warehouse system and Customer Service Centre, as well as enhancing the corporate network system.

NOTES TO THE ACCOUNTS

23. TANGIBLE FIXED ASSETS

23.1 Movement of Fixed Assets 2006/07

	Council Housing	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Work in Progress	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value at 01/4/06	2,357,304	618,910	23,227	98,944	17,032	618	4,550	3,120,585
Restatements	0	9,147	(1,708)	1,999	153	7,919	0	17,510
Recategorisation	(24,314)	(61,340)	0	0	0	85,654	0	0
Revaluations	36,716	6,254	0	0	0	34,811	0	77,781
Additions	67,328	20,489	1,655	15,852	1,339	0	22,307	128,970
Impairments	0	888	0	0	0	0	0	888
Disposals	(12,042)	(8,506)	0	0	0	(6,669)	0	(27,217)
Gross Book Value at 31/3/07	2,424,992	585,842	23,174	116,795	18,524	122,333	26,857	3,318,517
Accumulated depreciation b/f	(35,294)	(23,988)	(16,210)	(17,044)	0	0	0	(92,536)
Depreciation for restatements	0	1,275	0	0	0	0	0	1,275
Depreciation for revaluations	35,294	5,600	0	0	0	0	0	40,894
Depreciation for the year	(36,308)	(8,388)	(1,863)	(2,450)	0	0	0	(49,009)
Depreciation on impairments	0	1,827	0	0	0	0	0	1,827
Depreciation on assets sold	45	11	0	0	0	0	0	56
Depreciation Balance at 31/3/07	(36,263)	(23,663)	(18,073)	(19,494)	0	0	0	(97,493)
Net Book Value at 31/3/07	2,388,729	562,179	5,101	97,301	18,524	122,333	26,857	3,221,024

23.2 The recategorisation of assets reflects the identification of assets that have become non-operational, including council housing buildings being prepared for redevelopment.

23.3 Restatements are the result of greater refinement in the approach to valuation, including garages and halls that have been valued separately.

23.4 Capital expenditure on the acquisition of land, buildings and other tangible assets is shown in additions. Expenditure on the construction of new assets is shown in work in progress while under construction, and shown as additions to fixed assets on completion. Enhancements and improvements to existing assets are shown as work in progress whilst being carried out, and on completion will result in a change in valuation rather than being classed as an addition. Differences between the change in valuation and the cost of these works are transferred to the Fixed Asset Restatement Account.

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

NOTES TO THE ACCOUNTS

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

	Council Housing	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Work in Progress	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Assets valued at Historic Cost	0	0	5,101	97,301	18,524	0	26,857	147,783
Assets valued at Current Value								0
As at 01/04/99	1,121,681	333,974						1,455,655
As at 01/04/00	715,018	564						715,582
As at 01/04/01	177,825	63,092						240,917
As at 01/04/02	732,612	92,177						824,789
As at 01/04/03	(7,935)	16,727						8,792
As at 01/04/04	119,081	37,962						157,043
As at 01/04/05	(536,272)	50,426						(485,846)
As at 01/04/06	66,719	(32,743)				122,333		156,309
	2,388,729	562,179	5,101	97,301	18,524	122,333	26,857	3,221,024

23.7 In 2006/07 there were reductions in the impairment losses previously charged to the General Fund in the 2005/06 accounts. Two leisure centre facilities, Peckham Pulse and Elephant & Castle, had given rise to actual and potential building failures, which were then rectified in 2006/07. The decrease in the loss in value resulting from these impairments, i.e. the restatement of value, of £2.7m, has been credited to the Income and Expenditure Account in 2006/07, in accordance with the requirements of FRS 15.

23.8 The entire housing stock is valued on an annual basis, and any impairment not otherwise identified has been absorbed as part of that revaluation. Impairments reflecting movements in the values of properties other than the housing stock have been credited to the Fixed Asset Restatement Account.

23.9 There are significant redevelopments being undertaken or planned in the Borough and a number of estates were re-categorised as non-operational assets as at 1st April 2006. These are:

- Brayards Estate
- Coopers Road
- East Dulwich Estate
- Elmington Estate
- Wooddene

In addition three hostels have been identified as surplus to operational requirements. These assets have now been revalued at market value rather than the operational valuation approach of Existing Use Value – Social Housing.

NOTES TO THE ACCOUNTS

- 23.10 Estates that are closely monitored but have not reached the occupancy trigger point to revalue in year include Aylesbury and Heygate Estates. The Aylesbury Estate maintains good occupancy levels, consistent void levels and "Right to Buy" applications. Major works to the Heygate Estate are planned to commence in late 2008 as part of the Elephant & Castle Regeneration Programme. At this stage in the development historic levels of occupancy have been maintained. The Valuer has therefore not recorded a significant loss in value at this time. For all estates with redevelopment planned the potential for impairment losses to occur will continue to be closely reviewed for changes in the pattern of occupancy of the units resulting in one of the predetermined trigger points being met.
- 23.11 During the year part of the Silwood Estate (phase 4B) reached the trigger point of less than 50% occupancy and was re-categorised as non-operational and valued at market value in the closing balance shown above.
- 23.12 The list below shows assets owned by the Council and included in the Balance Sheet, and excludes properties that are rented in the provision of services. The total number of schools, 90, includes 25 voluntary primary and 7 voluntary secondary schools.

	2006/07 Quantity (number)	2005/06 Quantity (number)
Council dwellings	41,086	41,484
Operational assets		
Town & Public Halls	1	1
Office Buildings	47	47
Coroner's Court	1	1
Depots	2	2
Social Services - Residential Care	2	2
Social Services - Day Care Facilities	10	10
Social Services - Other/Offices	12	12
Cemeteries and Crematoria	4	4
Sports and Recreation Centres	10	10
Swimming Pools	4	4
Nurseries & Early years	14	13
Schools - Primary	73	72
Schools - Secondary	10	13
Schools - Special	7	7
Libraries	12	12
Museums & Galleries	3	3
Waste Sites & Facilities	1	1
Shops	581	581
Industrial Sites	6	7
Car Parks	3	3
Community assets		
Parks	131	131
Infrastructure assets		
Roads (in km)	337	337

NOTES TO THE ACCOUNTS

23.13 Summary of capital expenditure and financing

How the money was spent:

	2006/07	2005/06
	£000	£000
Education	32,774	26,426
Environment and Leisure	13,233	12,283
Housing General Fund	4,039	4,183
Regeneration	13,100	12,881
Strategic Services	4,496	4,065
Social Services	1,215	2,132
Total General Fund	68,857	61,970
HRA	78,599	89,821
	147,456	151,791

How the expenditure was financed:

Revenue contributions	11,969	8,462
Using supported borrowing approvals	25,822	32,228
Using capital receipts received from the sale of assets	35,927	26,289
Specific grants and other contributions	40,044	35,593
Major Repairs Allowance	33,694	49,219
	147,456	151,791

Expenditure by asset class:

Fixed assets	108,235	138,330
Deferred charges	8,403	5,584
Enhancements and work in progress	30,818	7,877
	147,456	151,791

NOTES TO THE ACCOUNTS

24. DEFERRED CHARGES

24.1 A deferred charge is expenditure which has been capitalised but which does not result in the acquisition or increased value of a tangible fixed asset.

	2006/07 £000	2005/06 £000
Deferred charges as at 1 st April	0	0
Expenditure in the year	8,403	5,584
Amortisation	(8,403)	(5,584)
Balance as at 31st March 2007	0	0

24.2 All deferred charges are fully amortised in the year they arise.

25. DEFERRED DEBTORS

	2006/07 £000	2005/06 £000
Balance as at 1 st April 2006	1,600	1,233
New advances in the year	901	504
Repayments in the year	(114)	(137)
Balance as at 31st March 2007	2,387	1,600
Represented by:		
Housing Associations	173	183
Right to Buy mortgages	601	702
Charges over Right to Buy for major works	1,613	712
Other	0	3
Balance as at 31st March 2007	2,387	1,600

25.1 Deferred debtors are mortgages given to permit purchases of homes under Right to Buy and similar initiatives, or advances made to housing associations repayable on a mortgage like basis.

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

NOTES TO THE ACCOUNTS

26. LONG TERM DEBTORS

	2006/07 £000	2005/06 £000
Deferred payment schemes for Section 20 works	0	4,900
Social Services	273	0
Works in default	3	3
	276	4,903

- 26.1 Where leaseholders enter into a fixed plan for the repayment of costs due for Section 20 works, the moneys due may be treated as long-term debt. During 2006/07, the Council reviewed its agreements with leaseholders in respect of Section 20 works and determined it would be more appropriate to treat the moneys due as current debtors.
- 26.2 Under the Health and Social Care Act 2001, the Council has entered into deferred payment agreements with people receiving residential social care. The aim of the scheme is to enable people in residential care who are responsible for paying all or part of their fees to avoid having to sell their homes to pay the fees. A legal charge is placed against the resident's property, and the fees due will be recoverable from the resident's estate.

27. DEFERRED DEBITS

	2006/07 £000	2005/06 £000
Balance brought forward	8,982	17,996
New premiums in year	0	0
Amounts written off to revenue	(4,493)	(4,586)
Additional amortisation	0	(4,428)
Balance as at 31st March 2007	4,489	8,982

- 27.1 Deferred debits are premiums paid on restructuring the Council's external loan debt.
- 27.2 In 2005/06 additional amortisation was carried out, to fully write down the General Fund share of outstanding premiums and discounts. The balance at 31st March 2007 represents premiums attributable to the Housing Revenue Account only, which will continue to be amortised over periods matching the entitlement to receive Housing Subsidy.

NOTES TO THE ACCOUNTS

28. DEBTORS

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

	2006/07 £000	2005/06 £000
Government departments and other public bodies	45,285	38,475
Council tax payers	23,297	18,610
Housing rent payers	17,355	16,806
Leaseholders	20,779	13,693
Business rates payers	10,535	11,457
Expenditure in advance	5,428	10,152
Southwark Primary Care Trust	3,030	6,958
Accrued investment income	4,677	2,706
Debtors attributable to schools' accounts	1,404	2,266
Sundry debtors	29,609	37,489
Total	161,399	158,612

28.2 Included in the debtors figures are recurring debtors, which can be further shown as:

Arrears	Gross Arrears £m	Payments In advance £m	2006/07 Net Arrears £m	2005/06 Net Arrears £m
Housing rents	17.3	(4.1)	13.2	13.3
Homelessness	2.4	(0.1)	2.3	2.0
Non domestic rates	10.6	(2.6)	8.0	8.3
Council Tax	23.3	(2.5)	20.8	14.9
Other debtors	16.0	(1.4)	14.6	14.0
	69.6	(10.7)	58.9	52.5

28.3 Arrears on recurring debt increased by £6.4 million as at 31st March 2007. The most significant increase is in Council Tax arrears (£5.9 million). As a consequence, the bad debt provision for Council Tax has similarly increased. Both in-year collection and recovery of arrears are key indicators for the Council. Liberata, the Council's revenues and benefits contractor delivered an improvement plan endorsed by their Chief Executive in August to redress the current performance issues in respect of in-year and arrears collections. The Council has made available senior consultancy support to Liberata to assist with the implementation of recovery modules within the Council's new Council Tax system. Support has also been provided for the introduction of enforcement initiatives and to Liberata's management team.

NOTES TO THE ACCOUNTS

29. PROVISIONS FOR BAD DEBTS

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Housing Benefits overpayments	(4,753)	251	(4,502)
Rent arrears	(9,684)	(203)	(9,887)
Hostels	(861)	(99)	(960)
Housing court costs	(530)	(2)	(532)
RTB Section 20	(2,750)	2,750	0
Commercial rent arrears	(266)	51	(215)
Bed & breakfast	(318)	21	(297)
Travellers	(119)	(4)	(123)
Private Sector Leasing	(573)	(19)	(592)
On street parking	(3,322)	1,262	(2,060)
Section 74	(645)	64	(581)
Council Tax	(11,994)	(3,650)	(15,644)
Council Tax summons costs	(1,209)	(15)	(1,224)
Non domestic rates collection	(3,437)	(643)	(4,080)
BCCI loss	(267)	0	(267)
Children's Services	(302)	137	(165)
Social Services	(503)	(26)	(529)
South Dock Marina	(89)	(71)	(160)
Other provisions individually less than £100,000	(276)	(30)	(306)
	(41,898)	(226)	(42,124)

29.1 Included in the above figures are provisions against recurring debtors as shown in Note 28. The Council's level of provisions for the write off of arrears on recurring debt has increased by £0.5 million in 2006/07, the increase in the provisions against Council Tax offset by reductions in provisions against other debtors (largely commercial property income):

	2006/07 £m	2005/06 £m
Provisions for bad debts		
Housing rents	10.4	10.2
Homelessness	2.0	1.9
Non domestic rates	4.1	3.4
Council Tax	15.6	12.0
Other debtors	5.5	9.6
	37.6	37.1

NOTES TO THE ACCOUNTS

30. INVESTMENTS

	2006/07 £000	2005/06 £000
Temporary investments	256,923	275,125
Less: Sums invested on behalf of Trust Funds	(1,957)	(2,139)
	254,966	272,986

30.1 Temporary investments include funds managed externally on behalf of the Council, the book cost of which was £26.655 million (£25.739 million 2005/06) with a market value of £27.062 million (£25.897 million 2005/06).

31. BORROWING REPAYABLE ON DEMAND OR WITHIN 12 MONTHS

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

	Range of Interest rates payable (%)	Total outstanding	
		2006/07 £000	2005/06 £000
Stock		(54)	(54)
Mortgages	3.25 to 5.06	0	(11)
		(54)	(65)

32. CREDITORS

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

	2006/07 £000	2005/06 £000
Government departments and other public bodies	(18,722)	(20,383)
Income received in advance	(21,373)	(22,737)
Accrued debt interest	(15,077)	(10,857)
Council tax payers	(4,393)	(6,485)
Creditors attributable to schools' accounts	(3,965)	(2,522)
Business rates payers	(3,335)	(1,333)
Sundry creditors	(45,771)	(36,520)
Total	(112,636)	(100,837)

NOTES TO THE ACCOUNTS

33. LONG TERM BORROWING

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

33.2 Sources of loans:

	Range of Interest rates payable (%)	Total outstanding	
		2006/07 £000	2005/06 £000
Mortgages	3.25 to 5.06	0	(123)
PWLB loans	4.25 to 10.75	(693,709)	(693,709)
		(693,709)	(693,832)

33.3 Maturity dates of loans:

	2006/07 £000	2005/06 £000
from 1 year to 2 years	(21,362)	(12)
from 2 years to 5 years	(151,982)	(144,683)
from 5 years to 10 years	(244,135)	(272,907)
after 10 years	(276,230)	(276,230)
	(693,709)	(693,832)

34. PROVISIONS

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Insurance claims	(5,773)	(539)	(6,312)
Taxation	(158)	117	(41)
Subsidy loss rebates	(678)	678	0
Tax on leasing subsidy	(17,721)	3,544	(14,177)
Housing Benefits subsidy loss	(1,391)	(66)	(1,457)
Section 117 Social Services claims	(146)	146	0
Refund of asset sale	(150)	150	0
Housing contract disputes	(1,089)	253	(836)
Children's Services contract disputes	0	(225)	(225)
Social Services contract disputes	0	(145)	(145)
Asylum seekers grant	0	(388)	(388)
Other provisions individually less than £100,000	(128)	(36)	(164)
	(27,234)	3,489	(23,745)

NOTES TO THE ACCOUNTS

34.1 Between 1983 and 1985 the Council entered into tax variable leases to finance the cost of major improvements in its housing stock. Lessors' entitlement to capital allowances was the subject of a House of Lords ruling in a test case not involving the Council. The Council claimed and received Housing Subsidy on the additional lease rentals in respect of the years 1996/97 to 1998/99, against which further provision for outstanding liabilities of £17.721 million was made, shown as Tax on leasing subsidy. This provision is now being released as the risk of liability declines.

35. GRANTS DEFERRED ACCOUNT

	2006/07 £000	2005/06 £000
Balance as at 1 st April 2006	(97,937)	(73,397)
Capital grants received in the year	(41,048)	(31,433)
Amortisation	1,756	1,048
Transfers to Capital Financing Account		
- Capital grant funding	9,624	3,933
- Section 106 funding	3	516
- Grants written down	4,474	308
Adjustment for prior years' debtors	0	1,088
Balance as at 31st March 2007	(123,128)	(97,937)
Represented by :		
Grants "applied" to be amortised to revenue accounts over the life of the completed scheme	(101,292)	(77,105)
Grants earmarked for future capital commitments	(21,836)	(20,832)
Balance as at 31st March 2007	(123,128)	(97,937)

35.1 Included in the above totals is £13.705 million in respect of planning gains at 31st March 2007 (£13.203 million at 31st March 2006).

NOTES TO THE ACCOUNTS

36. DEFERRED RECEIPTS

36.1 The balance is made up as follows:

	2006/07 £000	2005/06 £000
Where the Council has granted a mortgage but no cash advance on the sale of Council dwellings	(1,860)	(609)
Charges on leaseholders' property for major works	(506)	(873)
	(2,366)	(1,482)

37. DEFERRED CREDITS

	2006/07 £000	2005/06 £000
Balance brought forward	(549)	(5,535)
Amounts written to revenue	84	559
Additional amounts written to revenue	0	4,427
Balance as at 31st March 2007	(465)	(549)

37.1 Deferred credits are discounts received on restructuring the Council's external loan debt.

37.2 In 2005/06 additional charges to revenue were carried out, to fully write down the General Fund share of the outstanding premiums and discounts. The balance at 31st March 2007 represents discounts attributable to the Housing Revenue Account only, which will continue to be amortised over periods matching the requirement to charge against the receipt of Housing Subsidy.

38. ANALYSIS OF NET ASSETS

	2006/07 £000	2005/06 £000
Housing Revenue Account	2,089,898	1,920,151
General Fund	283,690	309,099
Net assets shown in the Balance Sheet	2,373,588	2,229,250

NOTES TO THE ACCOUNTS

39. CAPITAL FINANCING ACCOUNT

	HRA	General Fund	2006/07 Total £000	2005/06 Total £000
	£000	£000		
Balance as at 1 st April 2006	(527,595)	(229,696)	(757,291)	(719,912)
Capital financing				
- capital receipts	(20,002)	(15,925)	(35,927)	(26,289)
- revenue	(9,121)	(2,848)	(11,969)	(8,462)
- Section 106	(3)	0	(3)	(516)
- capital grants applied	(480)	(9,144)	(9,624)	(3,933)
- MRA applied	(33,694)	0	(33,694)	(49,219)
Amortisation of deferred charges	607	7,796	8,403	5,584
Depreciation	37,330	12,180	49,510	46,050
Impairment	0	(2,715)	(2,715)	2,715
Minimum Revenue Provision	0	(2,204)	(2,204)	(1,945)
Other accounting entries				
- grants amortisation	(95)	(1,661)	(1,756)	(1,048)
- grants write down for changes to work in progress	(1,988)	(2,486)	(4,474)	(308)
- other adjustments	0	0	0	(8)
Balance as at 31st March 2007	(555,041)	(246,703)	(801,744)	(757,291)

40. FIXED ASSET RESTATEMENT ACCOUNT

	HRA	General Fund	2006/07 Total £000	2005/06 Total £000
	£000	£000		
Balance as at 1 st April 2006	(1,387,467)	(124,516)	(1,511,983)	(2,074,838)
Adjustments for previous years	(38,714)	19,920	(18,794)	(8,611)
Unrealised loss/(gains) from revaluation of fixed assets	(106,339)	(3,825)	(110,164)	512,600
Value of assets disposed of	20,302	6,859	27,161	58,866
Balance at 31st March 2007	(1,512,218)	(101,562)	(1,613,780)	(1,511,983)

NOTES TO THE ACCOUNTS

- 40.1 Adjustments for previous years reflect the identification of assets that have become non-operational, including council housing buildings being prepared for redevelopment. The adjustments also include restatements which are the result of greater refinement in the approach to valuation, where garages and halls have been separately identified and valued.

41. PENSIONS RESERVE

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

	2006/07 £000	2005/06 £000
Balance as at 1 st April 2006	260,530	281,862
Actuarial (gain)/loss - Council pension fund	(6,700)	(33,100)
Actuarial (gain)/loss - LPFA pension fund	(2,056)	3,819
Settlement of actual pensions' contributions against liabilities due, to the Statement of Movement on the General Fund Balance	4,148	8,314
Reconciling items to the Pensions Liability	(10)	(365)
Balance as at 31st March 2007	255,912	260,530

- 41.2 Movements in the actuarial gains and losses are shown in more detail in Note 16 above.

42. USABLE CAPITAL RECEIPTS RESERVE

	2006/07 £000	2005/06 £000
Balance as at 1 st April 2006	(83,604)	(70,032)
Gross capital receipts from sale of assets	(46,528)	(94,447)
Less:		
Transfer to the Income and Expenditure Account	18,334	54,586
Capital receipts used for financing capital expenditure	35,927	26,289
Balance as at 31st March 2007	(75,871)	(83,604)

- 42.1 Under the Local Government Act 2003, part of the proceeds from the sale of housing assets are paid to the Government, on the basis of 75% from the sales of dwellings and 50% from the sale of land and other housing assets. The payment is reflected in the Income and Expenditure Account, matched by a release from the Usable Capital Receipts Reserve in the Statement of Movement in the General Fund Balance.

NOTES TO THE ACCOUNTS

43. MODERNISATION, SERVICE & OPERATIONAL IMPROVEMENT RESERVE

43.1 This reserve is for one-off expenditure and multi-year projects that are designed to modernise and improve service levels and operational efficiency of Southwark's activities, in particular to assist accommodation pressures. The use of the reserve is subject to a protocol listing admissible items in accordance with the Council's Medium Term Financial Strategy.

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Modernisation, Service & Operational Improvement Reserve	(8,846)	3,864	(4,982)

44. REGENERATION & DEVELOPMENT RESERVE

44.1 In a similar way to the Modernisation, Service & Operational Improvement Reserve, this reserve is to fund one-off expenditure and multi-year projects to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Aylesbury Estate, Southwark Schools for the Future, Waste PFI, and land acquisitions associated with these projects. The creation and movement in the year is partly from the consolidation of other balances as well as new resources in 2006/07.

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Regeneration & Development Reserve	(8,330)	(5,831)	(14,161)

45. FINANCIAL RISK RESERVE

45.1 This reserve is set aside against future financial risks that may arise. For example, taxation risk, legislative changes including actions involving the Greater London Authority, major projects, risks as a result of unavoidable changes in accounting practice, and circumstances not provided for within the Insurance Reserve.

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Financial Risk Reserve	(7,678)	2,051	(5,627)

NOTES TO THE ACCOUNTS

46. SCHOOLS' BALANCES

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

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Funds held by schools	(11,585)	858	(10,727)
Nursery school balances	(1,592)	548	(1,044)
	(13,177)	1,406	(11,771)

47. OTHER EARMARKED RESERVES

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

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Equalities programme	(134)	44	(90)
Internal audit contracts	(235)	31	(204)
Town Hall complex building enhancements	(285)	151	(134)
CSC advance payment (Note 47.2)	(3,108)	2,524	(584)
CSC back office developments	(722)	67	(655)
IT de-commissioning	(472)	472	0
Sheltered wardens	(15)	15	0
GIS	(130)	0	(130)
Peckham Pulse	(2,150)	1,615	(535)
Schools asset management plans	(100)	100	0
Planned Maintenance Fund	(1,201)	1,027	(174)
Housing Benefits Subsidy equalisation	(2,684)	0	(2,684)
Housing Benefits losses on claims	(3,805)	0	(3,805)
Future pensions commitments (Note 47.3)	(3,000)	0	(3,000)
E-Payments project	0	(100)	(100)
Legal and democratic services improvement programme	0	(65)	(65)
CSC business process review	0	(293)	(293)
Fraud investigations	0	(48)	(48)
Capital contingency	0	(2,500)	(2,500)
Landfill Allowances Trading Scheme	(16)	(237)	(253)
	(18,057)	2,803	(15,254)

NOTES TO THE ACCOUNTS

- 47.2 CSC advance payment, £0.584 million. This is a non cash backed reserve. In 2004/05 the Council made an upfront payment for the development of the Customer Service Centre of £10 million. Accounting practice requires that the payment is not shown in the Income and Expenditure Account in the year the payment is made, but spread over the years in which the benefit from the upfront payment arises. This item represents the balance of funding required to be spread over the remaining year, 2007/08.
- 47.3 Future pensions commitments, £3 million, above. The Government introduced new regulations for local authority pensions from 2004/05, increasing retirement ages. However, the regulations have not yet been implemented by the Government. If the regulations remain unimplemented, or are implemented at a much later date, there will be significant increased costs to the General Fund in 2007/08 and later years, which this reserve will meet a proportion thereof.
- 47.4 Departmental (under)/over spends and balances carried forward:

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
DSO	(61)	0	(61)
Regeneration cleaner, greener initiatives	(142)	142	0
Strategic Services management and development	(150)	0	(150)
Signage	(349)	241	(108)
Schools reorganisation costs	(315)	165	(150)
Blackfriars trust allocation	(138)	0	(138)
Waste PFI	(200)	0	(200)
On street parking	(304)	158	(146)
Election costs	(800)	366	(434)
Every Child Matters	(163)	163	0
One-off growth programme 2005/06	(63)	63	0
Local Public Sector Agreements	(1,802)	2	(1,800)
Local Authority Business Growth Incentive	(1,469)	1,469	0
Adult Learning	0	136	136
Street trading account	0	120	120
	(5,956)	3,025	(2,931)

NOTES TO THE ACCOUNTS

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

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Schools in financial difficulties, schools closures and academies	(1,203)	(361)	(1,564)
Interest equalisation	(4,000)	0	(4,000)
Commutation adjustment	(1,708)	0	(1,708)
Insurance	(8,651)	(27)	(8,678)
Other reserves individually less than £100,000	(486)	(20)	(506)
	(16,048)	(408)	(16,456)

47.6 Summary of other earmarked reserves:

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Specific projects and planned commitments	(18,057)	2,803	(15,254)
Departmental (under)/over spends	(5,956)	3,025	(2,931)
Future risks and programmes not yet fully committed	(16,048)	(408)	(16,456)
	(40,061)	5,420	(34,641)

48. ANALYSIS OF GRANTS SHOWN IN CASH FLOW STATEMENT

		2006/07 £000	2005/06 £000
Revenue Support Grant and pool contribution	48.1	(115,205)	(354,652)
Housing subsidy		(60,377)	(65,460)
Education grants	48.1	(258,330)	(78,847)
Housing benefits (excluding rent rebates)		(157,119)	(132,500)
Other grants		(60,698)	(67,754)
		(651,729)	(699,213)

48.1 In 2006/07 the Government moved to funding schools by specific grant, Dedicated Schools Grant, rather than through the allocation of Revenue Support Grant.

NOTES TO THE ACCOUNTS

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

	2006/07		2005/06
	£000	£000	£000
Net expenditure/(income) on General Fund	(1,278)		(6,568)
Net expenditure/(income) on HRA and Major Repairs Reserve	(8,662)		8,086
Net expenditure/(income) on Collection Fund	1,827		758
Total	(8,113)		2,276
Net revenue income as per cash flow statement	(108,202)		(12,492)
Net interest paid as per cash flow statement	40,827		41,135
Add:			
Increase in stocks and work in progress	121		398
Increase in creditors	11,427		0
Depreciation and capital payments	58,764		58,275
Decrease in deferred debits	4,493	74,805	9,014
Less:			
Decrease in deferred credits	(84)		(4,986)
Increase in debtors	(2,786)		(18,356)
Decrease in creditors	0		(41,792)
Decrease in Provisions and Reserves	(12,673)	(15,543)	(28,920)
Total	(8,113)		2,276

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

	2006/07	2005/06
	£000	£000
Long term loans		
Balance as at 1 st April	693,897	648,909
Repayments of amounts borrowed	(134)	0
New borrowings	0	44,988
Balance as at 31 st March	693,763	693,897
Short term borrowing		
Balance as at 1 st April	0	0
Repayments of amounts borrowed	0	0
New borrowings	0	0
Balance as at 31 st March	0	0

NOTES TO THE ACCOUNTS

51. LIQUID RESOURCES

51.1 The Council's investments are analysed as either realisable or liquid resources for the purpose of the cash flow statement. Realisable investments are those which are immediately available, for example being held in deposit or call accounts, or can be received the next working day. Liquid resources are those investments that are being held for longer than one day though can be accessed earlier but at a penalty. All the Council's investments are in money market instruments.

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

	Balance 31/3/06 £000	Movement in 06/07 £000	Balance 31/3/07 £000
Investments, liquid resources	213,610	(64,112)	149,498
Investments, realisable investments	59,376	46,092	105,468
Investments, Balance Sheet	<u>272,986</u>	<u>(18,020)</u>	<u>254,966</u>

52. INSURANCE

52.1 From 1992 the Council has been meeting the following types of insurance from within its own resources. Stop loss and excess cover is continuing, subject to the indicated excesses:

Type of Insurance	Excess £	Effective from
Property - general	500,000	1 st May 2003
Property - housing fire	100,000	1 st May 2002
All risks	100,000	1 st May 2002
Motor	112,500	1 st Oct 2006
Liability	100,000	1 st May 2003
Fidelity guarantee	10,000	1 st May 2002

52.2 Provisions of £6.312 million (£5.773 million 2005/06) have been made for outstanding claims and £8.678 million (£8.651 million 2005/06) has been reserved from General Fund balances to meet other potential losses.

52.3 The insurance reserve is a general allocation for risks that are unquantified or unknown at this time. In the unlikely event that this reserve is inadequate, the Council has also provided for a Financial Risk Reserve and has contingency through its general balance.

53. EURO DISCLOSURE

53.1 The Council's main financial system was replaced in 1998 and is fully compliant with the Euro. To date no significant work has been carried out to ensure that the Authority's other systems are compliant, but they will be fully tested at a future date.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) reflects the statutory requirement under schedule 4 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It shows the major elements of cost in providing and managing the Council's housing stock and how this expenditure is met from rents, subsidy and other income.

	Note	2006/07 £000	2005/06 £000
Income			
Dwelling rents		(143,452)	(138,375)
Non dwelling rents		(8,533)	(8,382)
Charges for services and facilities		(50,822)	(42,862)
Contributions towards expenditure		(5,589)	(6,446)
HRA subsidy receivable (including MRA)	1	(60,756)	(68,880)
Total income		(269,152)	(264,945)
Expenditure			
Repairs and maintenance		54,671	53,618
Supervision and management		100,599	103,149
Rents, rates, taxes and other charges		3,520	3,206
Depreciation and impairment of fixed assets	2	37,330	36,986
Debt management expenses		308	292
Amortisation of deferred charges	3	607	859
Total expenditure		197,035	198,110
Net Cost of HRA Services included in the Council's Income and Expenditure Account			
		(72,117)	(66,835)
HRA share of CDC costs		1,035	1,010
Net Cost of HRA Services		(71,082)	(65,825)
Gains and losses on the sales of HRA fixed assets		(459)	0
Interest payable		51,472	50,554
Amortisation of premiums and discounts		4,409	4,900
HRA Investment Income		(1,953)	(1,072)
Pensions interest cost and expected return on pensions assets		177	855
Total Surplus for the year on HRA services		(17,436)	(10,588)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	Note	2006/07 £000	2005/06 £000
Total Surplus for the year on HRA services		(17,436)	(10,588)
Net additional amount required by statute	4	12,008	6,124
Increase in the HRA Balance		(5,428)	(4,464)
HRA Balance brought forward		(31,994)	(27,530)
Balance carried forward	5	(37,422)	(31,994)

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. HRA SUBSIDY

- 1.1 Subsidy is receivable from the Government on the basis of assumptions made for the major income and expenditure headings within the Housing Revenue Account (HRA). These assumptions form a notional account (see below), the balance of which forms the 'Housing Element' of subsidy.
- 1.2 In 2006/07 a new Rental Constraint Allowance was introduced to compensate authorities for income lost as a result of implementing caps on formula rents, limits on individual rent increases and an overall 5% limit on the increase in average rent.
- 1.3 The HRA is charged for any limitation of (General Fund) Housing Benefit Subsidy. Average rent and relevant service charges were 0.25% above the rebate rent limit, resulting in a limitation deduction in 2006/07.

	2006/07 £000	2005/06 £000
Management & Maintenance allowances	(103,997)	(96,357)
Major Repairs Allowance	(36,308)	(35,908)
Capital Charges subsidy	(67,910)	(68,009)
Other Expenditure (leased assets) subsidy	(1,719)	(1,662)
Rental Constraint Allowance	(1,944)	0
Interest on Receipts deduction	70	87
Guideline rent income deduction	150,825	136,347
Housing Element subsidy	(60,983)	(65,502)
Housing Benefit subsidy limitation deduction	227	0
Total Housing Subsidy	(60,756)	(65,502)

2. DEPRECIATION CHARGE

	2006/07 £000	2005/06 £000
Dwellings	36,308	35,908
Other property	1,022	1,078
	37,330	36,986

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

3. DEFERRED CHARGES

- 3.1 Deferred charges represent expenditure which has been capitalised but which does not result in the acquisition or increased value of a tangible fixed asset. HRA deferred charges are cash incentive payments (grants to tenants as an incentive to vacate their properties and purchase private accommodation), and statutory home loss payments where the Council necessarily relocates tenants to other accommodation.
- 3.2 HRA deferred charges are included in the figures presented at Note 24 to the balance sheet (page 52):

	2006/07 £000	2005/06 £000
Balance as at 1 st April	0	0
Expenditure in the year	607	859
Amortisation in the year	(607)	(859)
Balance as at 31st March	0	0

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

	2006/07 £000	2005/06 £000
Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year		
Amortisation of deferred charges and credits from the grants deferred account	1,959	(456)
Gains and losses on the sales of HRA fixed assets excluding costs	631	0
Net charges made for retirement benefits in accordance with FRS 17	(3,527)	(4,201)
	937	(4,657)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year		
Transfer to/(from) Major Repairs Reserve	(403)	(1,078)
Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners	4,160	3,397
Capital expenditure funded by the HRA	9,188	8,462
	12,945	10,781
Net additional amount required by statute to be charged to the HRA	12,008	6,124

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

5. HRA BALANCE

5.1 HRA reserves as at 31st March 2007 are £37.4 million. The increase in the reserves from £32.0 million arises from the additional provision regarding the Council's Investment Programme, less the release of bad debts provisions, Housing Subsidy provisions and improved income collection. The reserves are allocated as follows:

	2006/07	2005/06
	£m	£m
Earmarked reserves	31.7	24.4
Working balances	5.7	7.6
Balance as at 31st March 2007	37.4	32.0

5.2 Earmarked reserves comprise:

- Contingency Fund, £13.0 million - reserve held similar to that in the General Fund, representing 3% of gross HRA spend, and an additional 2% relating to overprogramming and other potential overspends in the Council's Investment Programme.
- Insurance reserve, £2.0 million - self-insurance fund against risk of subsidence in own stock.
- Office accommodation, £0.8 million - planned maintenance and office refurbishment programme.
- Heating account, £0.1 million - provision against potential increases in fuel costs.
- Customer Services Centre, £0.3 million - amortisation of the third year of costs attributable to the HRA. The full costs will be written down over 4 years.
- IT modernisation, £2.2 million - investment in infrastructure, e-government and customer access.
- Leasehold Income, £1.9 million - a reserve created to fund leasehold income losses in the future.
- Decent Homes, £3.5 million - a contribution towards the Council's Decent Homes programme.
- Interest equalisation, £2.5 million - proposed debt restructuring means that a reserve is required to equalise any potential future interest payments arising. The allocation would also protect against adverse movements in market interest rates, both on investment income and debt cost.
- Housing Management reorganisation, £2.0 million - following high-level changes in the Council's management of this service, this reserve is required to meet any additional costs arising from restructuring of the service itself.
- Major Projects, £3.4 million - regeneration of Elephant & Castle and Aylesbury.

5.3 Working balances comprise:

- Service delivery improvements, £5.6 million - primarily to repair and maintain the housing stock, and improvements and new initiatives to enhance service provision to tenants and leaseholders.
- Redevelopment, regeneration and investment, £0.1 million - costs associated with redevelopment and regeneration works, principally associated security costs.

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

6. MAJOR REPAIRS RESERVE

	2006/07 £000	2005/06 £000
Balance as at 1 st April 2006	(10,732)	(23,283)
Transfers from the Capital Financing Account	(37,330)	(36,986)
Transfer to the HRA	1,022	1,078
Interest received	(620)	(760)
Financing of capital expenditure	33,694	49,219
Balance as at 31st March 2007	(13,966)	(10,732)

7. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of dwelling		Number of bedrooms				Total	
		1	2	3+	Other	31/3/07	31/3/06
Houses and bungalows	31/3/07	413	755	2,984	0	4,152	
	31/3/06	415	759	2,998	0		4,172
Low rise flats	31/3/07	3,112	708	388	0	4,208	
	31/3/06	3,164	767	395	0		4,326
Medium rise flats	31/3/07	7,173	7,669	6,650	0	21,492	
	31/3/06	7,171	7,663	6,693	0		21,527
High rise flats	31/3/07	3,840	5,294	1,864	0	10,998	
	31/3/06	3,878	5,409	1,936	0		11,223
Non permanent	31/3/07	0	0	0	29	29	
	31/3/06	0	0	0	36		36
Multi occupied	31/3/07	0	0	0	207	207	
	31/3/06	0	0	0	200		200
TOTALS	31/3/07	14,538	14,426	11,886	236	41,086	
	31/3/06	14,628	14,598	12,022	236		41,484

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

8. ASSET VALUATIONS

- 8.1 The values of HRA operational assets, as included in Note 23 to the Balance Sheet on page 48 are shown in the table below.

	2006/07 £000	2005/06 £000
Operational assets		
Dwellings	2,388,729	2,322,010
Other land and buildings	50,242	84,452
Total operational assets	2,438,971	2,406,462
Non-operational assets		
Surplus assets	60,624	0
Commercial and investment assets	61,091	0
Total non-operational assets	121,715	0
Total HRA assets	2,560,686	2,406,462

- 8.2 There was a review of the categorisation of HRA assets in 2006/07, particularly prompted by the stages that major regeneration and other redevelopment schemes in the borough have reached during 2006/07. As a result, assets not directly used in the provision of HRA services are now shown as non-operational assets. The movements between categories within tangible fixed assets are included in Note 23.1 above (page 48).
- 8.3 The vacant possession value of dwellings within the HRA at 1st April 2006 was £6.373 billion. The Balance Sheet value is lower because nearly all the dwellings are occupied, and because the rents for secure tenancies are below market value.

9. CAPITAL

	2006/07 £000	2005/06 £000
CAPITAL EXPENDITURE		
Funding Source:		
Revenue contributions	9,121	8,462
Supported borrowing approvals	15,299	24,318
Capital receipts from the sales of assets	20,003	7,420
Grants and other contributions	482	402
Major Repairs Reserve	33,694	49,219
Total HRA capital expenditure	78,599	89,821

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

RECEIPTS FROM ASSET DISPOSALS	2006/07 £000	2005/06 £000
Land	1,431	1,287
Buildings	34,691	80,769
Other receipts	0	1,184
Total HRA capital receipts	36,122	83,240

10. FRS 17 - ACCOUNTING FOR RETIREMENT BENEFITS

- 10.1 The HRA is presented in accordance with the requirement to account for retirement benefits under the principles of FRS 17. Further information on accounting for FRS 17 is given in Note 16 on page 38.
- 10.2 The apportionment of charges to the HRA under FRS 17 is based on the ratio of employer payroll costs incurred by the Council of staff charged to the HRA against those employed for the Council as a whole. This apportionment is also applied to actuarially assessed items such as pensions interest cost and the expected return on pensions assets.

11. HOUSING TENANTS ACCOUNTS

	2006/07 £000	2005/06 £000
Gross Arrears as at 1 st April	16,806	17,942
Prior Year Payments	(3,473)	(3,185)
Arrears as at 1 st April	13,333	14,757
Charges due in the year	165,831	156,483
Rent Rebates	(82,556)	(78,239)
Write offs	(1,840)	(3,722)
Adjustments	42	785
Cash collected	(81,572)	(76,731)
Net Arrears as at 31 st March	13,238	13,333
Payments in Advance	4,117	3,473
Gross Arrears as at 31 st March	17,355	16,806

- 11.1 The arrears position as at 31st March 2007 includes Neighbourhoods, Browning EMB, hostels and miscellaneous properties. It excludes Tenant Management Organisations, Bed & Breakfast and Travellers Sites.

COLLECTION FUND

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates (Business Rates) on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

INCOME AND EXPENDITURE ACCOUNT

	Notes	2006/07 £000	2005/06 £000
Income			
Income from Council Tax	1	(82,368)	(77,027)
Transfers from the General Fund, Council Tax benefits		(23,994)	(24,049)
Income collectable from business ratepayers	2	(108,024)	(102,040)
Total Income		(214,386)	(203,116)
Expenditure			
Precepts and Demands			
GLA		26,433	22,820
London Borough of Southwark		77,287	75,600
Non Domestic Rates			
Payment to National Pool		107,370	101,385
Cost of collection allowance		654	655
Provision for bad and doubtful debts			
Council Tax		3,650	159
Council Tax write offs		796	3,254
Contribution to preceptors from previous year's Collection Fund surplus		23	1
Total Expenditure		216,213	203,874
Net deficit/(surplus) for the year		1,827	758
Deficit/(surplus) as at 1 st April		(528)	(1,286)
Deficit/(surplus) as at 31 st March	3	1,299	(528)

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

1.1 Council Tax derives from charges raised according to the value of residential properties that have been classified into 8 valuation bands using estimated 1st April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and preceptors for the forthcoming year and dividing this by the Council Tax base (the total number of properties liable to tax, expressed as a band D equivalent). This basic amount of Council Tax for a band D property (£1,132.75 in 2006/07 and £1,098.76 in 2005/06) is multiplied by the proportion specified for the particular band to give an individual amount due.

1.2 Council Tax bills were based on the following:

Band	Estimated number of properties after effect of discounts		Ratio	Equivalent number of Band D properties	
	2006/07	2005/06		2006/07	2005/06
A	9,611.05	9,132.75	6/9	6,406.84	6,087.97
B	29,570.40	29,521.15	7/9	22,999.20	22,960.89
C	26,043.25	25,501.80	8/9	23,149.56	22,668.27
D	15,506.10	15,018.00	1	15,506.10	15,018.00
E	10,091.95	9,763.95	11/9	12,334.61	11,933.72
F	4,725.05	4,581.85	13/9	6,825.07	6,618.23
G	3,506.35	3,454.95	15/9	5,843.92	5,758.25
H	436.00	435.30	18/9	872.00	870.60
Total				93,937.30	91,915.93
Add adjustment for contribution paid in lieu				0.00	5.30
Less adjustment for collection rate				(2,348.44)	(2,298.03)
Council Tax Base for year				91,588.86	89,623.20
Band D tax rate multiplier				£1,132.75	£1,098.76
Estimated Council Tax due in the year (Council Tax base x Council Tax)				£103,747,281	£98,474,387

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

NOTES TO THE COLLECTION FUND

2. NATIONAL NON DOMESTIC RATES

2.1 National Non Domestic Rates (NNDR) are organised on a national basis. The Government specifies the rates to be used: 43.3p in 2006/07 and 42.2p in 2005/06, and for small businesses 42.6p in 2006/07 and 41.5p in 2005/06. Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by these amounts. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into a national pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' general funds on the basis of a fixed amount per head of the population. See also Note 19 to the Income and Expenditure Account, page 45.

	£
Rateable value as at 31 st March 2006	373,904,190
Rateable value as at 31 st March 2007	382,171,048

2.2 The NNDR income after relief for voids etc. of £108.024 million (£102.040 million for 2005/06) was based on the average rateable value for the Council area for the year. The actual rateable value fluctuates considerably throughout the year due to revaluations, voids etc.

3. CONTRIBUTIONS TO COLLECTION FUND SURPLUSES AND DEFICITS

3.1 The Income and Expenditure Account includes £0.528m surplus brought forward on the Collection Fund at the start of the year. The deficit for the year 2006/07 of £1.827m results in a net deficit of £1.299m on the account overall.

TRUST FUNDS AND OTHER BALANCES

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

1. Trusts Funds where the Council is the sole trustee

	Balance at 31/3/06	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/07
	£	£	£	£
Social Service Funds				
Individual bequests	45,870	2,332	0	48,202
Comforts Funds/residents savings	1,064,480	2,174,379	(1,759,207)	1,479,652
Education & Culture Trusts				
Miscellaneous	21,474	2,421	(1,062)	22,833
Potters Field	260,096	12,588	0	272,684
Environment & Leisure Trusts				
Pullens Gardens maintenance fund	99,383	4,810	0	104,193
	<u>1,491,303</u>	<u>2,196,530</u>	<u>(1,760,269)</u>	<u>1,927,564</u>

1.1 Included in the balance for Comforts Funds/residents savings is an amount owing to the Council of £1,277,488. This relates to a delay in processing payments due to the Council from individual care home residents. The amount is recognised as a creditor in the trust fund accounts and as a debtor in the Council's Statement of Accounts.

1.2 The purposes of the trust funds are listed below:

Individual Bequests	
Joseph Taylor	Ex London County Council bequest
Frank Bezer	To provide Christmas extras to children in the Hollies or any replacement accommodation
George Baker	For the benefit of persons living in residential accommodation in Southwark
Daniel Steele	To provide extras for residents of Nye Bevan Lodge
Comfort Funds/Residents' Savings	This comprises numerous separate funds to provide "comforts" to residents of the various Social Services establishments, and savings accounts administered on behalf of the residents of those establishments
Miscellaneous	Bequests set up to provide prizes or financial assistance to students at relevant schools in the Borough
Potters Field	To maintain open space adjoining London Bridge City
Pullens Gardens maintenance fund	To meet the maintenance cost of Pullens Gardens

TRUST FUNDS AND OTHER BALANCES

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

	Balance at 31/3/06	Increase in fund balance	(Decrease) in fund balance	Balance at 31/3/07
	£	£	£	£
Funds for the relief of Council Tax				
Walworth Common Estate	933,339	45,173	(24,512)	954,000
Borough Market Trustees	381	3,091	(2,721)	751
Leisure Trusts				
Cuming Bequest	8,162	395	0	8,557
	941,882	48,659	(27,233)	963,308

2.1 The purposes of the trust funds are listed below:

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

PENSION FUND ACCOUNT 2006/07

	Note	2006/07 £000	2005/06 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable	5.1		
From employers (including admitted bodies)		(27,601)	(23,558)
From employees (including admitted bodies)		(8,916)	(8,512)
Transfers in		(7,500)	(8,456)
Total income		(44,017)	(40,526)
Benefits payable			
Pensions	5.4	23,936	22,798
Lump sums (incl. retirement and death grants)		5,205	3,332
Payments to and on account of leavers			
Refunds of contributions		0	116
Group transfers out to other schemes		292	0
Transfers out		3,289	7,404
Administrative expenses borne by the scheme		1,173	1,009
Total Expenditure		33,895	34,659
Net addition from dealing with members of the fund		(10,122)	(5,867)
Returns on Investment			
Investment Income			
Income from securities and pooled investment vehicles		(10,247)	(10,869)
Income from pooled property vehicles		(938)	(879)
Net rent from properties		(4,046)	(2,609)
Interest on cash deposits		(965)	(999)
Other income		(313)	(182)
Change in Market value of Investments		(32,288)	(125,712)
Taxation	2.6	0	0
Investment Management Expenses		3,988	2,747
Net returns on investments		(44,809)	(138,503)
Net increase in Fund for the year		(54,931)	(144,370)
Opening Net assets of the scheme		(699,443)	(555,073)
Closing Net assets of the scheme		(754,374)	(699,443)

PENSION FUND NET ASSETS STATEMENT 2006/07

	Note	2006/07 £000	2005/06 £000
Investment Assets			
Fixed Interest Securities - UK public sector		25,852	25,112
Fixed Interest Securities - UK quoted		0	26,032
Equities		341,378	353,516
Index linked securities		91,013	80,064
Managed Funds - Property (Freehold)		72,165	39,730
Managed Funds - Property (Leasehold)		10,720	4,880
Unit Trusts - Property		61,429	33,415
Unit Trusts - Other		126,971	113,160
Deposit	2.4	12,106	11,925
Total Investment Assets		741,634	687,834
Net Current assets and liabilities			
Cash held at managers	2.5	6,163	1,564
Debtors		2,119	2,710
Creditors		(835)	(459)
Cash at Council		5,293	7,794
Total net current assets and liabilities		12,740	11,609
Closing net assets of the Scheme		754,374	699,443

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

- 1.1 The Pension Fund is used to provide benefits for former employees of the Council and other admitted organisations, and dependent on the circumstances provides retirement pensions, widows' pensions, death grants and lump sum payments.

2. OPERATION AND MEMBERSHIP OF THE FUND

- 2.1 In 2006/07 contributions to the Fund were made by employees at 6% of salaries and wages. The Council contributed 275% of the employees' contributions. A one-off payment of £3.9 million was made as a special contribution for early and ill health retirements. In addition, external bodies admitted to the Southwark Fund contributed £1.38 million.
- 2.2 Prior to 31/3/90 the Council paid for the annual inflation updating existing pensions, which was charged directly to the General Fund. Since that date the cost of annual inflation has been charged to the Pension Fund, apart from that on compensation, gratuities and injury allowances. From 1/4/90 to 31/3/93 the Council's contribution was set to meet 75% of the potential liabilities of the Fund, on the basis of a triennial actuarial valuation. Since that date, as a result of the change in the legislation, the Council's contribution is expected to meet 100% of the liabilities.
- 2.3 The Council is required to ensure that any surplus on the Pension Fund is invested. To ensure that the investment of the Fund is carried out to the best possible advantage, investment managers deal with the day to day investment of the Fund. The Fund's new investment structure was fully implemented by December 2006 and is now managed by the following companies: Barclays Global Investors Ltd who manage an "indexed" portfolio of global equities and fixed and index linked gilts; Alliance Bernstein who manage two unconstrained global equities portfolios (one being their growth product and the other their value one); Newton Investment Management who also manage an unconstrained global equities portfolio; and Henderson Global Investors (property).
- 2.4 Cash investments by managers are now shown as deposits within total investment assets. Previously cash investments were included in cash held at managers, shown within net current assets and liabilities. 2005/06 figures have been restated accordingly.
- 2.5 Cash deposits as at 31st March 2007 were £12.1 million, which includes £9.7 million held by Henderson Global Investors. Henderson's mandate was changed during the year to enable them to extend their property investments into Europe. This had not been fully implemented by the year end, with the funds not invested in property being invested into cash deposits.
- 2.6 Irrecoverable tax on dividends is not shown as a separate deduction to income as this information is not available. It is shown in the net dividend income.
- 2.7 The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Pensions Advisory Panel.

NOTES TO THE PENSION FUND STATEMENTS

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

	2006/07	2005/06
Number of contributors to the Fund	6,561	6,526
Number of contributors and dependants receiving allowances	5,806	5,667
Number of contributors who have deferred their pensions	4,935	4,640

3. ACCOUNTING POLICIES

3.1 The Accounts have been prepared in accordance with the recommendations of SORP 1 on Pension Scheme Accounts and the CIPFA Code of Practice on Local Authority Accounting. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end (31st March 2007).

3.2 In order to comply with these recommendations the accounts have been prepared using the market value of equity investments and unit trusts. Foreign transactions are brought into account at the exchange rate when the transaction took place. End of year balances are calculated at the exchange rate for 31st March. Property assets have been included at market value as at 31st March. The cost of acquisition of assets, including property, is treated as a revenue cost. Income and expenditure, including management expenses, are accrued.

3.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 deal with the choice of investment managers, terms of their appointment, review of their performance and use and investment of pension fund money together with restrictions on such investments. In managing the Fund the investment manager must take into account:

- That Fund money must be invested in a wide variety of investments
- The suitability of those types of investment for the Fund
- The suitability of any particular investment of that type.

3.4 The Authority has to keep the investment manager's performance under review and at least once every three months review the investments made, and periodically consider whether or not to retain the manager.

3.5 In addition the administering Authority is under a duty to invest any Fund money not needed immediately to make payments, with power to vary those investments and a duty to formulate an investment policy with a view to:

- The advisability of investing Fund money in a wide variety of investments
- The suitability of particular investments and types of investments.

In carrying out all the above functions, the Authority must obtain proper advice, at reasonable intervals, which is defined as the advice of a person who is reasonably believed by them to be qualified by his ability in and practical experience of financial matters (including any suitable officer of theirs).

NOTES TO THE PENSION FUND STATEMENTS

4. ACTUARIAL POSITION OF THE FUND

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

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

5. CONTRIBUTIONS RECEIVABLE AND BENEFITS PAYABLE

- 5.1 The total contributions receivable for 2006/07 are analysed as follows:

	Employees £000	Employers £000	2006/07 Total £000	2005/06 Total £000
Southwark Council	8,646	26,487	35,133	30,687
Admitted bodies	270	1,114	1,384	1,383
Total	8,916	27,601	36,517	32,070

- 5.2 During the year Botes went into administration and were no longer an admitted body at the year end. The Fund's actuaries have calculated that the total amount owed by Botes is £408,000. This has been included in the accounts as a debtor.
- 5.3 During 2006/07 employees made Additional Voluntary Contributions (AVCs) of £77,315. AVCs are managed by external providers who invest them separately from the rest of the Pension Fund. The main AVC provider is Scottish Equitable, with Prudential being the provider for those employees who are members of the London Pension Fund Authority.

NOTES TO THE PENSION FUND STATEMENTS

5.4 The total benefits payable for 2006/07 are analysed as follows:

	Pensions £000	Lump sums £000	2006/07 Total £000	2005/06 Total £000
Southwark Council	23,716	4,821	28,537	25,797
Admitted bodies	220	384	604	333
Total	23,936	5,205	29,141	26,130

6. RELATED PARTY TRANSACTIONS

6.1 The Council is required to disclose details of its financial relationship with related third parties. This has been defined as where the related party has, or is perceived to have, real influence over any transaction between the parties.

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

- The Council
- The Fund Managers:
 - Barclays Global Investors Limited
 - Henderson Global Investors
 - Alliance Bernstein
 - Newton Investment Management
- The following admitted bodies:
 - Southwark Home Care Trust
 - St Mary Newington
 - Christchurch United Charities
 - Borough Market
 - Southwark Law Centre
 - Fusion
 - Botes
 - Odyssey
 - Gristwood & Toms
 - Pricewaterhouse Coopers
 - Centre for Literacy in Primary Education
 - South London Gallery
 - Shaftesbury Homes
 - APCOA
 - Charter Security
 - Chequers
 - Castle Day Centre
 - Olympic South
 - Morrison

NOTES TO THE PENSION FUND STATEMENTS

7. OTHER INFORMATION

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

Barclays Global Investors	£358.77 million	47.73%
Alliance Bernstein (Growth)	£88.56 million	11.78%
Alliance Bernstein (Value)	£87.87 million	11.69%
Newton Investment Management	£59.14 million	7.87%
Henderson Global Investors	£157.37 million	20.93%
Total	£751.71million	100.00%

7.2 The change in market value of investments during the year comprises all increases and decreases in the Market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

	Value at 31/3/06 £m	Purchases £m	Sales £m	Change in market value £m	Value at 31/3/07 £m
Derivatives	7.34	0.47	(0.03)	(7.78)	0.00
UK equities	257.03	10.63	(218.63)	(1.23)	47.80
Overseas equities	203.83	322.12	(139.07)	33.66	420.54
Fixed interest	51.15	1.00	(25.85)	(0.45)	25.85
Index linked	80.06	8.80	0.00	2.16	91.02
Property	78.03	58.17	(2.82)	10.93	144.31
Cash	14.49	17.92	(22.71)	12.49	22.19
Total	691.93	419.11	(409.11)	49.78	751.71

7.3 The change in market value for derivatives is a revaluation item, and not from an actual change in the market value of the derivatives. This is due to the change in accounting practice adopted by the holding manager, Barclays Global Investors, to report the marginal value of the derivatives rather than the full value of the financial instrument the derivative is based on. The holdings in derivatives were fully sold in 2006/07.

7.4 In relation to the valuation of direct property managed by Henderson Global Investors, the employing firm is Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31st March 2007. All properties have been valued at market value.

7.5 Stock lending is allowed under investment agreements within statutory limits but has not yet been implemented.

7.6 A Statement of Investment Principles has been prepared and is available from the Finance Director, Southwark Town Hall.

GLOSSARY OF ACCOUNTING TERMS

ACCRUAL

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

AGENCY SERVICES

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

ASSET MANAGEMENT REVENUE ACCOUNT (AMRA)

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

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 Non Domestic Rate.

CAPITAL CHARGES

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

CAPITAL EXPENDITURE

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

CAPITAL EXPENDITURE MET FROM REVENUE ACCOUNTS (CERA)

This is revenue contributions towards capital expenditure. However, accounting requirements now require these to be shown as one figure in the Statement of Movement in the General Fund Balance rather than shown against individual services' expenditure.

CAPITAL FINANCING ACCOUNT (CFA)

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

GLOSSARY OF ACCOUNTING TERMS

CAPITAL RECEIPTS

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

CENTRAL SUPPORT SERVICES

The cost of the central administration of the Council.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

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

CODE OF PRACTICE

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

COLLECTION FUND

This is a statutory "ring fenced" account. It records income and expenditure on Council Tax, Non Domestic Rates, payments to the precepting authorities and transfers to the Council's General Fund.

COMMUNITY ASSETS

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

CONTINGENCIES

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

CONTINGENT LIABILITY

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

COUNCIL TAX

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

COUNCIL TAX BENEFIT

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

CREDITORS

Organisations and individuals to whom the Council owes money.

CURRENT LIABILITIES

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

GLOSSARY OF ACCOUNTING TERMS

DEBTORS

Organisations and individuals who owe money to the Council.

DEFERRED CHARGE

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

DEPRECIATION

(1) A charge to the revenue account to reflect the reduction in the expected useful economic life of a fixed asset.

(2) The writing down of the value of a fixed asset in the balance sheet in line with the expected useful life.

DIRECT SERVICE ORGANISATION

A term used to cover both Direct Labour Organisations (DLO) established under the Local Government and Planning Act 1980 and DSOs set up under the Local Government Act 1988.

EARMARKED RESERVES

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

FINANCE LEASES

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

FIXED ASSET RESTATEMENT ACCOUNT (FARA)

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

FRS 17

FRS 17 is Financial Reporting Standard 17, Accounting for Retirement Benefits. The Standard requires the Council to show its outstanding liability to the Pension Fund in its accounts rather than just the payments made into the Pension Fund in the year. The Accounts were prepared on this basis for the first time in 2004/05.

GENERAL FUND

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

HOUSING REVENUE ACCOUNT (HRA)

This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the Council's housing stock. The government defines the items of income and expenditure that must be included in the account. This account is ring fenced under the Local Government and Housing Act 1989, thereby preventing any cross subsidy with the General Fund.

HOUSING SUBSIDY

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

GLOSSARY OF ACCOUNTING TERMS

HRA

See Housing Revenue Account above.

INFRASTRUCTURE ASSETS

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

LATS - LANDFILL ALLOWANCES TRADING SCHEME

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) such as the Council to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS). The Government allocates an allowance each year to each authority for landfill. If more landfill is needed in a year, a WDA must purchase an allowance from other authorities or pay a penalty. Any allowances not used in a year can be carried forward or sold within the trading scheme.

MINIMUM REVENUE PROVISION (MRP)

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

NATIONAL NON DOMESTIC RATES (NNDR)

Another name for non domestic rates.

NET EXPENDITURE

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

NON DOMESTIC RATE (NDR)

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

NON-OPERATIONAL ASSETS

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

ODPM

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

OPERATING LEASE

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

OPERATIONAL ASSETS

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

GLOSSARY OF ACCOUNTING TERMS

PRECEPT

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

PROVISIONS

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

RECHARGES

The transfer of costs from one account to another.

RESERVES

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

REVENUE EXPENDITURE

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

REVENUE SUPPORT GRANT (RSG)

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

SORP

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

SPECIFIC GRANTS

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

