

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22



AUDITED
STATEMENT OF ACCOUNTS
2021-22

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NARRATIVE REPORT

2021-22

NARRATIVE REPORT

From Strategic Director of Finance

Introduction

The Narrative Report provides information about the borough of Southwark including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2021-22 and of its financial position at 31 March 2022 including:

- An introduction to Southwark
- Covid-19 pandemic
- The council's performance during 2021-22
- Financial performance during 2021-22 and financial position at 31 March 2022
- Principal risks and uncertainties
- An explanation of accounting statements

An Introduction to Southwark

Southwark is a dynamic borough in the centre of London, a truly global city. This brings change, challenges and opportunity to all those who work here, pass through here and most of all call Southwark their home. Our ability to develop, transform and renew the borough landscape helps to drive local growth. There is a significant programme of regeneration in Southwark, with some of Europe's most exciting and complex schemes being delivered, such as Elephant and Castle, Aylesbury, Canada Water, Old Kent Road and London Bridge Quarter, home of the Shard, bringing thousands of new homes and jobs to Southwark.

There is a vibrant cultural and arts scene with numerous top theatres including Shakespeare's Globe, the Bridge, and Unicorn as well as the historical Borough market nestled in Dickensian cobbled streets. Art galleries along bankside include the Tate Modern and one of the world's leading contemporary art galleries, White Cube, is located in Bermondsey. Educational establishments include Camberwell College of Arts, a constituent college of the University of the Arts London, regarded as one of the UK's foremost art and design institutions.

In economic terms Southwark has been a net importer of labour in London, powering the jobs market across the city. The borough has a rich mix of employers, including internationally renowned names such as PwC, Ernst and Young, News UK and Hilton hotels. The business mix ranges across construction, health and social care, retail, catering, hospitality, public sector and administration, and finance and legal. However, as across London, there lies a skills challenge in getting more people into the jobs of the future and ensuring all benefit from growth and development in years to come, including the impact of leaving the European Union.

Southwark is one of the most densely populated and diverse boroughs in the country, with a young, growing and mobile population. Over 120 languages are spoken in local schools, 66% of the under-20 population and 75% of reception-age children are from black and minority ethnic groups. Southwark is densely populated and has the seventh highest population density in England and Wales at 10,655 residents per square kilometre compared to the London average of 6,861. The 2021 census estimated the borough's population to be 307,700, up from 256,700 in 2001. The population growth from 2011 to 2021 was 6.7% which was below the London average of 7.5%. The median age of Southwark residents in 2021 was 33.9 years, two years younger than the London average and almost seven years younger than the national average. Whilst the borough's population is comparatively young, this is not driven by a large number of children and young people. It is primarily a result of the large number of young adults in their 20s and 30s. This is a pressure facing many boroughs in London although the issue of meeting demand, especially with a relatively youthful population, is most acute in a borough like Southwark.

The Office for National Statistics (ONS) will publish updated detailed characteristics of the population from the 2021 Census from September 2022 into 2023.

Covid-19 Pandemic

Since March 2020, the Covid-19 pandemic has had a significant impact on both council services and council finances. In 2021-22, the council have continued to tailor service provision and resources to vulnerable residents, support local businesses and communities and ensure staff well-being, as well as maintaining essential services and accommodating new ways of working. In addition, there has been an emphasis on protecting Southwark residents through establishing strong Covid-19 outbreak control measures, including local testing facilities and community prevention schemes.

The government provided extra grant to support councils for the additional costs and income losses for the period to June 2022. The council has also had to implement national support schemes such as business rate relief schemes and covid local support schemes. The overall financial impact of the pandemic, together with government grant announcements, have continued to be reported to the audit, standards and governance committee at all meetings in 2021-22.

The pandemic shone a light on inequality and poverty and its ongoing impact will put added pressures on public services. The council's overall approach has been to plan effectively to ensure the financial strategy continues to align with the council's priorities and approach to renewal and recovery.

The statement of accounts quantifies the financial impact of Covid-19 through measuring the levels of additional grants the council has received from government, and reporting income and expenditure through the main accounts, Collection Fund, Housing Revenue Account and Pension Fund.

Council Performance

Council assembly approved the Council Plan 2018-22 in November 2018. Since the plan was adopted in 2018, the context in which the council operates and delivers services changed significantly as a result of the Covid-19 pandemic. On 25 November 2020, council assembly approved a refresh of the Council Plan 2018-2022, now known as the Borough Plan, which reflected these changes. The Borough Plan represents the council's primary objectives and set out the programme of work that it will achieve over the period 2020-21 to 2021-22.

The Borough Plan is structured around eight themes that reflect the ongoing priorities of the council, based on what are most important to the people of Southwark. They are :

- Our response to Covid-19
- Southwark Together
- A green and inclusive economy
- The Climate Emergency
- Tacking health inequalities
- Homes for all
- A great start in life
- Thriving Neighbourhoods

In December 2020, the Leader of the council approved the Borough Plan Performance Schedules, which set out the various "measures" and "milestones", against which progress towards each commitment would be recorded in a clear and transparent way. Throughout 2021-22, the council has continued to monitor performance against the commitments in the Borough Plan, as well as key "business as usual" targets, with performance data reviewed on a quarterly basis.

The Borough Plan is the council's overarching business plan setting out the programme of work that the council will achieve over the period to 2022. It is a clear statement to the residents, businesses, local voluntary/community sector organisations and other stakeholders of that programme and how the council will continue to deliver a fairer future for all in Southwark. The Borough Plan contains a range of promises and commitments which the council has worked towards since 2018. Underpinning these is a set of detailed performance schedules, with responsibility for each commitment apportioned across the cabinet portfolios.

Starting with cabinet and working through to individual members of staff, the process ensures that the whole organisation is working towards delivering the Borough Plan. A Borough Plan report was presented to cabinet in July 2022, to agree to the development of Southwark's new Borough Plan to 2030 working with residents, the local voluntary sector, businesses and the wider public sector.

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Financial Performance

Revenue

For 2021-22, a net budget of £293.1m was approved by council assembly in February 2021. This included savings of £14.8m through a combination of efficiency savings, income generation and service reviews. Council assembly also agreed a 4.99% increase in council tax and that reserves of £5.8m would be used to support the budget. The revenue outturn position is summarised below:

General Fund	Original budget £000	Budget movement £000	Revised budget £000	Spend in Year £000	Year-end reserve transfers £000	Total use of resources £000	Variance after using reserves £000
Children's and adults	177,468	(2,596)	174,872	174,440	-	174,440	(432)
Dedicated schools grant (DSG)	150	(150)	-	1,056	-	1,056	1,056
Environment and leisure	87,811	1,984	89,795	90,381	-	90,381	586
Housing and modernisation	61,168	(755)	60,413	68,218	-	68,218	7,805
Chief executive's	(302)	1,521	1,219	3,049	-	3,049	1,830
Finance and governance	20,865	364	21,229	21,187	-	21,187	(42)
Public Health	-	-	-	-	-	-	-
Strategic finance	(10,893)	641	(10,252)	(24,452)	17,902	(6,550)	3,702
Support cost reallocations	(41,332)	(1,009)	(42,341)	(42,341)	-	(42,341)	-
Contingency	4,000	-	4,000	4,000	-	4,000	-
Contributions from reserves	(5,815)	-	(5,815)	(5,815)	-	(5,815)	-
Net revenue budget	293,120	-	293,120	289,723	17,902	307,625	14,505
DSG overspend taken to DSG adjustment account				-	(1,056)	(1,056)	(1,056)
Covid-19 emergency funding support				(13,449)	-	(13,449)	(13,449)
Outturn after reserve movement				276,274	16,846	293,120	-

Despite the additional costs and income losses as a consequence of the Covid-19 pandemic, a balanced revenue outturn was reported for 2021-22 after using £13.5m of Covid-19 support grants, £4m contingency and earmarked reserves. This is a good outcome as council dealt with a second year of Covid-19 and implemented a number of national schemes to support businesses and residents together with stepping in to support vulnerable households.

For the general fund, the outturn position for the dedicated schools grant (DSG) is a £1.1m in year deficit which brings the accumulated position to £21.7m due to ongoing high needs pressures. The Department of Education via the Education and Skills Funding Agency agreed to pay Southwark council additional phased tranches of DSG in the period 2022-23 to 2026-27. Additional DSG funding in future financial years is subject to compliance with the conditions in the DfE Basic Safety Value agreement approved by Southwark council which is intended to eliminate the cumulative DSG deficit by 2026-27 at the latest.

In children's social care there is a shortage in supply of children's social workers and an increase in the number of unaccompanied asylum seeking children which places additional financial pressures. There continue to be overspends in temporary accommodation due to increased demand exacerbated by the pandemic, driven by the national homelessness crisis and excessive private sector rents. A review of these areas is taking place through the budget recovery board to review all aspects of policy, provision and procurement.

Despite the ongoing pressures, the outturn position continues to demonstrate strong financial management and sound governance arrangements across the council.

During 2021-22 the council received and recognised income from central government as part of the government's Covid-19 funding support for local government. Whilst the income was recognised in the Comprehensive Income and Expenditure Statement in 2021-22, it was necessary for some to be carried forward in earmarked reserves to meet liabilities in future years, including to cover the council's share of the Collection Fund deficit. These losses will be charged to the general fund in 2022-23 and future years.

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Housing Revenue Account (HRA) outturn 2021-22

The Housing Revenue Account (HRA) is the means by which the council meets its statutory requirement to account separately for local authority housing provision. The revenue outturn for 2021-22 shows income from tenants and homeowners of £260.2m and spending of £262.4m. Cost pressures in repair, maintenance and renewal of the housing stock were the main cause of the operating deficit for the year of £2.2m which has been funded from a £2.2m drawdown of HRA earmarked reserves in addition to the mitigation measures reported to Cabinet such as a reduction in the revenue contribution to fund capital to match the lower major works billing, along with planned changes in financing and depreciation charges to ensure a balanced position at year-end.

There are a number of significant underlying budget pressures in the Housing Revenue Account. New commitments have arisen from the management and maintenance of housing stock. New requirements arising from the Building Safety and Fire Safety Acts will only serve to exacerbate the pressure on both revenue and capital resources. In addition, the council needs to borrow to fund the housing investment programme which will increase significantly at the same time as meeting investment in current stock, building and fire safety works, investment in our heat networks, and our commitments to carbon reduction.

To note that the HRA balance has reduced by £2.2m to £26.1m and the major repairs reserve has reduced by £3.5m to no balance remaining, which illustrates the underlying budget pressures in the HRA.

Future Financial Outlook

Key financial issues to be considered in the medium term include the impact of the cost of living increases on residents which will place additional strain on council finances e.g. pressure on the Southwark Emergency Support Scheme (SESS); the demands of the actions required to meet climate emergency targets on revenue budgets; increasing inflation and interest rates will impact on the capital programme converting into higher debt charges to the general fund; Business Rates Revaluation will take effect in 2023-24 and may change the total business rates payable to the council. There continues to be great uncertainty, both with respect to central government funding and in terms of the economy as a whole as the growing cost of living crisis materialises.

An update on the council's medium term financial strategy was provided to cabinet during the year 2022-23. This reflected the government's future proposals on Local Government funding reform including the Fair Funding Review, the delay in any introduction of 75% business rates retention and resetting business rate baselines, business rates revaluation from 1 April 2023 and council tax setting levels. A new medium term financial plan for 2023-24 to 2025-26 was submitted to cabinet and council assembly which were approved in February 2023.

Capital

Southwark has one of the largest capital investment programmes in London, with current plans to spend over £2.8 billion by 2030-31. Capital spending and financing in 2021-22 is shown in the following table.

	2021-22 £000	2020-21 £000
Service		
Children's and adults' services (including schools)	21,784	16,044
Environment and leisure	16,880	20,573
Housing and modernisation	13,804	11,912
Chief Executive's	48,537	69,431
Housing investment programme	210,850	215,478
Total spending	311,855	333,438
Financed by:		
Capital receipts	(13,708)	(12,912)
Government grants and other contributions	(68,031)	(100,798)
Direct revenue contributions	(16,155)	(21,465)
General fund reserves	(160)	0
Major repairs reserve	(55,046)	(52,726)
Prudential borrowing and credit arrangements	(158,755)	(145,537)
Total financing	(311,855)	(333,438)

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Projects to help tackle the Climate Emergency and to meet the commitment to be carbon neutral by 2030 are at the forefront of the capital programme. Other projects include building new council houses, by May 2022 the council had completed or were on site with 2,519 new council homes and is committed to delivering another 1,000 council homes and 500 key worker homes by 2026. There are also commitments to improving air quality, increasing the number of cycle hangers, as well as funding improvements in care homes, children's homes, parks and leisure centres including a new leisure centre at Canada Water.

Balance Sheet

Reserves

The following table shows the opening and closing balances on usable reserves:

	31 March 2022 £000	31 March 2021 £000	Movement £000
General Fund Balance	(22,445)	(21,002)	(1,443)
Earmarked Reserves			
Corporate projects and priorities	(18,876)	(22,803)	3,927
Service reviews and improvement	(34,554)	(30,144)	(4,410)
Capital programme and capital investment	(36,723)	(24,497)	(12,226)
Strategic financial risk	(65,597)	(54,324)	(11,273)
Technical liabilities and smoothing reserves	(26,618)	(19,420)	(7,198)
Subtotal	(182,368)	(151,188)	(31,180)
Covid-19 reserves	(25,872)	(53,425)	27,553
Subtotal	(25,872)	(53,425)	27,553
School reserves			
School balances	(14,391)	(13,813)	(578)
Subtotal	(14,391)	(13,813)	(578)
Housing Revenue Account (HRA)			
HRA balance	(26,130)	(28,346)	2,216
Major repairs reserve	-	(3,500)	3,500
Subtotal	(26,130)	(31,846)	5,716
Total revenue usable reserves	(271,206)	(271,274)	68
Capital reserves	(100,419)	(71,771)	(28,648)

The general fund balance represents reserves set aside to mitigate and manage financial shocks and is a key financial resilience indicator. The Strategic Director of Finance and Governance has reviewed the level of this unallocated reserve and recommends it should be maintained at a minimum of 2.5% of gross general fund revenue expenditure, or £22.4m for 2022-23.

The reduction in Covid-19 reserves was primarily due to the need to fund deficits in the Collection Fund carried forward from 2020-21 from the awarding of Covid-19 reliefs and Covid-19 related losses from collection of Business rates and council tax payers, and funding of other Covid-19 support to residents and businesses. The council maintains reserves to help smooth the impact of government funding reductions and to mitigate anticipated funding shocks arising from funding reforms, in particular the planned business rate reset. Other notable sums that have been earmarked during 2021-2 include replenishing the Southwark Emergency Support Scheme and Food Poverty (£4.3m); mitigation of post Covid-19 social care demand (£4m); one-off implementation costs associated with insourcing and mobilising the leisure service; amounts to mitigate the impact of economic distress including fuel inflation and contractual risks (£2.5m).

In accordance with regulations, the deficit on the schools DSG has been transferred to the dedicated schools grant adjustment account, an unusable reserve.

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The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years. At 31 March 2022 the HRA balance stood at £26.1m (£28.3m at 31 March 2021). The reserve is largely committed for specific purposes with the balance held as contingency against unforeseen events, in line with the council's medium term resource strategy.

Borrowing and Lending

The council borrows money to support its ambitious capital programme. Since 2011-12 the council has been using internal cash balances to temporarily fund its capital expenditure over that period, rather than taking new external debt. This policy has minimised borrowing costs over the years. However, as planned, since 2017-18, it has become necessary for the council to undertake new external borrowing in order to finance capital investment and to maintain target cash balances. As at 31 March 2022 outstanding debt held by the council was £896m (£886m at 31 March 2021). The timing of long-term borrowing needs to be weighed against the risk that interest rates will increase in the future with a view to keeping future interest rate costs low. During 2021-22, and in accordance with the approved treasury management strategy, the councils' net borrowing from PWLB increased by £50m offset by a net reduction of £40m in borrowing from other local authorities.

The council invests its surplus cash in bonds, bills and money market instruments. The bonds and bills are issued by the UK government or supranational entities. The money market investments are in short-term call accounts, money market funds, term deposits and certificates of deposits issued by major UK and international banks or building societies. As at 31 March 2022 investments stood at £161m (£145m at 31 March 2021). The overall rate of return on investments during 2021-22 was -0.05% (0.56% in 2020-21). This is reflective of the low-rate environment that prevailed for most of 2021-22 and the swift and severe decline in financial markets in quarter 4.

Pension Fund

The council's Pension Fund must be revalued every three years to set future contribution rates. This valuation is undertaken by an external actuarial firm, Aon. The latest valuation, as at 31 March 2019, showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 covering 103% of the liabilities. The 2022 triennial actuarial valuation is underway and will be completed by 31 March 2023.

As assessed by the actuary on an IAS 19 basis, the council had net pension liabilities of £408m at 31 March 2022 (£688m at 31 March 2021). This reflects the value of pension liabilities which the council is required to pay in the future, offset by the value of assets invested in the Pension Fund.

The future value of pension liabilities is determined by the discount rate, which is based on the yield on investment grade corporate bonds. The value of future pension liabilities reduced by £89.3m in year, from £2,650m at 31 March 2021 to £2,561m at 31 March 2022.

The overall deficit reduced due to the reduction in liabilities and the Pension Funds assets performing well resulting in an increase of £190m in year from £1,962m to £2,152m. Whilst the council is a member of the London collective investment vehicle (CIV), investment performance has been achieved without any direct investment in the CIV.

The Pension Fund is underpinned by an investment strategy last updated in December 2021. The previous investment strategy, launched in 2017, committed to reduce carbon exposure over time. Given the progress made whilst maintaining investment performance, the decision was made in 2021 to commit to achieve net zero carbon exposure by 2030. The 2021 strategy sets out actions in the short, medium and long-term to achieve the 2030 target.

Following a strong recovery from the impact of the outbreak of the Covid-19 pandemic two years ago, the Pension Fund now faces a number of risks and uncertainties in both the short and long-term. Management of risks, such as the impact of inflation rising to multi-decade highs and the Russian invasion of Ukraine, will require careful ongoing monitoring of the investment strategy to ensure the Pension Fund is not impacted negatively from market volatility.

Principal Risks and Uncertainties

The council has an embedded process to manage risk and assist in the achievement of its objectives. The corporate risk register captures the key departmental and corporate risks to the council. Key risks are held on the council-wide risk management system and accompanied by mitigations, setting out the controls in place to manage each risk.

The impact of the Covid-19 pandemic continued to be a significant risk throughout 2021-22 for all council departments. The council adapted to changes in the response arrangements as the government lifted restrictions and moved forward with their 'Living with Covid' planning document. The impact of the pandemic on Southwark's population was reviewed using national and local surveillance data to identify lessons to inform the development of actions and policies with regard to tackling health inequalities and Black Lives Matter.

The council has continued to tailor service provision and resources to vulnerable residents, support local businesses and communities as well as maintaining essential services. Key governance processes and functions have been maintained throughout and have been found to be robust over the past two years during the Covid-19 pandemic.

Other governance risks included the financial uncertainty around local government funding, which has been highlighted again, as a significant risk in the medium term.

The AGS highlighted other significant risks for future years. These included the:

- ongoing impact of the pandemic on council services, for which there is no further government funding;
- high levels of inflation including for energy costs, exacerbating a cost of living crisis for residents and creating additional cost pressures on council services;
- reform of adult social care where the costs of implementation are largely unknown;
- financial risk of the council's housing strategy with plans to deliver 11,000 new council homes by 2043;
- the implementation of the council's climate change strategy to be carbon neutral by 2030;
- dedicated schools grant (DSG) deficit of £21.7m.

Explanation of Accounting Statements

This Statement of Accounts is produced in accordance with legislation and in particular with the Accounts and Audit Regulations 2015. These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 (the Code). Under the Code, local authorities produce accounts that are compliant with International Financial Reporting Standards (IFRS).

Core financial statements

Comprehensive Income and Expenditure Statement

This records all the council's income and expenditure for the year in accordance with International Financial Reporting Standards. The top half of the statement provides an analysis by service area, the bottom half deals with the corporate transactions and funding.

Movement in Reserves Statement

A summary of the changes to the council's reserves over the course of the year. Reserves are divided into 'usable', which can be invested in capital projects or service improvements, and 'unusable' which must be set aside for specific purposes.

Balance Sheet

A snapshot of the council's assets, liabilities, cash balances and reserves at the year-end date.

Cash Flow Statement

Shows the reason for changes in the council's cash balances during the year, and whether that change is due to operating activities, new investment or financing activities (such as repayment of borrowing and other long-term liabilities).

In addition to the primary statements, the accounts contain disclosure notes explaining or analysing further the figures in the primary statements.

Expenditure and Funding Analysis

This analysis reports annual council expenditure and how this is funded from resources - in two ways - management accounting and financial accounting in accordance with generally accepted accounting practices.

Supplementary financial statements

Housing Revenue Account (HRA)

Shows the income and expenditure at the year-end date for the ring-fenced Housing Revenue Account which identifies the council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989. The HRA figures are included in the primary core statements.

Collection Fund

The Collection Fund reports the amounts raised and collected through local taxation for council tax and business rates. Only the council's entitlement to taxation income and expenditure is included in the primary statements. The amounts collected on behalf of the government and the Greater London Authority are not included apart from amounts owing to or from those organisations

Pension Fund

These are the funds the council manages to provide future retirement benefits for its employees. The funds are not included within the primary statements.

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TABLE 1 - EARMARKED RESERVES

COVID-19 RESERVES	1 April 2021	Net movement	31 March 2022
	£000	£000	£000
Covid-19 business rates retail relief section 31 grant	25,903	(10,926)	14,977
Covid-19 council tax and NNDR collection fund deficit	16,459	(8,800)	7,659
Covid-19 contain outbreak management fund	2,815	(757)	2,058
Covid-19 clinically extremely vulnerable	-	678	678
Covid-19 town centre and high street reserve	500	-	500
Covid-19 additional restrictions grant	4,148	(4,148)	-
Covid-19 welfare reform	2,200	(2,200)	-
Covid-19 recovery and renewal	500	(500)	-
Covid-19 tackling health inequalities	500	(500)	-
Covid-19 statutory service reserve	400	(400)	-
Total	53,425	(27,553)	25,872

CORPORATE PROJECTS AND PRIORITIES RESERVES	1 April 2021	Net movement	31 March 2022
	£000	£000	£000
Southwark emergency support scheme	3,040	4,070	7,110
Modernisation, service and operational improvement	2,199	-	2,199
Southwark scholarship scheme	2,156	(158)	1,998
Southwark pioneers fund	1,950	-	1,950
Climate change emergency projects	1,787	(402)	1,385
Food poverty	500	295	795
London devolution reserve	736	-	736
Neighbourhood fund	499	104	603
Voluntary sector small grant support scheme	391	-	391
Data strategy	343	-	343
Internal audit and anti-fraud plan	300	-	300
Anti fraud projects	250	-	250
Positive futures fund	-	229	229
Southwark stands together	300	(118)	182
Artefacts replacement and security	117	64	181
Community engagement and links development	118	-	118
Community hub – voluntary sector support	100	-	100
Laptops for Southwark schoolchildren	87	(81)	6
Planned contribution to support General Fund 2021-22	5,000	(5,000)	-
Planned contribution to support General Fund 2022-23	2,500	(2,500)	-
Revenue grants	124	(124)	-
Community safety schemes	106	(106)	-
Youth review	100	(100)	-
Youth parliament	100	(100)	-
Total	22,803	(3,927)	18,876

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CAPITAL PROGRAMME AND OTHER CAPITAL INVESTMENT RESERVES			
	1 April 2021	Net movement	31 March 2022
	£000	£000	£000
Highways and parking climate emergency projects	-	7,698	7,698
Aylesbury development	6,000	-	6,000
Regeneration and development	4,488	800	5,288
Planned preventative maintenance and building compliance	4,087	-	4,087
Information technology and customer services development	2,195	-	2,195
Modernisation, service and operational improvement	1,356	800	2,156
Building schools for the future private finance initiative transition	1,623	-	1,623
Schools' capital programme contribution	1,293	-	1,293
Capital contingency	1,287	-	1,287
Highways winter maintenance	-	1,250	1,250
Cycling safety	-	1,000	1,000
Digital innovation fund	608	200	808
Law and Democracy business change management	596	-	596
Public realm	500	-	500
Recycling fund	-	478	478
Canada Water regeneration	214	-	214
Gym and fitness facilities	150	-	150
Black cultural centre	100	-	100
Total	24,497	12,226	36,723

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SERVICE REVIEWS AND IMPROVEMENTS RESERVES	1 April 2021	Net movement	31 March 2022
	£000	£000	£000
Adult social care resilience plan	9,339	91	9,430
Post-Covid social care demand	-	4,099	4,099
Rough sleeping initiative	1,567	895	2,462
Leisure services insourcing	-	2,400	2,400
Children and Adults transformation	1,444	918	2,362
Public health	132	1,878	2,010
HR strategy review plan	-	1,994	1,994
Adult social care residential homes	1,500	-	1,500
HR service transformation	1,344	(44)	1,300
Health and wellbeing commitment to mental health	1,424	(451)	973
Temporary accommodation strategy	915	-	915
Leisure mobilisation	-	800	800
Local flood risk	680	48	728
New homes bonus GLA funded programme	914	(193)	721
Local economy	672	(51)	621
Environment and Leisure change programme	594	(222)	372
Troubled families	496	(212)	284
Workforce and member development	203	68	271
Schools improvement traded service	200	-	200
Highways transformation	746	(551)	195
Youth service review	70	100	170
Adults' services workforce development	157	-	157
Blackfriars trust allocation	138	-	138
Southwark renters union	100	-	100
Youth parliament	-	100	100
Prevention of illegal tobacco distribution	91	-	91
Adopt London south hosting reserve	250	(160)	90
Special educational needs and disability internships coordination	57	-	57
Local education authority music service	14	-	14
Low traffic neighbourhoods	1,852	(1,852)	-
Schools de-delegated balances	1,811	(1,811)	-
Cycling safety	1,000	(1,000)	-
Libraries and heritage strategy	864	(864)	-
Highways winter maintenance	576	(576)	-
Recycling investment	477	(477)	-
Positive futures fund	310	(310)	-
Special educational needs and disability transformation fund	110	(110)	-
Member development	97	(97)	-
Total	30,144	4,410	34,554

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TECHNICAL LIABILITIES AND SMOOTHING RESERVES			
	1 April 2021	Net movement	31 March 2022
	£000	£000	£000
Insurance reserve	7,600	399	7,999
Interest and debt equalisation	3,500	2,000	5,500
Council tax and housing benefits subsidy equalisation	3,000	124	3,124
Waste PFI equalisation	2,921	-	2,921
Schools de-delegated balances	-	2,892	2,892
Contractual risk	450	2,000	2,450
Universal Credit implementation	966	(2)	964
Election reserve	983	(215)	768
Total	19,420	7,198	26,618

STRATEGIC FINANCIAL RISK RESERVES			
	1 April 2021	Net movement	31 March 2022
	£000	£000	£000
Financial risk and future liabilities	13,193	2,700	15,893
Business rate retention risk	14,514	(1,270)	13,244
Fair funding review and levelling up	-	7,680	7,680
Spending review risk	20,917	(13,837)	7,080
Economic risk	-	6,157	6,157
Planned contribution to support general fund 2024-25	-	5,000	5,000
Pension liability risk	2,500	184	2,684
Planned contribution to support general fund 2022-23	-	2,500	2,500
Leaving European Union risk	2,300	159	2,459
Fuel inflation across council estate	-	2,000	2,000
Schools in financial difficulties and school closures	900	-	900
Total	54,324	11,273	65,597

Earmarked reserves (excluding Covid-19 reserves)	151,188	31,180	182,368
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It should be noted that council reserves are subject to a number of pre-existing commitments and key pressures including:

- Covid-19 reserves are ring-fenced for Covid-19 related expenditure only
- Capital reserves are required to fund existing capital commitments
- A number of the strategic financial risk reserves are earmarked for potential pressures relating to local government reform including the Fair Funding Review, Business Rates retention and revaluation; as well as economic risks including inflation and the financial effects from the downturn in the economy
- There are no reserves set aside to finance the accumulated deficit on the Dedicated Schools Grant of £21.7m if this not funded by the Department of Education

Narrative report 21-22 signed on behalf of the council:



Clive Palfreyman
Strategic Director of Finance
25 April 2024

Independent auditor's report to the members of London Borough of Southwark

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of London Borough of Southwark (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Strategic Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Strategic Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

SOUTHWARK COUNCIL
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Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Strategic Director of Finance with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. The Strategic Director of Finance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

SOUTHWARK COUNCIL
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Responsibilities of the Authority and the Strategic Director of Finance

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance. The Strategic Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, Local Government and Housing Act 1989 and Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012).

We enquired of management and the Audit committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit, Governance and Standards committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We determined that the principal risks were in relation to:

- The propensity of external reporting pressures to exert influence on management's approach to recognition of transactions in the Comprehensive Income and Expenditure Statement; journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and
- potential management bias in determining accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet specifically:
 - The valuation of land and buildings, investment properties and council dwellings
 - The valuation of pension fund net liability;

SOUTHWARK COUNCIL
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Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on journals deemed to be high risk. We considered all journal entries for fraud and set specific criteria to identify entries we considered to be high risk. Such criteria included manual journal entries, large value journals, journals containing keywords which might indicate fraud, and journals posted by selected named officer or selected related companies,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of property, plant & equipment, valuation of HRA dwellings, valuation of investment properties and valuation of defined benefit pension liability, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter except on 5 February 2024 we identified a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the financial management of the Authority’s social housing portfolio.

We have made four key recommendations regarding this significant risk. We recommended that the Authority:

- introduces arrangements to refresh its Asset Management Strategy at least every 3-5 years. This would be supported by an annual review process which assesses delivery against programme and carries out re-profiling and forecasting of costs;
- carries out a refresh of the costings for all housing capital expenditure (including the Quality Homes Improvement Programme) and establishes how the resulting re-profiled programme might be funded;
- as an immediate priority and a matter of urgency, uploads the recently collected data on stock condition into its new database; and
- addresses the issue of how it will fund the commitment it has to all its tenants to meet the decent homes standard.

Responsibilities of the Authority

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

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and

SOUTHWARK COUNCIL
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commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for London Borough of Southwark for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature: ***Joanne Brown***

Name: Joanne Brown, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date: 30 April 2024

Independent auditor's report to the members of London Borough of Southwark on the pension fund financial statements of Southwark Pension Fund

Opinion on financial statements

We have audited the financial statements of Southwark Pension Fund (the 'Pension Fund') administered by London Borough of Southwark (the 'Authority') for the year ended 31 March 2022, which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Strategic Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Strategic Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's

SOUTHWARK COUNCIL
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ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Strategic Director of Finance's with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's financial statements. The Strategic Director of Finance's is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority and the Strategic Director of Finance

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance. The Strategic Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the Pension Fund's financial statements, the Strategic Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016).

We enquired of management and the Audit committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- The propensity of external reporting pressures to exert influence on management's approach to recognition of transactions in the Fund Account; journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
- potential management bias in determining accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large transactions, transactions near financial year, posts by senior personnel, and unusual journal posters,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of actuarial present value of retirement benefits and directly held property investments, and

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Joanne Brown

Signature:

Name Joanne Brown, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date: 30 April 2024

STATEMENT OF RESPONSIBILITIES

The council's responsibilities

The council is required to:

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

The Strategic Director of Finance and Governance responsibilities

The Strategic Director of Finance and Governance is responsible for the preparation of the council's Statement of Accounts and of its Pension Fund accounts in accordance with proper practices as set out in the Chartered Institute for Public Finance and Accountancy (CIPFA) 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Director of Finance and Governance has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code

The Strategic Director of Finance and Governance has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

I certify that the Statement of Accounts presents a true and fair view of the financial position of Southwark council as at 31 March 2022 and its income and expenditure for the financial year ended 31 March 2022.



Clive Palfreyman CPFA
Strategic Director of Finance
25 April 2024



Councillor Barrie Hargrove
Chair of the Audit, Governance and Standards Committee
25 April 2024

CORE FINANCIAL STATEMENTS

2021-22

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

MOVEMENT IN RESERVES STATEMENT

BALANCE SHEET

CASH FLOW STATEMENT

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	2021-22			2020-21		
	Gross	Gross	Net	Gross	Gross	Net
	expenditure	income	expenditure	expenditure	income	expenditure
	£000	£000	£000	£000	£000	£000
Chief executive's	37,177	(13,865)	23,312	43,853	(17,024)	26,829
Children's and adults	554,009	(328,961)	225,048	518,894	(325,056)	193,838
Environment and leisure	162,578	(73,243)	89,335	166,171	(65,223)	100,948
Finance and governance	178,551	(159,662)	18,889	181,225	(168,246)	12,979
Housing and modernisation	82,619	(39,702)	42,917	88,908	(33,925)	54,983
Housing Revenue Account (HRA)	306,500	(264,520)	41,980	280,288	(268,726)	11,562
Net cost of services	1,321,434	(879,953)	441,481	1,279,339	(878,200)	401,139
Other operating income and expenditure (note 8)			(7,276)			46,586
Financing and investment income and expenditure (note 9)			12,457			46,248
Taxation and non-specific grant income and expenditure (note 10)			(386,657)			(440,716)
(Surplus) / deficit on provision of services			60,005			53,257
(Surplus) on revaluation of non-current assets (note 23)			(87,540)			(98,194)
(Surplus) / deficit on financial assets measured at fair value through other comprehensive income (note 38)			452			(460)
Remeasurement of the net defined benefit liability (note 23)			(375,840)			46,724
Other Comprehensive Income and Expenditure (surplus) / deficit			(462,928)			(51,930)
Total Comprehensive Income and Expenditure (surplus) / deficit			(402,923)			1,327

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

MOVEMENT IN RESERVES STATEMENT 2021-22

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net increase/decrease before the transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves have been undertaken by the council.

	General Fund balance					Housing Revenue Account (HRA) balance	Major repairs reserve	Capital receipts reserve	Total usable reserves	Total unusable reserves (note 23)	Total reserves
	General Fund balance	Earmarked General Fund reserves	Earmarked schools balances reserve	Earmarked Dedicated schools grant deficit reserve	Total General Fund balance						
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April	(21,002)	(204,613)	(13,813)	-	(239,428)	(28,346)	(3,500)	(71,771)	(343,045)	(3,678,262)	(4,021,307)
Movement in reserves during year											
Total comprehensive income and expenditure (surplus)/deficit	71,121	-	-	-	71,121	(11,116)	-	-	60,005	(462,928)	(402,923)
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	(76,769)	-	-	-	(76,769)	13,332	3,500	(28,648)	(88,585)	88,585	-
Net (increase)/decrease before transfers to earmarked reserves	(5,648)	-	-	-	(5,648)	2,216	3,500	(28,648)	(28,580)	(374,343)	(402,923)
Transfers (to)/from earmarked reserves	4,205	(3,627)	(578)	-	-	-	-	-	-	-	-
(Increase)/decrease in year	(1,443)	(3,627)	(578)	-	(5,648)	2,216	3,500	(28,648)	(28,580)	(374,343)	(402,923)
Balance as at 31 March	(22,445)	(208,240)	(14,391)	-	(245,076)	(26,130)	-	(100,419)	(371,625)	(4,052,605)	(4,424,230)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

MOVEMENT IN RESERVES STATEMENT 2020-21

	General Fund balance					Housing Revenue Account (HRA) balance	Major repairs reserve	Capital receipts reserve	Total usable reserves	Total unusable reserves (note 23)	Total reserves
	General Fund balance	Earmarked General Fund reserves	Earmarked schools balances reserve	Earmarked Dedicated schools grant deficit reserve	Total General Fund balance						
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April	(21,002)	(147,074)	(11,085)	18,525	(160,636)	(23,012)	(2,268)	(49,676)	(235,592)	(3,787,042)	(4,022,634)
Movement in reserves during year											
Total comprehensive income and expenditure (surplus)/deficit	106,707	-	-	-	106,707	(53,450)	-	-	53,257	(51,930)	1,327
Adjustments between accounting basis and funding basis under statutory provisions (note 11)	(185,499)	-	-	-	(185,499)	48,116	(1,232)	(22,095)	(160,710)	160,710	-
Net (increase)/decrease before transfers to earmarked reserves	(78,792)	-	-	-	(78,792)	(5,334)	(1,232)	(22,095)	(107,453)	108,780	1,327
Transfers (to)/from earmarked reserves	78,792	(57,539)	(2,728)	(18,525)	-	-	-	-	-	-	-
(Increase)/decrease in year	-	(57,539)	(2,728)	(18,525)	(78,792)	(5,334)	(1,232)	(22,095)	(107,453)	108,780	1,327
Balance as at 31 March	(21,002)	(204,613)	(13,813)	-	(239,428)	(28,346)	(3,500)	(71,771)	(343,045)	(3,678,262)	(4,021,307)

In the 2019-20 Movement in reserves statement (MiRS), schools balances and Dedicated schools grant reserve were combined. In 2020-21 the balances have been disaggregated to show that the deficit arising from schools expenditure exceeding DSG funding is now held separately from the general fund in an unusable reserve.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date 31 March of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

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

	Notes	31 March 2022	31 March 2021
		£000	£000
Property, plant and equipment	13	5,500,643	5,328,601
Heritage assets		1,223	1,223
Investment property	14	338,164	328,544
Assets held for sale	15	-	3,920
Long-term investments	38	19,994	29,597
Long-term debtors	17	24,896	24,017
Long-term assets		5,884,920	5,715,902
Short-term investments	38	87,141	76,160
Inventories		480	1,031
Short-term debtors	17	193,009	233,800
Assets held for sale	15	14,531	11,344
Cash and cash equivalents	16	54,420	38,992
Current assets		349,581	361,327
Short-term borrowing	38	(199,180)	(207,370)
Short-term creditors	18	(305,399)	(271,947)
Short-term provisions	19	(769)	(1,221)
Grants receipts in advance	21	(121,931)	(75,473)
Bank overdraft	16	(6,968)	(16,620)
Current liabilities		(634,247)	(572,631)
Long-term creditors	18	(7,648)	(8,248)
Long-term provisions	19	(23,275)	(23,585)
Long-term borrowing	38	(702,471)	(683,989)
Pension liabilities	37	(368,540)	(687,568)
Other long-term liabilities	35	(74,090)	(79,901)
Long-term liabilities		(1,176,024)	(1,483,291)
Net assets		4,424,230	4,021,307
Usable reserves	12	(371,625)	(343,045)
Unusable reserves	23	(4,052,605)	(3,678,262)
Total reserves		(4,424,230)	(4,021,307)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

CASH FLOW STATEMENT

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

	Notes	2021-22 £000	2020-21 £000
Net surplus or (deficit) on the provision of services		(60,005)	(53,257)
Adjustment to surplus or (deficit) on the provision of services for non cash movements	24	335,243	331,499
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(115,243)	(140,527)
Net cash flows from operating activities		159,995	137,715
Net cash flows from investing activities	25	(138,426)	(201,256)
Net cash flows from financing activities	26	3,511	67,878
Net increase or (decrease) in cash and cash equivalents		25,080	4,337
Cash and cash equivalents at the beginning of the reporting period	16	22,372	18,035
Cash and cash equivalents at the end of the reporting period	16	47,452	22,372

DISCLOSURE NOTES TO THE ACCOUNTS

2021-22

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

Note 1. EXPENDITURE AND FUNDING ANALYSIS

The analysis shows how annual expenditure is used and funded from resources by the council in comparison to those resources consumed or earned by the council in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the council's service departments, as stated in the narrative report. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

Expenditure and Funding Analysis	2021-22				
	As reported for resource management (Narrative report)	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Chief executive's	3,049	10,034	13,083	10,229	23,312
Children's and adults (including dedicated schools grant)	175,496	(6,216)	169,280	55,768	225,048
Environment and leisure	90,381	(10,911)	79,470	9,865	89,335
Finance and governance	12,822	17,471	30,293	(11,404)	18,889
Housing and modernisation	68,218	(28,581)	39,637	3,280	42,917
Housing Revenue Account (HRA)	-	23,434	23,434	18,546	41,980
Support cost reallocations	(42,341)	42,341	-	-	-
Net cost of services	307,625	47,572	355,197	86,284	441,481
Other income and expenditure	(306,569)	(52,060)	(358,629)	(22,847)	(381,476)
(Surplus)/deficit	1,056	(4,488)	(3,432)	63,437	60,005
Opening General Fund and HRA balance at 1 April			(267,774)		
(Surplus) on General Fund and HRA balance in year			(3,432)		
Closing General Fund and HRA balance as at 31 March			(271,206)		

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

Note 1. EXPENDITURE AND FUNDING ANALYSIS continued

Expenditure and Funding Analysis	2020-21				
	As reported for resource management (Narrative report)	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between funding and accounting basis (note 7)	Net expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Chief executive's	5,888	4,403	10,291	16,538	26,829
Children's and adults	185,073	(50,873)	134,200	59,638	193,838
Environment and leisure	102,820	(26,253)	76,567	24,381	100,948
Finance and governance	14,584	13,133	27,717	(14,738)	12,979
Housing and modernisation	73,659	(31,913)	41,746	13,237	54,983
Housing Revenue Account (HRA)	-	(21,896)	(21,896)	33,458	11,562
Support cost reallocations	(42,194)	42,194	-	-	-
Net cost of services	339,830	(71,205)	268,625	132,514	401,139
Other income and expenditure	(337,760)	(14,991)	(352,751)	4,869	(347,882)
(Surplus)/deficit	2,070	(86,196)	(84,126)	137,383	53,257
Opening General Fund and HRA balance at 1 April			(183,648)		
(Surplus) on General Fund and HRA balance in year			(84,126)		
Closing General Fund and HRA balance as at 31 March			(267,774)		

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The Statement of Accounts summarises the council's transactions for the 2021-22 financial year and its position at the year-end of 31 March 2022. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices, under section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared using the going concern and accruals bases. The historical cost convention has been applied, modified by the valuation of the following material categories of non-current assets and financial instruments:

Class of assets	Valuation basis
Property, plant and equipment - dwellings	Current value, comprising existing use value for social housing; dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, plant and equipment - land and buildings	Current value, comprising existing use value; where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, plant and equipment - surplus assets	Fair value
Investment properties	Fair value
Financial instruments - fair value through profit and loss	Fair value
Pensions assets	Fair value

2.1.1 Highways Network Infrastructure Assets

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

2.1.2 Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accruals basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

2.1.3 Measurement

Highways network infrastructure assets are generally measured at depreciated historical costs. However, this is a modified form of historical costs – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost. Where impairment losses are identified they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

2.1.4 Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systemic allocation of their depreciable amounts over their useful lives. Annual depreciation is the depreciation amount allocated each year. Depreciation is first charged the year after capitalisation. Useful lives of the highways network are assessed using industry standards where applicable as follows and the useful lives typically used are:

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

Category of Infrastructure Asset	Useful Economic Life (yrs)
Build & Architecture	15
Carriageways	25
Footways	30
Hard Landscaping	25
Highways Structure	50
Soft Landscaping	5
Street Lighting	25
Street Furniture	15
Highway Drainage	25
Parks Infrastructure	10

2.1.5 Disposals and Derecognitions

When a significant component of the Network is disposed of or decommissioned, the carrying amount of the component in the balance sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of the asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

In accordance with the temporary relief offered by the update to the Accounting Code on infrastructure assets this note does not include a disclosure of gross costs and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position (as rather than manually derecognising infrastructure components as they are replaced we assume (as per adoption of the Statutory Instrument issued by central government (DLUHC) in December 2022) that the assets being replaced have a gross book value of nil). The council is assured that this is the case following a review of the useful lives reported and assert that overall assets are being replaced in line with the useful lives proposed in the accounting policy.

2.2 Adjustments between accounting basis and funding basis

The resources available to the council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations).

Where the statutory provisions are different from the accruals basis used in the Comprehensive Income and Expenditure Statement, adjustments to the accounting treatment are made in the Movement in Reserves Statement (MiRS) so that usable reserves reflect the funding available at the year end. Unusable reserves are created to manage the timing differences between the accounting and funding bases.

The material adjustments are:

Category	Accounting basis in CIES	Funding basis in MiRS	Adjustment account
Property, plant and equipment	Depreciation and revaluation/ impairment losses	Revenue provision to cover historical cost determined in accordance with 2003 regulations	Capital adjustment account
Intangible assets	Amortisation and impairment		
Investment properties	Movement in fair value		
Revenue expenditure funded from capital under statute	Expenditure incurred in year		

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

Category	Accounting basis in CIES	Funding basis in MiRS	Adjustment account
Capital grants and contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital grants unapplied reserve (unapplied at 31 March) Capital adjustment account (other amounts)
Non-current asset disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital adjustment account (carrying amount) Capital receipts reserve (sale proceed and cost of disposal) Deferred capital receipts reserve (sale proceeds not yet received)
Financial instruments	Premiums payable and discounts receivable on early repayment of borrowing in 2021-22 Losses on soft loans and interest receivable on an amortised cost basis Movements in the fair value of money market fund investments	Deferred debits/credits of premiums/discounts from earlier years Interest due to be received on soft loans in year Historical cost gains/losses for money market fund investments disposed of in year	Financial instruments adjustment account
Pension costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions reserve
Council tax	Accrued income from 2021-22 bills	Demand on the Collection Fund for 2021-22 plus share of estimated surplus/deficit for 2020-21	Collection Fund adjustment account
Business rates	Accrued income from 2021-22 bills	Budgeted income receivable from the Collection Fund for 2021-22 plus share of estimated surplus/deficit 2020-21	Collection Fund adjustment account
Holiday pay	Projected cost of untaken leave entitlements at 31 March 2022	No charge	Accumulated absence adjustment account
Dedicated schools grant (DSG)	Expenditure incurred in 2021-22 to be met from dedicated schools grant	Expenditure incurred up to the amount of the grant receivable for 2021-22	Dedicated schools grant adjustment account

2.3 Accruals of income and expenditure

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

- 2.3.1 Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- 2.3.2 Revenue from contracts with service recipients is recognised when it satisfies a performance obligation by transferring promised goods or services to a recipient, measured as the amount of the overall transaction price allocated to that obligation.
- 2.3.3 Other revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- 2.3.4 Revenue from housing rents is recognised in the year the billing amount falls due.
- 2.3.5 Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as it is a non-contractual, non-exchange transaction with no difference between the delivery and payment dates. It is recognised in the financial statements when it is probable that the economic benefits associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- 2.3.6 Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories in the Balance Sheet.
- 2.3.7 Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- 2.3.8 Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 2.3.9 Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2.4 Business improvement districts

A business improvement district (BID) scheme may apply across the whole of the council, or to specific areas of the council. Schemes are funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under these schemes, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement. Southwark has five BIDs in operation; Better Bankside, Blue Bermondsey, Southbank, Team London Bridge and We Are Waterloo.

2.5 Employee benefits

Termination benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the finance and governance line in the Comprehensive Income and Expenditure Statement at the earliest of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructure.

Post employment benefits

Employees of the council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by Southwark council and the London Pension Fund Authority
- The NHS Pension Scheme, administered by NHS pensions

All the schemes provide defined benefits to members, i.e. retirement lump sums and pensions, earned as employees worked for the council.

However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Within the Comprehensive Income and Expenditure Statement the Children's and adults' and Environment and leisure service lines are respectively charged with employer's contributions payable to Teachers' Pensions and NHS Pensions in the year.

Employment benefits - the Local Government Pension Scheme

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

The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures in note 37 to the Statement of Accounts set out the discount rates and assumptions applied by each fund.

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

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

The change in the net pensions liability is analysed into the following components:

- Service cost comprising
 - current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of finance and governance
 - net interest on the net defined benefit liability (asset) - charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement
- Remeasurements comprising
 - the return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset); charged to the pensions reserve, as other comprehensive income and expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; charged to the pensions reserve as other comprehensive income and expenditure
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

Discretionary benefits

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

2.6 Financial instruments

Financial instruments are recognised on the Balance Sheet when the council becomes a party to the contractual provisions and are initially measured at fair value.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost. For most of the council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The authority holds financial assets measured at:

- amortised cost – assets whose contractual terms are basic lending arrangements where cash flows are solely payments of principal and interest and the council's business model is to collect these cash flows
- fair value through other comprehensive income (FVOCI) – where cash flows are solely payments of principal and interest and the council's business model is to both collect these cash flows and sell the instruments
- fair value through profit or loss (FVPL) – all other financial assets

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances are debited/credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Changes in the value of assets carried at fair value (described as fair value through profit and loss) are debited/credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement as they arise.

2.7 Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the council are carried on the Balance Sheet as grants received in advance and only credited to the Comprehensive Income and Expenditure Statement when conditions attached to the grant or contribution have been satisfied.

The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non specific grant income and expenditure (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

2.8 Investment property

Investment properties are those that are held solely to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value, based on the highest or best price that can be obtained in the most advantageous market, in an arms-length transaction between knowledgeable participants at the measurement date. Investment properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

2.9 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The council as lessee - finance leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability. Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement)

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The council as lessee - operating leases

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

The council as lessor - operating leases

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

2.10 Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the absorption costing principle. The full cost of overheads and support services is shared between users.

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The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principle. The full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- The chief executive's, finance and governance, housing and modernisation and HRA services contain costs relating to the council's status as a multi-functional, democratic organisation
- The finance and governance directorate contains the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale

2.11 Private finance initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

2.12 Property, plant and equipment (PPE)

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. If the amount of expenditure on an individual asset within other land and buildings is above £0.4m, details of the works are provided to the valuer with a request to revalue the asset.

Assets are initially measured at cost, comprising:

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

Certain categories of property, plant and equipment are measured subsequently at current value – see 2.1 for details. Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

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

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

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Assets are assessed at each year-end as to whether there is any indication that items have been impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for in the same way as revaluation losses.

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

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Useful lives are assessed on the following bases:

- Council dwellings – weighted average life based on major components – typically 50-60 years
- Other operational buildings – as valuation – 10-60 years
- Surplus assets – as valuation – 9-40 years
- Vehicles, furniture and IT hardware – 5-8 years
- Plant, fittings and play equipment – 7-15 years
- Infrastructure assets – 5-50 years
- Intangible assets – 3-5 years

Where an item of property has major components whose cost or value is 20% or more of the total cost or value of the non-land element of the property and whose useful economic life differs by 10 years or more from the life of the main asset, the components are depreciated separately. In principle the policy for componentisation applies to all items of Property, Plant and Equipment (PPE), however typically PPE items other than property assets are not of a nature that would require the policy to be applied, such that only property assets are considered for componentisation.

Depreciation is not provided for on newly acquired assets or construction or enhancement expenditure in the year of acquisition, construction or enhancement. A full year's depreciation is provided for in the year in which an asset is derecognised.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Sites under development

Where the council is holding land for the purpose of constructing dwellings the land is held in surplus assets until the construction work commences. Once construction work commences and is anticipated to last longer than 12 months, the asset is transferred to assets under construction. Once substantially complete the valuer is asked to value the site as a completed development, including land value and the construction costs incurred to date, and the asset is transferred to operational assets.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to right to buy disposals (net of statutory deductions and allowances) is payable to the government based on an agreed schedule. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the Movement in Reserves Statement.

2.13 Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts.

2.14 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement.

The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and do not represent usable resources for the council – these reserves are explained in the relevant policies above.

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2.15 Schools

The Code specifies that all schools maintained by the council are deemed to be under the council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the council and schools have been eliminated.

2.16 Value added tax (VAT)

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

2.17 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2.18 Accounting for schools non-current assets

The council has undertaken a school by school assessment across the different types of school it controls. Judgements have been made to determine the arrangements in place and the accounting treatment of the non-current assets. The council has concluded that the assets of most foundation and voluntary aided schools in the borough should not be brought onto the balance sheet as these assets are not controlled by the council but rather by whichever trust or religious body is associated with each individual school.

	Number of schools	Value of land and buildings recognised £000
Community schools, nursery schools and special schools	46	386,492
Voluntary aided faith schools and foundation schools	27	-

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

IFRS 16 Leases	<p>These provisions would not be mandatory until 2024-25. The council is not planning to implement IFRS 16 until this becomes mandatory.</p> <p>The main impact of IFRS 16 will relate to property that the council holds under operating leases, for which assets and liabilities are not recognised and rents are generally charged as revenue expenditure when they are payable.</p> <p>Under IFRS 16, the accounting treatment for all leases (except those with a term of less than 12 months and those involving low value items) will be to recognise a right-of-use asset in the Balance Sheet, measuring the value of the council's right to use the property over the remaining term of the lease. The Balance Sheet will also include a liability for the rents payable before the lease expires.</p> <p>When rents are paid, they will be applied partly to write down the liability and partly charged as interest on the outstanding liability. The cost of the right-of-use asset will be reflected in depreciation charges in the Comprehensive Income and Expenditure Statement. However, statutory arrangements are in place that will allow the impact on the General Fund Balance to be unchanged – i.e. that the overall charge for each year will be the rents payable in that year.</p>
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There are no changes in accounting requirements for 2022-23 that are anticipated to have a material impact on the council's financial performance or financial position.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 2, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in preparing the Statement of Accounts are as follows:

4.1 Accounting for Canada Water development

In May 2018 the council entered the Master Development Agreement (MDA) at Canada Water with British Land (BL). The primary purpose in entering into the MDA was to bring about the comprehensive regeneration of the area for the benefit of the local community. The MDA will underpin the delivery of around 3,000 new homes, up to 20,000 new jobs, significant improvements to the public realm and a new council leisure centre. A secondary consideration was to generate income to support service delivery. To that end, the agreement gives the council an option to invest on commercial terms in the project

Planning consent for the Canada Water Masterplan was granted in May 2020 and, with all pre-conditions being met, a 500 year headlease was granted to British Land by the council on 16 December 2020. The headlease is the ownership basis that allows British Land to deliver the regeneration project.

The MDA is structured as a land transaction that credits the council with a 20% ownership stake in project land, as well as the right to invest up to 20% of the cost of developing each plot; in return for a commensurate share of the development value created. As each plot comes forward for development, the council will have the option to either invest in that plot to maintain the council's ownership, sell out its interest or retain the land interest and not invest into that plot. The council did not receive any investment proposals in financial year 2021-22 nor in financial year 2022-23. The council therefore has not made any additional investment commitments in either of those years.

The substance of the overall agreement is that the council will retain the freehold of its land holding so that it can have some control over the development and future operation of the site through the headlease, but without having sufficient control over the use of the property that it would remain as an asset for the council. The council's remuneration for the leasehold will be resolved as a result of future developments. British Land substantially has the right to use the project land over the 500 year term of the lease as well as the risks and rewards of ownership from future development thereby substantially controls the use of the asset. Key factors such as the long length of the lease term, its indeterminable residual value and the fact that BL has independently commenced the development of new plots have led the council to make the critical judgement is that this arrangement is deemed to be a finance lease.

Also 100% of the rents are assessed as being contingent which meant recognition of a long-term debtor was not possible. It was assessed that there are no minimum lease payments in the Headlease. On the critical judgement related to the existence of any contingent assets, the council has assessed that they do not meet the level of probability required to disclose as a contingent asset, nor can they be reliably measured and therefore formed a prudent view that the value is zero for contingent assets (rentals), until such time that secure information is available to provide an opinion

However, as future rental streams are dependent on future investment decisions, it is not possible to reliably estimate these at this stage. Accordingly the amounts received under the lease will be contingent rents, to be credited to the Comprehensive Income and Expenditure Statement as received.

The council has previously decided to invest in a new leisure centre which will be housed on the development. The council will make a payment towards the cost of construction which is capped at £35m. Affordable housing units are also to be provided under the agreement and the council has an option to buy these units. In January 2021 the council decided to buy the 79 affordable homes to be built in the first phase of the development. These will be operated and managed as council homes. Both of these investments are budgeted for and included in existing council programmes. There are no critical judgements necessary for the Canada Water leisure centre at this point, as is not material at this stage of the project. Capital expenditure will be reflected on balance sheet as an asset under construction until completion of the build which will be in a future financial year. Contractual capital commitments are stated within the PPE note 13.

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

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

The items in the council's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

5.1 Valuation of property, plant and equipment (PPE)

In compliance with the Code assets held at current value are revalued on a rolling basis such that assets are revalued every five years as a minimum. Assets are revalued more frequently where there is indication that a material change has taken place (see accounting policies for how this assessment is made).

The estimated remaining useful life of all operational assets is reviewed annually based on advice from valuers.

A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

5.2 Valuation of HRA Dwellings (part of PPE)

The HRA residential portfolio is valued based on a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential property, information available at a local level showing house price movement plus regional and national indices.

5.3 Movement in property valuations analysis

A sensitivity analysis detailing movement in valuations is as follows:

Asset category	Assets valued at 31 March 2022 £000	Increase in valuation		Decrease in valuation	
		1% £000	5% £000	1% £000	5% £000
Council dwellings	3,521,202	35,212	176,060	(35,212)	(176,060)
Other land and buildings	850,787	8,508	42,539	(8,508)	(42,539)
Surplus assets	87,705	877	4,385	(877)	(4,385)
Investment property	338,164	3,382	16,908	(3,382)	(16,908)
Assets held for sale	14,531	145	727	(145)	(727)
Total	4,812,389	48,124	240,619	(48,124)	(240,619)

5.4 Defined benefit pension liability

The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2022 the outstanding net pensions liability was assessed at £407.9m (£687.6m at 31 March 2021). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund.

Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension's liability of changes in individual assumptions can be measured. The estimates, assumptions and sensitivity of changes in assumptions are provided in

5.5 Impairment allowance for doubtful debt

As at 31 March 2022, the council had an outstanding balance of short-term debtors totalling £278.7m. Against this debtors' balance, there is an impairment allowance of £85.7m. It is not certain that this impairment allowance would be sufficient as the council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.

6. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Strategic Director of Finance and Governance on XX April 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the balance sheet date.

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7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS: ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	2021-22				2020-21			
	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total adjustments	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total adjustments
	£000	£000	£000	£000	£000	£000	£000	£000
Chief executive's	6,961	3,319	(51)	10,229	10,684	2,106	3,748	16,538
Children's and adults	35,379	20,502	(113)	55,768	25,814	12,805	21,019	59,638
Environment and leisure	(2,060)	12,050	(125)	9,865	16,785	7,059	537	24,381
Finance and governance	(7,111)	(4,015)	(278)	(11,404)	(6,339)	(8,433)	34	(14,738)
Housing and modernisation	986	2,299	(5)	3,280	11,390	1,703	144	13,237
Housing Revenue Account (HRA)	9,423	8,675	448	18,546	26,251	5,423	1,784	33,458
Net cost of services	43,578	42,830	(124)	86,284	84,585	20,663	27,266	132,514
Other income and expenditure from the funding analysis	(17,502)	13,982	(19,327)	(22,847)	(41,248)	13,541	32,576	4,869
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit	26,076	56,812	(19,451)	63,437	43,337	34,204	59,842	137,383

Adjustments for capital purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line. For other operating expenditure it adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. For financing and investment income and expenditure it adjusts for the statutory charges for capital financing and investment i.e. minimum revenue provision (MRP) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

For taxation and non-specific grant income and expenditure, capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

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Net change for the pensions adjustments

This column adjusts for the net change for the renewal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income. For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs. For financing and investment income and expenditure, this adjusts for the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

Other differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute. For net cost of services other differences, this represents removal of the annual leave accrual adjustment, dedicated schools grant deficit adjustment, finance costs, premiums and financial instruments adjustments. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the CIPFA Code of Accounting Practice for Local Authorities 2021-22. This is a timing difference as any difference will be brought forward in future surpluses or deficits in the Collection Fund.

An analysis of the nature of expenditure and income:

	2021-22	2020-21
	£000	£000
Expenditure		
Employee expenses	424,430	402,463
Other services expenses	748,400	833,201
Depreciation, amortisation and impairment	116,256	94,112
Interest payments	37,207	29,825
Precepts and levies	2,029	2,012
Net losses on the disposal of assets	33,058	79,581
Subtotal	1,361,380	1,441,194
Income		
Fees, charges and other service income	(348,972)	(376,393)
Interest and investment income	(24,830)	(22,277)
Income from council tax and business rates (NDR)	(196,499)	(178,055)
Government grants and contributions	(684,445)	(771,938)
Net (gains) on the disposal of assets	(46,629)	(39,274)
Subtotal	(1,301,375)	(1,387,937)
(Surplus) / deficit on the provision of services	60,005	53,257

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8. OTHER OPERATING INCOME AND EXPENDITURE

	2021-22	2020-21
	£000	£000
Levies	2,029	2,012
Payment to the government's housing capital receipts pool	4,266	4,267
(Gain) / loss on the disposal of non-current assets	(13,571)	40,307
Total	(7,276)	46,586

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2021-22	2020-21
	£000	£000
Interest payable and similar charges	37,208	37,593
Grant contributions towards interest costs on PFI schemes	(9,935)	(7,363)
Net interest on the net defined benefit liability	13,982	13,541
Interest receivable and similar income	(3,918)	(3,399)
Income, expenditure and changes in the fair value of investment properties	(24,880)	5,876
Total	12,457	46,248

10. TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

	2021-22	2020-21
	£000	£000
Council tax income	(122,332)	(115,213)
Non-domestic rates income and expenditure	(74,167)	(59,415)
Un-ringfenced government grants	(122,127)	(165,290)
Capital grants and contributions	(68,031)	(100,798)
Total	(386,657)	(440,716)

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

General Fund balance

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

Housing Revenue Account balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function. The balance is not available to be applied to fund General Fund services.

Major repairs reserve

The major repairs reserve controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure for the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital receipts reserve

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

Capital grants unapplied

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

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2021-22	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(39,346)	(54,951)	-	-	-	94,297
Revaluation losses on property, plant and equipment	(29,807)	(58,655)	-	-	-	88,462
Movements in the fair value of investment properties	5,360	4,047	-	-	-	(9,407)
Capital grants and contributions applied	25,001	43,030	-	-	-	(68,031)
Revenue expenditure funded from capital under statute	(12,057)	-	-	-	-	12,057
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	(12,819)	(20,239)	-	-	-	33,058
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement (minimum revenue provision MRP)	9,106	-	-	-	-	(9,106)
Lease and PFI repayment	6,310	273	-	-	-	(6,583)
Repayment of premiums	242	824	-	-	-	(1,066)
Capital expenditure charged against the General Fund and HRA balances	1,713	14,602	-	-	-	(16,315)
Adjustments primarily involving the capital receipts reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,118	44,094	-	(47,212)	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	13,709	-	(13,709)
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	-	(589)	-	589	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(4,266)	-	-	4,266	-	-
Adjustments primarily involving the major repairs reserve:						
MRR credited with an amount equal to the depreciation charged to the HRA	-	51,546	(51,546)	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	-	-	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	55,046	-	-	(55,046)

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2021-22	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	1,109	467	-	-	-	(1,576)
Adjustments primarily involving the pensions reserve (note 37):						
Employer's pensions contributions and direct payments to pensioners payable in the year	36,787	6,447	-	-	-	(43,234)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(82,492)	(17,554)	-	-	-	100,046
Adjustments primarily involving the Collection Fund adjustment account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	3,027	-	-	-	-	(3,027)
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	11,914	-	-	-	-	(11,914)
Adjustment primarily involving the accumulated absences account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,387	(10)	-	-	-	(1,377)
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(1,056)	-	-	-	-	1,056
Total adjustments	(76,769)	13,332	3,500	(28,648)	-	88,585

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2020-21	General Fund balance	Housing Revenue Account	Major repairs reserve	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(36,676)	(57,436)	-	-	-	94,112
Revaluation losses on property, plant and equipment	(21,067)	(38,833)	-	-	-	59,900
Movements in the fair value of investment properties	(3,315)	(15,928)	-	-	-	19,243
Capital grants and contributions applied	25,772	75,026	-	-	-	(100,798)
Revenue expenditure funded from capital under statute	(11,153)	(4,832)	-	-	-	15,985
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	(66,019)	(13,562)	-	-	-	79,581
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement	4,563	-	-	-	-	(4,563)
Lease and PFI repayment	5,173	252	-	-	-	(5,425)
Repayment of premiums	241	824	-	-	-	(1,065)
Capital expenditure charged against the General Fund and HRA balances	825	20,640	-	-	-	(21,465)
Adjustments primarily involving the capital receipts reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,022	37,707	-	(39,729)	-	-
Transfer from deferred debtors to usable capital receipts	-	-	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	12,912	-	(12,912)
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	(12)	(443)	-	455	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(4,267)	-	-	4,267	-	-
Provision to reduce the capital financing requirement	-	-	-	-	-	-

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2020-21	General Fund balance £000	Housing Revenue Account £000	Major repairs reserve £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the major repairs reserve:						
MRR credited with an amount equal to the depreciation charged to the HRA	-	50,458	(50,458)	-	-	-
To transfer from the HRA to the MRR for excess depreciation	-	3,500	(3,500)	-	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	52,726	-	-	(52,726)
Adjustments primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(3,708)	(603)	-	-	-	4,311
Adjustments primarily involving the pensions reserve (note 37):						
Employer's pensions contributions and direct payments to pensioners payable in the year	34,785	6,263	-	-	-	(41,048)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income	(60,961)	(14,291)	-	-	-	75,252
Adjustments primarily involving the Collection Fund adjustment account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(4,060)	-	-	-	-	4,060
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(25,431)	-	-	-	-	25,431
Adjustment primarily involving the accumulated absences account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,616)	(626)	-	-	-	2,242
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(20,595)	-	-	-	-	20,595
Total adjustments	(185,499)	48,116	(1,232)	(22,095)	-	160,710

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12. USABLE RESERVES

Reserves represent the authority's net worth and show its spending power. Usable reserves result from the authority's activities and can be spent in the future. This note sets out the amounts set aside and posted back to usable reserves in 2021-22, they include:

- **General Fund reserve** - to cushion the impact of unexpected events or emergencies
- **Earmarked reserves** - to provide financing to meet known or predicted future general fund expenditure plans
- **Schools reserves** - amounts set aside for future expenditure in schools
- **HRA reserves** - amounts specifically required by statute to be set aside and ring-fenced for future investment in HRA
- **Capital reserves** - includes capital receipts and capital grants set aside to finance future capital spending plans

	1 April 2021	Transfer out 2021	Transfer in 2021	31 March 2022	1 April 2020	Transfer out 2020	Transfer in 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund reserve	(21,002)	4,000	(5,443)	(22,445)	(21,002)	-	-	(21,002)
Earmarked reserves								
Corporate projects and priorities reserves	(22,803)	8,730	(4,803)	(18,876)	(19,541)	12,975	(16,237)	(22,803)
Service reviews and improvement reserves	(30,144)	10,759	(15,169)	(34,554)	(19,350)	4,078	(14,872)	(30,144)
Capital programme and other capital investment reserves	(24,497)	1,489	(13,715)	(36,723)	(23,247)	-	(1,250)	(24,497)
Strategic financial risk reserves	(54,324)	26,429	(37,702)	(65,597)	(50,506)	107	(3,925)	(54,324)
Technical liabilities and smoothing reserves	(19,420)	355	(7,553)	(26,618)	(34,430)	15,184	(174)	(19,420)
Covid-19 reserves	(53,425)	(15,656)	43,209	(25,872)	-	-	(53,425)	(53,425)
Subtotal	(204,613)	32,106	(35,733)	(208,240)	(147,074)	32,344	(89,883)	(204,613)
Schools reserves								
Schools DSG reserve	-	-	-	-	18,525	(18,525)	-	-
Schools balances	(13,813)	51,926	(52,504)	(14,391)	(11,085)	3,735	(6,463)	(13,813)
Subtotal	(13,813)	51,926	(52,504)	(14,391)	7,440	(14,790)	(6,463)	(13,813)
HRA reserves								
HRA general reserve	(28,346)	3,728	(1,512)	(26,130)	(23,012)	841	(6,175)	(28,346)
Major repairs reserve	(3,500)	55,046	(51,546)	-	(2,268)	52,726	(53,958)	(3,500)
Subtotal	(31,846)	58,774	(53,058)	(26,130)	(25,280)	53,567	(60,133)	(31,846)
Capital reserves								
Capital receipts reserve	(71,771)	18,564	(47,212)	(100,419)	(49,676)	17,699	(39,794)	(71,771)
Subtotal	(71,771)	18,564	(47,212)	(100,419)	(49,676)	17,699	(39,794)	(71,771)
Total	(343,045)	165,370	(193,950)	(371,625)	(235,592)	88,820	(196,273)	(343,045)

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13. PROPERTY, PLANT AND EQUIPMENT (PPE)

This note summarises the changes that have taken place during the year to the carrying amounts of the council's net book value of property, plant and equipment.

2021-22	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	*Infrastructure Assets	Community assets	Surplus assets	Assets under construction	Total	PFI assets included in property, plant and equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross book value									
Opening balance	3,548,128	1,086,107	107,031	322,848	18,151	53,533	276,970	5,412,768	86,672
Additions	83,237	24,118	8,667	25,465	231	4,914	152,171	298,803	1,569
Revaluation increases/(decreases) recognised in the revaluation reserve	4,525	24,959	-	-	-	4,594	-	34,078	1,020
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(69,061)	(35,808)	-	-	-	1,072	-	(103,797)	-
Derecognition – disposals	(6,185)	-	-	-	-	-	(1)	(6,186)	-
Derecognition – other	(11,054)	(12,863)	-	-	-	(490)	-	(24,407)	-
Assets reclassified	(10,670)	(3,620)	-	-	-	(21,344)	34,214	(1,420)	-
Balance as at 31 March	3,538,920	1,082,893	115,698	348,313	18,382	42,279	463,354	5,609,839	89,261
Depreciation and impairment									
Opening balance	13	8,784	74,339	-	901	94	36	84,167	9,184
Depreciation charge	49,978	16,589	5,969	18,330	-	25	-	90,891	2,028
Depreciation written out on revaluations recognised in the revaluation reserve	(40,000)	(13,462)	-	-	-	-	-	(53,462)	(853)
Depreciation written out on revaluations recognised in the (surplus)/deficit on the provision of services	(9,391)	(2,565)	-	-	-	-	-	(11,956)	-
Derecognition – disposals	(154)	-	-	-	-	-	-	(154)	-
Derecognition – other	-	(290)	-	-	-	-	-	(290)	-
Assets reclassified	(160)	-	-	-	-	-	160	-	-
Balance as at 31 March	286	9,056	80,308	18,330	901	119	196	109,196	10,359
Net book value as at 31 March	3,538,634	1,073,837	35,390	329,983	17,481	42,160	463,158	5,500,643	78,902

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13. PROPERTY, PLANT AND EQUIPMENT (PPE)

2020-21	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	*Infrastructure Assets	Community assets	Surplus assets	Assets under construction	Total PFI assets included in property, plant and equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Gross book value								
Opening balance	3,428,265	1,041,314	99,400	315,904	16,672	155,104	150,422	5,207,081
<i>Reclassification adjustments</i>		61,339				(48,287)	(13,052)	-
Opening balance restated	3,428,265	1,102,653	99,400	315,904	16,672	106,817	137,370	5,207,081
Additions	78,164	49,024	7,631	24,369	1,479	477	147,870	309,014
Revaluation increases/(decreases) recognised in the revaluation reserve	81,379	(37,210)	-		-	1,957	-	46,126
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(52,096)	(22,803)	-		-	(2,799)	-	(77,698)
Derecognition – disposals	(6,652)	-	-		-	(57,630)	(8,389)	(72,671)
Derecognition – other	(43)	(343)	-		-	(91)	-	(477)
Assets reclassified	19,111	(5,214)	-		-	4,802	119	18,818
Balance as at 31 March	3,548,128	1,086,107	107,031	340,273	18,151	53,533	276,970	5,430,193
Depreciation and impairment								
Opening balance	61	9,556	68,986		901	372	36	79,912
Depreciation charge	48,882	15,419	5,353	17,425	-	55	-	87,134
Depreciation written out on revaluations recognised in the revaluation reserve	(39,782)	(11,966)	-		-	(320)	-	(52,068)
Depreciation written out on revaluations recognised in the (surplus)/deficit on the provision of services	(9,057)	(3,086)	-		-	(755)	-	(12,898)
Derecognition – disposals	(91)	-	-		-	-	-	(91)
Derecognition – other	-	(343)	-		-	-	-	(343)
Assets reclassified	-	(796)	-		-	742	-	(54)
Balance as at 31 March	13	8,784	74,339	17,425	901	94	36	101,592
Net book value as at 31 March	3,548,115	1,077,323	32,692	322,848	17,250	53,439	276,934	5,328,601

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13. PROPERTY, PLANT AND EQUIPMENT (PPE) continued

*Infrastructure assets

In accordance with the temporary relief offered by the update to the Accounting Code on infrastructure assets this note does not include a disclosure of gross costs and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position (as rather than manually derecognising infrastructure components as they are replaced we assume (as per adoption of the Statutory Instrument issued by central government (DLUHC) in December 2022) that the assets being replaced have a gross book value of nil). The council is assured that this is the case following a review of the useful lives reported and assert that overall assets are being replaced in line with the useful lives proposed in the accounting policy.

The valuation of assets has been carried out by the council's internal valuation service, led by Matthew Jackson MRICS BSc. The effective date of annual revaluation of council dwellings is 31 December of the relevant accounting period. Other land and buildings (OLB) and surplus assets are valued at 31 December on a 20% rolling basis to ensure valuation of all assets in this category within five years. Assets held for sale and investment properties (General Fund and Housing Revenue Account) are valued at 31 March of the relevant accounting period. The entire housing stock, assets held for sale and investment properties are valued on an annual basis. Review of assets under construction as well as general impairments to assets are also carried out on an annual basis.

The effective date of valuations arising from in-year capital expenditure of £400k and above, physical impairment or material changes in the value of assets in any category is 31 March of the relevant accounting period. Further details on the gross book value of PPE assets and the year of valuations and asset reclassifications are detailed in the tables as follows:

	Property Plant and Equipment (Note 13)					Investment Property (Note 14)	Assets Held for Sale (Note 15)
	Council Dwellings	Other Land and Buildings	Surplus Assets	Assets Under Construction	Total		
	£000	£000	£000	£000	£000	£000	£000
Land - Flaxyard site, Sumner road	-	-	(9,800)	9,800	-	-	-
161-179 Manor Place SE17	-	-	(4,900)	4,900	-	-	-
Southwark Park day centre	-	-	(4,880)	4,880	-	-	-
Cator Street development site	-	-	(5,684)	5,684	-	-	-
Land - Kennington workshops	-	-	-	3,920	3,920	-	(3,920)
Hostels (regeneration programme)	(42,341)	-	-	42,341	0	-	-
Copeland - for private sale	-	-	-	(5,600)	(5,600)	-	5,600
Copeland - social housing	9,417	-	-	(9,417)	-	-	-
Lakanal new build	7,858	-	-	(7,858)	-	-	-
Daniels road car park	5,035	-	-	(5,035)	-	-	-
Acorn development	9,521	-	-	(9,521)	-	-	-
Other transfers	-	(3,620)	3,920	(40)	260	(260)	-
Net book value	(10,510)	(3,620)	(21,344)	34,054	(1,420)	(260)	1,680
Assets reclassified (Gross book value)	(10,350)	(3,620)	(21,344)	33,894	(1,420)		
Less: assets reclassified (depreciation and impairment)	(160)	-	-	160	-		
Net book value	(10,510)	(3,620)	(21,344)	34,054	(1,420)		

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Further details on the gross book value of PPE assets and the year of valuations and asset reclassifications are detailed in the tables as follows:

	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure Assets	Community assets	Surplus assets	Asset under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Held at historic cost and at depreciated historic cost	17,718	36,479	115,698	348,313	18,382	14,360	463,354	1,014,304
Different valuations are applied to different valuation classes								
31 March 2022	3,521,202	934,484	-	-	-	4,008	-	4,459,694
31 March 2021	-	28,891	-	-	-	11,099	-	39,990
31 March 2020	-	39,759	-	-	-	2,741	-	42,500
31 March 2019	-	24,142	-	-	-	7,561	-	31,703
31 March 2018	-	19,138	-	-	-	2,510	-	21,648
Total	3,538,920	1,082,893	115,698	348,313	18,382	42,279	463,354	5,609,839

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At 31 March 2022, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2021-22 and future years budgeted to cost £399.1m. Similar commitments at 31 March 2021 were £270.5m.

The commitments are as below:

	£m
General Fund	67.8
Housing Revenue Account	331.3
Total	399.1

The highest value contractual commitments are:

General Fund

	£m
Canada Water Leisure Centre	24.1
Elephant and Castle, Transport for London works	21.3
Total	45.4

Housing Revenue Account

	£m
Aylesbury First Development Site - new build	95.6
Flaxyard/Sumner Road	31.9
Albion new homes - construction	25.6
Commercial Way	16.9
Petrol Station, Old Kent Road	14.9
Total	184.9

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14. INVESTMENT PROPERTIES

The income and expenditure on investment assets:

	2021-22	2020-21
	£000	£000
Rental income from investment property	(20,913)	(19,189)
Fair value adjustments	(9,407)	19,243
Direct operating expenses arising from investment property	5,440	5,822
Net (gain)/loss included in financing and investment income in CIES	(24,880)	5,876

Fair value adjustments: negative figure equals upwards revaluation; positive figure equals downwards revaluation.

The movement in the fair value of investment properties held:

	2021-22	2020-21
	£000	£000
Opening balance	328,544	343,805
Additions	473	390
Disposals	-	-
Net gains/(losses) from fair value adjustments	9,407	(19,243)
Transfers (to)/from property, plant and equipment	(260)	3,592
Balance as at 31 March	338,164	328,544

The council owns a valuable commercial estate of over 700 properties, including shops, business premises and other miscellaneous properties. The vast majority of these assets have been in the council's ownership for many years having originally been acquired as part of major house building programmes from the 1950s onwards, as part of jobs and industry initiatives in the 1980s or statutorily vested with the council from strategic bodies. The assets are now managed to generate income and market rents are charged.

15. ASSETS HELD FOR SALE

	Current		Non-current	
	2021-22	2020-21	2021-22	2020-21
	£000	£000	£000	£000
Opening balance	11,344	19,654	3,920	22,320
Additions	523	636	-	4,063
Transfers (to)/from property, plant and equipment	5,600	-	(3,920)	(22,463)
Revaluation loss taken to surplus or deficit on the provision of services	(25)	(2,079)	-	-
Assets sold	(2,911)	(6,867)	-	-
Balance as at 31 March	14,531	11,344	-	3,920

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16. CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The balance of cash and cash equivalents is made up of the elements set out below. The bank overdraft is a function of the council's utilisation of multiple pooled bank accounts and is integral to the day-to-day cash management of the council. The bank overdraft includes all outstanding and unrepresented items.

	31 March 2022	31 March 2021
	£000	£000
Cash held by the council	-	-
Short-term funds in money markets	54,420	38,992
Subtotal	54,420	38,992
Bank current accounts (bank overdraft)	(6,968)	(16,620)
Total cash and cash equivalents	47,452	22,372

17. DEBTORS

	31 March 2022		31 March 2021	
	Short-term debtors	Long-term debtors	Short-term debtors	Long-term debtors
	£000	£000	£000	£000
Central government bodies	47,164	-	76,019	-
Other local authorities	34,894	-	67,176	-
National Health Service bodies	3,444	-	8,622	-
Public corporation and trading funds	485	-	320	-
Private entities and individuals	192,741	24,896	159,365	24,017
Subtotal before impairment	278,728	24,896	311,502	24,017
Impairment	(85,719)	-	(77,702)	-
Total debtors net of impairment	193,009	24,896	233,800	24,017

The amount due from central government bodies and other local authorities includes the GLA's share and central government's share of the Collection Fund deficit.

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18. CREDITORS

	31 March 2022		31 March 2021	
	Short-term creditors	Long-term creditors	Short-term creditors	Long-term creditors
	£000	£000	£000	£000
Central government bodies	(120,913)	-	(98,931)	-
Other local authorities	(36,705)	-	(27,360)	-
NHS bodies	(6,569)	-	(10,177)	-
Public corporation and trading funds	(75)	-	(356)	-
Private entities and individuals	(141,137)	(7,648)	(135,123)	(8,248)
Total	(305,399)	(7,648)	(271,947)	(8,248)

The council was given the GLA and central government's share of a section 31 grant to help with cash flow related to business rates reliefs but the grant should be returned to central government in 2022-23. The grant owed is £38.9m.

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19. PROVISIONS

2021-22	1 April 2021	(Increase) / decrease in year	Utilised during year	31 March 2022
	£000	£000	£000	£000
Long-term provisions				
Insurance provision	(9,030)	-	-	(9,030)
Water refund provision	(1,636)	538	-	(1,098)
Business rates appeals	(11,213)	(8,164)	9,282	(10,095)
Employee remuneration related	(878)	863	-	(15)
Southwark Business Services employment terms	(828)	-	-	(828)
Public Health	-	(1,476)	-	(1,476)
Housing & Modernisation provisions	-	(377)	-	(377)
Civil refunds	-	(356)	-	(356)
Total	(23,585)	(8,972)	9,282	(23,275)
Short-term provisions				
Business rates appeals	(867)	98	-	(769)
Southwark Business Services employment terms	(354)	354	-	-
Total	(1,221)	452	-	(769)

The insurance provision represents amounts set aside to meet known liabilities but where settlements have not been agreed. Payment for these claims will be made over a number of years. The provision includes an amount in respect of Municipal Mutual Insurance (MMI). The council is responsible for its share of any claims where the incident occurred prior to 31 March 1996.

2020-21	1 April 2020	(Increase) / decrease in year	Utilised during year	31 March 2021
	£000	£000	£000	£000
Long-term provisions				
Insurance provision	(9,030)	-	-	(9,030)
Water refund provision	(1,636)	-	-	(1,636)
Business rates appeals	(5,050)	(6,163)	-	(11,213)
Employee remuneration related	-	(878)	-	(878)
Southwark Business Services employment terms	-	(828)	-	(828)
Total	(15,716)	(7,869)	-	(23,585)
Short-term provisions				
Business rates appeals	(3,874)	3,007	-	(867)
Southwark Business Services employment terms	-	(354)	-	(354)
Total	(3,874)	2,653	-	(1,221)

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20. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant provided by the education and skills funding agency (ESFA), the dedicated schools grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School and Early Years Finance (England) Regulations 2013. The schools budget includes elements for a range of educational services provided on an authority wide basis and for the individual schools budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021-22 are as follows:

	Central expenditure	Individual schools budgets	Total	Total
	£000	£000	2021-22 £000	2020-21 £000
Final DSG before academy and high needs recoupment			(350,214)	(332,614)
Academy and high needs figure recouped			151,158	135,552
Total DSG after academy and high needs recoupment			(199,056)	(197,062)
Brought forward from previous year			-	-
Agreed initial budgeted distribution for the year	(50,006)	(149,050)	(199,056)	(197,062)
In year adjustments	573	-	573	89
Final budget distribution for the year	(49,433)	(149,050)	(198,483)	(196,973)
Less: actual central expenditure	50,489	-	50,489	42,643
Less: actual individual school budget (ISB) deployed to schools	-	149,050	149,050	156,400
Plus: local authority contribution	-	-	-	-
Carry-forward deficit	1,056	-	1,056	2,070

The final DSG before academy recoupment figure includes a provision for the early years block. Final DSG allocations are announced in June following the end of each financial year based on census figures at the preceding January.

The in year deficit of £1.056m has been transferred to the dedicated schools grant adjustment account to total £21.651m (an unusable reserve).

Per Note 12 Usable Reserve and Note 23 Unusable Reserves	2021-22	2020-21
Dedicated Schools Grant balances	£000	£000
DSG unusable reserve as at 1 April	20,595	18,525
Addition to DSG unusable reserve during the year	1,056	2,070
Total of DSG unusable reserve as at 31 March (Note 23)	21,651	20,595
DSG usable reserve as at 1 April	-	-
Addition to DSG unusable reserve during the year	-	-
Total of DSG usable reserve as at 31 March (Note 12)	-	-
Dedicated Schools Grant net accumulated balance	21,651	20,595

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21. GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2021-22	2020-21
	£000	£000
Credited to taxation and non-specific grant income		
Capital grants and contributions	(68,031)	(100,798)
Revenue support grant	(36,649)	(36,448)
Business rates (top up)/tariff	(35,854)	(35,854)
Business rates relief/section 31 grants	(23,798)	(33,758)
Covid-19 general funding	(16,481)	(33,913)
New homes bonus	(8,202)	(14,359)
Lower tier support grant	(1,264)	-
Covid-19 tax income guarantee	121	(10,959)
Subtotal	(190,158)	(266,089)
Credited to provision of services		
Dedicated Schools grant	(199,327)	(197,062)
Housing Benefits Subsidy - rent rebates granted to housing revenue account tenants	(63,233)	(68,072)
Housing Benefits Subsidy - rent allowances	(55,874)	(57,956)
Public Health	(28,698)	(28,289)
Housing Benefits Subsidy - non-housing revenue account rent rebates	(19,757)	(16,673)
Better Care Fund	(18,143)	(17,218)
Improved Better Care Fund	(17,323)	(17,323)
Social Care Support grant	(13,199)	(9,161)
The Private Finance Initiative (PFI)	(9,935)	(9,935)
Pupil Premium grant	(9,198)	(8,916)
Homelessness prevention grant	(6,792)	-
Covid-19 Infection control grant	(5,176)	(2,259)
Covid-19 Additional restrictions grant	(3,876)	(5,060)
Covid-19 Mass testing grant	(3,341)	-
Winter support grant	(2,969)	-
Rough Sleeper	(2,927)	(1,896)
Housing Benefit / Council Tax administration	(2,237)	(2,223)
School sixth form funding	(2,037)	(1,800)
Universal Infant free school meals	(1,825)	(2,324)
Adult Education Budget (Greater London Authority)	(1,644)	(1,409)
Tackling troubled families	(1,511)	(1,379)
Adoption support fund	(1,485)	-
Discretionary housing payment	(1,341)	(1,157)
Household support grant	(1,291)	-
Unaccompanied asylum seeking children care leavers grant	(1,179)	-
Unaccompanied Asylum Child grant	(1,161)	(1,616)
Physical education and Sports grant	(1,127)	(1,172)
Covid-19 Contain outbreak management fund	-	(7,697)
Teachers' grants	-	(6,234)
Covid-19 Local restrictions support grant	-	(5,463)
Flexible Homelessness support grant	-	(3,616)
Covid-19 Hardship fund	-	(3,476)
Covid-19 Discretionary grant fund	-	(3,421)
Covid-19 Self-isolation payments funding	-	(1,156)
Homeless Reduction Act new burdens	-	(1,127)
Next steps accommodation programme	-	(1,019)
Other specific grants individually less than £1 million	(17,681)	(19,740)
Subtotal	(494,287)	(505,849)
Total	(684,445)	(771,938)

The council has received additional grant income from central government in 2021-22 to partly compensate for additional costs and lost income related to the ongoing Covid-19 pandemic.

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The council has also administered the distribution of a number of Covid-19 business support grants on behalf of the Department of Business, Energy and Industrial Strategy (BEIS). The council was fully reimbursed for delivering that funding. As the council was acting as an agent of BEIS, the grant has not been reported in this note or within income and expenditure.

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

	2021-22	2020-21
	£000	£000
Opening balance	(75,473)	(99,604)
New capital grants received in advance	(114,489)	(76,667)
Amounts released to the Comprehensive Income and Expenditure Statement (conditions met)	68,031	100,798
Balance as at 31 March	(121,931)	(75,473)

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

	2021-22	2020-21
	£000	£000
Planning Gains	(69,955)	(53,998)
Schools	(1,497)	(1,860)
Transport for London (TFL)	(1,198)	(1,224)
Education	(7,431)	(5,541)
New homes	(33,843)	(8,305)
Disabled Facilities grant (DLUHC)	(2,131)	(1,454)
Other grants individually less than £1 million	(5,876)	(3,091)
Balance as at 31 March	(121,931)	(75,473)

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22. POOLED BUDGETS

Better Care Fund (BCF)

Southwark council and NHS South East London Clinical Commissioning Group (CCG) are partners in the provision of services to support reduced hospital admissions and length of stay. Joint arrangements of this type are permitted under Section 75 of the National Health Service Act 2006. The BCF provides various services to residents of Southwark who benefit from specific targeted interventions, as well as supporting hospitals to treat people closer to their homes and communities. The council is the lead authority for the arrangement.

The arrangement is made in accordance with Section 75 (S75) of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed as per the BCF planning group. The pooled budget includes all income and expenditure relating to the Better Care Fund (BCF), whether funded by the local authority or the NHS. It is hosted by Southwark council; however not all transactions pass through the council's accounting system.

	2021-22		2020-21	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
Council	19,009		19,009	
Clinical commissioning group	25,168		23,883	
		44,177		42,892
Expenditure met from the pooled budget:				
Council	37,151		36,227	
Clinical commissioning group	7,026		6,665	
		44,177		42,892
Net (surplus)/deficit arising on the pooled budget		-		-

Integrated community equipment store (ICES)

Southwark council and the CCG also operate pooled fund arrangements for an integrated community equipment service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £2.57m in 2021-22 (£2.21m in 2020-21).

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23. UNUSABLE RESERVES

Unusable reserves are those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve) and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations.' Unusable reserves comprise:

	31 March 2022 £000	31 March 2021 £000
Capital adjustment account	(2,522,356)	(2,527,048)
Revaluation reserve	(1,991,470)	(1,948,914)
Pensions reserve	368,540	687,568
Collection Fund adjustment account	34,509	49,450
Financial instruments adjustment account	28,039	30,681
Dedicated schools grant adjustment account	21,651	20,595
Accumulated absences adjustment account	8,112	9,488
Financial instruments revaluation reserve	370	(82)
Total unusable reserves	(4,052,605)	(3,678,262)

Capital adjustment account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis).

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

	2021-22		2020-21	
	£000	£000	£000	£000
Opening balance		(2,527,048)		(2,555,432)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	94,297		94,112	
Revaluation losses on property, plant and equipment and AHFS	88,462		59,900	
Revenue expenditure funded from capital under statute	12,057		15,985	
Movements in the market value of investment properties	(9,407)		19,243	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	33,058		79,581	
		218,467		268,821
Continued				

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	2021-22		2020-21	
	£000	£000	£000	£000
Adjusting amounts written to the capital adjustment account for disposals and restatements	(16,325)		(14,703)	
Adjusting amounts written out of the revaluation reserve for the difference between fair value depreciation and historical cost depreciation	(28,660)		(27,845)	
Net written out amount of the cost of non-current assets		(44,985)		(42,548)
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	(13,709)		(12,912)	
Use of the major repairs reserve to finance new capital expenditure	(55,046)		(52,726)	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(68,031)		(100,798)	
Provision for the financing of capital investment charged against the General Fund and HRA balances	(15,689)		(9,988)	
Capital expenditure charged against the General Fund and HRA balances	(16,315)		(21,465)	
Total		(168,790)		(197,889)
Balance as at 31 March		(2,522,356)		(2,527,048)

Financial instruments adjustment account

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

Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out in the Movement in Reserves Statement. Over time the expense is posted back through the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax. As a result, the balance on the account at 31 March 2022 includes £13.6m premiums (£14.6m at 31 March 2021) to be discharged in future.

	2021-22	2020-21
	£000	£000
Opening balance	30,681	27,434
Proportion of premiums to be charged against the General Fund balance in accordance with statutory requirements	(1,065)	(1,065)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(1,577)	4,312
Balance as at 31 March	28,039	30,681

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Revaluation reserve

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

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

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the revaluation reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

	2021-22		2020-21	
	£000	£000	£000	£000
Opening balance		(1,948,914)		(1,893,268)
Upward revaluation of assets	(154,699)		(153,987)	
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	67,159		55,793	
Total of surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services		(87,540)		(98,194)
Adjusting amounts written to the capital adjustment account for disposals and restatements		16,325		14,703
Difference between fair value depreciation and historical cost depreciation		28,659		27,845
Balance as at 31 March		(1,991,470)		(1,948,914)

Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2021-22	2020-21
	£000	£000
Opening balance	687,568	606,640
<i>IAS19 report balance adjustment</i>	(2,812)	-
Remeasurements of the net defined benefit liability	(373,028)	46,724
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	100,046	75,252
Employer's pension contributions and direct payments payable to pensioners in the year	(43,234)	(41,048)
Balance as at 31 March	368,540	687,568

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Collection Fund adjustment account

	2021-22	2020-21
	£000	£000
Opening balance	49,450	19,959
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(14,941)	29,491
Balance as at 31 March	34,509	49,450

The Collection Fund adjustment account is analysed into council tax and business rates:

Collection Fund adjustment account – council tax

	2021-22	2020-21
	£000	£000
Opening balance	5,348	1,288
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,027)	4,060
Balance as at 31 March	2,321	5,348

Collection Fund adjustment account – business rates

	2021-22	2020-21
	£000	£000
Opening balance	44,102	18,671
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(11,914)	25,431
Balance as at 31 March	32,188	44,102

Due to the reduced impact of Covid-19, the Collection Fund has a lower in year deficit for 2021-22 resulting in lower values in the Collection Fund adjustment account compared with 2020-21 (refer to the Collection Fund).

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Dedicated schools grant adjustment account

	2021-22	2020-21
	£000	£000
Opening balance	20,595	-
Transfer of the opening dedicated schools grant deficit from the DSG reserve (earmarked usable reserve) to the DSG adjustment account.	-	18,525
In year dedicated schools grant deficit	1,056	2,070
Balance as at 31 March	21,651	20,595

The Local Authorities (Capital Finance and Accounting) regulations were amended on 29 November 2020. New accounting treatment is required for local authorities' schools budget deficits relating to its accounts for a financial year beginning 1 April 2020, 1 April 2021 and 1 April 2022. Local authorities are not permitted to charge the value of the deficit to the general fund. Any historical deficit and in year deficit is to be recorded in a dedicated schools grant adjustment account, an unusable reserve.

Southwark council entered into a Department for Education Basic Safety Value agreement in 2023 for the period 2022-23 to 2026-27. Additional DSG funding from government in 2023 and future financial years is subject to compliance with the conditions in the DfE Basic Safety Value agreement approved by Southwark council which is intended to eliminate the cumulative DSG deficit by 2026-27 at the latest.

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24. CASH FLOW FROM OPERATING ACTIVITIES

	2021-22	2020-21
	£000	£000
Adjustment to surplus or deficit on the provision of services for non-cash movement		
Depreciation and impairment of non-current assets	94,297	94,112
Upward/(downward) revaluations	79,055	79,143
Increase/(decrease) in impairment for credit losses (bad debts)	6,818	6,312
Increase/(decrease) in creditors	33,465	113,784
(Increase)/decrease in debtors	31,071	(80,062)
(Increase)/decrease in inventories	552	(594)
Movement in pension liability	56,812	34,204
Movement in provisions	880	5,216
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	33,058	79,581
Other non-cash items charged to the net surplus or deficit on the provision of services	(765)	(197)
Total	335,243	331,499

	2021-22	2020-21
	£000	£000
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(47,212)	(39,729)
Capital grants included in 'taxation and non-specific grant income'	(68,031)	(100,798)
Total	(115,243)	(140,527)

The cash flows from operating activities include the following interest amounts:

	2021-22	2020-21
	£000	£000
Interest received	(3,109)	(3,656)
Interest paid	37,471	38,275
Net interest	34,362	34,619

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25. CASH FLOW FROM INVESTING ACTIVITIES

	2021-22	2020-21
	£000	£000
Purchase of PPE, investment property and intangible assets	(298,748)	(316,656)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	47,212	39,729
Proceeds from sale of short-term investments (not considered to be cash equivalents)	(1,378)	(996)
Capital grants and contributions received	114,488	76,667
Net cash flows from investing activities	(138,426)	(201,256)

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

26. CASH FLOW FROM FINANCING ACTIVITIES

	2021-22	2020-21
	£000	£000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on Balance Sheet PFI contracts	(6,781)	(5,042)
Cash receipts of short and long-term borrowing	225,199	315,617
Repayments of short and long-term borrowing	(214,907)	(242,697)
Net cash flows from financing activities	3,511	67,878

RECONCILIATION BETWEEN OPENING AND CLOSING LIABILITIES ARISING FROM FINANCING ACTIVITIES (IAS 7)

	Long-term borrowings	Short-term borrowings	Lease liabilities	Total
	£000	£000	£000	£000
Opening balance	(683,989)	(207,370)	(86,484)	(977,843)
Cash flows:				
Repayment	17,907	197,000	6,582	221,489
Proceeds	(50,000)	(175,000)	-	(225,000)
Subtotal	(32,093)	22,000	6,582	(3,511)
Non-costs:				
Acquisition	-	-	(1,569)	(1,569)
Fair value	-	-	-	-
Reclassification	13,611	(13,810)	-	(199)
Subtotal	13,611	(13,810)	(1,569)	(1,768)
Balance as at 31 March	(702,471)	(199,180)	(81,471)	(983,122)

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27. EXTERNAL AUDIT COSTS

	2021-22	2020-21
	£000	£000
Fees payable for external audit services carried out by the appointed auditor for the year (PSAA scale fee)	186	183
Additional fees payable for external audit services carried out by the appointed auditor (per ISA 260 report, subject to PSAA approval)	147	200
Total external audit fees	333	383
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	86	52
Fees payable in respect of other non-audit services not covered above	10	10
Total non audit fees	96	62
Total fees payable to external auditor	429	445

28. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2021-22 was £1,350,800 (£1,386,140 in 2020-21).

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29. OFFICER REMUNERATION

In accordance with regulations, it is necessary to report on the remuneration of senior employees. Senior employees are defined as those who are members of the Chief Officer Team or those whose remuneration is £150,000 or more per year.

The following table sets out this information for 2021-22 and 2020-21.

Postholder	2021-22		2020-21	
	Remuneration £	Council's contributions to the Pension Fund £	Remuneration £	Council's contributions to the Pension Fund £
Chief Executive - E Kelly	213,431	19,636	217,687	15,783
Strategic Director of Environment & Leisure - C Bruce	176,643	32,502	168,492	24,431
Strategic Director of Housing and Modernisation - M Scorer	188,519	34,687	179,778	26,068
Strategic Director of Finance and Governance - D Whitfield	194,780	17,920	191,901	13,913
Strategic Director of Children's and Adults - D Quirke-Thornton	188,519	34,687	179,778	26,068
Director of Public Health	121,218	22,304	-	-

Remuneration reflects actual payments made to the postholders in the financial years and the related pension fund contributions made in respect of the Local Government Pension Scheme (LGPS) during the same year.

Remuneration figures represent gross pay for the postholder before that individual's personal contributions to the Southwark Pension Fund. They include basic salary plus any contracted additions paid during the financial year.

The Strategic Director of Finance and Governance performs Returning Officer duties for elections; there was a GLA election during 2021-22 and £5,500 remuneration.

The Chief Executive E Kelly was asked on a temporary basis to join the national programme to roll out the Covid-19 vaccine, as the Local Authority Officer Advisor. The Chief Executive left the council post April 2022. This was a part time role carried out in two separate periods from January 2021 to April 2021 and then from October 2021 to January 2022. The council is being compensated for these secondments.

The Director of Public Health role was not part of the Chief Officer Team in 2020-21, and therefore, was not applicable for reporting under this note.

During 2021-22 the council employed staff whose taxable remuneration, including payment on termination of employment was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

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Band (£)	Schools and non-school analysis		Number of employees	Number of employees
	Schools	Non-school	2021-22	2020-21
50,000 - 54,999	151	255	406	402
55,000 - 59,999	105	71	176	197
60,000 - 64,999	46	53	99	112
65,000 - 69,999	30	71	101	123
70,000 - 74,999	36	26	62	43
75,000 - 79,999	11	31	42	50
80,000 - 84,999	22	12	34	29
85,000 - 89,999	12	4	16	15
90,000 - 94,999	8	8	16	22
95,000 - 99,999	6	16	22	19
100,000 - 104,999	4	-	4	9
105,000 - 109,999	1	4	5	5
110,000 - 114,999	1	-	1	5
115,000 - 119,999	-	2	2	-
120,000 - 124,999	1	4	5	6
125,000 - 129,999	2	3	5	4
130,000 - 134,999	1	2	3	2
135,000 - 139,999	-	6	6	6
140,000 - 144,999	-	-	-	-
145,000 - 149,999	-	-	-	-
Total	437	568	1,005	1,049

For the financial year 2021-22, the total number of non-school employees whose earnings exceeded £100,000 per annum (excluding payments on termination of employment) was 23 (2020-21, 25).

30. TERMINATION BENEFITS

Exit package cost band	Number of exit packages		Number of exit packages		Total number of exit packages		Total cost of exit packages by band	
	Schools		Non-school					
	2021-22 No. staff	2020-21 No. staff	2021-22 No. staff	2020-21 No. staff	2021-22 No. staff	2020-21 No. staff	2021-22 £000	2020-21 £000
£0 - £20,000	59	72	27	42	86	114	514	828
£20,001 - £40,000	5	4	10	4	15	8	416	204
£40,001 - £60,000	-	1	4	-	4	1	196	47
£60,001 - £80,000	-	-	3	1	3	1	215	62
£80,001 - £100,000	-	-	-	1	-	1	-	90
Total	64	77	44	48	108	125	1,341	1,231

Forty-one compulsory redundancies were made by schools in 2021-22 totalling £268,934 with 39 within the £0 to £20,000 exit package band and 2 in the £20,001 to £40,000 exit package cost band (2020-21 twenty-three compulsory redundancies totalling £103,033).

31. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

Central government

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding. Grants received from government departments during the year and receipts outstanding at 31 March 2022 are set out in note 21 to the accounts.

Members and chief officers

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2021-22 is shown in note 28. Information regarding reportable transactions has been collated by requiring all members and chief officers to declare any related party transactions. A review of the register of members' interests has been conducted, including the register of declarations at committee meetings.

Related party interests for which transactions exist for financial outflow in 2021-22 were declared by 13 councillors and 1 submission from chief officers (21 and 1 respectively in 2020-21):

with voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.2 million (£0.2 million in 2020-21).

with businesses or other organisations that have contracted for goods and services with the council to the estimated value of £0.6 million (£1.6 million in 2020-21).

Related party interests for which transactions exist for financial inflows in 2021-22 were declared by 9 councillors and no submissions from chief officers (10 and 1 respectively in 2020-21):

from businesses or other organisations that the council have contracted for goods and services with to the estimated value of £0.8 million (£0.8 million in 2020-21).

In addition to the above, many members have relationships or hold positions with other public bodies and voluntary organisations, e.g. schools, with which the council does not have a financially material relationship, but with which the council has a non-financial or influential relationship.

Pensions

The council is the administering authority of the Pension Fund. The council charged the fund £0.9 million (£0.9 million in 2020-21) for expenses incurred in administering the Pension Fund which is included within the Statement of Accounts.

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32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2021-22	2020-21
	£000	£000
Opening capital financing requirement	1,219,890	1,084,341
Capital investment		
Property, plant and equipment (including assets held for sale)	299,325	313,713
Revenue expenditure funded from capital under statute (REFCUS)	12,057	15,985
Long-term debtors	-	3,350
Investment property	473	390
Total capital investment	311,855	333,438
Sources of capital finance		
Capital receipts	(13,708)	(12,912)
Government grants and other contributions	(68,031)	(100,798)
Direct revenue contributions	(16,315)	(21,465)
Major repairs reserve	(55,046)	(52,726)
Minimum revenue provision (MRP) / loans fund principal	(15,689)	(9,988)
Total capital investment financed	(168,789)	(197,889)
Closing capital financing requirement	1,362,956	1,219,890
Explanation of movement		
Increase in underlying need to borrow	141,498	135,040
Assets acquired under private finance initiative (PFI) contracts	1,568	509
Net movement in year	143,066	135,549

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33. LEASES

The council as lessee – operating leases

The council pays rent on property leases, of which some are sublet.

Expenditure charged to services in the Comprehensive Income and Expenditure Statement (CIES) during the year in the use of operating leases:

	2021-22	2020-21
	£000	£000
Minimum lease payments	2,722	2,628
Less sub-lease payments	(490)	(425)
Total	2,232	2,203

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

	31 March 2022	31 March 2021
	£000	£000
Within 1 year	2,603	2,502
Within 2 to 5 years	5,365	6,452
After 5 years	8,703	9,448
Total	16,671	18,402

The council as lessor – operating leases

The council has industrial and commercial units which it lets out. It also lets out workshops and property for shops, community and commercial use.

The future minimum rentals receivable under these leases are set out below:

	31 March 2022	31 March 2021
	£000	£000
Within 1 year	17,586	17,904
Within 2 to 5 years	56,308	57,853
After 5 years	69,471	58,883
Total	143,365	134,640

34. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, and
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement

The following schemes have been accounted for as PFI or similar contracts:

- St Michael's is a new build secondary school, which became operational in January 2011. The school has been built and is operated over a 25 year contract by 4 Futures Ltd., the majority shareholder of which is Education Investments Holdings Limited. St Michaels is an Academy school.
- St Thomas is a new build secondary school, which became operational in February 2012. The school has been built and is operated over a 25 year contract by 4 Futures Ltd., the majority shareholder of which is Education Investments Holdings Limited. St Thomas is a voluntary aided school.
- Sacred Heart Catholic school is a new build secondary school, which became operational in September 2014. The school has been built and is operated over a 25 year contract by 4 Futures Ltd., the majority shareholder of which is Education Investments Holdings Limited. Sacred Heart is an Academy school.
- In February 2008 the council entered into a 25-year PFI contract with Veolia Environmental Services for the collection and disposal of waste in the borough. Veolia are to provide high specification facilities to receive transfer and treat waste under the PFI contract from a facility at Old Kent Road, a site the council has leased to the company since September 2008. The integrated waste management facility at the Old Kent Road became operational in February 2012. The £682 million contract will enable the council to deliver government targets for waste minimisation, landfill diversion and recycling.
- In July 2013 the council entered into the Heat Supply PFI Arrangement, which involved the contractor putting in place piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public. The heat supply arrangement with Veolia became operational in November 2013.
- Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd for operating the three schools and reimbursement of the capital expense incurred, the council does not have an interest in the assets.

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

	St Michael's Catholic college	St Thomas the Apostle college	Sacred Heart Catholic school	Integrated waste management facility	Heating supply arrangement	Total
	£000	£000	£000	£000	£000	£000
Opening balance	13,689	17,854	17,146	38,425	4,286	91,400
New liability incurred	-	-	-	412	97	509
Repayments made in year	(369)	(534)	(513)	(3,757)	(252)	(5,425)
Balance as at 31 March 2021	13,320	17,320	16,633	35,080	4,131	86,484
Opening balance	13,320	17,320	16,633	35,080	4,131	86,484
New liability incurred	-	-	-	1,469	100	1,569
Repayments made in year	(471)	(551)	(526)	(4,762)	(272)	(6,582)
Balance as at 31 March 2022	12,849	16,769	16,107	31,787	3,959	81,471

The following has been recognised in the Balance Sheet in respect of PFI (or similar) arrangements:

	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Total
	£000	£000	£000	£000
Net book value as at 1 April 2020	59,466	14,947	4,431	78,844
Additions	-	412	97	509
Depreciation and impairment	(847)	(957)	(194)	(1,998)
Revaluations	133	-	-	133
Net book value as at 31 March 2021	58,752	14,402	4,334	77,488
Net book value as at 1 April 2021	58,752	14,402	4,334	77,488
Additions	-	1,469	100	1,569
Depreciation and impairment	(853)	(978)	(197)	(2,028)
Revaluations	1,873	-	-	1,873
Net book value as at 31 March 2022	59,772	14,893	4,237	78,902

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The projected payments under the agreements are as follows:

	1 year	2-5 years	6-10 years	11-15 years	16-20 years	Total
	£000	£000	£000	£000	£000	£000
St Michael's Catholic college						
Liability	243	1,842	4,964	5,800	-	12,849
Interest	1,636	5,993	5,477	1,716	-	14,822
Service charges	835	3,275	4,379	3,885	-	12,374
St Thomas the Apostle college						
Liability	700	2,857	5,588	7,624	-	16,769
Interest	1,762	6,336	5,876	2,109	-	16,083
Service charges	312	1,301	1,873	1,499	-	4,985
Lifecycle payments	31	518	1,079	1,178	-	2,806
Sacred Heart Catholic school						
Liability	649	2,374	5,066	8,018	(1)	16,106
Interest	1,616	5,859	5,589	2,468	-	15,532
Service charges	480	2,084	2,989	4,011	-	9,564
Lifecycle payments	61	695	771	1,652	-	3,179
Integrated waste management facility						
Liability	3,241	12,435	13,378	2,733	-	31,787
Interest	1,756	5,494	3,628	324	-	11,202
Service charges	21,320	92,252	135,293	24,572	-	273,437
Lifecycle payments	2,252	11,360	17,419	3,538	-	34,569
Heat supply arrangement						
Liability	194	1,031	2,142	592	-	3,959
Interest	485	1,682	1,250	86	-	3,503
Service charges	1,344	5,722	7,995	1,721	-	16,782
Lifecycle payments	102	433	605	130	-	1,270

35. OTHER LONG-TERM LIABILITIES

	31 March 2022 £000	31 March 2021 £000
Payments due under Private Finance Initiative (PFI) schemes and similar arrangements:		
St Michaels Catholic college	(12,606)	(12,849)
St Thomas the Apostle college	(16,069)	(16,769)
Sacred Heart Catholic school	(15,457)	(16,106)
Integrated waste management facility	(26,295)	(30,318)
Heat supply arrangement	(3,663)	(3,859)
Total	(74,090)	(79,901)

36. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES (NHS AND TEACHERS)

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Education and Skills Funding Agency. The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. As part of its public health responsibilities the council employs staff who are members of the NHS Pension Scheme.

The schemes are technically defined benefit schemes. However, both schemes are unfunded and use notional funds as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the schemes with sufficient reliability for accounting purposes. For the purposes of the council's statement of accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2021-22 the council paid £13.3m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.6% of pensionable pay (£13.7m and 23.6% respectively in 2020-21). It also paid £0.032m to the NHS Pension Scheme representing 14.4% of pensionable pay (£0.046m 2020-21, representing 14.4% of pensionable pay). In 2021-22 the employer contribution rate was 20.7% of pensionable pay (including levy). Employers are responsible for paying 14.4% of contributions, with the remaining 6.3% being funded by government. There were no contributions remaining payable at the year-end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 37.

37. DEFINED BENEFIT PENSION SCHEMES

Participation in the Local Authority Pension Scheme

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

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

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	2021-22			2020-21		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Cost of services						
- Current service cost	82,900	364	83,264	60,700	311	61,011
- Past service costs	2,800	-	2,800	700	-	700
Financing and investment income and expenditure						
- Net interest expense/(income)	14,100	(118)	13,982	13,600	(59)	13,541
Total post employment benefit charged to the surplus or deficit on the provision of services	99,800	246	100,046	75,000	252	75,252
Other post employment benefit charged to the comprehensive income and expenditure statement						
Remeasurement of the net defined benefit liability comprising						
- IAS19 report balance adjustment	(17,660)	14,848	(2,812)			-
- Return on plan assets (excluding amount included in the net interest expense)	(104,200)	(7,619)	(111,819)	(347,000)	(8,439)	(355,439)
- Actuarial gains and losses arising on changes in demographic assumptions	(30,600)	-	(30,600)	-	(533)	(533)
- Actuarial gains and losses arising on changes in financial assumptions	(159,200)	(1,325)	(160,525)	421,600	7,827	429,427
- Actuarial gains and losses arising on changes in liability experience	(70,200)	116	(70,084)	(26,000)	(731)	(26,731)
- Other actuarial gains and losses on assets	-	-	-	-	-	-
Total post employment benefit charged to the comprehensive income and expenditure statement	(282,060)	6,266	(275,794)	123,600	(1,624)	121,976
Movement in reserves statement						
- Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code	99,800	246	100,046	75,000	252	75,252
Actual amount charged against the General Fund balance for pensions in the year						
- Employers' contributions payable to the scheme	43,100	134	43,234	40,900	148	41,048

Transactions relating to post employment benefits

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

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Pensions assets and liabilities recognised in the balance sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	31 March 2022			31 March 2021		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Fair value of plan assets	2,055,660	67,328	2,122,988	1,901,000	61,349	1,962,349
Less present value of defined benefit obligation	2,424,200	52,480	2,476,680	2,594,700	55,217	2,649,917
Net asset / (liability) arising from defined benefit obligation <u>pre</u> asset-ceiling	(368,540)	14,848	(353,692)	(693,700)	6,132	(687,568)
Less asset ceiling under IFRIC 14 assessment	-	14,848	14,848	-	-	-
Net asset / (liability) arising from defined benefit obligation <u>post</u> asset-ceiling	(368,540)	-	(368,540)	(693,700)	6,132	(687,568)

Reconciliation of present value of the scheme assets

	2021-22			2020-21		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Opening balance	1,901,000	61,349	1,962,349	1,524,000	54,712	1,578,712
<i>IAS19 report balance adjustment</i>	17,660	-	17,660	-	-	-
Interest income on assets	39,900	1,140	41,040	35,000	1,075	36,075
Remeasurement gains/(losses) on assets	104,200	7,619	111,819	347,000	8,439	355,439
Other actuarial gains/(losses)	-	-	-	-	-	-
Administration expenses	-	(80)	(80)	-	(71)	(71)
Employer contributions	43,100	134	43,234	41,700	148	41,848
Contribution by participants	13,000	44	13,044	12,700	46	12,746
Contribution by admitted bodies	800	-	800	-	-	-
Net benefits paid out	(64,000)	(2,878)	(66,878)	(59,400)	(3,000)	(62,400)
Closing balance as at 31 March	2,055,660	67,328	2,122,988	1,901,000	61,349	1,962,349

Reconciliation of present value of the scheme liabilities

	2021-22			2020-21		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Opening balance	2,594,700	55,217	2,649,917	2,135,000	50,352	2,185,352
Current service cost	82,900	284	83,184	60,700	238	60,938
Interest cost	54,000	1,022	55,022	48,600	1,016	49,616
Contribution by admitted bodies	800	-	800	-	-	-
Contributions by scheme participants	13,000	44	13,044	13,500	46	13,546
Change in financial assumptions	(159,200)	(1,325)	(160,525)	421,600	7,827	429,427
Change in demographic assumptions	(30,600)	-	(30,600)	-	(533)	(533)
Experience loss/(gain) on defined benefit obligation	(70,200)	116	(70,084)	(26,000)	(731)	(26,731)
Benefits paid	(64,000)	(2,878)	(66,878)	(59,400)	(3,000)	(62,400)
Past service costs	2,800	-	2,800	700	2	702
Balance as at 31 March	2,424,200	52,480	2,476,680	2,594,700	55,217	2,649,917

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Scheme assets comprised

	31 March 2022			31 March 2021		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Quoted						
- Equities	1,112,748	37,785	1,150,533	1,152,006	33,332	1,185,338
- Government bonds	173,230	-	173,230	171,090	-	171,090
- Corporate bonds	185,458	-	185,458	193,902	-	193,902
- Target return portfolio	-	14,307	14,307	-	14,439	14,439
- Multi-asset pooled funds	34,646	-	34,646	38,020	-	38,020
Subtotal	1,506,082	52,092	1,558,174	1,555,018	47,771	1,602,789
Unquoted						
- Equities	26,494	-	26,494	-	-	-
- Infrastructure	-	6,725	6,725	-	5,199	5,199
- Property	311,814	5,880	317,694	239,526	5,583	245,109
- Cash	71,330	2,631	73,961	60,832	2,796	63,628
- Multi-asset pooled funds	122,280	-	122,280	45,624	-	45,624
Subtotal	531,918	15,236	547,154	345,982	13,578	359,560
<i>IAS19 report balance adjustment</i>	17,660	-	17,660	-	-	-
Total	2,055,660	67,328	2,122,988	1,901,000	61,349	1,962,349

Basis for estimating assets and liabilities

The scheme assets, as shown above, are those attributable to the council from its membership of the Local Government Pension Scheme (LGPS) for both the London borough of Southwark Pension Fund and the London Pension Fund Authority (LPFA). The value of the assets is provided by fund actuaries. The LGPS valuation is based on asset values at 31 March 2022. The LPFA actuary uses market values at 31 January 2022, then indexed for market movements to arrive at a valuation for 31 March 2022.

Liabilities for the council and LPFA schemes have been assessed by Aon Hewitt and Barnett Waddingham respectively. Both have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on data relating to the latest full valuations as at 31 March 2019 and rolled forward.

Principal assumptions used by the actuaries

	Council		LPFA	
	2021-22	2020-21	2021-22	2020-21
Mortality assumptions				
Longevity at 65 for current pensioners				
Men (years)	21.5	20.9	20.9	21.2
Women (years)	24.1	23.7	23.7	23.8
Longevity at 45 for future pensioners				
Men (years)	22.8	22.8	22.4	22.8
Women (years)	25.6	25.6	25.6	25.7
Principal financial assumptions				
Rate of inflation - consumer price index (CPI)	3.0%	2.7%	3.4%	2.9%
Rate of increase in salaries	4.5%	4.2%	4.4%	3.9%
Rate of increase in pensions	3.0%	2.7%	3.4%	2.9%
Rate of pension accounts revaluation	3.0%	2.7%	0%	
Rate for discounting scheme liabilities	2.7%	2.1%	2.6%	1.9%

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The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table below. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant.

Assumption	Impact of increase			Impact of decrease		
	Council £000	LPFA £000	Total £000	Council £000	LPFA £000	Total £000
Present value of total obligation						
Longevity (+/- 1 year)	2,509,000	56,157	2,565,157	2,341,800	49,066	2,390,866
Rate of increase in salaries (+/- 0.1%)	2,429,000	52,508	2,481,508	2,419,400	52,452	2,471,852
Rate of increase in pensions (+/- 0.1%)	2,467,800	53,108	2,520,908	2,383,000	51,860	2,434,860
Rate for discounting scheme liabilities (+/- 0.1%)	2,378,100	51,827	2,429,927	2,472,700	53,142	2,525,842
Projected service cost						
Longevity (+/- 1 year)	80,700	280	80,980	74,400	256	74,656
Rate of increase in salaries (+/- 0.1%)	77,500	268	77,768	77,500	267	77,767
Rate of increase in pensions (+/- 0.1%)	80,200	272	80,472	74,900	262	75,162
Rate for discounting scheme liabilities (+/- 0.1%)	74,900	262	75,162	80,200	273	80,473

Impact on the council's cash flows

The objective of the schemes are to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £2,447m (£2,650m at 31 March 2021) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net liability of £369m (£688m at 31 March 2021). However, statutory arrangements for funding the deficit mean that the council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees as assessed by the actuaries. The surplus recognised in the balance sheet was restricted by £14.8m on the LPFA scheme, under paragraph 64 of IAS19 / IFRIC 14.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government's Pension Scheme may not provide final salary scheme benefits in relation to service after 31 March 2014. The act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2022-23 is £77.5m for the council scheme and £0.3m for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 19.5 years (19.5 years 2020-21) and 13 years for LPFA scheme members (13 years 2020-21).

38. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes (business rates and council tax) and government grants, do not give rise to financial instruments.

Financial liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets. The following categories of financial instrument liabilities are carried in the Balance Sheet:

All of the council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and the Mayors Energy Efficiency Fund
- short-term loans from other local authorities
- overdraft with the National Westminster Bank
- Private Finance Initiative contracts
- trade payables for goods and services received

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long-term	Long-term	Short-term	Short-term
	31 March 2022	31 March 2021	31 March 2022	31 March 2021
	£000	£000	£000	£000
Borrowing				
Financial liabilities at amortised cost	(702,471)	(683,989)	(199,180)	(207,370)
Cash overdrawn				
Bank overdraft at amortised cost	-	-	(6,967)	(16,620)
Other Long Term Liabilities				
PFI liabilities at amortised cost	(74,090)	(79,901)	-	-
Creditors				
Trade payables at amortised cost	(7,648)	(8,248)	(266,943)	(238,741)
PFI arrangements at amortised cost	-	-	(6,582)	(6,582)
Total creditors	(7,648)	(8,248)	(273,525)	(245,323)
Total financial liabilities	(784,209)	(772,138)	(479,672)	(469,313)

The total short-term borrowing includes £24.2m (£10.4m at 31 March 2021) representing accrued interest and principal payments due within 12 months on long-term borrowing.

The creditors lines in the balance sheet include £31.9m (£26.6m at 31 March 2021) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

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Financial Assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments. The financial assets held by the council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows) comprising:

- cash in hand and at bank
- certificates of deposit and covered bonds issued by banks and building societies
- treasury bills and gilts issued by the UK Government
- loans made for service purposes
- lease receivables
- trade receivables for goods and services provided

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows and sell the instrument) comprising:

- bonds issued by banks, building societies, the UK Government, multilateral development banks and large companies that the council holds to sell if cash flow needs demand

Fair value through profit and loss (all other financial assets) comprising:

- money market funds managed by three fund managers.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long-term	Long-term	Short-term	Short-term
	31 March	31 March	31 March	31 March
	2022	2021	2022	2021
	£000	£000	£000	£000
Investments				
At fair value through other comprehensive income	19,994	29,597	86,156	76,072
At amortised cost	-	-	985	88
Total Investments	19,994	29,597	87,141	76,160
Cash and Cash Equivalents				
At fair value through profit and loss	-	-	54,419	38,992
Debtors				
Trade receivables at amortised cost	24,896	24,017	137,664	137,914
Total financial assets	44,890	53,614	279,224	253,066

Short-term debtors in the balance sheet include £55.3m (£95.9m at 31 March 2021) debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

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38. FINANCIAL INSTRUMENTS

Financial instruments – gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items.

	2021-22					2020-21				
	Financial Liabilities at amortised Cost	Financial Assets at amortised cost	Financial Assets at fair value through OCI	Financial Assets at fair value through P&L	Total	Financial Liabilities at Amortised Cost	Financial Assets at Amortised cost	Financial Assets at fair value through OCI	Financial assets at fair value through P&L	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense	29,812	-	-	-	29,812	29,825	-	-	-	29,825
Other charges	7,395	-	-	-	7,395	406	-	-	-	406
Total expenses in surplus or deficit on the provision of services	37,207	-	-	-	37,207	30,231	-	-	-	30,231
Interest income	-	(3,507)	(356)	(55)	(3,918)	-	(2,944)	(442)	(13)	(3,399)
Total income in surplus or deficit on the provision of services	-	(3,507)	(356)	(55)	(3,918)	-	(2,944)	(442)	(13)	(3,399)
(Surplus) / deficit arising on revaluation of financial assets in other Comprehensive Income & Expenditure	-	-	452	-	452	-	-	(460)	-	(460)
Net (gain) / loss for year	37,207	(3,507)	96	(55)	33,741	30,231	(2,944)	(902)	(13)	26,372

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the council approves a treasury management strategy before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with financial instruments. The council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The treasury management strategy includes an annual investment strategy in compliance with the Department of Levelling Up, Housing and Communities guidance on local government investments. The strategy emphasises that priority is given to security and liquidity, rather than yield. The council's treasury management strategy and its treasury management practices seek to achieve a suitable balance between risk and return on cost.

The council's treasury investments are primarily delegated to two external fund managers with an internal operation to manage short-term liquidity.

The main risks covered are:

- Credit risk: the possibility that the counterparty to a financial asset will fail to meet its contractual obligations causing a loss to the council
- Liquidity risk: the possibility that the council might not have the liquid assets available to make contracted payments on time
- Market risk: the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or asset prices

Credit risk - investments

The council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the treasury management strategy. These include commercial entities with a minimum long-term credit rating of A, the UK government, other local authorities, and organisations without credit ratings upon which the council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The council is able to utilise the expertise of external fund managers to seek to mitigate credit risk in the construction of a well diversified treasury portfolio. Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and no more than 50% of total investments can be for a period longer than one year.

The council's exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally, as the risk of any institution failing to make interest repayments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at 31 March 2022 that this was likely to crystallise.

The maximum exposure to credit risk is represented by the sums held in investments. The maturity and ratings of investments held at 31 March 2022 is set out below:

	A	AA	AAA	Total	A	AA	AAA	Total
	£000	£000	£000	£000	%	%	%	%
Up to 1 year	50,189	27,898	63,474	141,561	31%	17%	39%	87%
1 - 2 years	3,099	4,419	6,533	14,051	2%	3%	4%	9%
2 - 5 years	3,558	-	2,385	5,943	2%	0%	2%	4%
Total investments	56,846	32,317	72,392	161,555	35%	20%	45%	100%

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Credit risk - receivables

Trade receivables arise from the provision of goods and services and the carrying out of the council's functions. The credit quality of debtors is reflected in the level of the impairment allowance for trade debtors shown in note 5.

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

Liquidity risk

The council has access to long-term loan facilities from the Public Works Loans Board to fund maturing debt and capital financing requirements. Investment may also be realised for working capital requirements.

The council is exposed to the risk that refinancing of maturing debt may occur at times of unfavourable external borrowing rates. To mitigate this risk the council has a diversified debt maturity profile limiting the amount of debt required to be refinanced in the course of any one financial year.

The maturity analysis of principal sums borrowed is as follows:

	2021-22	2020-21
	£000	£000
Less than 1 year	193,279	209,418
Between 1 and 5 years	85,855	59,565
Between 5 and 10 years	79,029	66,609
Between 10 and 20 years	42,558	105,035
Over 20 years	495,361	445,361
Total	896,082	885,988

Market risk

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

Outstanding long-term council debt at 31 March 2022 is primarily from the PWLB with short-term borrowing from other local authorities. The debt is at fixed rates, with an average maturity of 29.5 years (21 years at 31 March 2021). The maturity profile of the debt is shown in the table above. The council may draw further loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £112m. As the debt is held at amortised cost there would be no impact on the Comprehensive Income and Expenditure Statement from such a change, unless the debt was extinguished. Legislation would then require a charge to be taken to the financial instruments adjustment account.

Investments are held in short-term deposits or certificate of deposits with major banks and building societies. Money is also held in money market funds, treasury bills and bonds, and investments of more than one year are usually held in UK government gilts or supranational banks.

The overall weighted average life of council's investments is 0.8 years. Within that, the weighted average life of investments measured at fair value through other comprehensive income is 0.7 years. A 1% change in discount rates on these investments would change the fair value by £0.9m and would be reflected in other comprehensive income or the surplus or deficit on the provision of services as appropriate.

40. FAIR VALUE - ASSETS AND LIABILITIES

Fair value - basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset or liability	Held on balance sheet as	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs
Market quoted investments (money market funds, equity funds, corporate, covered government bonds)	Fair value	1	Published bid market price ruling on the final day of the accounting period	Not required
Long-term loans from PWLB / MEEF	Amortised cost	2	Discounting of contractual cash flows over the remaining life of the instrument at an appropriate market rate	The attributable market derived discount rate for each individual loan
Lease Payable and PFI Liabilities	Amortised cost	2	Projected discounted future Unitary contractual payments	Payments determined by contractual agreement, discounted at an appropriate market derived corporate bond yield.
Investment Property	Fair value	2	Valued at Fair Value at year end by Head of Property, taking into account the characteristics of the assets, nature of the relevant market for those assets and behaviours of those participating in these markets, assuming the highest and best use for the asset. The valuations employ a market approach technique.	Quoted rents, yields etc. for comparable assets transacted in active markets, subject to adjustment as necessary in valuer's judgement to equate the evidence with the subject of the valuation.
Assets held for sale	Fair value	2		
Surplus Assets	Fair value	2		

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The fair value of certain financial assets and liabilities including debtors and creditors is assumed to be approximate to the carrying amount.

Financial and non-financial assets and liabilities measured at fair value are classified in accordance with three levels as shown below:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 inputs – unobservable inputs for the asset

The following table provides an analysis of the financial liabilities grouped into the level at which fair value is observable:

	Fair value level	31 March 2022		31 March 2021	
		Balance Sheet	Fair value	Balance Sheet	Fair value
		£000	£000	£000	£000
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	(709,570)	(763,323)	(677,150)	(860,780)
Other long-term loans	2	(6,511)	(5,684)	(6,839)	(6,538)
Private finance initiative liabilities	2	(74,090)	(150,809)	(79,901)	(174,352)
Subtotal		(790,171)	(919,816)	(763,890)	(1,041,670)
Liabilities for which fair value is not disclosed		(505,585)		(504,185)	
Total financial liabilities		(1,295,756)		(1,268,075)	
Balance sheet:					
Short-term creditors		(305,399)		(271,947)	
Short-term borrowing		(199,180)		(207,370)	
Bank overdraft		(6,968)		(16,620)	
Long-term creditors		(7,648)		(8,248)	
Long-term borrowing		(702,471)		(683,989)	
Other long-term liabilities		(74,090)		(79,901)	
Total financial liabilities		(1,295,756)		(1,268,075)	

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to be approximate to the carrying amount.

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The following table provides an analysis of the financial assets grouped into the level at which fair value is observable:

	Fair value level	31 March 2022		31 March 2021	
		Balance Sheet	Fair value	Balance Sheet	Fair value
		£000	£000	£000	£000
Financial assets held at fair value					
Money market funds	1	54,420	54,420	38,992	38,992
Corporate, covered and government bonds	1	107,135	107,135	105,757	105,757
Subtotal		161,555	161,555	144,749	144,749
Assets for which fair value is not disclosed		217,905		257,817	
Total financial assets		379,460		402,566	
Recorded on balance sheet as:					
Short-term debtors		193,009		233,800	
Short-term investments		87,141		76,160	
Long-term debtors		24,896		24,017	
Long-term investments		19,994		29,597	
Cash and cash equivalents		54,420		38,992	
Total financial assets		379,460		402,566	

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

SUPPLEMENTARY FINANCIAL STATEMENTS

2021-22

HOUSING REVENUE ACCOUNT

COLLECTION FUND

PENSION FUND

HOUSING REVENUE ACCOUNT

2021-22

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT

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

	Note	2021-22 £000	2020-21 £000
Income			
Dwelling rents		(199,038)	(197,353)
Non-dwelling rents		(5,817)	(5,665)
Charges for services and facilities		(56,702)	(62,562)
Contributions towards expenditure		(2,963)	(3,146)
Total income		(264,520)	(268,726)
Expenditure			
Repairs and maintenance		56,452	54,116
Supervision and management		123,269	113,547
Rents, rates, taxes and other charges		10,743	9,137
Depreciation, impairment and revaluation losses of non-current assets	3	113,606	96,270
Debt management costs		264	329
Increase in provisions for bad debts		1,060	951
Revenue expenditure funded from capital under statute	4	-	4,832
Total expenditure		305,394	279,182
Net cost of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement		40,874	10,456
HRA share of corporate and democratic core		1,106	1,106
Net cost of HRA services		41,980	11,562
Gains and losses on the sales of HRA non-current assets		(23,265)	(23,702)
Interest payable and similar charges		23,303	22,924
Interest and investment income		(2,472)	(2,198)
Income, expenditure and changes in the fair value of investment properties	14	(10,064)	10,386
Pensions interest cost and expected return on pensions assets		2,432	2,604
Capital grants and contributions receivable		(43,030)	(75,026)
Total (surplus)/deficit for the year		(11,116)	(53,450)

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MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

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

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

	Note	2021-22 £000	2020-21 £000
(Surplus)/deficit for the year on HRA services		(11,116)	(53,450)
Net additional amounts required by statute	5	13,332	48,116
(Increase)/decrease in the HRA balance		2,216	(5,334)
HRA balance brought forward		(28,346)	(23,012)
Balance carried forward	6	(26,130)	(28,346)

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT (HRA)

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

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of Dwelling		Number of bedrooms				Total	Total
		1	2	3+	Other	31 March 2022	31 March 2021
Houses and bungalows	31 March 2022	370	719	2,847	-	3,936	
	31 March 2021	378	720	2,838	-		3,936
Low rise flats	31 March 2022	2,781	614	365	-	3,760	
	31 March 2021	2,801	614	365	-		3,780
Medium rise flats	31 March 2022	6,559	7,125	6,142	-	19,826	
	31 March 2021	6,527	7,097	6,104	-		19,728
High rise flats	31 March 2022	2,673	4,653	1,712	-	9,038	
	31 March 2021	2,730	4,708	1,757	-		9,195
Non-permanent	31 March 2022	-	-	-	-	-	
	31 March 2021	-	-	-	-		-
Multi-occupied	31 March 2022	-	-	-	96	96	
	31 March 2021	-	-	-	279		279
TOTALS	31 March 2022	12,383	13,111	11,066	96	36,656	
	31 March 2021	12,436	13,139	11,064	279		36,918

In addition to the numbers shown in the table above, as at 31 March 2022 there were also 803 void properties (678 at 31 March 2021). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.

The vacant possession value of buildings as at 31 March 2022 was £14.0bn (£13.9bn as at 31 March 2021). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

The further reduction of multi-occupied properties is the result of an on-going programme to decommission and redevelop hostels following a review of hostel accommodation commissioned in 2017.

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3. DEPRECIATION, IMPAIRMENT AND REVALUATION LOSSES OF NON-CURRENT ASSETS

	2021-22	2020-21
	£000	£000
Dwellings depreciation	49,980	48,882
Other property depreciation	1,567	1,576
Revaluation losses on non-current assets	62,059	45,812
Total	113,606	96,270

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

REFCUS is a class of expenditure that may meet statutory definitions of capital expenditure, but is of a nature that is not consistent with the accounting standards definitions of additions to property, plant and equipment. Examples include expenditure incurred on assets that are not owned by the council, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises, but is then charged to the capital adjustment account to be financed from capital resources. For the HRA this expenditure would include cash incentive payments (grants to tenants as an incentive to vacate their properties and purchase private accommodation), and statutory home loss payments where the council necessarily relocates tenants to other accommodation.

In 2021-22, no expenditure was incurred in the HRA as REFCUS (£4.832m in 2020-21).

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

The following table shows Items included in the HRA Income and Expenditure Account but which are excluded from the movement on HRA balance for the year:

	2021-22	2020-21
	£000	£000
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	1,292	221
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(10)	(626)
Gain or loss on the sale of HRA non-current assets	23,265	23,702
HRA share of contributions to or from the pension reserve	(11,107)	(8,028)
Capital expenditure funded by the HRA	14,602	20,640
Transfer to/from the major repairs reserve	51,546	53,958
Transfer to/from the capital adjustment account	(66,256)	(41,751)
Net additional amount required by statute to be charged to the HRA	13,332	48,116

SOUTHWARK COUNCIL
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6. HRA BALANCE

HRA reserves at 31 March 2021 are £28.346m (£23.012m at 31 March 2020) and are allocated as follows:

	31 March 2022	31 March 2021
	£000	£000
Modernisation, service and operational improvement reserve	(3,655)	(3,849)
Financial risk reserve	(22,475)	(24,497)
Total	(26,130)	(28,346)

The modernisation, service and operational improvement reserve of £3.6m comprises £0.6m for IT transformation, and £3.0m for investment in energy infrastructure.

The financial risk reserve, £22.5m, includes £7.5m contingency, broadly representing 2.3% of gross HRA revenue spend and housing investment programme spend. The reserve also provides £1.3m to self-insure against the risks of subsidence and significant fire damage to the council's housing stock, £1.0m heating account reserve, which represents the cumulative balance available to mitigate energy cost pressures and smooth heating charge volatility, £0.6m for estate parking and £5.6m relating to debt financing. There is also a residents participation reserve of £0.4m. The repairs and maintenance transition is £2.2m and the great estates reserve remains at £1.1m. In 2020-21 new reserves were created relating to service charges which has remained at £1.9m and a HRA operational reserve which has been reduced slightly to £0.1m.

7. MAJOR REPAIRS RESERVE

	2021-22	2020-21
	£000	£000
Balance 1 April	(3,500)	(2,268)
Transfers from the capital adjustment account	(51,546)	(50,458)
Transfer (from) / to the HRA	-	(3,500)
Financing of capital expenditure	55,046	52,726
Balance as at 31 March	-	(3,500)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

8. CAPITAL EXPENDITURE AND FINANCING

	2021-22	2020-21
	£000	£000
Capital investment		
Non-current assets	210,751	210,549
REFCUS	-	4,832
Total	210,751	215,381
Funding source:		
Direct revenue contributions	14,602	20,640
Capital receipts	10,590	10,904
Government grants and other contributions	43,030	75,025
Major repairs reserve	55,046	52,726
Borrowing	87,483	56,086
Total	210,751	215,381

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

	2021-22	2020-21
	£000	£000
Council dwellings		
Right to Buy	(25,027)	(15,129)
Non Right to Buy	(5,703)	(22,117)
Other receipts		
Land sales	(12,770)	(13)
Mortgages	(5)	(5)
Subtotal	(43,505)	(37,264)
Less: pooled (paid to central government)	4,266	4,267
Total	(39,239)	(32,997)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

10. HOUSING TENANTS ACCOUNTS

	2021-22	2020-21
	£000	£000
Gross arrears as at 1 April	27,578	24,819
Prior year payments	(14,038)	(13,053)
Arrears as at 1 April	13,540	11,766
Charges due in the year	229,935	227,856
Rent rebates	(63,374)	(66,770)
Write-offs	(477)	(1,162)
Adjustments	(6,046)	(5,699)
Cash collected	(158,267)	(152,451)
Net arrears as at 31 March	15,311	13,540
Payments in advance	14,322	14,038
Gross arrears as at 31 March	29,633	27,578

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

11. IMPAIRMENT OF DEBTORS

	2021-22	2020-21
	£000	£000
Rents	14,096	12,978
Income from hostels	1,423	1,304
Court costs	879	846
Commercial rents	3,665	3,150
Penalty charge notices and parking warrants	4,219	2,572
Total	24,282	20,850

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

12. PENSIONS COSTS

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

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

	2021-22	2020-21
	£000	£000
Current service cost less contributions	8,675	5,423
Interest on pension scheme liabilities	2,432	2,604
Actuarial (gains)/losses	(63,660)	9,189
Movement on the pension reserve	(52,553)	17,216
Add pensions contributions attributable to the HRA	6,447	6,263
Total IAS 19 charges	(46,106)	23,479

13. WATER CHARGES

In March 2016, the High Court (Chancery Division) found that the council had been overcharging a tenant for water supplies via Thames Water, contrary to the Water Resale Order 2006. Refunds to current and former tenants commenced in 2016-17, and the council made appropriate provision in its accounts for this purpose. This process has continued during subsequent years, with the amount provided for reduced accordingly. The balance on the water refund provision at 31 March 2022 was £1.1m.

Under the terms of the Water Resale Order 2006, the refunds are net of a daily administrative charge, but inclusive of interest at a rate determined by the regulations.

During 2021-22 the council received further legal advice to the effect that the refund process could be brought to a conclusion, both in terms of the interest period applied and the receipt of applications. Both elements remained in force as at 31 March 2022.

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

This disclosure identifies expenditure, rental/investment income and changes in the fair value of HRA shops and other HRA assets classified on the balance sheet as investment properties.

The net gain included in the HRA Income and Expenditure Statement in 2021-22 is £10.064m compared to a net loss in 2020-21 of £10.386m. The major reason for the gain reported in 2021-22 is due to gently improving market conditions, with slightly stronger rents and yields on which our capital valuations are based.

COLLECTION FUND

2021-22

COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT

	Notes	Council tax £000	Business rates £000	Business rate supplement £000	2021-22 £000	2020-21 £000
Income						
Income from council tax	1	(164,664)			(164,664)	(150,926)
Transfer from the General Fund		(245)			(245)	(3,175)
Income from business rates	2		(280,221)		(280,221)	(224,183)
Transitional protection payments from DLUHC			(214)		(214)	(4,368)
Income from business rate supplement (BRS)	3			(7,040)	(7,040)	(6,969)
Contribution from preceptors towards previous years		(4,833)	(107,808)		(112,641)	(26,127)
Collection Fund deficit						
Total income		(169,742)	(388,243)	(7,040)	(565,025)	(415,748)
Expenditure						
Precepts and demands:						
Greater London Authority (GLA)		38,431			38,431	35,294
London borough of Southwark		123,024			123,024	117,849
Share of business rates:						
Greater London Authority (GLA)			119,163		119,163	124,970
London borough of Southwark			96,619		96,619	101,327
Department of Levelling Up, Housing and Communities (DLUHC)			106,280		106,280	111,460
Transitional protection payment to DLUHC					-	-
Cost of collection allowance (NDR)			773		773	769
Business rate supplement (BRS):						
Payment to GLA	3			7,025	7,025	6,953
Administrative costs				15	15	16
Council tax impairment of debts:						
Increase/(decrease) allowance for non-collection		2,079			2,079	994
Write-offs		2,311			2,311	3,384
NDR impairment of debts / appeals / refunds:						
Increase/(decrease) allowance for non-collection			999		999	7,581
Write-offs	5		318		318	1,084
Appeals / change in provision for alteration of VoA list and appeals			26,888		26,888	21,672
Contribution to preceptors towards previous years	4				-	1,853
Collection Fund surplus						
Total expenditure		165,845	351,040	7,040	523,925	535,206
Net (surplus)/deficit for the year						
(Surplus)/deficit at 1 April		6,944	144,496	-	151,440	31,983
(Surplus)/deficit at 31 March	2	3,047	107,294	-	110,340	151,441

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council tax is a property-based tax, which is assessed on the value of residential property. For this purpose, the Valuation Office Agency (VoA) has set residential properties into eight valuation bands (A to H) using estimated market value at 1 April 1991. The council tax charges are calculated by estimating the amount of income required from the Collection Fund by the council and preceptors for the forthcoming year, and dividing this by the council tax base, which is the estimated total number of properties liable to tax, expressed as a band D equivalent.

In 2021-22 the estimated income required from all preceptors for the Collection Fund was £161.5m (2020-21 £153.1m). The amount of council tax for a band D property was £1,527.80 in 2021-22 inclusive of the GLA precept (2020-21 £1,440.88) and is multiplied by the ratio specified for the particular band to give the council tax due from properties in those bands. The 2021-22 council tax base after allowing for adjustments for non-collection (97.2% collection rate) was 105,678. The table below shows how the council tax base was set and the resulting band D council tax.

Band	Estimated number of properties after discounts		Ratio	Equivalent number of band D properties	
	2021-22	2020-21		2021-22	2020-21
A	7,469	7,666	6/9	4,979	5,110
B	26,361	26,416	7/9	20,503	20,546
C	27,223	27,342	8/9	24,198	24,304
D	21,629	21,721	9/9	21,629	21,721
E	16,032	16,185	11/9	19,594	19,782
F	6,378	6,431	13/9	9,212	9,289
G	4,225	4,241	15/9	7,041	7,068
H	783	763	18/9	1,566	1,526
Total	110,100	110,765		108,722	109,346
Less adjustment for collection rate				(3,044)	(3,062)
Council tax base for year				105,678	106,284
Estimated income required from Collection Fund				£ 161,454,848	£ 153,142,490
Band D council tax				£ 1,527.80	£ 1,440.88

The in year movement on the council tax Collection Fund surplus of £3.9m was largely due to factors related to the easing of the Covid-19 pandemic, with a higher level of income generating an in year surplus. At the year-end, the volume of write-offs was £2.3m and an increase in the allowance for non collection by £2m. The council tax position is a cumulative deficit of £3.0m for 2021-22 (2020-21 £6.9m).

2. NON-DOMESTIC RATES

Non-domestic rates (NDR), known as business rates are collected from local businesses by the council. From 1 April 2013 the business rates retention scheme was introduced nationally.

For 2021-22, the regulations meant the council could retain 30% business rates income, with the remainder allocated to the Greater London Authority at 37% and the Department of Levelling Up, Housing and Communities (DLUHC) 33%.

Business rates are based on local rateable values set by the Valuation Office Agency (VoA) and a multiplier set by central government (DLUHC). The non-domestic rating multiplier and the small business non-domestic rating multiplier for England in 2021-22 were:

- non-domestic rating multiplier 51.2p, (2020-21 51.2p)
- small business non-domestic rating multiplier 49.9p, (2020-21 49.9p)

Local businesses pay NDR calculated by multiplying their rateable value (RV) by the appropriate multiplier and subtracting any relevant reliefs. The total VoA rateable value in Southwark at 31 March 2022 was £757.2m (at 31 March 2021 £770.9m).

An NDR cumulative deficit of £107.3 million has arisen in the Collection Fund for 2021-22 (2020-21 £144.5m deficit), mainly due to the continuing financial consequences of the impact of Covid-19 pandemic. The government supported certain types of businesses with 100% relief from business rates. The NNDR3 in year deficit of £70.6m can be accounted for due to lower levels of NDR income, an increase in reliefs, write-offs £0.3m, and an increase in bad debt provision by £1m offset by a decrease in appeals provisions of £4.1m. Notes 6 and 7 explain how the Collection Fund NNDR3 in year deficit is partially met by government grants.

In 2020-21 the council had membership of the London boroughs 67% business rates retention scheme, a business rates pooling arrangement, with a no detriment / no worse-off clause for being a member. At 31 March 2022 the council has incurred an additional cost of £1.3m due to the draft 2020-21 overall London deficit position; there was also a deficit of £1.7m paid by Southwark council to the London pool in 2020-21, with final pool NNDR3 results being available later in the autumn 2022. No levy was payable by the council as a result of membership of the London business rates pool. For 2021-22, Southwark council is not part of a business rates pool.

3. BUSINESS RATE SUPPLEMENT

Business rate supplements (BRS) are collected from local businesses by the council, on behalf of the GLA for the Crossrail project in London. For 2021-22, the levy remains set at 2p per pound of rateable value (RV), (unchanged since its inception in 2010) on non-domestic properties with a rateable value greater than £70,000. The last rateable value change from £55,000 to £70,000 occurred in 2016-17.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

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

As a billing authority, the council is required to make an estimate of the surplus or deficit for the Collection Fund; for council tax by the 15 January and for non-domestic rates by 31 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing council tax if there is a surplus or increasing council tax if there is a deficit. In January 2021, the council estimated an accumulated collection fund deficit balance of £112.6m for 2020-21, (council tax £4.8m deficit and NDR £107.8m deficit), as follows:

	Council tax	Business rates	Total
	£000	£000	£000
(Surplus) / deficit as at 31 March 2020	(1,853)	26,127	24,274
Estimated (surplus) / deficit for 2020-21	6,686	81,681	88,367
Estimated (surplus) / deficit as at 31 March 2021	4,833	107,808	112,641

The estimated surplus for council tax was apportioned between the council and the GLA based on their respective demands and precepts on the Collection Fund and the estimated surplus for business rates was apportioned between the council, the GLA and DLUHC as follows:

Authority	Overall %	Council tax	Overall % (2020-21 / 2019-20)	Business rates	Total
		£000	%	£000	£000
Southwark council	76.95%	3,719	30% / 48%	33,095	36,814
Greater London Authority (GLA)	23.05%	1,114	37% / 27%	39,471	40,585
Department of Levelling Up, Housing and Communities (DLUHC)			33% / 25%	35,242	35,242
Estimated (surplus) / deficit for 2020-21 redistributed in 2021-22		4,833		107,808	112,641

5. PROVISION FOR ALTERATION OF LISTS AND APPEALS

The introduction of the business rates retention scheme in 2013 allows the council to retain a share of any growth in non-domestic rates (NDR) income, but also transfers some of the risks of losses.

As at 31 March 2022, 43 appeals cases remain unsettled and outstanding with the VoA. Following the 2017 revaluation, a check, challenge, and appeals policy was introduced by central government to reform the business rates appeals system applicable to the new rating list effective on 1 April 2017. The check and challenge system is designed to make the business rates appeals assessment and application process more stringent to reduce the level of unsubstantiated appeals lodged with the VoA.

The provision for alteration of lists and appeals as at 31 March 2022 is £36.2m (£40.3m at 31 March 2021), a decrease of £4.1m based on consideration of recent case law, potential unlogged appeals cases and other factors including check and challenge cases information from the VoA - Southwark council's share being £10.9m.

Share of provision	Southwark council	GLA	DLUHC	Total
	30%	37%	33%	100%
	£m	£m	£m	£m
2021-22	(10.9)	(13.4)	(11.9)	(36.2)
2020-21	(12.1)	(14.9)	(13.3)	(40.3)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

6. COVID-19 ADDITIONAL RELIEF FUND (CARF) AND COUNCIL TAX ENERGY REBATE

As part of its Covid-19 funding for local government, the government distributed the Covid-19 Additional Relief Fund (CARF) to Southwark council for awarding to business rate payers as a relief on their business rates bills. The total CARF grant received in 2021-22 was £18.6m which was accounted for as a creditor receipt in advance and plans are to award the CARF relief in 2022-23, funded by the grant.

The £150 per household council tax energy rebate totalling £17.4m was accounted for in 2021-22 as receipt in advance for 2022-23 and is being successfully distributed to Southwark residents in accordance with council bands A-D eligibility criteria by the council from between April to 30 September 2022.

	£m
Covid-19 Additional Relief Fund (CARF)	(18.6)
Council tax energy rebate	(17.4)

7. SECTION 31 GRANTS FOR IN YEAR NON DOMESTIC RATES COLLECTION FUND DEFICIT

During 2021-22, in relation to the second year of the Covid-19 pandemic, the council forecast Covid-19 non-domestic rates (NDR) discretionary reliefs of £53.3m for expanded retail reliefs and £0.6m for nursery reliefs, funded by the government through section 31 grants. £53.9m of grant was received on account, of which £38.9m is now due back to DLUHC to cover their and GLA's share to reconcile the grant received with the actual final entitlement for Southwark council. The Southwark council share of section 31 grant of £15m is accounted for in the general fund (not Collection Fund) and has been set aside in an earmarked reserve to carry forward and apply against the 2021-22 Collection Fund deficit in the general fund in 2022-23 in accordance with regulatory requirements.

	Grant received	Grant due	Reconciliation
	£m	£m	£m
Expanded retail discount grant	(53.3)	(14.8)	(38.5)
Nursery discount grant	(0.6)	(0.2)	(0.4)
Total	(53.9)	(15.0)	(38.9)

Regulations requiring 2020-21 Collection Fund in year deficits to be spread over three years came into force in December 2020.

PENSION FUND

2021-22

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2021-22		2020-21	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(62,851)		(60,237)	
Transfers in from other pension funds	7	(8,419)		(9,475)	
Subtotal			(71,270)		(69,712)
Benefits	8	65,135		61,446	
Payments to and on account of leavers	9	6,915		6,134	
Subtotal			72,050		67,580
Net reduction/(addition) from dealing with members of the fund			780		(2,132)
Management expenses	10		8,980		10,838
Net additions including fund management expenses			9,760		8,706
Returns on investments					
Investment income	11	(7,425)		(13,175)	
Taxes on income	11	2,058		539	
Profit and losses on disposal of investments and changes in market value of investments	12a	(199,518)		(363,153)	
Net return on investments			(204,885)		(375,789)
Net (increase)/decrease in the net assets available for benefits during the year			(195,125)		(367,083)
Opening net assets of the scheme			(1,948,624)		(1,581,541)
Net assets of the scheme available to fund benefits as at 31 March			(2,143,749)		(1,948,624)

NET ASSETS STATEMENT

	Note	Restated	
		31 March 2022 £000	31 March 2021 £000
Long Term Investments		150	150
Investment assets	12	2,120,541	1,927,951
Total Net Investments		2,120,691	1,928,101
Current assets	13	28,223	24,693
Current liabilities	13	(5,165)	(4,170)
Net assets of the scheme available to fund benefits as at 31 March		2,143,749	1,948,624

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at note 19.

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

Membership of LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

	31 March 2022	31 March 2021
Number of contributors to the fund	6,995	7,126
Number of contributors and dependants receiving allowances	8,167	7,988
Number of contributors who have deferred their pensions	10,067	9,883
Total contributors	25,229	24,997

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2019. For the 2021-22 financial year primary employer contribution rates ranged from 7.3% to 18.4% of pensionable pay, plus additional deficit payments where appropriate.

SOUTHWARK COUNCIL
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d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

	Service pre 1 April 2008	Service post 31 March 2008	From 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

In June 2020 the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing of pension uplifts due to a payroll issue. The issue was resolved and all increases and arrears were paid in July 2021.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2021-22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. The employer payroll contribution percentage rates are set by the fund based on advice of the fund actuary. Employee rates are set in Regulations.

Deficit funding contributions as advised by the fund actuary are accounted for on an accruals basis.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2021-22

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and or losses during the year.

d) Fund account – benefits payable

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

e) Fund account – taxation

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

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

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

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

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

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13. Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by Nuveen is carried out annually by an independent valuer.

i) Derivatives

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

j) Cash and cash equivalents

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

m) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts but are disclosed as a note (note 6).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2021-22.

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

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

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 3.6% would be an increase or decrease in the value of property of £12m, on a fair value of £323m.

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6. CONTRIBUTIONS RECEIVABLE

Contributions represent the total amount receivable from employees and employers of the scheme.

	2021-22			2020-21		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark council	(13,422)	(43,435)	(56,857)	(12,463)	(42,334)	(54,797)
Admitted bodies	(243)	(736)	(979)	(315)	(884)	(1,199)
Scheduled bodies	(1,365)	(3,650)	(5,015)	(1,229)	(3,012)	(4,241)
Total	(15,030)	(47,821)	(62,851)	(14,007)	(46,230)	(60,237)

Contributions receivable from employers are shown below:

	2021-22 £000	2020-21 £000
Normal	(33,732)	(36,416)
Early retirement strain	(3,422)	(2,221)
Deficit funding	(10,667)	(7,593)
Total contributions from employers	(47,821)	(46,230)
Contributions from employees	(15,030)	(14,007)
Total	(62,851)	(60,237)

During 2021-22 employees made additional voluntary contributions (AVCs) of £0.2m (£0.3m in 2020-21). The value of the AVCs at 31 March 2022 was £3.6m (£3.6m at 31 March 2021).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2021-22 £000	2020-21 £000
Individual transfers	(8,419)	(9,475)
Total	(8,419)	(9,475)

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8. BENEFITS PAYABLE

The table below shows the types of benefit payable by category:

	2021-22 £000	2020-21 £000
Pensions	53,130	53,003
Commutation of pensions and lump sum retirement benefits	9,588	7,147
Lump sums - death benefits	2,417	1,296
Total	65,135	61,446

The table below shows the total benefits payable grouped by entities:

	2021-22 £000	2020-21 £000
Southwark council	61,941	58,722
Admitted bodies	2,316	2,106
Scheduled bodies	878	618
Total	65,135	61,446

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021-22 £000	2020-21 £000
Refund of contributions	263	121
Individual transfers out to other schemes	6,652	6,013
Total	6,915	6,134

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10. MANAGEMENT EXPENSES

	2021-22	2020-21
	£000	£000
Administrative costs	1,891	3,690
Investment and management expenses	6,531	6,661
Oversight and governance costs	558	487
Total	8,980	10,838

The 2021-22 fee for external audit services for the pension fund is £21K (£36K in 2020-21). Revised fees for both 2019-20 and 2020-21 are as agreed with the external auditor and the Public Sector Audit Appointments Ltd (PSAA).

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2021-22 (£0.9m during 2020-21).

The table below provides an analysis of investment and management expenses by asset class.

	2021-22			2020-21		
	Fees	Transaction costs	Total	Fees	Transaction costs	Total
	£000	£000	£000	£000	£000	£000
Fixed Income	303	-	303	465	-	465
Equity	2,228	16	2,244	1,373	-	1,373
Private Equity	1,701	534	2,235	-	-	-
Property	1,114	-	1,114	1,199	3,353	4,552
Infrastructure	152	-	152	159	-	159
Other	125	258	383	-	-	-
Sub-Total	5,623	808	6,431	3,196	3,353	6,549
Custody costs			100			112
Total			6,531			6,661

Performance fees in 2021-22 were nil (nil in 2020-21).

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11. INVESTMENT INCOME

	2021-22	Restated 2020-21
	£000	£000
Dividends from equities	(4,171)	(4,278)
Pooled funds	(849)	(523)
Pooled property funds	(650)	(538)
Net rent from properties	(6,072)	(7,814)
Interest on cash deposits	-	(22)
Debtor adjustments	4,317	-
Total before taxes	(7,425)	(13,175)
Taxes on income	2,058	539
Total after taxes	(5,367)	(12,636)

11a. PROPERTY INCOME

	2021-22	2020-21
	£000	£000
Rental Income	(7,950)	(7,814)
Direct operating expenses	1,878	-
Net rent from properties	(6,072)	(7,814)

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12. INVESTMENT ASSETS

	31 March 2022 £000	31 March 2021 £000
Long Term Investments		
Equities	150	150
Total	150	150
Investment Assets		
Equities	256,900	233,525
Pooled Funds		
Fixed Income	132,310	135,739
Equities	480,221	256,004
Diversified Growth	191,389	192,740
Property	94,001	67,784
Infrastructure	133,709	41,248
Private Equity	38,475	-
Other*	43,027	-
Unitised Insurance Policy		
Fixed Income	180,108	159,852
Equities	335,240	651,065
Property	230,600	187,470
Other investment balances	4,561	2,524
Total Investment Assets	2,120,541	1,927,951
Net Investments	2,120,691	1,928,101

Other* = represent £43.027m Liquidity Fund

12a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

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

	Opening balance £000	Purchases £000	Sales £000	Change in market value £000	31 March 2022 £000
Equities	233,675	144,070	(145,490)	24,795	257,050
Pooled funds	625,731	618,057	(286,529)	61,872	1,019,131
Pooled property funds	67,784	21,802	(857)	5,272	94,001
Unitised insurance policy	810,917	12,119	(381,343)	73,655	515,348
Property	187,470	9,226	-	33,904	230,600
	1,925,577	805,274	(814,219)	199,498	2,116,130
Other investment balances	2,524			20	4,561
Total	1,928,101			199,518	2,120,691

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	Opening balance	Purchase	Sales	Change in market value	31 March 2021
	£000	£000	£000	£000	£000
Bonds	6,177	8,731	(14,642)	(266)	-
Equity	166,070	54,707	(48,963)	61,861	233,675
Pooled funds	494,070	19,208	(5,828)	118,281	625,731
Pooled property funds	56,420	17,765	(5,403)	(998)	67,784
Unitised insurance policy	626,535	11,563	(15,902)	188,721	810,917
Property	189,550	2,012	(120)	(3,972)	187,470
Derivatives	222	1,051	(799)	(474)	-
	1,539,044	115,037	(91,657)	363,153	1,925,577
Other investment balances	3,711			-	2,524
Total	1,542,755			363,153	1,928,101

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2022. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website. Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark council, finance and governance, PO Box 64529, London SE1P 5LX.

12b. INVESTMENTS ANALYSED BY FUND MANAGER

The market value of assets (excluding cash and other investment balances) managed by the investment managers at the balance sheet date 31 March 2022 is set out in the table below. The fund has no investment assets managed by the regional asset pool, the London Collective Investment Vehicle (LCIV).

	31 March 2022		31 March 2021	
	£000	%	£000	%
BlackRock	843,247	41%	852,375	44%
Legal and General Investment Managers	427,128	21%	546,514	27%
Newton Investment Management	256,898	13%	233,526	11%
Nuveen	234,299	11%	189,772	13%
Comgest	97,913	5%	-	0%
Temporis	56,980	2%	23,818	1%
M&G	42,927	2%	22,421	1%
Invesco	32,554	1%	30,271	1%
BTG Pactual	30,380	1%	-	0%
Blackstone	38,475	1%	-	0%
Darwin	20,428	1%	-	0%
Glennmont	19,930	1%	13,940	1%
Frogmore	8,011	0%	7,365	1%
Brockton Capital	6,810	0%	5,425	0%
Total	2,115,980	100%	1,925,427	100%

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The following investments represent more than 5% of investment assets at 31 March 2022.

Name of investment	Fund manager	31 March 2022	% of investment assets	31 March 2021	% of investment assets
		£000	%	£000	%
Low Carbon Target	BlackRock	382,308	18%	167,117	9%
Low Carbon Target	Legal and General	335,240	16%	365,710	19%
Diversified Growth Fund	BlackRock	191,389	9%	192,740	9%
Absolute Return Bond Fund	BlackRock	132,310	6%	135,739	7%
US Equity Fund	BlackRock	-	-	107,691	6%

12c. PROPERTY HOLDINGS

	31 March 2022	31 March 2021
	£000	£000
Opening balance	187,470	189,550
Additions:		
Purchases	7,130	-
Subsequent expenditure	2,096	2,012
Disposals	-	(120)
Net increase in market value	33,904	(3,972)
Closing Balance	230,600	187,470

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2022	Restated 31 March 2021
	£000	£000
Contribution due from employers	3,642	5,789
Other current assets	300	3,149
Tax	26	-
Cash at managers	13,705	10,568
Cash and bank	10,550	5,187
Total	28,223	24,693

The current liabilities of the fund are analysed as follows:

	31 March 2022	31 March 2021
	£000	£000
Benefits	(6)	-
Professional fees	(138)	(1,964)
Investment fees	(4,391)	(1,518)
Taxes	(558)	(687)
Other	(72)	(1)
Total	(5,165)	(4,170)

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as relationships that might materially prevent the fund from pursuing its separate interests or that might allow the fund to prevent another party from pursuing its interests independently, with material effect for the fund.

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 21-22 (£0.9m in 2020-21). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2021-22 and 2020-21.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10.

The pension advisory panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the PAP make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the Pension Fund and contributed £43.4m to the fund in 2021-22 (£42.3m in 2020-21).

15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – unit trusts	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required

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Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - property unit trusts and limited partnerships	Level 3	Valued at fair value as provided by the fund manager.	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates
Unitised Insurance Policies	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	256,900	150	-	257,050
Pooled Funds				
Fixed Income	-	132,310	-	132,310
Equities	-	480,221	-	480,221
Diversified Growth	-	191,389	-	191,389
Property	-	-	94,001	94,001
Infrastructure	-	20,428	113,281	133,709
Private Equity	-	-	38,475	38,475
Other	-	43,027	-	43,027
Unitised Insurance Policy				
Fixed Income	-	180,108	-	180,108
Equities	-	335,240	-	335,240
Total Financial Assets	256,900	1,382,873	245,757	1,885,530
Non-financial assets at fair value through profit and loss				
Property	-	-	230,600	230,600
Grand Total	256,900	1,382,873	476,357	2,116,130

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Value as at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	233,375	150	-	233,525
Pooled Funds				
Fixed Income	-	135,739	-	135,739
Equities	-	256,004	-	256,004
Diversified Growth	-	192,740	-	192,740
Property	-	-	67,784	67,784
Infrastructure	-	-	41,248	41,248
Unitised Insurance Policy				
Fixed Income	-	159,852	-	159,852
Equities	-	651,065	-	651,065
Total Financial Assets	233,375	1,395,550	109,032	1,737,957
Non-financial assets at fair value through profit and loss				
Property	-	-	187,470	187,470
Total	233,375	1,395,550	296,502	1,925,427

The following table shows the reconciliation of fair value measurements within level 3.

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2022 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	67,784	21,801	(857)	184	5,089	94,001
Infrastructure	41,248	71,892	(11,498)	225	11,414	113,281
Private Equity	-	29,078	(1,283)	(146)	10,826	38,475
Non-financial assets at fair value through profit and loss						
Property	187,470	9,226	-	-	33,904	230,600
Total	296,502	131,997	(13,638)	263	61,233	476,357

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2021 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	56,420	17,765	(5,403)	3,005	(4,003)	67,784
Infrastructure	31,803	10,549	(2,030)	(260)	1,186	41,248
Non-Financial assets at fair value through profit and loss						
Property	189,550	2,012	(120)	93	(4,065)	187,470
Total	277,773	30,326	(7,553)	2,838	(6,882)	296,502

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Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2022	Assessed valuation range	Valuation as at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Pooled Funds				
Property	3.6%	94,001	97,385	90,617
Infrastructure	3.2%	113,281	116,906	109,656
Private Equity	3.2%	38,475	39,706	37,244
Property	3.6%	234,299	242,734	225,864
Total		480,056	496,731	463,381

16. FINANCIAL INSTRUMENTS

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2022 £000	Restated 31 March 2021 £000
Financial assets		
Fair value through profit and loss		
Equities	257,050	233,525
Pooled Investments	1,019,131	625,879
Pooled Property Investments	94,001	67,784
Unitised Insurance Policy	515,348	810,917
Amortised cost		
Cash	24,255	15,755
Other Investment Balances	4,561	2,525
Debtors	300	3,149
Total	1,914,646	1,759,534
Financial liabilities		
Amortised cost		
Creditors	(4,529)	(4,170)
Net Total	1,910,117	1,755,364

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2022 totalled £101.6m (31 March 2021: £65.6m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Pension Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

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2021-22 - asset type	31 March 2022 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	312,418	5.4%	329,289	295,547
Equities	1,072,511	13.0%	1,211,937	933,085
Diversified Growth	191,389	6.3%	203,447	179,331
Property	94,001	3.6%	97,385	90,617
Infrastructure	133,709	3.2%	137,988	129,430
Private Equity	38,475	3.2%	39,706	37,244
Other	43,027	3.2%	44,404	41,650
Total	1,885,530		2,064,156	1,706,904

2020-21 - asset type	31 March 2021 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	295,591	5.8%	312,735	278,447
Equities	1,140,745	13.2%	1,291,323	990,167
Diversified Growth	192,740	6.0%	204,304	181,176
Property	255,254	2.2%	260,870	249,638
Infrastructure	41,247	3.0%	42,484	40,010
Other assets	2,524	0.0%	2,524	2,524
Total	1,928,101		2,114,240	1,741,962

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

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

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2022	312,418	315,542	309,294
As at 31 March 2021	135,739	137,096	134,382

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Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

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

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 7.3% strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £000	Change %	Value on foreign exchange rate increase £000	Value on foreign exchange rate decrease £000
As at 31 March 2022	649,073	7.3%	696,455	601,691
As at 31 March 2021	1,239,367	10.0%	1,363,304	1,115,430

Credit risk

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

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

Liquidity risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

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19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2022.

	31 March 2022 £m	31 March 2019 £m
Fair value of net assets	2,125	1,642
Actuarial present value of promised retirement benefits	(2,597)	(2,192)
Surplus/(deficit) in the fund as measured for IAS 26	(472)	(550)

20. FUNDING ARRANGEMENTS

Statement of the Actuary for the year ended 31 March 2022

Introduction

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations').

The LGPS Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the 'Fund') is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2022 by Aon, in accordance with Regulation 62 of the LGPS Regulations.

Actuarial Position

1. The valuation as at 31 March 2022 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2022 (of £2,125.4M) covering 109% of the liabilities.
2. The valuation also assessed each individual employer's (or group of employers') position separately. Contribution requirements were determined based on the principles in the Fund's Funding Strategy Statement and are set out in Aon's report dated 31 March 2023 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (including ill-health early retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2025 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2023	21.1	-
2024	21.2	-
2025	21.2	-

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3. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).
4. The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.80% p.a.
Rate of increase to pension accounts *	2.30% p.a.
Rate of increases in pensions in payment * (in excess of Guaranteed Minimum Pension)	2.30% p.a.

* In addition, a 10% uplift was applied to the past service liabilities to make allowance for short-term inflation above the long-term assumption.

The assets were valued at market value.

5. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S3 'Heavy' mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for future improvements based on the 2021 Continuous Mortality Investigation Projections Model, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.5	24.1
Future pensioners aged 45 at the valuation date	22.8	25.6

Further details of the assumptions adopted for the valuation, including the other demographic assumptions, are set out in the actuarial valuation report.

6. The valuation results summarised in paragraph 1 above are based on the financial position and market levels at the valuation date, 31 March 2022. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2023 to 31 March 2026 were signed on 31 March 2023. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2025 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

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8. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2022. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2022 is available on the Fund's website at the following address:
<https://southwarkpensions.co.uk/library/actuarial-valuation-report>

Aon Solutions UK Limited
May 2023

21. POST BALANCE SHEET EVENTS

No such material events have occurred.

GLOSSARY

ACCOUNTING STANDARDS

These are the 'proper accounting practices' that the council must follow. They comprise laws and regulations, which are set out in Acts of Parliament and in codes of practice recommended by professional bodies.

ACCRUAL

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

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have changed.

AMORTISED COST

A way of measuring financial instruments that ignores changes in fair value. Defined as the amount at which a financial instrument is measured when it is first brought onto the Balance Sheet, adjusted for:

- repayments of principal (minus), and
- cumulative amortisation of any difference between the initial amount and the maturity amount (using the effective interest method) (plus or minus).

These differences might arise (e.g.) from transaction costs being set off against the principal amount of a loan or interest being payable at less than market rates.

ASSET

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

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

BALANCES (OR RESERVES)

These represent accumulated funds available to the council. Some balances (reserves) may be earmarked for specific purposes for funding future initiatives or meeting identified risks or liabilities. There are a number of unusable reserves which are established for technical purposes, it is not possible to utilise these to provide services.

BUDGET

A forecast of the council's planned expenditure and income, either over a set period or for a specific project.

CAPITAL ADJUSTMENT ACCOUNT

An account recording financing and disposals transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CARRYING AMOUNT

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CAPITAL EXPENDITURE

Expenditure on the purchase, construction and enhancement of council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

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CAPITAL FINANCING

Capital financing is the process which occurs after capital expenditure has been incurred. There are a number of different sources of capital funding such as government capital / revenue grants, non-government grants, contributions from private developers, capital receipts and unsupported borrowing. Various funding sources are applied to capital spend to ensure that a project is fully financed from approved finance sources.

CAPITAL FINANCING REQUIREMENT (CFR)

The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

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.

COLLECTION FUND

This is a statutory account, which records income and expenditure on council tax, National Non Domestic Rates and the sums paid to precepting authorities.

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.

CONTINGENT ASSET

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

CONTINGENT LIABILITY

A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control; or

A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CONTRACT ASSET

An asset arising from a contract for the purchase of goods and/or services from the council, where the council has met some of its performance obligations but is not yet entitled unconditionally to receive payment.

CONTRACT LIABILITY

A liability arising from a contract for the purchase of goods and/or services from the council, where the council has received payment but has yet to meet the performance obligations relating to that payment.

COUNCIL TAX

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

CREDIT LOSSES

A measure of how much the council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the council under a financial asset and those that it actually expects to receive (discounted using the investment's effective interest rate).

CREDITORS

Amounts owed by the council for goods and services received but not paid for as at 31 March.

CURRENT SERVICE COST

An estimate of the true economic cost of employing people in a financial year.

DEBTORS

Amounts owed to the council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED CAPITAL RECEIPTS

These represent capital income still to be received after disposals have taken place and wholly consist of principal outstanding from the sale of council houses.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to the employee service in the current and prior periods.

DEPRECIATION

A measure of the cost of the economic benefits of the tangible non-current assets consumed during the period.

EARMARKED RESERVES

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

EXPECTED CREDIT LOSSES

Weighted average of credit losses with the respective risks of a default occurring as the weights.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable.

FAIR VALUE

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS

Investments for which gains and losses in fair value are recognised on the Balance Sheet but do not impact on the council's income as they arise but only when the investment matures or is sold. Defined as financial assets:

- held within a business model whose objective is achieved by both collecting contractual cash flows and selling investments, and
- which have the form of a basic lending arrangement (ie, contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS

Defined as financial assets that do not qualify for measurement at amortised cost or fair value through other comprehensive income.

FINANCE AND OPERATING LEASES

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

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FINANCIAL ASSET

A financial asset is any asset that is:

- a) cash
- b) an equity instrument of another entity
- c) a contractual right:
 - i) to receive cash or another financial asset from another entity, or
 - ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the authority
- d) a contract that will or may be settled in the entity's own equity instruments and is:
 - i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
 - ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice d) is not applicable to local authorities as they do not issue equity instruments. However, it may apply to an authority's group accounts.

FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

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. Under the Local Government and Housing Act 1989, this account is kept separate from the General Fund and the account must balance. The council is not allowed to make up any deficit in the HRA from the General Fund.

IAS19 EMPLOYEE BENEFITS

International Accounting Standard 19 is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS.

INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

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LEVIES

Payments to levying bodies such as the London Pension Fund Authority, Lee Valley Park Authority and Environment agency. The cost of these bodies is borne by local authorities in the area concerned, based on their council tax base and is met from the General Fund.

LOSS ALLOWANCE

An allowance made by setting funds aside to cover the expected credit losses calculated for a financial asset.

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.

NON DOMESTIC RATES (NDR)

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the council on behalf of itself, the greater London Authority (GLA) and central government.

NET BOOK VALUE

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON OPERATIONAL ASSETS

Non-current assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or

OPERATING LEASES

Refer to finance and operating leases.

OPERATIONAL ASSETS

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

PERFORMANCE OBLIGATION

A promise in a contract with a service recipient for the council to deliver goods and/or services.

PRIVATE FINANCE INITIATIVE (PFI)

A government initiative that enables authorities to carry out capital projects through partnership with the private sector.

PRECEPT

These are demands made upon the Collection Fund, by the Greater London Authority (GLA), for monies which it requires to finance the services it provides.

PROVISIONS

Amounts set aside for liabilities and losses which are likely to occur but where the exact amount or timing is uncertain.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

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- the parties, or any member of a group of which it is a part, provides key management personnel services to the other, or to the parent of the other, reporting entity.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made.

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.

SERVICE RECIPIENT

A person or an organisation that has contracted with the council (as part of the council's normal business) to obtain goods and/or services in return for payment (or in exchange of goods/services to the council).

TRANSACTION PRICE

The amount the council expects to be entitled to under contract in exchange for transferring promised goods and/or services to a service recipient.

USEFUL LIFE

The period over which the council will derive benefits from the use of a fixed asset.

WRITE-OFFS

Income is recorded in the council's accounts on the basis of amounts due. When money owing to the council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

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