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SUPPLEMENTARY AGENDA 1

AGENDA
AUDIT PANEL

Date: TUESDAY, 6 DECEMBER 2022 at 7.00 pm

Council Chamber
Civic Suite
Lewisham Town Hall
London SE6 4RU

Enquiries to: **Claudette Minott**
Telephone: **0208 314 85773417 (direct line)**

COUNCILLORS

Councillor Eva Kestner (Chair)
Councillor Sakina Sheikh
Councillor James Rathbone
Councillor Rudi Schmidt
Councillor Liam Shrivastava
Councillor Carol Webley-Brown

Independent Members

Stephen Warren

Members are summoned to attend this meeting

Kim Wright
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 1 December 2022

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

ORDER OF BUSINESS – PART 1 AGENDA

Audit Panel

Report title: Grant Thornton Audit Findings and Annual Reports 2021/22

Date: 06 December 2022

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director of Corporate Resources

Outline and recommendations

The purpose of this report is to:

- Note the draft Audit Findings Report 2021/22 from Grant Thornton following the external audit of the Council's Statement of Accounts and Pension Fund Accounts.
- Note the Auditor's Annual Report (VFM) 2021/22 from Grant Thornton
- Recommend delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

Lateness: This report was not available for the original despatch date as officers were delayed by the ongoing audit queries and the need to incorporate the latest audit changes into the documents now being submitted.

Urgency: It is important for the Audit Panel to take the report now as it will enable the audited accounts to be approved by Full Council on 18 January 2022.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if she is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. Summary

1.1. The purpose of this report is to present the draft Audit Findings Report 2021/22 from Grant Thornton, the Councils' external auditors, follwing their audit of the Council's Statement of Accounts and Pension Fund Accounts 2021/22.

1.2. The purpose of this report is also to present the Auditor's Annual Report (VFM) 2021/22.

2. Recommendations

2.1. The Audit Panel is recommended to note the contents of the report and approve delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

3. Policy Context

3.1. The report is consistent with the Council's policy framework, supporting the priorities set out in the Corporate Strategy 2022-26. It contributes towards all Council priorities thorugh effective management of finance.

4. Audit Progress Report

4.1. Grant Thornton, the external auditors for London Borough of Lewisham Council and Pension Fund will present their draft Audit Findings Report for 2021/22.

4.2. The recommendations, subject to review and agreement by management, will then be added to the action tracker for progress, with their implementation to be reported on as part of the Audit Panel standing agenda item.

4.3. This is included within Appendix A.

5. Auditor's Annual Report 2021/22

5.1. Grant Thornton, the external auditors for London Borough of Lewisham Council and Pension Fund will present the Annual Report for 2021/22. This covers the Value for Money (VFM) work required as part of the overall audit which was conducted by the auditors alongside completion of the Council's Statement of Accounts, Pension Fund Accounts and Annual Governance Statement audit.

5.2. The recommendations, which are accepted by management, will be added to the action tracker for progress, with their implementation to be reported on as part of the Audit Panel standing agenda item.

5.3. This is included within Appendix B.

6. Financial implications

6.1. There are no financial implications directly arising from this report.

7. Legal implications

7.1. There are no legal implications directly arising from this report.

8. Equalities implications

8.1. There are no equalities implications directly arising from this report.

9. Climate change and environmental implications

9.1. There are no climate change and environmental implications directly arising from this report.

10. Crime and disorder implications

10.1. There are no crime and disorder implications directly arising from this report.

11. Health and wellbeing implications

11.1. There are no health and wellbeing implications directly arising from this report.

12. Report authors and contact

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13. Appendices

13.1. Appendix A – Draft Audit Findings for London Borough of Lewisham and London Borough of Lewisham Penson Fund 2021/22

13.2. Appendix B – Auditor’s Annual Report on London Borough of Lewisham Council 2021/22

The Audit Findings for London Borough of Lewisham and London Borough of Lewisham Pension fund

Year ended 31 March 2022

December 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Transparency Committee].

Name : Paul Grady
For Grant Thornton UK LLP
Date : 6 December 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of London Borough of Lewisham ('the Council') and London Borough of Lewisham Pension Fund ('the Pension Fund') financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council and Pension Fund's financial statements give a true and fair view of the financial position of Council and Pension Fund and the Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced during September 2022 and is due to be completed by end of December 2022. Our findings are summarised on pages 6 to 25.

The overall quality of the financial statements continues to improve and at this stage we have identified less misstatements and presentational changes than the previous year. The Council remain on an improvement journey and the finance team are committed to turning responses to audit queries and requests for information around as quickly as possible. We have noted an improvement in response times from previous years, but delays are still occurring which continue to impact on the efficiency of the audit process.

We have identified adjustments to the Council's Financial position that are reported on page 35. These are immaterial extrapolated errors that are well below materiality levels. The Council has therefore decided not to adjust the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is still in progress. At this stage there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022;
- completion of our work on land and building revaluations;
- Completion of our work on group accounts;
- completion of testing on Pension Fund Investments and Journals;
- receipt and clearance of 7 queries on journals testing;
- receipt and clearance of 5 queries on creditors sample testing;
- receipt of and clearance of 5 queries on grant income sample testing;
- receipt and clearance of 2 queries for Property, Plant and Equipment Additions sample testing;
- receipt and review of assurance letters from the auditors of London Pension Fund Authority;
- receipt of the detail for 14 schools bank reconciliations;
- receipt of bank confirmations for 2 schools;
- responses to queries on the Cash Flow statement, the Expenditure and Funding Analysis, Reserves and Capital disclosures;

1. Headlines

Continued from prior page

Financial Statements

- completion of Senior Manager, Engagement Leader and Review Partner reviews and satisfactory resolution of any residual queries;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion for the Council and the Pension Fund will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance.	We have completed the our VFM fieldwork and are our report is now with management for discussion. Our findings are summarised on page 27, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit upon the completion of the Whole of Government Accounts work.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Panel.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not altered our audit plan, as communicated to you on 21 June 2022.

Conclusion

We are progressing with our audit of the Council and Pension Fund's financial statements and subject to outstanding matters set out on pages 3 to 4 being resolved, we anticipate issuing unqualified opinions following the publication of the statutory override relating to the accounting for infrastructure assets.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process.

2. Financial Statements

	Council amount planning (£)	Council amount final (£)	Group amount Planning (£)	Group amount Final (£)	Pension Fund amount planning (£)	Pension Fund amount final (£)
Materiality for the financial statements	17,200,000	16,500,000	17,300,000	16,770,000	16,000,000	17,000,000
Performance materiality	11,180,000	10,725,000	11,245,000	10,900,500	11,200,000	11,900,000
Trivial matters	860,000	825,000	865,000	838,500	800,000	850,000

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements, but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

For the Council and the Group materiality levels have reduced from the levels reported in our Audit Plan in June 2022. This is due to expenditure in 2021/22 was lower than the previous year.

For the Pension Fund, we revised materiality levels from those reported in our Audit Plan as a result of significantly increased gross investment asset values as at 31 March 2022.

We detail in the table our determination of materiality for the London Borough of Lewisham and Lewisham Pension Fund.

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2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council, Group and Pension Fund	Audit procedures undertaken in response to the identified risk included: • Evaluation of the design effectiveness of management controls over journals. • Analysis of the journals listing and determined the criteria for selecting high risk unusual journals. • Testing unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration. • Gaining an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. At the time of drafting this report, we have 7 queries remaining on journals. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Risk of fraud related to revenue recognition	Council, Group and Pension Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for the London Borough of Lewisham or London Borough of Lewisham Pension Fund. There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.6 billion) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2022. We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement. On 3 February 2022 CIPFA LASAAC launched a consultation on proposals for an update of the 2021/22 Code relating to the approach to measurement of operational property, plant and equipment. This consultation has now closed and CIPFA have confirmed no changes to the Code in respect of the valuation of PPE.	Council and Group	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Confirmed the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations. • Tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of pension fund liability The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£564million in the Council's balance sheet at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	Audit procedures undertaken in response to the identified risk included: • Updating our understanding of the processes and controls put in place by management to ensure that the pension fund net asset is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation. • Assess the accuracy and completeness of the information provided to the actuary to estimate the liabilities. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the reports from the actuary. • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Gained assurances over the validity and accuracy of assets, membership, contributions and benefits data sent to the actuary by the Fund. We have not identified any material misstatements in response to this risk. We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the LPFA pension fund liability balance. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of level 3 investments The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£154 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022.	Pension Fund	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes for valuing Level 3 investments. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments, to ensure that the requirements of the Code were met. • Independently requested year-end confirmations from investment managers and the custodian. • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period. • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert. • Where available, reviewed investment manager service auditor report on design and operating effectiveness of internal controls. As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
Completeness of non-pay operating expenditure and associated short-term creditors Non-pay expenditure on goods and services represents a significant percentage (55%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. In the prior year our sample audit testing identified payments that have been codded to the incorrect financial year. We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	Council	Audit procedures undertaken in response to the identified risk included: • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtained and test a listing of non-pay payments made in April, May and June to ensure that they had been charged to the appropriate year. Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k. In addition, to the above we identified one item value £2,176k where a payment was made in 2022/23 following arbitration of a legal dispute with contractor. The payment relates to the 2021/22 period and there was sufficient information at the year end to have accrued / provided for the payment. The item of expenditure is capital. The Council has amended for this misstatement.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note Infrastructure assets includes roads, highways, bridges and streetlighting. Each year the Council spends circa £5m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £109m which is over 6 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response	Council	Audit procedures undertaken in response to the identified risk included: • Reconciling the fixed asset register to the financial statements. • Considered the reasonableness of depreciation charge to infrastructure assets. • Obtained assurance that the Useful Economic Life applied to infrastructure assets is reasonable. • Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated. Our initial work identified that the Council has not been fully derecognising infrastructure assets upon replacement. This is consistent with other Council's. We are awaiting for CIPFA to issue an update to the Code of Practice on Local Authority Accounting to remove the requirement to report on Gross Book Value and Accumulated Depreciation for infrastructure assets. In addition, the Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition i.e. the statutory override. This will then allow us to complete our work in this area.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of Level 2 Investments While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances. • Independently requested year-end confirmations from investment managers and custodian. • Reviewed investment manager service auditor report on design effectiveness of internal controls. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.
Contributions Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Evaluated the Fund's accounting policy for recognition of contributions for appropriateness. • Gained an understanding of the Fund's system for accounting for contribution income and evaluated the design effectiveness of the associated controls. • Agreed changes in Admitted/Scheduled bodies to supporting documentation and agreed total contributions for each employer to employer contributions reports. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends were satisfactorily explained. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
Pension Benefits Payable Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • Gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls. • Tested a sample of lump sums and associated individual pensions in payment by reference to member files. • Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends were satisfactorily explained. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.
Actuarial Present Value of Promised Retirement Benefits The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation. • Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • Tested the consistency of disclosures with the actuarial report from the actuary. • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements – key judgements and estimates - Council

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Other Land and Buildings £1,105m Surplus Assets £61m	Other land and buildings which were revalued during the year comprise £972m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£132m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. The Council engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2022. 99% of total other land and buildings assets were revalued during 2021/22. All surplus assets except for £889k have been revalued in the year. However, the accounting standards require all surplus assets to have been revalued. The total year end valuation of land and buildings was £1,104m, a net increase of £39.4m from 2020/21 (£1,065m). This net increase arises from the valuation process in combination with additions to and enhancements of property assets during the year.	Our work on your property valuations is ongoing. • We have assessed management's expert, Wilks Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 99% of properties have been valued as at 31 March 2022. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. See results from the valuation testing on page 10.	TBC

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council dwellings valuations – £1,413m	The Council owns 13,699 dwellings in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer to complete the valuation of these properties. The year end valuation of Council Housing was £1,413m, a net increase of £20m from 2020/21 (£1,393m).	Our work on your property valuations is ongoing. At this stage: • We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2022.	TBC

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability– £564m

Summary of management's approach

The Council's net pensions liability comprising assets and liabilities relating to the London Borough of Lewisham Pension Fund and London Pension Fund Authority Local Government Pension Schemes together with unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. Barnett Waddingham are used for the London Pension Fund Authority Scheme.

The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.

Given the significant value of the net pension fund liabilities, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £207m in the overall net pension fund liability in 2021/22.

Audit Comments

- We have assessed the actuaries, Hymens Robertson, to be competent, capable and objective.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7% - 2.75%	
Pension increase rate	3.20%	3.15% – 3.30%	
Salary growth	3.90%	3.15 - 4.15%	
Life expectancy – Males currently aged 45 / 65	22.5 / 21.2	21.4 – 24.3 20.1 - 22.7	
Life expectancy – Females currently aged 45 / 65	25.5/23.8	24.8 -26.7 22.9 – 24.9	

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2021/22 valuation method.
- We have completed the same testing as above in relation to the Net LPFA pensions asset of £18.4m

Assessment

Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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2. Financial Statements - key judgements and estimates - Council

Page 22

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £609m credited to Service Income and £32m credited to Taxation and Non Specific Grants	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 not credited until conditions attached to the grant or contribution have been satisfied. The Council has credited £641m of grants to the Consolidated Income and Expenditure Statement in 2021/22. The Council has received a number of Grants and Contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if not spent. The balances at the year-end for these grants is £26m. The Council acts as an Agent for Central Government in respect of the majority of Business Rates Grants that are used to support business during the current Covid pandemic. These grants are distributed by the Council from central government and therefore do no not appear in the Consolidated Income and Expenditure statement.	• We are satisfied with all the other grants tested that the Council's judgement on whether the Council is acting as the principal or agent which determines whether the authority recognises the grant at all. • Our sample testing has concluded that we are satisfied with the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. • We are satisfied over the allocation of the grants between specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES.	Light Purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £13.7m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. The year end MRP charge including the repayment of principal on PFI schemes was £13,639k, a net increase of £580k from 2021/22.	• The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance. • The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance. • The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Strategy in March 2021. • The level of increase in the MRP charge is reasonable in the context that there has been little change in borrowing during the year.	Light Purple

Assessment

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- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	The Pension Fund has investments in Overseas Hedge Funds and Overseas Venture Capital that are valued on the net assets statement as at 31 March 2022 at £153m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2021 which are audited. The value of the investment has increased by £14m in 2021/22, due to a combination of purchases, sales and changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2021. • We have assessed the consistency of the estimate against peers and industry practice. • We have reviewed the reasonableness of the increase in the estimate. • We have assessed the adequacy of disclosure of estimate in the financial statements. Our work on Level 3 valuations is still in progress.	TBC

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,502m	The Pension Fund has investments in pooled equity, bonds, private equity and property funds that in total are valued on the balance sheet as at 31 March 2022 at £1,502m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investments have increased by £150m in 2021/22, largely driven by changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate. • We have assessed the consistency of the estimate against peers and industry practice. • We have reviewed the reasonableness of the increase in the estimate. • We have assessed the adequacy of disclosure of estimate in the financial statements.	TBC

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council and Fund, which is included in the Audit Panel papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. We have received responses from all counterparties. We are still awaiting responses in relation to two schools bank accounts.
Accounting practices	We have evaluated the appropriateness of the Council's and Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on pages 3 to 4 which, as at the date of writing, have not yet been provided. Whilst there has been an improvement in the timeliness of responses to audit queries and requests for supporting information, we are still encountering delays which continues to impact on the length of time it takes to deliver the audit. We are also undertaking significant work to follow up the various recommendations and control findings included in last years report. The financial statements were published and a full suite of supporting working papers was provided to the audit team prior to the commencement of the audit.

2. Financial Statements - other communication requirements

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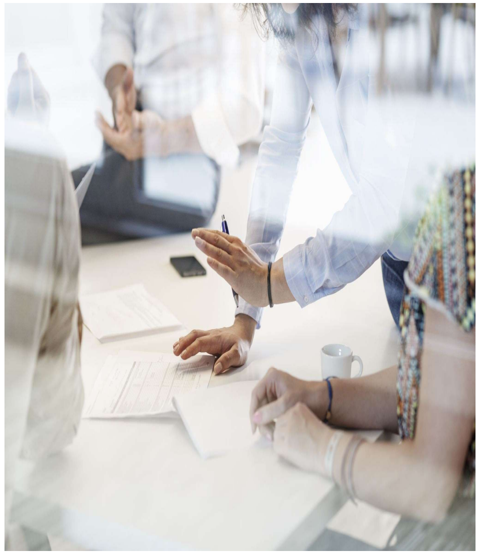
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and Pension Fund and the environment in which it operates • the Council and Pension Fund's financial reporting framework • the Council and Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Our work is limited as the Council does not exceed the £2billion audit threshold. At the moment we cant deliver this work as HM Treasury guidance has not been issued.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of London Borough of Lewisham Council in the audit report, as detailed in Appendix E, due to the Whole of Government Account return has yet to be completed. We also need to complete our review of the final Pension Fund Annual Report.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

3. VFM - our procedures and conclusions

We have completed the our VFM fieldwork and are our report is now with management for comments. Our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Subject to finalisation, we have not identified any risks of significant weakness We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers [and network firms]). In this context, we disclose the following to you:

- We become aware that a former GTUK employee did not inform us of his family connection to Lewisham Council. The individual became a consultant for GTUK on 8 May 2018 and subsequently became an employee of GTUK on 1 July 2021 and left in February 2022. The individual was obliged, under their consultancy terms and as part of their employment contract, to disclose to GTUK any connections they or their family might have with any audit clients of GTUK. However, the individual did not disclose that their partner works, or worked, at Lewisham Council.

  We have considered whether this gave rise to any form of independence issue as regards the 2020/2021 and 2021/2022 audit and have concluded that it did not. The Public Sector audit team that conducted the audit of Lewisham Council had no connection with the individual, who only carried out counter fraud investigations on non audit NHS bodies and had no wider connections with the GT London audit team. We are therefore informing you of this as a courtesy and to make you aware of the issue and the fact that it has been resolved.

- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 (grantthornton.co.uk)]

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit Assurance Process	34,926	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £34,926 in comparison to the total fee for the audit of £253,289 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £253,289 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £253,289 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	Whilst preparing the financial statements officers identified that the balance on the Consolidated Income and Expenditure Statement did not equal the difference in reserves between 31 March 2021 to 31 March 2022. A correction journal of £2,286k was performed to ensure that the accounts balanced.	The Council should investigate the how this initial imbalance arose.
	Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k.	Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates
	The Council has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register.	The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.
	Within our testing of operating expenditure on repairs and maintenance charges on Council dwellings we identified that there is no formal documentation between the Council and Lewisham Homes to confirm the nightly call out capped charge rates.	Implement a formal agreement setting out nightly capped call out charges for repairs and maintenance jobs undertaken by Lewisham Homes.
	The Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance is £2.7m.	The Council need to complete their work on reconciling the Exacom system with the ledger.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our testing of IT General Controls identified the following findings which have been reported in detail to management: • Insufficient evidence over the completeness and accuracy of data migration of the payroll system. • Absence of formally approved project related documentation. • Lack of formal approval by management on IT policy. • Lack of formal review of audit logs.	Our It team have followed up the prior year recommendations and were satisfied that they had been implemented.
In progress	Our review of your fixed asset register identified 123 assets that have a Net Book Value of nil. You should undertake an exercise to verify that these assets still exist. If the Council are still using the assets they will need to determine whether the current depreciation policy is appropriate.	The Council has undertaken this exercise and has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register. The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.
✓	The school bank account reconciliations provided to audit were not reconciled to the bank statement as at 31 March 2021. There was a subsequent delay in providing the audit team with appropriate year end reconciliations. Our review of the Eurobank reconciliation also identified a trivial unreconciled difference of £7,082 between the trial balance and the ledger which management have not been able to explain.	The schools bank accounts have been reconciled to 31 March 2022. The Eurobank account had been reconciled as at 31 March 2022.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Our review of the bank reconciliation for the image pay bank payment account identified several cheques that are over 6 months old which have not been stopped. These should be stopped and written back.	The number of cheques which are older than 6 months has reduced since last year. However, there are still 6 cheques of total £1,027.19 dated back to 2020 which are appearing in the bank reconciliation as unpresented cheques.
In progress	You had difficulties in providing us with evidence to support the accounting entries within Receipts in Advance and Creditors associated with your Section 106 agreements.	You provided us with sufficient evidence to support the Section 106 agreements selected for sample testing. We were satisfied that the Section 106 agreements had been correctly accounted for. However, the Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance is £2.7m.
✓	During our walkthrough of the schools expenditure process we identified that there is currently no reconciliation between the school finance reports used to journal the data in to the ledger and the source data (i.e. bank reconciliation or the school payroll reports).	Our 2021/22 walkthrough of schools expenditure proved that this reconciliation is now in place.
Work in progress	Our review of 20/21 starters identified that HR were not receiving signed contracts from new employees.	We have requested 13 contracts for officers that started working for the Council during the year. The Council were able to provide 12 contracts, but are currently unable to find the last one.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations Pension Fund

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.	The Pension Fund's Custodian Northern Trust have agreed to amend the data they provide so that it is in line with the Oracle coding structure. Following the resolution of several queries we were able to reconcile the trial balance into the pension fund financial statements.
✓	Our testing of Admitted and Scheduled bodies monies identified an absence of monthly reconciliations of remittances made by admitted and schedule bodies to expected receipts and to posting on the ledger. In addition, there was no reconciliation of monthly payroll contribution data from the Administering Authority (Council) to posting in ledger	The Fund now reconciles remittances and monies received from the Admitted and Scheduled bodies to receipts posted to the ledger. Reconciliations have been undertaken from contributions payable from the payroll system to the ledger.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Consolidated Income and Expenditure Account £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Income from Council Tax included £1,000k that was Non Domestic Rates income. This is a classification error on the front of the Consolidated Income and Expenditure Statement.	Dr Income from Council Tax 1,000 Cr Non Domestic Rates Income and Expenditure 1,000	0	0
Business Rates S31 and Growth (from 2020/21) £1,009k was incorrectly classified in Non Domestic Rates Income, whereas it should be part of Recognised Capital Grants and Contributions. This is a classification error on the front of the Consolidated Income and Expenditure Statement.	Dr None Domestic Rate income 1,009 Cr Recognised Capital Grants and Contributions 1,009	0	0
Our bank cut off testing identified one payment of £2,176k made in 2022/23 following arbitration of a legal dispute with contractor. The payment relates to the 2021/22 period and there was sufficient information at the year end to have accrued for the payment. The item of expenditure is capital.		Dr Property Plant and Equipment 2,176 Cr Capital Creditors 2,176	
Overall impact	Nil impact on bottom line of CIES	2,176	0

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C. Audit Adjustments Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Management Response	Adjusted?
Paragraph 3.5.5.1 of the CIPFA Code states that the total value of the land, houses and other property which includes assets under construction is a statutory disclosure in the HRA accounts. As such, we have challenged management on their omission of the assets under construction class. Management have agreed that including the assets under construction figure would bring it in-line with the Code. They have agreed to update the table to include balances for Assets Under Construction, being £59,622k and £27,929k respectively.	Management have agreed to amend the disclosure note.	✓
The Housing Revenue Account (HRA) Movement in Reserves Statement (MIRS) is inconsistent with that in the Core Movement in Reserves Statement. Management confirmed that the HRA MIRS will be amended to bring it in line with the core MIRS.	Management have agreed to amend the disclosure note.	✓
In Collection Fund, the value for Contributions from previous year in NNDR Colum for Greater London Authority (GLA) has been shown in the row for Central Government and vice versa. The correct value for GLA is £13,393k and for Central Government is £11,955k.	Management have agreed to amend the disclosure note.	✓
In Note 12a, the amount of Long Term debtors shown is £57,911k and short term debtors shown is £37,386k which is not matching with Note 14 with long term debtors of £59,520k and net Short Term Debtors is £67,505 (including financial instrument of £35,776k and the remaining amount of £31,729k). Adjustment from this also impact on note 12b.	Management have agreed to amend the disclosure note.	✓
In Note 12a, the amount of Short Term Investment of £275,247k and Cash & Cash equivalent of £174k shown under Financial Assets at Amortised Cost needs to be updated to match the balance sheet figures. Similarly, the same needs to be updated in Note 12d as well.	Management have agreed to amend the disclosure note.	✓
Note 31 Related parties transactions with companies. Income from Lewisham Homes needs amending from £10,814k to £12,045 to take into account interest. The Lewisham Homes debtors and creditors figures needed amending to £4,036k and £8,295k.	Management have agreed to amend the disclosure note.	✓
Note 23 There is a classification misstatement of £9m within note 23. Fees and charges decrease by £9m and Government grants and contributions increase by £9m. In note 30 other grants increase from £42,619k to £51,619k.	Management have agreed to amend the disclosure notes.	✓
Narrative report page 13 the prior year pension fund valuation figure states the liability increased by £242.8m during 2020/21" but on the prior year it states "pension reserve shown on the Balance Sheet has increased by £252.6m during the year". The £252.6m is the correct figure.	Management have agreed to amend the disclosure notes.	✓

C. Audit Adjustments Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our bank cut off testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for . The extrapolated error is £2,170k	0	Dr Property Plant and Equipment additions 2,170 Cr Capital Creditors 2,170	0	The misstatement is an extrapolation that is well below materiality levels.
Our testing of Section 106 payments identified 3 amounts total value £1,314k that were classified as reserves whereby the time limit to use the payment has yet to expire. So this should be included within Receipts in Advance. The extrapolated error was £1,609k	0	Dr Section 106 earmark reserves 1,609 Cr Receipts in Advance 1,609	0	The misstatement is an extrapolation that is well below materiality levels.
Overall impact	0	0	0	

C. Audit Adjustments Council

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

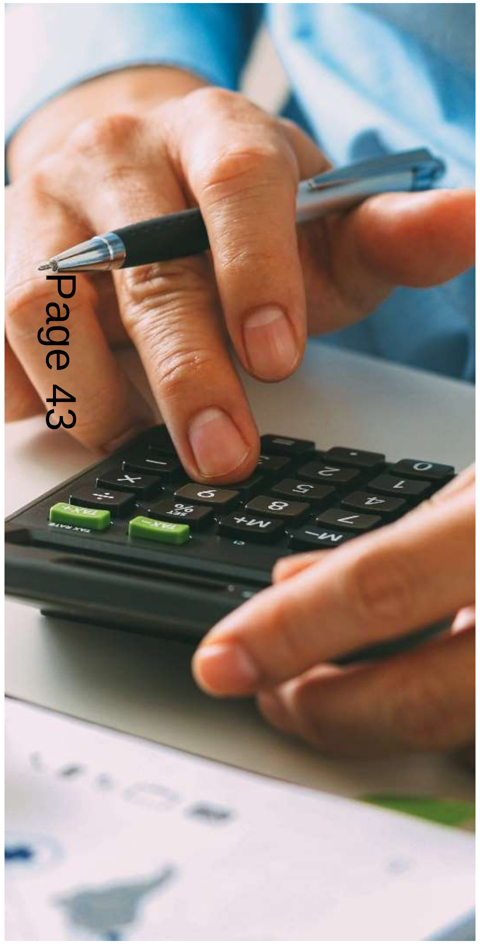
Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Our testing from bank payments made identified 3 payments total value £537k made in April and May 2021 that related to 2020/21 had not been appropriately accrued for. The extrapolated error from our testing was £5,078k. This and estimated error and is not material and so management have taken the decision not to adjust the financial statements	Debit Gross Cost of Services 5,078	Credit Creditors 5,078	Amendment is based on an estimated extrapolation and is well below materiality levels.
Our testing of Property Plant and Equipment revaluations identified 3 assets whereby the Gross Internal Area of the assets used in the valuation did not agree to the documentation supplied to substantiate the areas. We extrapolated the misstatement and the impact was to increase Property Plant and Equipment Balances by £1.2m with an associated increase in the revaluation reserve.		Debit Property Plant and Equipment 1,219 Credit Revaluation Reserve (1,219)	This is an extrapolated misstatement and is not material.
Our testing of 16 Receipts in Advance identified the following issues: • 3 items where insufficient information audit evidence was provided to support the balance • 1 item incorrectly contained interest that overstated the receipt in advance • 1 item was held as a receipt in advance when the deadline to use the receipt had expired. The amount was due back to the developer so should have been recorded as a creditor. The total impact of these errors is set out opposite	Cr Income (880) (£752k extrapolated and £128k actual)	Dr Receipts in Advance 3,150 (£3,022k extrapolated and £128k actual) Dr Debtors 752 (extrapolated) Cr Creditors (1,745) (actual) Cr Cash (1,278) (extrapolated)	Total Error of £3,902k. £128k is an actual error not adjusted as it is trivial and £3,774k is based on an extrapolation and is not material.

C. Audit Adjustments Council

Impact of prior year unadjusted misstatements continued

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Our valuation testing of Lewisham Homes Limited dwellings in the group accounts identified two assets where the information provided to the valuer was not used. This has resulted in one asset being understated by £667 and one asset being overstated by £30,971 The total extrapolated error through the valuation of dwellings is £422,565 which is trivial.		Credit Group Property Plant and Equipment (423) Debit Group revaluation reserve 423	This is an extrapolated misstatement and is not material.
From our sampled valuation testing of the Catford Regeneration Partnership Limited investment properties we identified one asset where the information provided to the valuer was incorrect. This resulted in the asset being understated by £48,100. The total extrapolated error is £425,702.		Dr Group Investment Property 426 Credit Group Revaluation Reserve (426)	This is an extrapolated misstatement and is not material.
Overall impact	4,198	4,198	

C. Audit Adjustments Pension Fund



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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022. There are currently no unadjusted misstatements.

Detail	Fund Account £'000	Net Assets Statement £' 000
Comparing the financial statements to the ledger identified the following misstatements: • Contributions were overstated by £9,323k • Other income was understated by £37k • Transfer values out overstated by £9,273k • Change in market value of investments understated by £14k	Dr Contributions 9,323 Cr Other income 37 Cr Transfer Values Out 9,273 Cr Change in market value of investments 14	Nil impact
Overall impact	Nil	Nil

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C. Audit Adjustments Pension Fund

Disclosure omission	Management Response.	Adjusted?
The prior year figures for investments on the Net Asset Statement were incorrectly restated to align to investment categories for 21/22. The total investment amount remains unchanged. The Investment balances need to be amended to report the prior year audited figures	Management have agreed to amend the prior year investment balances.	✓
Note 24a: Two scheduled bodies: Rathfern and Rushey Green have been omitted from the pension fund account.	Management have agreed to update the note.	✓

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

The fees reconcile to the financial statements.

Audit fees	Proposed fee £	Final fee
Council Audit	253,289	TBC
Pension Fund audit	38,008	TBC
Total audit fees (excluding VAT)	291,297	TBC

Non-audit fees for other services	Proposed fee £	Final fee
Housing Benefit Assurance Process	34,926	TBC
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,000	TBC
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	TBC
Total non-audit fees (excluding VAT)	47,426	TBC

E. Audit opinion Council

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of London Borough of Lewisham (the ‘Authority') and its subsidiaries (the ‘group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Account, Housing Revenue Account Statement Movement in Reserves Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow 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 group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's 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 group and 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 Executive Director for Corporate Resources' 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 or group'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 or the group to cease to continue as a going concern.

In our evaluation of the Executive Director for Corporate Resources' 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 and group'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 group and 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 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 group and Authority and the group and Authority's disclosures over the going concern period.

E. Audit opinion Council

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 or the group'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.

In auditing the financial statements, we have concluded that the Executive Director for Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Executive Director for Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, Executive Director for Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director for Corporate Resources is responsible for the 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. 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.

In connection with our audit of the financial statements, 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 and our knowledge of the Authority, 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

Responsibilities of the Authority, the Executive Director for Corporate Resources and Those Charged with Governance for the financial statements

As explained 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 Executive Director for Corporate Resources. The Executive Director for Corporate Resources 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 Executive Director for Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Council

In preparing the financial statements, the Executive Director for Corporate Resources is responsible for assessing the Authority's and the group'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 there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit Panel is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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.
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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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 group and 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 (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Government Act 1972,the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), the Local Government Finance Act 2012, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Panel, concerning the group and 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 senior officers, internal audit and the Audit Panel, 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 Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' 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:
  - 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
  - accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet

E. Audit opinion Council

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director for Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of the defined benefit pensions asset valuations;
  - 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.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined pensions asset.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's 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 and group 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 and group'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 and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

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.

E. Audit opinion Council

We have undertaken 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 documented 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 commentary in our Auditor’s Annual Report. In undertaking our work, we have considered 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 Lewisham 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 the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work 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 43 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:

Paul Grady, Key Audit Partner

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

London

Date:

E. Audit opinion Pension Fund

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

Opinion

We have audited the financial statements of Lewisham Pension Fund (the 'Pension Fund') administered by London Borough of Lewisham (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 Executive Director of Corporate Resources' 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 Executive Director of Corporate Resources' 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.

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

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

The responsibilities of the Executive Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion Pension Fund

Other information

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's 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.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund 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 Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter 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 and our knowledge of the Pension Fund, 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, the Executive Director of Corporate Resources and Those Charged with Governance for the financial statements

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 Executive Director of Corporate Resources. The Executive Director of Corporate Resources 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 Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Pension Fund

In preparing the Pension Fund's financial statements, the Executive Director of Corporate Resources 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 there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Panel is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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 (international accounting standards as interpreted and adapted by 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 senior officers and the Audit Panel, 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 senior officers, internal audit and the Audit Panel, 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 officers' 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:
  - 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's financial position, and
  - accounting estimates made in respect of the valuation of investment assets

E. Audit opinion Pension Fund

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, including directly-held investments in property and the IAS 26 pensions asset valuations;
  - 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.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, the significant accounting estimates related to the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions asset valuation.

- 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.

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 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

E. Audit opinion Pension Fund

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.

Paul Grady, Key Audit Partner

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

London

[Date]

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Grant Thornton

Auditor's Annual Report on London Borough of Lewisham Council

2021/22

6 December 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔

No significant weaknesses in arrangements identified or improvement recommendation made.

No significant weaknesses in arrangements identified, but improvement recommendations made.

Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Overview

Overall the Council has demonstrated robust arrangements across all three areas of focus of the Value for Money work (Financial Sustainability, Governance and the 3E's). Appendix B highlights the three types of recommendation that can be raised as a result of the findings of the review, statutory, key and improvement recommendations. No weaknesses have been identified in the Council's arrangements which would lead to raising the most serious recommendations. Some improvement recommendations have been highlighted in our work and these represent suggestions of ways the Council may achieve best practice as opposed to correcting poorly performing arrangements. The Council should take comfort from the fact that arrangements are deemed to effectively respond to the challenges the Council has faced in 21/22 including responding and recovering from the pandemic and uncertainty in relation to future funding levels. There is a clear drive for improvement at the Council which has been demonstrated via the greater level of collaboration and communication being observed at all levels of the organisation and therefore although the Council faces future uncertainties, particularly financial, the arrangements in place prepare them well for the challenge.

Financial sustainability

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Finance remains at the forefront of both the Sector, and the Council's attention as future finding sources remain uncertain and the impact of Covid-19, the cost of living crisis and inflation is forecast to increase expenditure significantly. The Council reported a small overspend for 21/22 of £0.5m, after the application of Covid-19 funding from central government to fund specific pressures relating to the pandemic. This performance is in line with the prior year where a small overspend was also reported. Within this position Adult Social Care and Children's Social Care continue to be the services with the largest overspends. The Council has engaged external consultants to assist in realising savings and efficiencies in Adult's Social Care with aim of reducing overspends in the medium term, with Children's Social Care likely to be a focus of future years. This work remains ongoing and is expected to complete in 22/23, although it will take time for the actions taken as a result of this work to embed and impact the services financial position.

The Council has set a balanced budget for 22/23 in line with legislation, with a net budget position of £248.610m. The majority of the assumptions used in developing this position are realistic with the exception of inflation which is deemed to be optimistic. The Council has mechanisms in place in order to review the budget and make amendments throughout the 22/23 year. We would expect to observe amendments given inflation has continued to increase in excess of the rates at the time of the budget being set, to ensure the budget remains balanced this may also see changes to savings required or use of reserves unless additional funding is provided by central government to support the cost (currently there are no communications which support this potential solution).

The Council continues to forecast a financial gap in the medium term, which stands at £36m for the period to 26/27. Some savings have already been identified which has reduced the original gap and the Council have already begun acting on a number of initiatives in order to address the remaining gap.

Savings performance remains an area of challenge for the Council. Undelivered 20/21 savings were rolled forward to 21/22 which resulted in a total savings target of £30.7m. 44% of these savings were undelivered, including some of those also undelivered in 20/21. This has resulted in further rolled forward savings into 22/23 and therefore increases financial pressure into future years. The Council relies heavily on the Community Directorate to deliver its savings target, Adult Social Care which sits within this directorate was the overriding cause of the non-delivery, although non-deliver was seen in other services and directorates. Slippage was , in part, due to officers needing to focus on post-pandemic recovery. Work currently being undertaken with external consultants is aiming to address this issue. Although the cause is suggested to be demand led pressures there are some areas of very high comparative unit costs which should be targeted in reducing the costs of this service. The expectation is that the consultant led work will focus on addressing both cost and demand side factors.

Although we have raised some improvement recommendations in our work we have not identified any weaknesses in the Council's arrangements for securing financial sustainability.

Executive summary

Governance

The Council's governance arrangements have remained largely unchanged from the prior year and therefore our work has focussed on gaining a deeper understanding in some specific areas of arrangements – risk management, financial monitoring, budget setting and compliance and regulation. Arrangements reviewed in the prior year continue to be fit for purpose and our work has not identified any weaknesses in existing, or updated arrangements. Some improvement recommendations have been suggested, however these are aimed at developing best practice arrangements as opposed to correcting any significant issues.

In terms of risk management there have been some minor changes to the Strategic Risk Register but further improvements are expected in arrangements in 22/23 with the development of a new Risk Management Strategy currently in progress. The Council continues to be supported by Internal Audit in ensuring risk management is effective. Internal Audit have been unable to complete their Audit Plan for 21/22 however, sufficient work has been completed to enable the Head of Internal Audit Opinion to be provided. This opinion was one of positive assurance and therefore supports our view of the appropriate governance arrangements being in place.

Furthermore the Council took part in the Local Government Association Peer Review in year which assessed the Council's governance, culture and strategic performance. Although this provided some recommendations for the Council to consider in order to demonstrate best practice the review overall was complimentary, particularly in relation to the Senior Leadership Team's management of the Council. Again this supports our conclusion that arrangements in relation to governance for 21/22 are effective.

Improving economy, efficiency and effectiveness

The Council has demonstrated its commitment to its development journey and has demonstrated this in 21/22 through its focus on Adults and Children's Social Care. The Council has undertaken extensive benchmarking on Adults Social Care and is now starting to look at Children's Social Care in order to identify opportunities for savings and efficiencies. To ensure that these opportunities identified in Adults Social Care can be taken advantage of and translated into tangible actions the Council has sought support from an external consultancy and although that work remains ongoing progress to date on the expected savings is positive. The Council continues to effectively monitor the progress and outcome delivery of that project effectively. The Council will then focus on addressing potential opportunities in Children's Social Care and Special Educational Needs (SEND). Given the success of the deep dive and day-to-day benchmarking in these two services the Council may be able to identify further opportunities by extending their benchmarking activities to other directorates and service lines.

The Council have updated the way in which they monitor operational performance within their directorates, using a KPI dashboard approach, to highlight trends in performance against target for key metrics which allows action to be taken in a timely manner. These updates have been positive and ensure that directorates and Executive staff have good oversight of the operational performance that can directly impact finances. Members still have limited oversight of the KPI dashboard and this would be an improvement going forwards.

Like the governance, there are limited changes from the prior year, but we have not noted any weaknesses in the Council's arrangements to secure economy, effectiveness and efficiency and only improvement recommendations have been made.

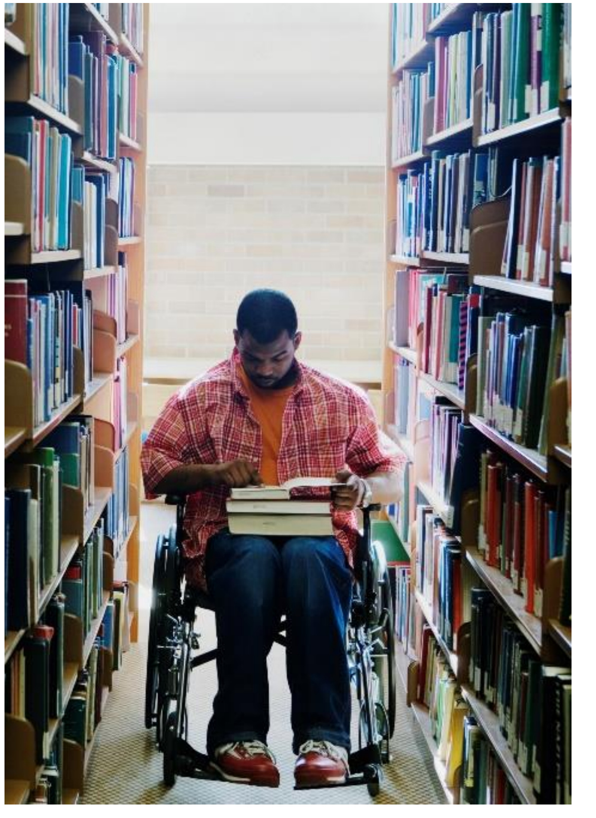
Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	We are still undertaking our audit of your financial statements. At this stage we expect to issue an unqualified audit opinion. Our draft Audit Findings Report will be presented to the Audit Panel on 6 December 2022. The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022. We therefore expect to issue our audit opinion early in 2023.
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	No such issues identified
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	No such issues identified
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	No such issues identified
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	No such issues identified
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	No such issues identified

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.



Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 36

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

21/22 Financial Position

For 2021-22, the Council narrowly missed the balanced budget set prior to the start of the financial year. The Council-wide outturn for General Fund activities was an overspend of £25.7m. This position consists of Covid related expenditure or income foregone of £25.2m which was met entirely by Covid grant funding, leaving a business-as-usual remaining overspend of £0.5m. This demonstrates that the Council has been heavily impacted by the pandemic but that it was able to sufficiently fund this through application of the grants received from central government, therefore there is a sufficient level of control of the underlying financial position. The remaining overspend is not deemed to be significant enough to suggest a weakness in the Council budget management arrangements as it represents only 0.2% of the planned net budget requirement of £243.1m for 21/22 and therefore unlikely to exert significant pressure on the future financial viability of the Council.

In line with prior years the largest overspends in specific services within the 21/22 outturn position are in Children's Social Care (£5.2m) and Adults Social Care (£4.5m), this is a common picture across the sector. These services are an area of focus for the Council and having undertaken targeted benchmarking to highlight where potential opportunities for savings and efficiencies can be taken advantage of the Council are now working with an external consultancy to assist in realising the opportunities in Adult's Social Care with work to realise efficiencies in Children's Social Care and updating systems being prioritised in future years. Work remains ongoing but the use of external expertise to support the transformation effectively responds to our recommendation in our prior year VFM work suggesting that the Council should prioritise the completion of reorganising social care work and the system used by those staff.

Resource from the external consultant has been used to provide the necessary capacity and capability to deliver strategic transformation on the scale required to effect the necessary changes. This change programme within Adult Social Care is known as Empowering Lewisham. The Design and Implementation phase of Empowering Lewisham is nearing completion and has included new ways of working, the transformation and reconfiguration of services and the transfer of sustainable skills and knowledge to staff. The IT systems that support Adult Social Care have been upgraded and this has resulted in better oversight of expenditure to date.

Looking forwards the Council will receive additional financial support targeted at these services specifically with the 22/23 Local Government Settlement confirming that all existing funding streams have continued to be provided for 22/23 with two new funding streams announced - the Market Sustainability and Fair Cost of Care Fund and the Services Grant. The government expects these funding streams will support councils to meet the extra cost and demand-led pressures to keep providing services at pre-pandemic levels and therefore are targeted at Adult Social Care and Children's Social Care which are demand-led in nature.

22/23 Budget

For 2022/23, in line with legislation, the Council has set a balanced budget which was made up of a General Fund budget expenditure requirement of £248.610m matched with funding from a variety of expected sources.

The Council developed the 22/23 budget using a 'roll forward' approach utilizing the prior year budget assumptions and updating for known changes in expenditure and funding. This roll forward approach is a well-established methodology applied at the Council and across the sector. An alternative budgeting approach would be zero based budgeting, where the budget is developed from scratch with no prior year information used. As noted in our Governance work although this does provide the opportunity for a full review of costs and could generate additional efficiencies yet to be identified, the approach is significantly more time consuming and resource intensive and therefore is not practical for the Council. Given the overspends reported in Adult Social Care and Children's Social Care this approach could be beneficial if targeted towards those services however, given that work is in progress with Adult's Social Care with external consultants, we believe the outcome of that work may need to embed before any further changes to budgeting are considered so as not to overwhelm staff in those services and allow change to take effect.

We would expect the Council to review and update assumptions in relation to key sources of funding (from Council Tax, Business Rates, fees and charges and grants), key sources of expenditure (inflation, adult social care and pay), savings and efficiencies and reserves each year during the budget setting process. Review of the budget and Medium Term Financial Plan (MTFP) has noted that each of these has been considered and updated in line with expectations.

The funding assumptions were all in line with expectations and deemed to be realistic based on the information available at the time the budget was produced. Council tax was set at the maximum permissible amount of 2.99% (1.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 1% increase for the social care precept) is appropriate as this remains the most stable and predictable form of income within the local government sector and therefore the Council is seeking to maximise the benefit of this income stream. All grant income included in the budget is as per the local government settlement announcement and fees and charges have been increased between 3-10% as a result of a full review (except for those fees set by statute). The increase in fees and charges to maximize a key income stream has been balanced with Council priorities and the requirements of legislation.

In relation to expenditure assumptions in the budget inflation, pay and social care costs are those area we would expect to have the largest impact to the spending power of the Council, and all have been sufficiently considered and updated. The Council has budgeted for a non-pay inflation rate of 3% per annum to reflect the Council's commitment for contracted goods, works and services and equates to approximately £2.7m (net) in 2022/23. This is lower than the forecast Consumer Price Index (CPI) inflation rates for 2022 of 4.6% available at the time of budgeting, with inflation having continued to increase since the budget was set (Inflation CPI 8.6% at August 22). Therefore, there is a potential budget shortfall as a result of underestimating inflation at the time the budget was set of approximately £1.5m based on the 1.6% difference, this shortfall is expected to be much larger now knowing that inflation has continued to increase. The Council has identified £21.3m of pressures within the 22/23 budget which have been fully funded, this includes £6.5m of risks and pressures including inflation. As such the contingency for inflation within the budget is appropriate based on the inflation figures at the time of the budget being produced but will not cover the ever-increasing rates seen in 22/23. Another topical area of challenge across the sector we would expect to be planned for are rises in energy prices. £1.4m has been set aside within the budget under the 'Greener Lewisham' agenda to address this pressure.

Similarly, the Council has included 2% per annum average pay inflation increase within the budget, which is based on the historic pay increases and the Bank of England's target inflation rate. This is also considered optimistic and therefore our recommendation covers both pay and non-pay inflation. There has been a long-standing real term pay freeze across government, of which many government bodies (including the Council) have received pressured on lifting due to rising costs, this factor along with the rising inflation rates noted causes us to believe that the 2% assumption is not sufficient.

The budget setting process is a 'live' approach, where the budget assumptions are continuously reviewed throughout the year via the budget monitoring reports and informal meetings between Finance and the Directorates and so mechanisms are already in place to make updates for key assumptions in inflation where these have been underestimated during the budget setting. To ensure the budget remains balanced this may also see changes to savings required or use of reserves unless additional funding is provided by central government to support the cost (currently there are no communications which support this potential solution). The budget monitoring reports for 22/23 to date demonstrate that methods such as corporate budgets being released and reserves will be used to fund the additional pay award and inflation pressures identified ensure the year end outturn position can be protected.

The Council have a Public Accounts Select Committee (PASC) whose role is to review and how the Council manages and uses money, having a committee with this specific remit ensures that there is scrutiny of finances throughout the year with advice provided to Mayor & Cabinet as required. Having this specific committee set up for finances then allows the Council's Overview & Scrutiny Committee to focus on a wider range of cross cutting issues without taking away resource from reviewing finances regular, which is a priority for the Council and the Sector. Discussions with officers also confirms that regular informal meetings occur with the Overview and Scrutiny Committee to review financial performance and savings as they are developed at budget setting. Scrutiny and challenge of finances, especially on an ongoing basis, is even more important in 22/23 and beyond given the uncertainty in funding streams and escalating assumptions such as inflation and there is evidence the Council has strong mechanisms in place to support this review.

Medium Term Financial Plan (MTFP)

The Council continues to update its MTFP annually during the budget setting process for the next year. This involves updating for the future funding landscape (known or forecast) and estimating future expenditure forecasts using 22/23 budget as a baseline. In addition, there has been analysis undertaken on expected risks and pressures and these have been incorporated into the budget and MTFP.

The Council has identified an estimated budget gap of £36m over the next four years (2023/24 to 2026/27). The current base case assumptions produce a profile of £10m, £10m, £8m, and £7m in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four-year budget gap down by £19m or up by £17m from the base case of £36m. In the prior year we recommended that the Council needed to further develop their scenario planning, sensitivity analysis and stress testing, there is a clear increase in the detail and analysis used to develop these scenarios in the MTFP since the prior year and so our recommendation has been effectively responded to.

The Council have already begun acting on a number of initiatives in order to address the medium-term gap. These include the work currently underway with external consultants to realise savings and efficiencies in Adults Social Care. The Council has also undertaken benchmarking with similar Councils to identify other areas where they have comparatively high costs, these have been identified as learning disabilities, younger adults and those with Mental Health challenges. Root cause analysis has highlighted that the Council has not spent enough on prevention such as enablement services, and therefore has incurred additional spending on these areas in the medium-term.

The MTFP includes £11.8m budget cuts for 2022/23 and £3.6m for 2023/24. These were predominantly identified in the 21/22 budget setting process and have been reviewed by officers to confirm they remain deliverable. We have reviewed savings and budget cuts within the budget and reviewed these against the Corporate Plan. We are satisfied that the cuts and savings do not cause the Council to deviate from its priorities and represent delivering services different for the benefit of service users as opposed to removing or reducing services.

Budget reductions are identified each year through the budget process with the £11.8m being made up of £10.4m identified in 21/22 and the remainder identified as part of the 22/23 budget process. We would expect the identification of budget cuts to continue as part of the 23/24 process and MTFP update to close the future gaps. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention to continue to use the targeted key service led approach and to seek efficiencies as set out in the report to developing future budget reduction proposals. This will involve EMT and Senior Leadership Team (SLT) working to develop draft officer proposals to be put to Members for scrutiny. All services are a part of this process.

Overall, there is a timely, ongoing and comprehensive approach to the budget gaps identified from our discussion with officers however there is limited evidence of any formal action plan provided to members to detail these actions being taken and allowing them to monitor progress.

Improvement Recommendation – the Council has developed 'worst case' scenario forecast as part of the MTFP and would benefit from developing actions that could be taken, at a high level, to respond should that scenario occur and communicate this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.

Given the fact that employees are a significant cost to the Council and inflation, pay awards and National Insurance changes are expected to have an impact on these costs in 22/23 and beyond we would expect that the Council to have developed a Workforce Plan or Strategy that details the future expectation of the establishment based on Council priorities to help inform the budget. We have not been provided with any evidence of any such plan in our work, budget holders do have access to establishment information from the HR and Payroll systems which allows delivery plans and staff costs to be reconciled, however this is based on current establishment and is not forward looking in nature. In addition, the establishment information that the system provides is only one aspect of a workforce strategy and therefore other important aspects such as planning for hierarchy, team sizes, skills and skill mix requirements and demand is not currently available in one forward looking plan.

Improvement Recommendation - We recommend that a Workforce Plan or Strategy is developed covering all aspects of the future workforce required for the Council to fulfill its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.

Savings

The savings delivery target for 21/22 included £8.1m of undelivered savings in 20/21 rolled forwards and £22.6m of savings identified in 21/22 therefore bringing the total to be delivered in 21/22 to £30.7m. Almost half of this total was to be achieved by the Community Services directorate and therefore demonstrates that the Council is heavily reliant on this directorate in order to make the efficiencies required to meet the balanced budget set for the 21/22 year.

The Council did not deliver the 21/22 savings target in full with £5.5m of the 20/21 rolled forward savings and £8m of the 21/22 savings target undelivered. This equates to a substantial 44% non-delivery. The undelivered 20/21 savings have been largely covered by Covid-19 grants however this is unsustainable given the uncertainty of this type of funding for the future and therefore cannot be relied upon going forwards. The fact that there are undelivered 20/21 savings rolled into 21/22 which remain undelivered for a second-year running does not demonstrate a strong track record of savings delivery. However, despite the additional pressures from unachieved savings, the Council has still produced an appropriate outturn position of a minor deficit and has not had to rely on reserves to fund the gap. Savings underperformance has been common-place across the sector and is largely attributed to pressures in responding to the ongoing impact of the pandemic and recovery of service following the pandemic.

The non-delivery is largely attributable the Community Services directorate where there are £10m of undelivered savings, the larger ask in terms of delivery is a factor here. Specifically, the under delivery relates to pressures associated with being able to deliver planned adult social care packages. This pressure was flagged via the budget monitoring reporting in year which red rated several savings schemes within the directorate as unlikely to deliver, the most significant of which was £3m in Adult Social Care Demand management. The Council have recognised the ongoing pressure in the adult social care service and have engaged external consultants to assist in delivering transformational changes in the department with their work expected to be complete in 22/23. As such action has been taken but the impact is not expected to be immediate.

Using national returns made by all Councils we have been able to identify where the Council have comparatively very high unit costs which could be leading to the pressures. This analysis demonstrates that for Adult Social Care unit costs as a service overall are in line with other London Boroughs. This suggests that the Council does have control on some specific costs incurred by this service despite the savings issues noted. This indicates that the challenges in savings delivery in this service are likely to be a result of high demand/volume as opposed to costs.

Lewisham Service	Total Costs 2022/23 £000	Units	Unit Cost £	Unit Cost Score
TOTAL ADULT SOCIAL CARE (AGED 18+)	92,342	237,033	389.57	Average
Learning Disability Support – Adults (18-64)	35,486	207,679	170.89	Very High
Social Care Activities (18+)	14,487	237,003	61.12	Very High
Support with Memory and Cognition (18-64)	1,132	207,679	5.45	Very High

Source: RA Returns (Comparator London Borough Councils)

At a more granular level there are some very high unit costs in specific elements of Adult Social Care, which have been offset by some areas of low cost, where the Council may look to target its savings. These are highlighted as learning disability support, social care activities and support with memory cognition. The work being undertaken between the Council and their external consultants includes a specific workstream in relation to Learning Disabilities and therefore the response to address this service is already in progress and is appropriate to prioritise given it has the highest total cost of the services identified in our analysis.

Improvement Recommendation – following on from the current work being undertaken with external consultants on learning disabilities, the Council could work directly with the Communities Directorate Adult Social Care Team to identify additional opportunities for savings in the remaining two areas. We note that currently the Council is prioritising Children's Social Care as this is experiencing demand led pressures and therefore these high unit cost areas may be revisited in future years

Officers have noted that there are early signs of the impact of work undertaken to both improve productivity and outcomes for people using their Enablement Service and also help to reduce or delay long term care placements. But these improvements come at a time when the NHS recovery plans mean pressure on service remains very high. It is clear that the Council understand the pressure and have acted, it will not be clear until the 22/23 whether actions taken by the external consultants have had a positive impact on improving the savings position.

The total savings plan for 22/23 is £25.2m, this is made up of £11.48m for 22/23, £7.8m undelivered from 21/22 and £5.6m undelivered from 20/21. In 22/23 with £8m is currently expected to be undeliverable in total. Again, the pressure is coming specifically from schemes in Adult Social Care Demand Management and Adult Social Care cost reduction and service improvement programme as a result of the lag expected between the action being taken and the time to take effect and embed.

The Council develops savings schemes to balance the budget each year and therefore does not have additional schemes in place should there be slippage, such as that being seen in 22/23 to date. However, there is clear evidence that the Council includes contingencies and provisions at the outset of the budget. Finance officers work closely with directorates to redesign, pair back or restructure services to respond to savings gaps.

The MTFP includes £36m of further savings needed over the 4 years from 23/24. When the MTFP is developed savings are requested to be developed over the same time frame. The MTFP includes some approved savings already in place for 23/24 and 24/25 but none in the latter years of the MTFP. The schemes that have been identified have reduced the overall requirement still to be identified and demonstrates that the Council effectively use both recurrent and non-recurrent savings schemes to meet their financial targets. This is good practice and ensures that there are already schemes 'laying in wait' in future years and reducing the pressure of identifying additional schemes each year..

Improvement Recommendation – there is an opportunity for the Council to focusing on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan

Savings schemes are developed collaboratively between Finance and the individual directorates with review and scrutiny by Executive management and members throughout the year. Significant savings schemes are also subject to public consultation before being formally approved by Mayor and Council and Full Council within the budget setting process. Public consultation is built into the budget setting process and is targeted at specific areas of the budget each year as a rolling programme. **Some of these consultations are statutory, such as Business Rates and Council Tax, and the Council incorporates additional areas into the consultation process which re specific areas of focus**

Improvement Recommendation – there was no evidence of the consultation process including a review of the full savings programme, and therefore the Council may consider that this could be built into the budget consultation each year, on a recurring basis, given the need to improve savings performance. The Council do consider and undertake consultations on specific savings schemes as they deem necessary but a review of the full programme via this process provides the opportunity for all schemes to be reviewed and therefore maximise the potential efficiencies that could be identified.

Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised, we did not identify any instances of these reviews occurring. It is important, given the scale of some of the projects, that this is formalised for the current work on Adult Social Care being performed with the help of external consultants as there may be the opportunity to extend some of these savings and efficiencies to other service lines.

Improvement Recommendation – the Council should perform these reviews, focusing on savings which have had the greatest financial impact.

Savings plans continue to be formally monitored on a monthly basis and presented to Mayor & Cabinet for oversight as part of the budget monitoring report. The monitoring is at an appropriately granular level to demonstrate how the Council is performing by individual scheme and at directorate level. In addition, the monitoring report is RAG (Red, Amber Green) rated which easily highlights to decision makers where issues are occurring which facilitates challenge and discussion on propose actions. However, we do note that Mayor & Cabinet have only had sight of financial monitoring including savings in July, October and December 21 with the outturn presented in June 22, there was also inclusion within the budget setting papers in February 22. Therefore, there are several meetings of Mayor & Cabinet where members do not have sight of the savings progress or financial performance even though monitoring behind the scenes and through Executive is monthly. There is limited discussion and challenge noted in the minutes to the Mayor & Cabinet meeting in relation to those savings which are red rated and expected not to deliver, although challenge of the overall budget and discussion has improved since the prior year. The Public Accounts Select Committee role is to look at how the Council manages and uses money and therefore scrutiny of savings sits within their remit. This committee receive the financial monitoring reporting, which includes the detailed appendix on savings, quarterly. The committee are then able to report to Mayor & Cabinet by exception on areas that require attention at this level of the organisation. The minutes from early 22/23 demonstrate that members are aware that there is under-delivery of savings but discussion on specific underdelivering schemes and action to be taken is limited.

Improvement Recommendation - the Council explore ways to encourage focused discussion by the Public Accounts Select Committee on specifically under delivering savings schemes in 22/23.

Monitoring in the latter half of the year focusses on the savings achieved, unachieved and the gap between the two. However, monitoring of the savings position in the early part of 22/23 is on a forecast basis and shows what is expected to be achieved based on progress to date, taking into account phasing of the schemes. This is an important distinction and provides decision makers with a clear and early indication of performance of savings to, again, allow action to be taken before year end when time may not allow for any positive impact on the financial position.

The delivery risks to savings are managed closely by Finance officers, and issues are communicated clearly to the responsible directors in order for mitigating actions to be put forward. This is primarily achieved through regular and informal 'Budget Management' meetings held by the Section 151 Officer with service leads as a drive to work more collaboratively and support directorates to take ownership of their own savings plans.

In the prior year we noted that the within the budget monitoring reports these should clearly articulate the underlying causes for the under delivery of savings plans. Although the presentation of savings performance is via a detailed appendix to the budget monitoring report there still remains limited information on cause or actions included within this and so our prior year recommendation remains unaddressed.

There is a Project Management Office (PMO) in place for 22/23 who have supported officers in identifying savings proposals and ensuring they are realistic. This new rigour in governance arrangements around savings will continue into 22/23 as the PMO will be monitoring and reporting on programme-wide delivery of cuts, risks and equalities impact. Clear roles and responsibilities (between the PMO and service Directors) have been drawn up in order to ensure there are clear lines of accountability. This is a positive and notable improvement in arrangements from prior years. As at July 22 31% of savings are expected to be undelivered, although some non-delivery is still expected this is an improvement on the 20/21 under-delivery of 44%. It is unclear how much of this improvement is a result of the PMO input specifically.

Cash

Consideration has been given to the level of cash reserves the Council holds. Strong cash reserves are indicative of a sustainable financial position for the future. The financial monitoring, cashflow and accounts of the Council show that the Council will enter 22/23 with £392.8m in cash, cash equivalents and short-term investments. Cashflow forecasting, produced until December 2025, demonstrates that the Council is expecting a net cash outflow in each of the financial years the forecast is produced for, however despite this outflow the Council expects to be left with £178m in cash at December 2025. This remains a substantial balance and therefore it is clear the Council has sufficient cash available for the medium term with which to support its day to day provision of services. The forecast is reviewed regularly, updated for new information and we have not noted any obvious omissions in terms of the sources of funding and expenditure included. Given the level of cash available in the medium term the Council has sufficient time with which to take action should cash balances begin to deviate from the forecast.

Reserves

For 21/22 the Council was able to set its balanced budget without the use of reserves to address any budget gap. Usage of some reserves was noted in the outturn report however these have been reviewed and confirmed to be pre-planned at the budget setting process and in line with the purposes for which those reserves were earmarked. As such this is not indicative of using reserves in a reactive or unsustainable manner. Uses of reserves were for reasons such as providing corporate funding to the Children and Young People's directorate to provide time to allow them to implement overspend reduction measures, planned insurance draw down and to support known high educational needs spend.

The financial statements confirm, that as a result of this planned usage, reserves in 21/22 reduced from £382m to £378m (decrease of £5m or 1.3%). In the context of the overall value of the reserves this movement is not considered to be significant and therefore is not suggestive of unsustainable usage. Benchmarking analysis with other London Boroughs demonstrates that the Council is in a comparatively strong position, and ranks in the top quartile in terms of the level of general fund, earmarked and schools reserves as well as reserves as a proportion of its net cost of services. The strong reserves position reflects the solid financial management arrangements that the Trust has implemented over multiple years and reflects consistent contribution to reserves in order to fund specific future priorities. A specific example is the 'Building for Lewisham' Programme focused on providing social housing. The significant level of reserves reflect the fact that this programme is a multi year programme with reserves being used across the medium to long term having been previously built up for this specific purpose.

The Budget Model for 22/23 is structured around three key phases which are:

1. Budget assumptions (including Budget Reductions, Council Tax, and Inflation)
2. Budget pressures to be funded
3. Risks and other potential budget pressures to be managed.

Therefore, there is evidence that the Council's use reserves as a last resort as it develops budget reductions, provisions and contingencies as part of the budget process as first alternatives.

For 22/23 the Council has identified £11.835m of budget reductions necessary to set a balanced budget, being £10.410m identified in setting the budget for 2021/22 and the further £1.435m identified in 22/23. These budget reduction measures were identified using a thematic approach sponsored by Members and led by the Executive Management Team and enabled the Council to set a balanced budget for 22/23 without using its reserves to do so. The delivery of these budget cuts is monitored, any shortfall will have to be covered, in the short-term by services offering alternative proposals or through the use of reserves. This would represent unplanned usage however as we have noted in our analysis the Council has a sufficient level of reserves to support this as a temporary measure.

In the 22/23 budget the Council has also identified £21.3m of budget pressures and identified funding to allocate to these to ensure key risks can be proactively managed within available resources. It is a matter of good budgeting to make a general allowance for risk and uncertainty, particularly at such a time of rapid change in the local government sector. An allocation of £6.500m in 2022/23 has been set aside for corporate risks and pressures, specifically, that are known at the time of the budget within the £21.3m total. The total has been fully committed to pressures which can be quantified within a reasonable range.

Two key emerging areas of financial pressure across the sector for 22/23 are in relation rising energy costs and pay awards. Within the 22/23 budget funding was allocated for risks associated with rising energy costs, at the same time as the Council looking to reduce energy consumption by becoming carbon neutral by 2030. However, there was an acceptance at the time that the budget was set that above inflationary tariff increases would likely outstrip any consumption savings and require funding. At July 22 this pressure has come to fruition with £1m of budgeted reserves being applied to partially fund the pressure on the General Fund due to energy price rises. Additional energy pressures are being seen in directorates where Finance are working closely with teams to identify measures to reduce this pressure by year end.

An unexpectedly large pay award was agreed via the National joint Council (NJC) with trade unions which has also caused a pressure within the 22/23 budget. This has lead to £4.5m of unbudgeted reserve funding to meet the anticipated pay award over and above the budgeted level for 22/23, this has already been incorporated within the budget setting for 2023/24. It should be noted that both the pay award and energy prices rises are out of the Council's control and they do have sufficient reserves, even where unbudgeted usage has been required, to address the issues. This is not sustainable in the medium term and therefore building these pressures into the 23/24 budget mitigates unplanned reserves usage as far as possible.

There are also several other risks and potential budget pressures to consider which are less easy to quantify with any certainty which may become an additional call on reserves through the year if they arise. These are regularly monitored and reported throughout the year in the budget monitoring reporting and as noted the reserves position is strong with which to address this additional pressure if required.

In 2021/22, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was also £6.5m. This was allocated in full to identified risks and pressures and allowed the Council to perform just over budget at £0.5m deficit without the use of reserves, therefore historic performance and track record suggest that the approach for 22/23 remains appropriate. Should pressures such as inflation and energy costs continue to rise exponentially the Council may need to review whether the level of contingency is appropriate since £6.5m was set aside in both 21/22 and 22/23 but with very different rates of inflation in each year.

The budget confirms that the use of reserves will need to be considered in 2022/23 to meet any additional cost of recovery from Covid-19 not funded by government and for 2023/24 if sufficient measures are not found to set a balanced budget each year. Members are made aware use of reserves is a one off and once used cannot be replaced and would need to be rebuilt and thus are a last choice scenario and this message is continually delivered and reiterated through the Section 151 Officer regular meetings with members, budget reports and member briefings and as such the whole organization is aware of the importance attached to effective reserves management.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent a weakness in current arrangements. The Council's financial arrangement remain fit for purpose and improvements have been evidence since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations

Financial sustainability

Recommendation 1 (priority improvement recommendation)	In the continued efforts to improve savings performance against target the Council should explore ways to: • encourage focused discussion by the Public Accounts Select Committee on specifically under delivering savings schemes in 22/23 • Undertake public consultation on the savings programme • learn from successfully delivered schemes via post implementation reviews. • savings under-delivery historically has been attributed to the Communities Directorate Adult Social Care Team and therefore Finance Officers should work directly with that team, in a targeted and collaborative manner, to focus on specific savings that can be generated from high unit cost services within this directorate that are not currently being addressed • focus on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan
Why/impact	Due to the track record of under-delivery of savings in recent year, and expected under delivery in 22/23, close and more frequent attention may be required to the progress of savings schemes in year so that action can be taken in a timely manner to respond to any under-delivering schemes. To maximise the success and achievability the Council could benefit from additional scrutiny and input in identifying savings in the initial stages of budget setting. Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised. Although Adult Social Care is a demand led service with high costs being a product of increasing numbers of service users, specific services with Social Care where unit costs are also high could exacerbate the overspends observed in this service. Ensuring that savings identified cover the full MTFP term maximises potential savings across the medium term and reduces pressure to identify additional savings each year by focussing on identifying those which are recurring.

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The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Summary findings	Although Mayor & Cabinet receive details of the progress of savings within the budget monitoring report, there are several meetings of Mayor & Cabinet where members do not have sight of the savings progress or financial performance even though monitoring behind the scenes and through Executive is undertaken monthly. There is also limited discussion and challenge noted in the minutes to the Mayor & Cabinet meeting in relation to those savings which are red rated and expected not to deliver, although challenge of the overall budget and discussion has improved since the prior year. This role of challenge and scrutiny of savings is fulfilled, instead, by the existing Public Accounts Select Committee whose role is to look at how the Council manages and uses money and therefore scrutiny of savings sits within their remit. This committee receive the financial reporting and savings appendix quarterly and are then able to report to Mayor & Cabinet by exception on areas that require attention at this level of the organisation. There is an awareness of the under-delivery of savings but limited discussion on specific underperforming schemes. We did not identify any post implementation reviews taking place in relation to successful savings schemes. The Council are undertaking work to identify and realise savings and efficiencies in Adults Social Care with the assistance of external consultants and given this is a large-scale project its important lessons are learned from the efficiencies identified to allow these to be extended or rolled out to other areas of the Council where possible. The Council undertakes public consultations each year when undertaking the budget setting process. These focus on different topics each year in a rolling programme. This year consultations were focused on rent setting and business rates. There were no consultations with the public in relation to the savings programme as a whole and such consultation may be a given the need to improve savings performance. Using national returns made by all Councils we have been able to identify where the Council have comparatively very high unit costs which contribute to the pressures. These are highlighted as learning disability support, social care activities and support with memory cognition. The MTFP includes some approved savings in place already for 23/24 and 24/25 but none in the latter years of the MTFP, which spans to 26/27 . These schemes have reduced the overall requirement still to be identified in each year and therefore are a benefit to the future financial sustainability of the Council.
Management Comments	This recommendation is taken in the spirit of continuous improvement and management action will focus on consideration of doing more of the steps already in place. For example: • PASC will continue to carefully review and scrutinise the financial budget setting and monitoring reports with particular attention to progress with delivering savings. • As we do each year, we will continue to consult internally and with the Cabinet Member for Resources and Strategy on the best approach to engagement around Budget proposals, building on the current process of discussing and inviting all Members to contribute to including the option to run a larger public consultation on the savings proposed. Officers will continue to undertake public consultations on specific proposals that directly impact on our residents and the local community. • The Finance Business Partnering approach will continue to be developed with learning from recent successfully delivery service changes (captured as part of service plan reporting by each Director) and improved with the business intelligence and support using data insights and performance benchmarking to effectively target risk and opportunity. • Within the constraint of local government only receiving one year settlements at present, officers will continue to work on the potential for more transformational multi-year savings options, building on the work done in the larger social care services in recent years.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Recommendation 2 (priority improvement recommendation)	The Council should develop a Workforce Plan or Strategy covering all aspects of the future workforce required for the Council to fulfill its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.
Why/impact	Ensuring the budget, MTFP and Workforce Plan are complementary of one another will ensure that the future establishment is affordable and Council priorities are met within budget constraints
Summary findings	Employees are a significant cost to the Council and inflation, pay awards and National Insurance changes are expected to have an impact on these costs in 22/23 and beyond. We would expect that the Council to have developed a Workforce Plan or Strategy that details the future expectation of the establishment based on Council priorities to help inform the budget. We have not been provided with any evidence of any such plan in our work, budget holders do have access to establishment information from the HR and Payroll systems which allows delivery plans and staff costs to be reconciled, however this is based on current establishment and is not forward looking in nature. In addition, the establishment information that the system provides is only one aspect of a workforce strategy and therefore other important aspects such as planning for hierarchy, team sizes, skills and skill mix requirements and demand is not currently available in one forward looking plan.
Management Comments	In the context of local authority a single plan or strategy would not be appropriate, given the varied nature of services and the skills required. However, we can identify any common themes identified and build these into the overarching People and OD strategy which sets out our vision for our people and identifies the areas we need to focus on to achieve our ambitions. Detailed workforce planning takes part in the annual service planning process supported by finance, HR and transformation business partners. The Councils service planning framework encapsulates the areas identified within the audit. We can also seek to strengthen the guidance for managers on service planning as well as the working relationships between the relevant business partners to ensure that these three areas are appropriately aligned. Principles in relation to structural design e.g. spans of control and hierarchy fall outside of service planning, and are covered within the Council's management of change (restructure) policy

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Improvement recommendations

Financial sustainability

Recommendation 3 (minor improvements recommendation)	Overall the Council's arrangements to secure financial sustainability are appropriate, the Council may wish explore ways that it can make iterative improvements to demonstrate best practice financial arrangements. These could include developing actions that could be taken, at a high level, to respond should that 'worst case' scenario included in the MTFP should it occur and communicating this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.
Why/impact	The Council made a small deficit in 21/22 and the 22/23 financial landscape is forecast to be challenge for London Borough of Lewisham and the Local Government sector as a result of Covid-19 challenges not matched by additional funding, rising inflation, pay increases and the cost of living crisis which could all potentially negatively impact the year end financial position. As such it is important that the Council has robust arrangements in place to monitor finances closely and respond to issues as they emerge.
Summary findings	See body of the report.
Management Comments	Officers bring the experience of having been consistently involved in making budget reductions each year since 2010 (gross £230m to date; including £92m reinvested to reshape service delivery and meet demand), working closely with partners in the Borough and across London, and effectively managing the Council's financial security and stability, including the use of reserves. Officers will continue to develop this experience to inform the assessment of the financial risk landscape and update the risk mitigations for these risks quarterly as part of the corporate risk management strategy. The risk register is reviewed by the Executive Management Team and PASC quarterly which will provide the opportunity for actions to be agreed as necessary and scrutinised to ensure lessons and improvements are acted on.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk Management – Strategy and Risk Register

The Council's current Risk Management Strategy is unchanged from previous years, the strategy covers the period 2017-22 and a refreshed strategy is due to be reviewed by Audit Panel in December 2022. At the June 21 Audit Panel, the 2017-20 strategy was reviewed and extended to 2022, the Panel have been appropriately updated on progress of the strategy throughout 21/22 and it is clear that the refresh of the strategy is progressing as planned. It is our view that key policies should be reviewed every 3 to 5 years, or as a result of changes in the operating environment or regulation/legislation, to ensure they remain relevant and fit for purpose. The current timeframe for updating the strategy meets this expectation.

We raised a recommendation in the prior year that the Council should streamline and centralise the approach to risk management, which is the purpose of the refreshed strategy. The refresh of the Strategy has been delayed as a result of the diversion of resources due to Covid-19 and the Finance Restructure which has impacted the resourcing of risk management.

The Head of Assurance has expressed satisfaction in the Annual Internal Audit Report that during the year ended 31 March 2022 the Council's management of its internal controls was adequate and effective and positive assurances were provided. This opinion included arrangements in risk management. Therefore, despite the need for a refreshed strategy, the existing risk management arrangements have remained fit for purpose. Some recommendations were raised by Internal Audit which included themes such as ensuring considerable time is allocated to develop the Council's risk approach to include its reporting, comprehensiveness and integration with wider decision-making. The Council has expressed commitment to addressing these as a priority and improvements are expected following the refreshed strategy being implemented in 22/23.

A specific review of the risk management framework was undertaken by Internal Audit and a report issued in June 2021 which gave reasonable assurance (satisfactory). An action plan is in place and was monitored throughout 21/22 with progress being reported to the Executive Management Team (EMT) and Audit Panel. Once the refreshed strategy has been implemented the Council would benefit from a further Internal Audit review to ensure it is fulfilling its purpose and operating effectively, this will be confirmed by the Internal Audit Plan developed after 22/23 as the strategy was not implemented at the time it was developed.

The Council's Audit Panel continues to receive quarterly reports on strategic risk management from the EMT, including the Strategic Risk Register itself for review. EMT provide a pivotal support role which ensures there is a link in the management of risk between the Directorates and the Members of the Audit Panel. Therefore, Audit Panel and EMT are fulfilling their responsibilities as outlined in the Risk Management Strategy. The Strategy also expects that Mayor and Cabinet should receive an annual report to provide assurance that the Council has considered and documented risk in the Strategic Risk Register, however we have been unable to evidence that the Mayor & Cabinet have received the risk register in year or an annual report on risk. Membership of the Mayor and Cabinet and the Audit Panel does not have any commonality and therefore there is a lack of oversight of risk at the top level of the organisation. Risk is inherent throughout Mayor and Cabinet discussions, in particular financial risk in their scrutiny of the budget, and therefore there is some consideration included in other agenda items even through there is no standing item covering risk management.

Improvement Recommendation - The Council should ensure that there is a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet. There is effective oversight of risk by EMT and Audit panel, however oversight at the top of the organisation could be strengthened. The risk management strategy needs to be followed consistently.

The format, frequency of review (quarterly by Audit Panel) and intensity of review (there is evidence of member and officer scrutiny at each meeting) of the Strategic Risk Register is appropriate, in line with expectation and reflective of the level of risk the Council faces. In order to ensure that risks can be appropriately assessed by decision makers we would expect the format of the risk register to meet some minimum standards – these include:

- risks being assigned to a specific officer for accountability,
- risk being RAG (Red, Amber, Green) rated to highlight those that require immediate action,
- direction of travel of each risk is clear to highlight any trends where action should be taken immediately or risks removed,
- scoring includes likelihood and impact factors and that risks are linked to the Council's objectives

There have been changes to the format of the risk register over the year which overall has improved its benefit to the users of the document, overall three of the four minimum standards have ben achieved. The risk register includes clear mitigating actions being taken to respond to each of the risks although the impact these are having on the risk score is unclear.

Improvement recommendation - following updates to the risk register the Council should ensure that risks are linked to corporate objectives and that there is a clear distinction of risk score before and after mitigating actions so that the full impact of actions can be seen and challenged.

To ensure the number of risks is manageable, reflective of the size and operations of the Council and strategic in nature we would expect the risk register to include between 15 and 30 risks. The Council has 27 risks which is at the higher end of this range. Having compared to large unitary Councils, both in and out of London, we would suggest the Council is also comparatively higher in terms of number of risks. However, there is regular review via EMT, and Audit Panel, and changes are presented at each meeting therefore we are aware there is a continual effort to ensure that risks are relevant, we see additions, changes in risk scoring and removals throughout the year. Therefore, the high number of risks is not having a negative impact on the level of oversight achieved.

Risk Management – Internal Audit

The audit service is delivered by an in-house team of auditors and complemented by technical support for IT assurance from PWC and additional resource from Mazars, each procured through framework agreements. From August 2020 to January 2022 the Head of Internal Audit role was filled by a secondee from PWC, with the current Head of Assurance starting in January 2022.

The 21/22 Audit Plan included 67 engagements, 41 covering the Council's service directorates and 26 covering schools. At year end 21 of these engagements (including 9 schools) did not take place but Internal Audit were satisfied they had sufficient assurance from prior year work and the 6 engagements that had been added to the plan in year to provide a robust annual opinion. The incomplete work is across several different areas of operations and therefore there are no gaps in assurance in any one particular area, the completed work has good coverage across a range of topics.

The Internal Audit function experienced resourcing issues stemming from long-term sickness and redundancies following the Finance review that required adaptations to the plan as originally presented to Members. These changes were raised in good time to the Audit Panel who agreed changes to the plan focusing on high-scoring risk areas, reliance on recent alternative assurance and using more bought-in resources to supplement delivery.

The Internal Audit function has sought to continue to achieve efficiency in further developing its existing Quality & Improvement Plan. This includes actions such as spending more time planning engagements to avoid wasted time at the fieldwork stage, adapting the existing standard reporting templates to save time and improve quality, and seek shorter, more specific actions to ensure follow-up is more focused. Each action is expected to have a positive impact on the progress of the Audit Plan in the 22/23 year.

Improvement recommendation - Although the Internal Audit opinion has not been jeopardised as a result of the resourcing issues, we would recommend that the Council and Audit Panel work with Internal Audit to ensure that the 22/23 audit plan is achievable and review the number of reviews required to provide an appropriate opinion aligns to the time and resource available. The Council should track progress against the Quality Improvement Plan to ensure that Internal Audit are held to account and delivery of the 22/23 plan.

Of the 21/22 reports completed, 4 were issued with a limited assurance rating. Management have accepted the recommendations, following challenge or requesting more information as required, and updates have already been made to arrangements for those limited assurance reports. The Head of Internal Audit has confirmed that none of the engagements, individually or together, led them to qualify their overall opinion.

The Audit Panel receives an annual assurance report from Internal Audit as well as quarterly progress reports which inform the panel on the Council's progress against recommendations and assurance ratings for each review. The format and content of the reports is in line with prior years and other Councils and does not cause concerns about the level of information Audit Panel are receiving and a quarterly review is sufficiently regular.

There has been sufficient review of both Internal Audit and the Audit Panel in year do assess the effectiveness of these functions. The Internal Audit function has complied with the requirements of having an annual external review against the Public Sector Internal Audit Standards (PSIAS) which concludes that Lewisham generally conforms to the Standards. This is the top of a three-point scale used by City of London that also includes 'partially conforms' and 'does not conform' as possible outcomes.

The Audit Panel itself has been subject to a review by the Council's own Public Accounts Select Committee in line with the Constitution which included a self-assessment against its Terms of Reference. The outcome of this raised no concerns with the effectiveness of the Panel.

Improvement Recommendation - the Audit Panel are subject to extensive review in their effectiveness, but we have not identified such reviews for other committees and recommend these could be of benefit to ensure committees remain fit for purpose and operating in line within their Terms of Reference.

Budget Setting

The approach to setting the budget has remained largely consistent with the prior year with the 22/23 budget being finalised and approved by Cabinet 9 February 22. Prior to approval by Mayor and Cabinet the budget is reviewed and challenged by the Executive Management Team and Overview and Scrutiny Committee. Final sign off and approval was then provided by Full Council in March 2022.

There is evidence that there has been effective liaison between budget holders and finance, led by the Section 151 Officer, throughout the year and this has been largely achieved through the newly established Budget Management Meetings. The output from these meetings was an agreed schedule of budget reductions proposals which were approved by Mayor and Cabinet and the Public Accounts Select Committee and incorporated into the 22/23 budget. To support a culture of effective financial management and ownership throughout the Council, a series of workshops have been set up, led by Finance, with all departments to ensure all levels of the organisation are involved in the budget setting process, buy in is achieved and importance of financial management is emphasised.

The development of the budget has been a collaborative process between the Finance team, led by the Section 151 Officer, directorates and members in 22/23 with the Section 151 Officer providing a clear link from the members of the organisation to those directorates delivering the requirements of the budget. This is a clear improvement from the process in prior years which focused on a more 'top down' approach to setting the budget delivered by the Finance Team. Further developments have taken place in 22/23 to increase collaboration, with a member away day held in October 22 to ensure the same collaboration at this more senior level is achieved. In place of this event the Section 151 Officer Officer has liaised with members via member briefing and informal member meetings, to discuss finance and strategy and answer any questions. The success of these meetings is evident in the increased level of challenge and discussion observed in relation to the budget papers at Mayor and Cabinet in February 22.

The Chief Executive meets with members monthly to enable the link between operational matters, financial and non-financial, and strategy to be discussed. Both the Chief Executive and the Section 151 Officer meet every 6 weeks with Finance Scrutiny committee, to promote open and honest discussion on financial challenges and share the monthly financial monitoring report.

The Council aim to establish a "budget manager self-service arrangements" where budget holders for the directorates take ownership for developing financial forecasts and monitoring, which are key components of the budget setting process. There is an awareness at the Council that this approach will require additional training and support for directorates and are seeking to provide that over the medium term. Once this is achieved the aim is to implement a full business partnering approach and therefore achieving a greater level of collaboration. The collaborative approach observed in 21/22 in relation to the budget is an important stepping stone to achieve this approach and demonstrates a positive direction of travel.

The Council took part in the Local Government Association (LGA) Peer Review which was reported in Nov 21. The aim of this review was to assess the Council's governance arrangements and provide recommendations for improvements that could be made to achieve best practice. One of the recommendations suggested that the Council may wish to strengthen budget setting arrangements by undertaking a three-year detailed budget to include transformation of children's and adults, undertake zero based budgeting and work collaboratively with partners. Discussion with the Finance Officers at the Council has noted that although zero based budgeting was considered it has been deemed time consuming and therefore impractical, we agree with this sentiment since the Council is already seeking efficiencies in specific directorates (noted in Financial Sustainability) and implementing a more collaborative approach between finance, directorates and members in the budget setting process. While this is embedding it does seem impractical to also change the budget approach just as members are beginning to understand and engage with the current process.

Financial Monitoring

Financial performance continues to be presented on a quarterly basis to Mayor & Cabinet and this is deemed sufficient based on common practice in the sector, the schedule of meetings which are around every 2/3 months and the financial risk facing the Council. Prior to the meeting of the Mayor and Cabinet performance is sighted by EMT and Public Accounts Select Committee to ensure that there is a good level of scrutiny and discussion and key issues highlighted to decision makers. There is also more informal discussion at Budget Review Meetings between the Section 151 Officer and Directorate leads to ensure that all levels of the organization are involved in monitoring performance and held accountable. This represents a comprehensive level of review of the financial information throughout the year.

The reports are detailed and extensive in their information, using appendices to ensure that decision makers are provided with a full suite of information with which to make informed decisions. We would expect the level of detail in the narrative to reflect the financial risk facing the organization and since there were overspends highlighted in year the level of detail is appropriate to address the risk being faced at the time. The narrative does focus on those sub-services where there are overspends and more detail weighted towards the greater overspends such as Children's Social Care. This is appropriate so as not to overwhelm decision makers with information.

Improvement Recommendation – budget monitoring reports would benefit from shifting the balance away from reasons of overspends and towards the forward look of how performance can be improved.

The Executive summary clearly sets out performance against budget and the impact on the outturn at year end based on current trends. The use of forecasting is appropriate to allow decision makers to effectively see the impact of in year performance on the year end position and act in a timely manner.

We have noted performance being presented for Q1 in October 21, Q2 in December 21 and year-end outturn at June 22 to Mayor & Cabinet and therefore a gap in information for Q3. There is Section 151 Officer, Directorate and EMT involvement throughout the year particularly through Budget Management Sessions and the Public Accounts Select Committee receive the quarterly reporting, including a report to end of Jan 21 to fulfil this Q3 gap. However, given there was a forecast outturn of £8.5m overspend in Q3 we might expect closer and more frequent attention from Mayor & Cabinet.

Improvement Recommendation - upholding quarterly review of information at Mayor & Cabinet on financial performance is important considering in year overspends were noted, the level of reporting should reflect the risk and therefore the Council may also consider increasing the frequency of review of financial information by Mayor & Cabinet if in year overspends are deemed significant.

For information to be relevant to decision makers we would expect no more than a 1-2 month time lag between the period the information relates to, and the meeting being held, evidence suggests that reporting to both EMT and Mayor & Cabinet achieves this and therefore the information they receive is considered timely with which to make decisions.

An area of notable practice in the financial monitoring is the distinction between performance with and without the impact of Covid-19 so that Covid-19 pressures and the associated funding do not mask any areas of performance that may need to be addressed. There is a further drill down on performance within each directorate and extensive narrative to explain the reason for the performance.

The Council have an annual performance cycle as well as a mid-year update which is the key mechanism by which the performance of individuals is assessed. Financial performance is a key objective for senior management, and this is communicated through their job descriptions. However, there is no formal exercise as part of performance appraisals of individuals to hold them to their financial targets and this is an area that could be enhanced to improve accountability and ultimately performance at Council wide level. Currently there is no clear direct impact or consequences on an individual if they or their team doesn't financially perform.

Improvement Recommendation – the Council should explore ways to incorporate assessments of financial performance into the appraisals of budget holders to ensure that they have accountability for performance.

Decision Making

Through our review of documentation and interviews with key officers and it is evident that there is a drive for change in culture being driven by the Chief Executive and Section 151 officer. We have noted instances of this throughout the year and this was most evident from a greater level of collaboration observed between these two senior leaders, members and directorate teams. We have observed a heightened level of discussion and scrutiny at meetings such as the Overview and Scrutiny Committee, Standards Committee, Audit Panel and Public Accounts Committee which demonstrates a good level of challenge. In particular we note that the budget meeting of the Mayor & Cabinet scrutinised the budget on a line-by-line basis which we believe was possible due to the ongoing liaison and face to face meetings between the Section 151 Officer and members in the build up to the final budget being presented.

We have observed less challenge at Council with minuted discussion being limited, particularly on the budget. Given that there is appropriate challenge on the budget/savings at the other committees noted, including Mayor & Cabinet, we do not believe an improvement is needed to arrangements as the role of these committees is to support Council in their decision making and escalate issues on an exception basis for further discussion or approval.

As noted previously the Council took part in the LGA Peer Review which, although it generated some improvement recommendations, overall, the results were positive with recommendations being aimed at best practice as opposed to correcting existing arrangements. In particular, in relation to decision making culture, this review noted that the Council has strong political and executive leadership, and the direction of travel is well understood in the organisation. The refresh of the Senior Leadership Team (SLT) has been welcomed and there is clarity and commonality of purpose. This demonstrates a positive culture at the Council which has been achieved as a result of the increased collaboration and openness in discussion observed.

The Council aims to involve a range of stakeholders in its key decisions. There is evidence of involvement of Members, Finance, Directorate Leads/Budget Holders and the public being involved in the budget setting process. In addition, the Council extensively consults, both internally and externally, before implementing any significant change in services. The Council consults across a wide range of service changes and has a dedicated section for this on its website. We have noted consultations in year in relation to planning, schools, grants, Borough of Culture, health and pharmacy. The website is clear on how residents can take part and clearly published the responses and how they have been used.

Although the council has good mechanisms in place for obtaining service user feedback, unfortunately some areas see a trivial response rate. For example, Business Rates Payers consultation was open for 20 days to all businesses registered in Lewisham (>10,000). In total there were 18 responses, with only 13 responses appropriate for consideration. Although the Council assessed these 13 responses and identified two main themes which were considered as part of the budget, the feedback pool is not statistically proportionate of the population and therefore not a reliable source of information. Many of the service-related consultations have low response rates in comparison to the population. There is an opportunity for the Council to learn from and make improvements from more successful surveys, such as the Waste Management Strategy Consultation which garnered around 1,700 responses.

Improvement Recommendation - The council should investigate ways of increasing feedback response, options include direct contact, extending the window of response or increase awareness of the request so that responses increase and therefore the results are more accurate.

A judicial review was raised against the Council in 21/22 in relation to the Mais House Development. The City of London Corporation, who own the Sydenham Hill estate, planned to build 110 new social homes on the estate, for which the Council granted planning permission for a 100% social housing development at Mais House to allow this scheme to go ahead. Campaigners appealed the High Court's decision to back the Council's approval of 110 council homes next to the Sydenham Hill Wood nature reserve.

In May 21 a High Court judge ordered that Lewisham Council's planning permission for the new homes be quashed over "significant errors" in its decision-making. It was ruled amongst other things that a conservation officer's advice should not have been withheld from the planning committee when it approved the redevelopment. The planning committee at Lewisham Council subsequently granted permission for a second time in June 2021 following lesson learned.

A second Judicial Review was raised which concluded in July 22 with the Council winning the review and therefore confirming there was no unlawful decision making in granting the permission. The cause of the second judicial review has been investigated thoroughly by the Council and confirmed as an isolated human error in exceptional circumstances from a missed consultation letter. Given we have noted extensive consultations in our work and are not aware of any other incidents being raised against the Council we are minded to agree with this statement. The team responsible for the consultation have been made aware of the cause to ensure lessons are learned and all letters checked by the Council with no further missed letters noted.

Compliance and Regulation

There have been no changes to arrangements in place to monitor compliance with regulation and legislation in year and we have not identified any acts of misconduct, breaches of the constitution, legislative breaches or regulatory non-compliance, therefore indicating that arrangements remain fit for purpose.

The Monitoring Officer (MO) takes a lead role at the Council in ensuring these arrangements remain effective. The MO has been an interim role for much of the 21/22 year however this has not caused any issues in arrangements or evidence of non-compliance. A permanent Monitoring Officer was appointed from March 22. The Monitoring officer ensures compliance with the rules and procedures set out in constitution which requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. The Monitoring officer attends Mayor & Cabinet and Council meetings and regularly briefs the EMT, Councillors and relevant staff on corporate legislative developments.

Legal advice is incorporated in every council report with each report including a standing item on legal and financial implications of the decision being discussed, this is completed and reported consistently throughout the year across all committees.

The Council has a newly established Assurance Board, chaired by the Chief Executive and attended by the Monitoring Officer and Section 151 Officer, as well as the Head of Internal Audit. This adds an additional layer of assurance in 21/22 that was not previously present with its aim being to ensure statutory duties are effectively discharged, complied with and share good practice. To date this has resulted in an observed greater level of understanding of members around the financial challenges and budget setting process at the Council.

There has been no evidence of any data security breaches or significant cyber incidents in year. An invoice dispute in year with a financial software provider did result in the deleting scripts and data used by the Council to process interface files from the Adult's and Social Care systems and the rent payments for landlords. This issue occurred between early May and late June 22. The Council reacted immediately following notification from the supplier. Actions included implementing an interim manual payments solution which included reconciliation controls to limit errors and ongoing liaison with the supplier to resolve the contract issue and find a permanent solution.

Each department issued payments in advance to carers who had claimed for financial hardship funds to ensure that quality of service was not hindered during this time. Reporting has included clear lessons learned from the incident which includes what worked well and what could be improved, it is clear what further action is needed and who is responsible. The ongoing response is being led by the Section 151 Officer who communicated with Mayor and the Cabinet Member for Finance and Strategy at the outset of the incident and with the specifically impacted Cabinet Members for Housing, Adult Social care, Children and Young People and Finance twice weekly via email during the incident itself. The Public Accounts Select Committee members received informal verbal updates during this period also.

Updates also included information on discussions with the incumbent supplier and potential new suppliers and the manual payments being made to ensure these can be scrutinized for any issues or errors . At the height of the issues informal meetings became more frequent, and therefore effectively reflect the changing risk of the incident. The actions taken have clear involvement from Mayor, Finance Portfolio Holder and Members in solving the problem, liaising with the supplier and reviewing the new manual processes.

We have not noted any reports provided to members via Mayor & Cabinet meetings during the incident and understand this is due to the dynamic nature of the issue and the need to act and update in a reactive way more frequently than the reporting schedule of Mayor & Cabinet would allow. There were no meetings in May 22 and the one at June 22 was towards the end of the incident.

Improvement Recommendation - to ensure that all members are fully sighted on the issues and in particular lessons learned, in relation to the financial software IT critical incident, although this impacted specific service lines lessons learned from the response may be able to be applied to future supplier or IT challenges and therefore shared knowledge of the process would be beneficial

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring robust governance and do not represent a weakness in current arrangements. The Council's governance arrangements, where unchanged from prior year, remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations

Governance

Recommendation 4 (priority improvement recommendation)	The Council should continually review its risk management procedures to ensure they remain effective and fit for purpose. This could include: • ensuring that there a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet • updating the format of the strategic risk register. • working collaboratively with Internal Audit to ensure that the 22/23 audit plan is achievable within the time and resource available. • tracking progress against the Quality Improvement Plan developed by Internal Audit.
Why/impact	The Strategic Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced. To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Mayor & Cabinet meeting papers for transparency to the entire organisation. The Internal Audit Plan is key in ensuring an appropriate number and coverage of assurance reviews are undertaken in year to be able to provide an effective opinion on the strength of the Council's controls. The Audit panel plays a key role in holding Internal Audit to account for their performance.
Summary findings	The Risk Management Strategy expects that Mayor and Cabinet should receive an annual report to provide assurance that the Council has considered and documented risk in the Strategic Risk Register. We have been unable to evidence that the Mayor & Cabinet have received the risk register in the year or an annual report on risk. The Strategic Risk Register has been updated in year and as a result has improved in its benefit to the users have the document. However best practice would ensure that the risks are linked to the Council's corporate priorities and that it is clear how the actions being taken to respond to each risk are impacting the risk score by confirming the score before and after these actions. We did not identify these two element in the Strategic Risk Register, although all other elements of the register were within expectation of an effective risk management tool. The Internal Audit function completed an amended audit programme due to resourcing issues resulting from long-term sickness and redundancies following the Finance review. The revisions to the plan deferred some engagements for consideration in future years, and others where the function obtain alternative assurances from prior years and work added to the plan. The function has responded effectively to the issues by continuing to develop its Quality & Improvement Plan. The ability to provide a Head of Internal Audit Opinion for the 2021/22 year has not been impacted by the challenges
Management Comments	The refreshed risk management strategy was approved by EMT in November 2022 and will be rolled out in the new year. It includes biannual reporting to the Mayor & Cabinet of the highest risks. Following the publication of the new Corporate Strategy in November 2022 we will refresh the risk register content in 2023 to link to objectives and align with formats in the new Risk Management Strategy. Members approved the 2022/23 Internal Audit plan in March 2022 which includes a resource analysis and flexible options on delivery to support the achievement of sufficient breadth and quality of coverage to deliver a robust audit opinion for 2022/23

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Improvement recommendations

Governance

Recommendation 5 (minor improvement recommendation)	Overall the Council's governance arrangements are strong and operating consistently in line with Council policies. The Council may wish explore ways that it can make iterative improvements to demonstrate best practice governance arrangements. These could include: • updating financial monitoring reports to include details of actions being taken on overspending services throughout the year . • ensuring that presentation of financial performance to Mayor & Cabinet is sufficiently regular. • undertaking effectiveness reviews of their committees to ensure that they are performing effectively against their Terms of Reference. • incorporating assessments of financial performance into the appraisals of budget holders. • investigating ways of increasing feedback response to consultation exercises. • ensuring that members are sighted on the lessons learned from the Financial Software IT Critical Incident.
Why/impact	Strong governance is the backbone of any organisation and ensuring arrangements are as robust as possible maximises the Council's ability to make well informed decisions.
Summary findings	See body of the report
Management Comments	In relation to each point noted: 1. The financial monitoring reports which now flag the variances for key services with detail on service financial performance supported with activity details will be reviewed to include more clarity on next steps being taken. 2. The Council will continue to report on the financial position at least quarterly and keep open the option to report by exception to M&C outside of this cycle if necessary, as was done through the Covid pandemic. 3. The Audit Panel, by the nature of the internal audit standards, is under a specific expectation to review its performance and report on this annually. The second phase of the Constitution review being led by the Monitoring Officer will consider whether a similar approach might be appropriate for the Council's other Committees. 4. The staff appraisal forms currently have fields for identifying what is being done well and what could be improved based around key objectives. The guidance will be reviewed to assess the benefit of being more specific on financial management, to supplement the detailed expectations set out in the financial regulations and procedures. 5. The low response rate in relation to the Business Rates consultation is due to there being a statutory requirement for the Council to consult businesses on Council Tax, which does not directly impact on businesses. Due to the requirement to set a balanced budget by the 11th March and to issue papers well in time of the committee cycle, it would not be practical to extend the consultation period. The expectation is that extending the consultation period will not yield additional responses. We will look at direct contact if this is feasible within the resources we have available. The Council did use direct contact via our the Economic Forum partners for the 22/23 budget and still did not get many more responses. 6. Feedback on the Budget and monitoring of the risk registers is part of the quarterly PASC work schedule but, as set out else where we will continue to look to enhance the focus and value of these discussions to generate improvement and delivery more value.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

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Non-Financial Performance Reporting

The Council's operational performance is monitored via a suite of Directorate Management Reports, a separate report is produced for each Directorate at the Council. These are presented monthly to each directorate and quarterly to the Executive Management Team (EMT) for their review. This frequency is appropriate and is reflective of the overall performance being viewed for which there are no significant issues noted.

Since last year the quarterly EMT reporting format has been updated to include a dashboard alongside an executive summary report. This has initiated the response to our recommendation to consider adopting a balanced scorecard approach. The council is in the process of developing a new performance framework which will include a full balanced scorecard approach, support Senior Leadership Team in their role in managing performance and include mechanisms to review performance with respective Cabinet Members routinely.

In the prior year we recommended that the council continue to develop and support the creation of a centralised intelligence hub, the Council has responded to this by establishing a Corporate Insight Team which was created as part of the Support for Leadership restructure in July 2021. The team has been in place since October 2021 and have been integral in improving the format of the KPI reporting.

The dashboard includes a suite of Key Performance Indicators (KPIs) across numerous metrics, the reports are sufficiently detailed to assist in making informed decisions and the metrics included are closely aligned to the services and priorities of the directorates. The reports use a RAG rating system and 'red rated' exception reporting to focus attention on underperforming or high risk areas and is a critical tool for supporting decisions across the Council. This is important given that the volume of KPIs in many cases is deemed quite significant although we would not recommend removing these as all are deemed relevant and specific to the services being provided. Each metric is assigned to a responsible officer and there is a clear method of holding the relevant directorate or service lead to account should performance fall below target.

These reports are shared with Cabinet Leads, giving them direct line of sight to current and emerging performance issues. The appropriateness of Directorate performance measures is reviewed annually. However, we have not been provided with any evidence of this KPI reporting being shared with Mayor & Cabinet who are key decision makers at the Council.

Improvement Recommendation – the Council should increase oversight of the non-financial performance of the Council's services and directorates by members to help them make informed decisions and take action where specific services may be underperforming. This could be achieved via a summary KPI report alongside financial reporting so that the potential impact of non-financial performance on the Council finances can be observed and that financial and non-financial performance are given equal attention by members.

This recommendation builds on our recommendation from the prior year that a quarterly performance monitoring report should be provided to members to monitor and review.

The Council recognises that further developments are required to improve the impact of operational performance reporting and is committed to ensuring that quarterly performance is discussed with the Mayor and Cabinet members and considered with Scrutiny Members when setting their work programmes going forwards.

The quality of services for users is also measured through satisfaction surveys and information from the complaints management resolution processes. Reporting to EMT is done on a quarterly basis and is deemed sufficient in terms of frequency and in line with the prior year.

To support the KPI reporting in year the Council has also taken part in the LGA Peer Review. The review is aimed at reviewing governance, culture and other more strategic performance areas as opposed to detailed operational targets that the directorate reports monitor. Therefore it is a complementary view of performance as opposed to duplicating reporting already in existence. The report overall was positive in terms of the Council's performance and 11 recommendations were raised to assist the Council in working towards best practice arrangements. The report has been published on the Council website for transparency but there is a lack of evidence of the findings or any action plan being reported to Mayor & Cabinet.

Improvement Recommendation - the Council should develop and action plan from the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the findings into existing KPI reporting as those structures are already in place

Currently a data policy does not exist at the Council which would provide guidance and assurances over the data quality of the Council's performance reporting. Creation of such a policy is in progress and is expected to completed by Q4 22/23. A draft policy has been developed and therefore progress to date suggests that this should be able to finalised in 22/23 as expected. In the meantime directorate leads, Cabinet Leads and Executive Management have sight of and review the reports to identify any potential issues, including those highlighted due to inaccuracies. This is separate to data policies covering data protection and GDPR which are effectively in place and information available through the public website.

Improvement Recommendation - the Council should ensure that a data policy is finalised as soon as possible and that the terms of references of sub committees are updated so that the Mayor & Cabinet are able to take assurance of the quality of the data that feeds the board packs. Any delay to developing this policy will potentially impact data quality of non-financial performance reporting which can directly impact reliability of savings and financial performance at year end.

Benchmarking Analysis

Review of the Directorate level KPI reporting demonstrates that there is inconsistent use of benchmarking in these reports. We noted evidence of the Council comparing to its own internal performance by demonstrating the direction of travel of KPIs and also comparing itself to national performance within the Children's' and Young People's Directorate metrics and some of the Adults Directorate metrics. There was no evidence of comparison with national performance or similar organisations within the KPI reports of other directorates. This suggests that the Council focusses its resources on benchmarking in those directorates where it is felt most beneficial or reflective of the risk. These directorates are those facing recurring overspends each year and therefore focusing efforts in these areas is appropriate where capacity is a restriction.

The Council's approach to learning from other organisation through benchmarking is undertaken on an ad-hoc basis. The Council has benchmarking tools available such as LG Inform but does not subscribe to any benchmarking clubs per se. In year benchmarking 'deep dives' have been undertaken using the LG inform tool, specifically in Children's and Adults Social Care. The results of this have been used, in conjunction with engaging external consultants, to develop and action plan to realise the opportunities in Adult Social Care specifically highlighted in the data. The work to realise these benefits is ongoing and expected to complete in 22/23 and work to realise opportunities in Children's Social Care will be prioritized in future years.

We raised an improvement recommendation in the prior year which stated that the Council should take a corporate approach to identify benchmarking good practice and co-ordinate its use within the services to challenge performance. We believe the ad hoc deep dives, KPI reports, use of LG Inform and engaging external consultants in year effectively respond to this recommendation for 21/22 but given that these have focused on specific services a Council-wide strategy still needs to be developed.

Improvement recommendation – the Council should introduce benchmarking into all directorates KPI reports to ensure that comparative performance is observed consistently and opportunities that this highlights can be maximised. The Council would benefit from a Council-wide benchmarking strategy as opposed to an ad hoc approach, although the targeted approach has been effective in year.

Additional improvements have been implemented behind the scenes to ensure there is a more structured approach to benchmarking going forwards. As part of the Support for Leadership restructure, the role of the corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change.

The Senior Leadership Team uses reports from regulators to improve and strengthen services. In 20/21 there was an appointment of an experienced Director of Children's Services and consistent use of the social work practice model in response to the improvements made by a previous Ofsted inspection in 2019. Since then, Ofsted has revisited the council in 2021. The report concluded that senior leaders and partner agencies have worked well together to deliver an effective response to mitigate the impact of the pandemic in Lewisham. Despite the ongoing pressures this has put on services, leaders have continued to prioritise improvements to children's services, underpinned by corporate and political support. Ofsted recognise the progress made by the Council in recent years in the report and this evident in the reduction in the volume and significance of the recommendations made by Ofsted. The Council have welcome the feedback, reviewed the content of the report in detail through the Children and Young People Committee and confirmed that action is already in hand to tackle the new recommendations.

Using Grant Thornton internal benchmarking tools, which makes use of the annual RO and RA return forms sent by each Council nationally to Department for Levelling Up, Homes and Communities (DLUHC), we have compared unit costs of Council services with other London Boroughs to identify those services with very high comparative unit costs which are also material areas of expenditure for the Council.

Service	Total Cost 21/22 £000	Units	Unit Costs £	Unit Cost Score
Education – Primary Schools	186,517	21,703	8,594.07	Very High
Education – Secondary Schools	108,557	9,790	11,088.56	Very High
Education – Special Schools and Alternative Provision Age 4-18	48,261	54,361	887.79	Very High
Children's Social Care – Looked After Children Age 0-17	41,160	68,276	602.85	Very High

Source: RA Returns (Comparator London Borough Councils)

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The Council is already responding effectively to these areas as they have been highlighted as areas of focus through their own internal analysis. In relation to the Education Services the expenditure is monitored on a monthly basis as part of the budget monitoring process and finance are working with the service and the Department for Education to reduce expenditure in this area as part of the 'Delivering Better Value Programme'. For Children's Social Care, the service have a sufficiency strategy focussed on prevention and therefore is proactive rather than reactive in its approach. Currently this service is seeing a reduction in Children Looked After from 483 in April 22 to 453 in September 22, as a result of the actions being taken however the needs of the Children receiving a service are more complex and therefore work continues. The spend on Children's Social Care continues to be a high focus area with regular scrutiny at Senior Officer and Member level.

As noted the Council has undertaken its own benchmarking in year through its KPI dashboards for each directorate and identified Children's and Adults Social Care as areas to undertake deep dives on via the LG Inform tool. The KPI dashboard also includes clear information on areas of performance which impact high costs such as referrals, contacts and caseloads in the Children and Young People Directorate. This has prompted the piece of work with external consultants to identify any further cost saving and efficiency opportunities and to assist in putting tangible actions in place to realise the opportunities identified from their own benchmarking, with a focus on adults initially and children's opportunities to be explored following the completion of the adult services based work. The current consultancy work is focusing on savings and efficiencies overall in relation to the demand for services, however our benchmarking suggests that that it is also important that unit cost is addressed alongside volume to have the largest impact on the financial position. We are aware that the discussion, engagement and work with external consultants is ongoing and expect cost reduction will form part of the conversation. We have also reviewed the project management arrangements in place between the Council and the consultants. These include formal monthly meetings to review the consultants progress, reporting provided to the Council sufficient to allow challenge of the savings being made and savings delivered to date are in line with expectation. As such arrangements to manage the project and maximise success are appropriate.

Subsidiaries

The Council has two key subsidiary interests in Lewisham Homes Ltd and Catford Regeneration Partnerships Limited (CRPL) which have been in existence for several years. Several reports in relation to Lewisham Homes have been observed as being reviewed by Mayor & Cabinet throughout the year, with the 'Building for the Future' programme (managed by the company, being a regular agenda item. KPIs of this subsidiary are reported to the Housing Committee quarterly and therefore there are effective and sufficiently regular reviews of the company's performance in place. There is evidence within the budget setting reports of the subsidiary also being considered as part of this process.

In the prior year we noted that for Lewisham Homes Limited and Catford Regeneration Partnership Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis. This has been addressed for Lewisham Homes however there is no evidence of performance reporting being provided to Mayor & Cabinet for Catford Regeneration Project in the 21/22 year (we note the business plan has since been reviewed by the committee in September 2022).

To support the formally documented review of performance via the KPI reports there are also informal arrangements in place to ensure the Council receives the assurances it needs to on the performance of Lewisham Homes. These arrangements include a 6-weekly strategic client meeting between the Director for Housing, Council Section 151 Officer Officer and Senior Leadership Team covering performance, expenditure, risks and all the key elements of the contract with the subsidiary. A separate session is held specifically for the "Building for Lewisham" programme which includes how Lewisham Homes add value through their contract, looks at financial viability of the scheme and the contracts within this - this meeting is held on a monthly basis. The Chief Finance Officers of the both the Council and the subsidiary meet on an ad-hoc basis as required and have a good working relationship in place.

Various Lewisham Council directors sit on the CRPL Board and therefore there is a mechanism by which information in relation to the company can be relayed to members and Council Officers although fewer formal and informal meetings and discussions have been observed. The newly established Assurance Board aims to include the subsidiary companies reporting monthly/bi-monthly as an extra layer of operational oversight going forwards and this will further strengthen the arrangements in place provided both subsidiaries are represented.

Improvement recommendation - the Council should ensure quarterly reporting of KPIs in relation to Catford Regeneration Partnership Limited is presented to Mayor & Cabinet or another relevant committee.

Lewisham Homes Ltd accounts demonstrate that the company made a £1.266m loss in 21/22. The Council overall made a loss of £0.5m and from review of the outturn report this was predominantly due to pressures in adult social care which is unrelated to Lewisham Homes activities. As such despite the company's loss in year they have not significantly impacted the Council's financial performance. The Council is exploring the option to bring the housing service provided by Lewisham Homes back in house as a means of aligning to the Council priorities which includes effective use of resources. As such the Council is already exploring solutions to remedy the possible future impacts of further financial losses. There were no concerns identified in the financial performance of CRPL which would require any adjustment to arrangements in place.

Digital

In the 2017/18 VFM conclusion a qualification was raised in relation to poor governance arrangements in managing digital programmes. As a result of this qualification, and the impact of Covid-19 on the Council resource, digital transformation programmes were paused for the past few years. The Council's website and Corporate Plan confirm that digital is once again a priority and the Council has a vision for becoming a truly digital Council and Borough. Specifically, this includes delivering an improved digital infrastructure which will empower residents, businesses, community and voluntary sector and public services, and contribute to Lewisham's economic growth. Lewisham published its first creative and digital industries in 2017 outlining how the council and its partners plan associated industries within the borough which is now outdated. The 2023 digital strategy, addresses how the council will deliver key digital services and infrastructure to residents to thrive and live happy, healthy lives. The overarching ambitions of the strategy are the development of a modern, sustainable borough that harnesses the latest in digital technologies and infrastructure. At present, the Council are in the process of developing the 2023 Digital strategy with this anticipated to be released in mid-2023.

Improvement Recommendation - In order to build on the previous VFM conclusion, once the digital strategy is developed and released, the should Council identify how the existing governance arrangements can support delivery of the programme.

The Council has an Overview and Scrutiny and Task and Finish Group (TFG) structure already in place which, if the scale of the programme dictates, could be adapted to ensure ongoing monitoring of the programme. Currently the Council has TFGs for Digital inclusion in Education and Adults with Learning Disabilities which have met twice in the year, with the former having produced a year end report. As such there is the scope to develop another specific TFG for any significant resulting elements of the strategy.

Conclusion

Overall, arrangements to secure economy, effectiveness and efficiency are appropriate. Improvement recommendations have been made but these are suggested as methods of achieving best practice as opposed to correcting underperforming arrangements at the Council.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 6 (priority improvement recommendation)	The Council should explore ways to ensure the maximum benefit is achieved from the non-financial reporting of the Council's directorates. This could be achieved via increased oversight of the non-financial KPI performance of the Council's services and directorates by members and introducing benchmarking into all directorates KPI reports. The Council would benefit from a Council-wide benchmarking strategy as opposed to an ad-hoc approach.
Why/impact	Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position. Comparing performance to similar organisations provides important information to assess if certain services our outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.
Summary findings	Operational performance is reported via Directorate Management Reports which include a KPI Dashboard. These are reviewed by Directorate Leads and the executive Management Team however there is limited evidence of members having sight of these performance metrics. The Council includes benchmarking against national data within the KPI reports of the Adults and Children's Directorate reporting on operational performance metrics, however there is no evidence of benchmarking in the reports of other directorates. In addition the Council has undertaken 'deep dives' using benchmarking in year but these have also been focussed on Adults and Children's Social Care. These are areas of overspend therefore this targeted approach is appropriate however it would be of benefit to identify opportunities, from benchmarking, Council-wide.
Management Comments	The Council is reviewing its performance reporting to support the new Corporate Strategy adopted by Full Council in November 2022. This will develop relevant non-financial indicators to assess progress on delivery of the corporate objectives. As recognised, Finance and Service teams have been developing more data insights. This work will continue to ensure it is aligned for financial and non-financial data and include benchmarking where there is consistent and reliable data available.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 7 (minor improvement recommendation)	Overall the Council's arrangements in securing economy, effectiveness and efficiency are positive. The Council may wish explore ways that it can make iterative improvements to demonstrate best practice in arrangements. These could include: • developing an action plan from the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the findings into existing KPI reporting as those structures are already in place. • ensuring that a Data Policy is finalised as soon as possible. • exploring ways that equal attention could be paid to monitoring the performance of both of its key subsidiaries. • identifying how the existing governance arrangements can support delivery of the digital programme, once the 2023 Digital Strategy is developed and released.
Why/impact	Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position. Comparing performance to similar organisations provides important information to assess if certain services our outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.
Summary findings	See body of the report.
Management Comments	The Council welcomes the assurance that its arrangements for securing economy, effectiveness and efficiency remain positive. The Council did develop an action plan in response to the LGA peer review. Progress against these actions is currently being updated and will be reported on to Members. This is being coordinated by the Cabinet Member for Resources and Strategy. Digital and data strategy and policy improvements – both for services to the Borough and internally for officers' ways of working are being reviewed and improved, including the operation of the Council's leading shared service with the London Boroughs of Brent and Southwark. The reporting and monitoring of the Council's subsidiaries, which includes the main one of Lewisham Homes, will be reassessed as part of the strategic decision currently before M&C on the options for the future of the company with the potential for it to be insourced.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Financial Sustainability - The Council should continue its work in enhancing the understanding of the costs of general fund placements and Education Dedicated Support Grant related Education Health & Care Plans and Special, Educational Needs and Disability costs across the Children and Young People Directorate. This work should lead to more accurate financial forecasting as well as assisting with developing interventions that benefit children to live more independently in the longer term.	Improvement	March 2022	The largest overspending service in 21/22 (Children's Social Care Services) sits in the Children and Young Peoples directorate. Essentially, in the prior year, we suggested the Council should focus on understanding and responding to the underlying cause of the overspends in this directorate. Members of the SEND service are currently working with finance colleagues on developing a more sophisticated tools and data to enable the Council to identify profiles of spend and numbers of children receiving support, to identify biggest impact areas based on opportunity for improvement and feasibility. Therefore, this internal collaboration demonstrates good progress on the recommendation has been made but is ongoing, the direction of travel is positive.	Yes	No
	Financial Sustainability - Budget monitoring reports should clearly articulate the underlying causes for the under delivery of savings plans. Actions taken to address under delivery or proposed alternative plans should also be detailed within the report.	Improvement	March 2022	Although the presentation of savings performance is undertaken via a detailed appendix to the budget monitoring report there still remains limited information on cause or actions included within this and so our prior year recommendation remains unaddressed. Despite the actions not being documented in the reporting where services are struggling to deliver savings, finance and the services work collaboratively to find ways to mitigate/deliver them in alternative ways. Any undeliverable savings which cannot be mitigated are included within the reported financial position for each service area with an explanation of what is causing them to not be delivered. A further section in the report covers financial risks which are not within the reported position but may materialise over the forthcoming financial year.	No	Yes – to be reviewed in 22/23 although the fact this is unaddressed is not a weakness in arrangements since the actions are being taken the improvement is simply needed to the documentation of these actions reported to members.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	Financial Sustainability - Complete the re-organisation of social care work and focus on continuing to improve the systems used by Social Care staff.	Improvement	March 2022	The Council have established a change programme within Adult Social Care, known as Empowering Lewisham, and is being supported by external consultants. The Design and Implementation phase of Empowering Lewisham is nearing completion and has included new ways of working, the transformation and reconfiguration of services and the transfer of sustainable skills and knowledge to staff. The IT systems that support Adult Social Care have been upgraded allowing all payments to providers to go through the ContrOCC system. This has resulted in better oversight of expenditure and the system. This is being used to track activity and savings of the directorate already. As such, although it is too early to tell the impact of the consultancy work, the recommendation is considered closed given that actions have been taken to address the issue.	Yes	No
	Financial Sustainability - The Council will need to continue to work with schools and benchmark the number of Special Educational Needs and Disability provisions in mainstream schools made available compared to neighbouring boroughs.	Improvement	March 2022	There has been an overspend in Education Services of £1.5m for 21/22 which includes spend on SEND. Although there has been an overspend it is not significant in terms of the Children's & Young People Directorate budget of £59m and therefore not seen as a specific pressure. Work continues on the High Needs Mitigation Plan, overseen by Schools Forum and the local area partnership board, with increasing SEND provision capacity as a key focus. We have reviewed the meeting minutes of the Schools Forum and note that the mitigation plan is not a standing agenda item however the Forum is supported by the High Needs Sub-Group who normally meet 7 – 10 days before the Schools Forum meeting. Therefore the sub-group feed into specific agenda items on the provision and use of DFG, as such there is a sufficient response to our recommendation and the direction of travel is positive in terms of progress. Plans are also in place to increase specialist SEND places in Lewisham primary and special schools by 90 during the 2022/23 academic year.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	Financial Sustainability - Management have undertaken some sensitivity analysis when setting the 2021/22 budget. Management acknowledges that sensitivity analysis and scenario planning in terms of 'worst case' and 'stress testing' is an area which will need additional work going forward, to model the financial impact of Covid in the longer-term and ensure that plans are in place to make appropriate operational decisions to maintain financial sustainability.	Improvement	March 2022	The Council has updated its MTFP as part of the 22/23 budget setting process which includes base case assumptions which produce a profile of £10m, £10m, £8m, and £7m gap in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four-year budget gap down by £19m or up by £17m from the base case of £36m. This is a direct response to our recommendation as the analysis is deemed to be more comprehensive and developed than the prior year with the scenarios being applied on a line by line basis to the MTFP.	Yes	Yes – we have extended this recommendation to suggest the Council consider applying scenario planning to the annual budget as well as the MTFP. See recommendations
6	Financial Sustainability - The Council is developing longer term solutions to meet the medium term financial challenge, but would benefit from building up a longer term reserves strategy. The strategy should set out principles on the levels of reserves demonstrating how reserves are aligned with priorities and be agile enough to allow the Council to respond appropriately to changes in economic conditions.	Improvement	March 2022	A review is being undertaken of the reserves strategy and this will initially be included within the Budget Report for 2023/24 and therefore expected in February 2023. Going forward this will form part of the MTFS report each year. This effectively responds to our recommendation, the delay of this not being included in the 22/23 process is accepted as this process was already underway when our 21/22 work was released.	Yes	No
7	Financial Sustainability - Revisions to the governance structure are required to ensure: • A more comprehensive oversight over the capital programme • There is a clear alignment of capital resources with corporate priorities • A robust approach to programme management • Formal oversight of re-profiling change requests	Improvement	March 2022	The following actions are being undertaken to address these recommendations: • Review of Regeneration Capital Board and Regeneration Capital Programme Delivery Board (RCPDB) Terms of Reference and reporting to ensure oversight. • Review and update of the project manager handbook guidance. • Standardisation of twice yearly capital budget re profiling in alignment with the budget setting process. Although these are in progress the direction of travel in response to the recommendation is positive	Yes	No

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Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	Financial Sustainability - Given the uncertainty of the pandemic and current economic environment a routine re-profiling of the capital programme would be required. This needs to be complemented by detailed reporting on a scheme by scheme basis with detailed explanations explaining slippage that will assist with holding delivery managers to account for meeting project timescales.	Improvement	March 2022	Revised project highlight summary reporting will provide clearer detail of the performance of capital projects against time, cost and quality. Slippage against profile will be reviewed on a quarterly basis by Regeneration Capital Board and Regeneration Capital Programme Delivery Board (RCPDB). The in year 21/22 Capital Monitoring in the finance reports include an appendix with the capital programme detailed in the medium term and quarterly monitoring at scheme level, but still with limited information on causes of slippage for each scheme and as such in 21/22 our recommendation was not implemented and remains open. The first 22/23 capital monitoring in the monitoring reports shows that capital schemes are included on a scheme-by-scheme basis in the appendix but there is no detail of spend to date or any forecast slippage. The reporting explains that at this stage these were being revised as part of the year end processes for 2021/22 and an up-to-date budget considering any slippage will be presented in the next report.	No	Yes – to be followed up in 22/23 to ensure the actions the Council describes have been taken.
9	Governance - The Council should streamline the approach to risk management to ensure it is dynamic and there is more consistency and robust centralised risk management.	Improvement	March 2022	The Council are in the process of developing a refreshed Risk Management Strategy with components currently in consultation. The timeline expects EMT approval of the new Strategy in late autumn 2022 with presentation to Members of the Audit Panel in December and full adoption to start in 2023/24. The revised strategy incorporates the findings discussed in the prior year VFM work.	Yes	No – Strategy will be reviewed as part of 22/23 work but it being in development is sufficient to respond to our recommendation.
10	3E's - The council continue to develop and support the creation of a centralised intelligence hub, which will ensure clarity around data and insight for a more strategic reporting approach.	Improvement	March 2022	A new corporate Insight team was created as part of the Support for Leadership restructure in July 2021, and has been in place since October 2021.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	3E's - A quarterly performance monitoring report should be provided to members to monitor and review. The Council should also consider integrated reporting using a balanced scorecard approach, that will better enable management and members to understand the interrelationship between different sources of information.	Improvement	March 2022	Quarterly Directorate reporting has moved from word documents to a dashboard approach which is an important stepping stone in achieving the balanced scorecard approach. The council is in the process of developing a new performance framework which will consider a balanced scorecard approach, support SLT and review performance with respective Cabinet Members routinely. In addition, quarterly performance will be discussed with the Mayor and cabinet members and considered with Scrutiny Members when setting their work programmes.	Partially	No
12	3E's - The Council should take a corporate approach to identify benchmarking good practice and co-ordinate its use within the services to challenge performance.	Improvement	March 2022	As part of the Support for Leadership restructure, the role of the Corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change. There have been benchmarking deep dives in Adult and Children's Social Care, national benchmarking is included within the performance reporting of these directorates and other benchmarking activity is undertaken on an ad hoc basis. As such there is evidence of an increased level of benchmarking in year, with this being used to develop tangible outputs with the support of external consultants in relation to Adults Social Care. Therefore we have updated this recommendation to suggest that benchmarking is undertaken on a more consistent basis across the Council.	Partially	See recommendations
13	For Lewisham Homes Limited and Catford Regeneration Partnership Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis.	Improvement	March 2022	As noted in the body of the report we have noted appropriate reporting of performance information for Lewisham Homes and therefore have re-raised the recommendation in 21/22 for Catford Regeneration Project Limited to be paid equal attention by committees.	Partially	See recommendations

Opinion on the financial statements

Audit opinion on the financial statements

We are still undertaking our audit of your financial statements. At this stage we expect to issue an unqualified audit opinion. Our Audit Findings Report will be presented to the Audit Panel on 6 December 2022.

The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022. We therefore expect to issue our audit opinion early in 2023.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which is reported alongside this report at the Council's Audit Panel on 6 December 2022

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. This work will be completed following the audit of the financial statements. The Council's expenditure and assets are below the £2bn threshold for a detailed audit of the return.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

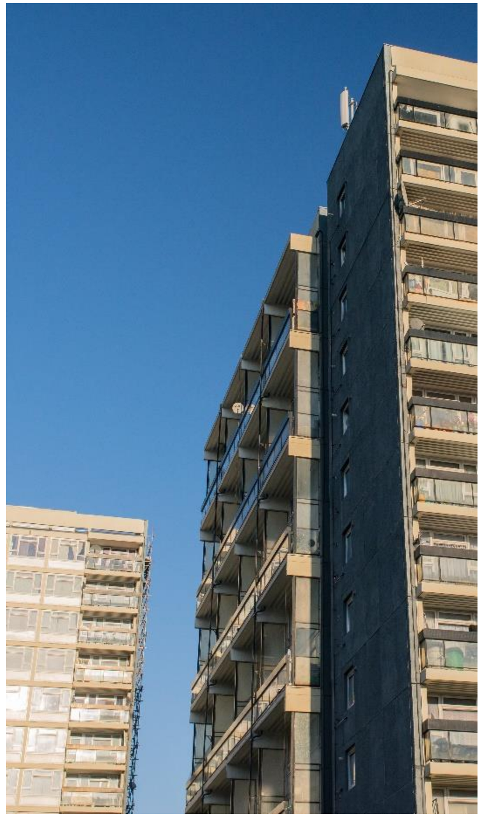
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	See relevant sections proceeding Financial Sustainability, Governance and 3E's narrative

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Lewisham

Audit Panel

Report title: Statement of Accounts 2021/22 and Annual Report 2021/22

Date: 06 December 2022

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director of Corporate Resources

Outline and recommendations

The purpose of this report is to:

- Note the draft Statement of Accounts and Pension Fund Accounts 2021/22 and the agreed audit adjustments.
- Approve the Management Representation Letters.
- Provide an update on the recommendations to the Draft Audit Findings Report 2021/22 and follow up of 2020/21.
- Provide an update on the recommendations to the Auditor's Annual Report (VfM) 2021/22 and follow up of 2020/21.
- Recommend delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

Lateness: This report was not available for the original despatch date as officers were delayed by the ongoing audit queries and the need to incorporate the latest audit changes into the documents now being submitted.

Urgency: It is important for the Audit Panel to take the report now as it will enable the audited accounts to be approved by Full Council on 18 January 2022.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if she is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. Summary

1.1. The purpose of this report is to provide an update to the members of the Audit Panel on 2021/22 Statement of Accounts and statutory external audit processes.

1.2. The report also provides members with the management action responses to the auditor recommendations made as part of the 2021/22 external audit as well as those included within the Auditor's Annual (Value for Money) report.

2. Recommendations

2.1. The Audit Panel is recommended to note the contents of the report, approve the management representation letters and approve delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

3. Policy Context

3.1. The report is consistent with the Council's policy framework, supporting the priorities set out in the Corporate Strategy 2022-26. It contributes towards all Council priorities through effective management of finance.

4. 2021/22 Statement of Accounts and Pension Fund Accounts

4.1. The statutory deadline for publishing the audited accounts 2021/22 is 30 November 2022. Due to a national issue relating to the recognition of infrastructure assets and carrying out the final elements of the audit work, this deadline cannot be met. A notification of delay of publication has been published on the Council's website in line with regulations.

4.2. The draft Audit Findings Report 2021/22 lists the agreed audit adjustments to be made to the draft Accounts before publication of the final audited versions. This includes adjustments in relation to Council Tax, Non Domestic Rates, Section 31 grants, capital and pension fund transfers. There are also amendments to be made on the narrative elements of the accounts. There is no impact on the Council's 2021/22 outturn.

4.3. The draft Statement of Accounts and Pension Fund Accounts are included in Appendices A and B.

4.4. The anticipated audit opinion is that the accounts give a true and fair view of the financial position of the group, Authority and Pension Fund during 2021/22 and have been properly prepared.

5. Management Representation Letters

5.1. Management Representation Letters for the Statement of Accounts and Pension Fund Accounts 2021/22 are included in Appendices C and D.

5.2. These set out assurances to confirm the Council's view that relevant accounting standards have been complied with and gives further assurances that Council has disclosed information where to withhold it would have undermined the accuracy and reliability of the Accounts.

6. Draft Audit Findings Report Action Plan

6.1. The draft Audit Findings Report for London Borough of Lewisham and Lewisham Pension Fund for the year ended 31 March 2022, includes an action plan. This consists of five recommendations for the Council as a result of issues identified during the course of the 2021/22 audit. These are yet to be reviewed and agreed by management.

6.2. The report also included a follow up of prior year recommendations. A number have now been closed off and five remain.

6.3. The recommendations, once accepted by management, will be added to the action tracker for progress with their implementation to be reported on as part of the Audit Panel standing agenda item These recommendations are included within Appendix E.

7. Auditor's Annual Report Action Plan

7.1. The Auditor's Annual Report (VFM) for the year ended 31 March 2022, includes an action plan. This consists of seven recommendations for the Council following their review of the Council's arrangements for securing economy, efficiency and effectiveness.

7.2. The recommendations, which are accepted by management, will be added to the action tracker for progress with their implementation to be reported on as part of the Audit Panel standing agenda item. This is included within Appendix F.

7.3. The report also included a follow up of prior year recommendations. A number have now been closed off and five remain. These are included within Appendix G.

8. Financial implications

8.1. There are no financial implications directly arising from this report.

9. Legal implications

9.1. There are no legal implications directly arising from this report.

10. Equalities implications

10.1. There are no equalities implications directly arising from this report.

11. Climate change and environmental implications

11.1. There are no climate change and environmental implications directly arising from this report.

12. Crime and disorder implications

12.1. There are no crime and disorder implications directly arising from this report.

13. Health and wellbeing implications

13.1. There are no health and wellbeing implications directly arising from this report.

14. Report authors and contact

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15. Appendices

15.1. Appendix A – Draft LB Lewisham Statement of Accounts 2021-22

15.2. Appendix B – Draft LB Lewisham Pension Fund Accounts 2021-22

15.3. Appendix C – Draft LB Lewisham Group Management Representation Letter 2021-22

15.4. Appendix D – Draft LB Lewisham Pension Fund Management Representation Letter 2021-22

15.5. Appendix E – Draft Audit Findings Report 2021/22 & 2020/21 Action Plan Recommendations

15.6. Appendix F - Auditor’s Annual Report (VfM) Recommendations 2021/22

15.7. Appendix G - Auditor’s Annual Report (VfM) Recommendations 2020/21

LONDON BOROUGH OF LEWISHAM

2021/ 22 DRAFT STATEMENT OF ACCOUNTS

CONTENTS

INDEX OF SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

NARRATIVE STATEMENT BY THE EXECUTIVE DIRECTOR OF CORPORATE RESOURCES

This Narrative Report provides information about Lewisham the place, together with the key issues affecting the Council and its accounts.

1. COUNCIL STRUCTURE AND PERFORMANCE

a) Corporate structure and governance

Lewisham Council is made up of one Mayor, elected by the whole borough, and 54 ward Councillors, for 19 wards within the borough, 16 with three elected Councillors and 3 with two elected Councillors. Elections were held on 5 May 2022. Damien Egan, Labour party, was returned as Mayor for his second term. The 54 Councillor positions were all filled by candidates from the Labour party and the Labour and Co-operative party (at 31 March 2021 there were 49 Labour Councillors, 1 Independent and 4 vacancies). Details of the way that the Council governs itself are given in the Annual Governance Statement in section 9 of these accounts.

b) Management structure

Supporting the work of Councillors is the organisational structure of the Council headed by the Executive Management Team (EMT), led by the Chief Executive. The EMT members are:

- Chief Executive
- Executive Director Children and Young People
- Executive Director Community Services
- Executive Director Housing, Regeneration and Public Realm
- Executive Director Corporate Resources
- Assistant Chief Executive
- Director of Law, Governance and Human Resources (from July 2021)
- Monitoring Officer (to June 2021)

EMT provides managerial leadership of the Council and supports elected members in:

- Developing strategies
- Identifying and planning the use of resources
- Delivering plans
- Reviewing the Authority's effectiveness

c) Service delivery

The total workforce for Lewisham at the end of FY 2020/21 was of 3,017, which consisted of 2,487 staff members (excluding casual workers) and 530 agency workers. The schools staff headcount is 3,215. The demographic composition of the workforce as at 31 March 2022 was:

- 62.6% female
- 46.5% BAME
- 4.9% disabled
- One third of the workforce are over the age of 50.

The overall workforce generally reflects the diversity of Lewisham's population.

The Council also provides services through two wholly-owned subsidiary companies:

- Lewisham Homes Limited: An arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and sustain the Decent Homes Standard. *The company manages approximately 19,000 homes.*
- Catford Regeneration Partnership Limited: The Company owns significant interests in the Catford shopping centre area and aims to support the Council to deliver a regeneration programme for the town centre and the surrounding area.

More detail concerning these companies is shown in the Group Accounts in section 6 of this document.

d) Future Lewisham

There are four core themes run through the heart of the Council's plans for Future Lewisham:

- A greener future
- A healthy and well future
- An economically sound future
- A future we all have a part in

The key strategic document for Lewisham is "Lewisham's Corporate Strategy 2018-2022", which can be viewed on the Council's website.

e) Corporate priorities

The Council has seven corporate priorities within its corporate strategy as follows:

- Open Lewisham – Lewisham will be a place where diversity and cultural heritage are recognised as a strength and are celebrated.
- Tackling the housing crisis – Everyone has a decent home that is secure and affordable.
- Giving children and young people the best start in life – Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.
- Building an inclusive local economy – Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- Delivering and defending health, social care and support – Ensuring everyone receives the health, mental health, social care and support services they need.
- Making Lewisham greener – Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
- Building safer communities – Every resident feels safe and secure living here, as we work together towards a borough free from the fear of crime.

These priorities are being updated in 2022/23 following the local elections in May 2022

f) Core values

The Council also has the following four core values:

- We put service to the public first.
- We respect all people and all communities.
- We invest in employees.
- We are open, honest, and fair in all we do.

As a Council we will do everything in our power to support those who need us most and build on the amazing community spirit and local activism. We will continue to make Lewisham's voice heard and ensure that our values which make Lewisham a special place are at the forefront of our future journey. In quarter four of the 2021/22 financial year Lewisham became the London Borough of Culture for 2022.

g) Performance management

In 2021/22 reports from the five directorates have been periodically presented at Directorate Management Team (DMT) and Executive Management Team (EMT) meetings, each of which is also shared with the relevant lead Cabinet member.

The Council continues to publish performance information on our website. This includes various reports and progress updates which are also presented on a cyclical basis to Members. The Council seeks to continuously improve and identify ways to increase the transparency and accountability of performance information to the public. This work was assisted in 2021/22 with the Local Government Association (LGA) Peer Review process that the Council undertook with the full report published on the website.

2. LOCAL GOVERNMENT FINANCE CONSIDERATIONS

a) The Council's response to Covid-19

The Covid-19 pandemic had a significant on the Council's operations through 2020/21 and into 2021/22 with continuing, albeit lesser, restrictions in force requiring services to be delivered differently. The Council has adapted to new ways of working, such as increased remote and hybrid working for many and a reliance on redeployment and volunteering to support those services where the need is greatest. For example, this includes the resources diverted to support the work needed to make the vaccines rollout a success and underpin the community work to manage local food banks and similar services.

Throughout this period the Council has continued to deliver its critical services – keeping schools open, supporting those with care needs, addressing the pressures on residents and businesses through housing options and administering additional government grants, maintaining the parks and public spaces, and ensuring bin collections and recycling continue as usual.

The Council's continued focus will be on:

- protecting critical services;
- managing increased demand as a result of the impact of the pandemic on the community;
- promoting good public health and minimising the spread of infection;
- preparing for the ongoing demands on already stretched public services, across the Council and with our partners.

b) Government funding for Covid-19

The Council received some new additional funding from the Government during 2021/22 for the continuing costs of responding to Covid-19, as well as managing the continued disbursement of funds from schemes carried over from 2020/21. The main elements included:

- Extended business rates relief for 2021/22, with grants to small businesses and those in the retail, hospitality, and leisure sectors, and a grant to support Small and Medium Enterprises (SMEs) – those with less than 50 employees – not covered by the initial grant arrangements.
- A number of other government backed financial packages provided to support local businesses during the course of 2021/22, with circa 20 different schemes being in operation at one time or another during the course of the pandemic.
- In addition, the Council has disbursed over £4m in hardship monies via the Government's Household Support Fund and £1.4m in self-isolation grants to those eligible to support the residents most severely financially impacted by the pandemic.

In respect of the burden on Council services, the Government has provided some funding in the form of grant and new burden support to meet the financial impact of this additional work. This also included the early payment of some grants to support the cash flow. Lewisham has received (and carried forward from 2020/21) £17.8m to cover the costs of the Covid-19 response and a further £1.2m to support the shortfalls in the Council's sales, fees and charges income. A further £12.1m has been received (including carry forwards) in grant income for targeted and specific Covid-19 related activity, providing an overall envelope of £31.1m. Some £25.2m of these sums have been spent in 2021/22, with the balance being carried forward to help alleviate the on-going pressures of the coronavirus pandemic or as Creditors to be repaid to DLUHC in 2022/23. Monthly monitoring to the Department of Levelling Up, Housing and Communities (DLUHC) was in place throughout the year 2021/22 and has now stopped.

c) Financial impacts, risks and uncertainties, going concern considerations

The current situation has given rise to a number of risks and uncertainties. There is significant uncertainty in respect of the outlook for Council Tax and business rates income and market stability in some of the Council's key supplier base as the UK economy slows at the same time as experiencing rising inflationary pressures. The Council seeks to anticipate and prepare for these pressures through its Medium Term Financial Strategy (MTFS). However, this is within the constraints of the limited certainty provided by the economic transition post Brexit and the Covid-19 pandemic, current local government funding arrangements set annually, and the emerging policy agenda for areas such as health and social care, academisation of schools and special needs demand, and a looser planning framework. If these changes are not fully funded the initial pressure will fall on reserve balances; firstly from the general unallocated reserves and then, the earmarked reserves.

The 2021/22 budget was set without the use of reserves and after the funding of growth and pressures of £19.7m to reset service baseline budgets and reduce the risk of the in-year overspending seen in recent years. The budget was also set with the commitment from services to deliver £28m of agreed savings. Some of these revenue plans are at risk of delay or not being delivered and the risk extends to potential material slippage in the expanded capital programme. The regular financial monitoring reported quarterly to Mayor & Cabinet keep these matters under constant review to enable plans to be flexed or changed as needed.

The Council has sufficient reserves to meet its financial commitments at present, including the estimated costs and lost income considerations, and despite these risks and pressures the current situation does not alter the Council's position as a going concern.

d) Impact on 2021/22 final accounts

There are two important implications worth noting for the 2021/22 final accounts:

- The statutory deadlines for the production of the draft accounts and audited accounts have been changed from 31 August to 31 July for the draft with the audited date remaining as the 30 November.
- The changes for the implementation of IFRS 19 and treatment of leases has been deferred by the CIPFA LAASC code for one further year, taking into account the other pressures still on local government finance teams.

3. FINANCIAL PERFORMANCE

a) 2021/22 Revenue Budget Setting and Funding

The Council set a net budget requirement of £243.1m for 2021/22 at its meeting on 3 March 2021. This was a decrease of £5.6m or 2.3% on the previous year's net budget requirement of £248.7m. The main sources of income were Revenue Support Grant (RSG), Business Rates and Council Tax. With central RSG and Business Rates similar to the previous year, Council Tax funds a higher proportion of the budget than it did last year, with bills increasing by 4.99% (3.99% in 2020/21). A year on year comparison of revenue budget funding is shown in the following table.

Narrative Statement

	2021/22 £m	2020/21 £m
Revenue Support Grant	28.2	28.0
Business Rates	96.2	102.6
Council Tax	118.7	116.2
Social Care Precept	3.5	2.3
Surplus/ (deficit) on Collection Fund	-3.5	-0.4
Budget Requirement	243.1	248.7

b) Council Tax

In 2017/18, in addition to an increase in Council Tax for general purposes, Councils were given the ability to raise Council Tax by a further 6% over the years 2017/18 to 2019/20 as a precept to fund Adult Social Care expenditure without the need for a referendum. This was in response to concerns about the growing funding gap for Adult Social Care caused by an increase in demand and the introduction of the National Living Wage, which impacted directly on the cost of care provision. In 2017/18, the Council increased the precept by the maximum allowed, 3%, in 2018/19 by 1%, in 2019/20 by 2% and 2% in 2020/21. There was a further announcement to allow Council's to levy a 3% precept in 2021/22 which the Council agreed.

For 2021/22, the Council increased the general rate of Council Tax by 1.99% and agreed to levy the 3% Adult Social Care precept resulting in an overall increase of 4.99%.
The actual Council Tax charge is determined by dividing the net amount to be met from Council Tax by the tax base, which for Lewisham is 88,614 equivalent Band D properties for 2021/22 (90,099 in 2020/21).

The comparison of Council Tax Band D levels from 2020/21 to 2021/22 for Lewisham is shown in the following table, together with the Greater London Authority precept.

	2021/22 £	2020/21 £	Variation £	Variation %
Lewisham Council	**1,379.96**	**1,314.37**	65.59	4.99
Greater London Authority	**363.66**	**332.07**	31.59	9.51
Council Tax for Band D	**1,743.62**	**1,646.44**	97.18	5.90

c) 2021/22 Revenue Budget Outturn

The Council's 2021/22 revenue outturn position is shown in the following table. Further detail can be found in the Expenditure and Funding Analysis in Section 3, Note 1 of this document.

General Fund	**Net budget**	**Outturn Full Year**	**Forecast Variance Over/ (Under)**	**Covid-19 related Variance**	**Business as Usual Outturn Over/ (Under)**
	£m	**£m**	**£m**	**£m**	**£m**
Children & Young People	59.0	64.0	**5.0**	4.4	0.6
Community Services	81.8	96.5	**14.7**	13.4	1.3
Housing, Regeneration and Public Realm	22.5	26.7	**4.2**	*4.8*	(0.6)
Corporate Resources	33.1	35.4	**2.3**	*2.5*	(0.2)
Chief Executives	11.2	10.7	**(0.5)**	0.1	(0.6)
Directorate Totals	**207.6**	**233.3**	**25.7**	**25.2**	**0.5**
Covid-19 Government Grant Income – Applied	N/A	(25.2)	**(25.2)**	(25.2)	0.0
Corporate Items	35.5	35.5	**0.0**	0.0	0.0
Net Revenue Budget	**243.1**	**243.6**	**0.5**	**0.0**	**0.5**

During 2021/22, the overspend against the Directorates' net controllable budgets was £25.7m. This consists of Covid related spend of £25.2m for the year which is met by Covid-19 government grant income and a general fund 'business as usual' overspend of £0.5m. The final overspend of £0.5m has been managed from provisions without an unplanned drawing down of reserves. Detailed reasons for budget variances have been reported to Mayor & Cabinet on 15 June 2021.

The council has carried forward £4.0m of unspent local authority support grant and £0.4m of Contain Outbreak Management Fund to use to fund some of the legacy impact of Covid in 2022/23.

Savings of £8.1m were outstanding from 2020/21 and the services worked on the delivery of these alongside £22.6m of savings added to the budget for 2021/22 as part of agreeing a balanced budget. The total level of savings to be delivered in 2021/22 was £30.7m, £17.8m of these savings have been delivered with the undelivered £12.9m to be delivered during 2022/23.

Throughout the year, Mayor & Cabinet and Executive Directors have received regular financial monitoring reports. The financial position demonstrates the impact of the very severe financial constraints which have been imposed on Council services with the cuts made year on year, alongside the increasing demand due to the growing number of the borough's residents and the impact the coronavirus pandemic has had on the Council's finances.

As the new financial year begins, with a new set of challenges in terms of the delivery of revenue budget cuts, the Council will continue in its resolve to apply sound financial controls. It is clear that the short and medium-term outlook will remain difficult and challenging. However, the Executive Director for Corporate Resources, as the Council's Section 151 officer, will continue to work with directorate management teams to effect the necessary continued actions to manage their services and intervene early where necessary to avoid a budgetary situation becoming unmanageable.

Dedicated Schools Grant

As at 2021/22, there are 13 schools in deficits totalling £3.1m and there are now three schools remaining with loans of which one is currently in deficit. Lewisham finance continues to work effectively with schools to ensure long term sustainability. Schools continue to face challenges including in particular pupil number reductions in primary schools, cost pressures on energy and other inflationary pressures. It should be noted that deficits could potentially revert back as a pressure on the General Fund

d) Balances and Reserves

After transfers to and from reserves the General Fund balance has remained at £20m. This is an adequate level of cover and represents approximately 8% of Lewisham's Net Budget Requirement for 2022/23. The Council also has a number of earmarked reserves for specific on-going initiatives and these are shown in Note 9 to the Core Financial Statements.

The Housing Revenue Account (HRA) spent to budget after transfers to reserves as at 31 March 2022. It continues to build reserves up on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs. After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £32.1m (£76.9m in 2020/21). These reserves include the Major Repairs Reserve and are for specific ongoing projects as outlined in the notes to the HRA in Section 4 of the Accounts.

e) Cashflow

Cash and Cash equivalents held by the Council increased from £77.6m to £111.7m in 2021/22.
The detailed analysis of the movements in Cash throughout the year can be found in the Cashflow Statement and related notes. The summary is as follows:

	2021/22	**2020/21**
	£000s	**£000s**
Net Cash flows from Operating Activities	58,893	100,227
Purchases of PPE	(108,214)	(101,146)
Sales of PPE	15,815	11,267
Net Purchases of Short & Long-term investments	38,000	(45,000)
Net Receipts from Investing activities	20,700	36,601
Cash receipts of short and Long-Term Borrowing	0	0
Repayment of Short and Long-Term Borrowing	(8,239)	(12,952)
Net payments for Other Financing activities	17,115	(24,202)
Net Increase or (Decrease) in Cash and Cash Equivalents	**34,070**	**(35,205)**

f) 2021/22 Capital Budget Outturn

The capital programme expenditure incurred during the year and how it was resourced is shown below.

	2021/22 Final Outturn £m	2021/22 Original Budget M&C - Feb-21 £m	2021/22 Revised Budget Proposed - Mar-22 £m	2020/21 Final Outturn £m
CAPITAL PROGRAMME EXPENDITURE				
General Fund	42.2	70.3	63.1	58.0
Housing Revenue Account	82.8	114.0	117.7	62.1
Total Spent	125.0	184.3	180.8	120.1

During the year, the budget was revised to reflect the forecast development of the programme. The percentage spent compared to the revised programme budget was 69% (2020/21 70**%)**.

The Financing of the Capital Programme spend is shown in the table below:

	2021/22 Final Outturn £m	2021/22 Original Budget M&C - Feb-21 £m	2020/21 Final Outturn £m
CAPITAL PROGRAMME FINANCING			
Borrowing	10.2	63.5	8.2
Capital Grants	26.4	39.3	43.6
Capital Receipts	7.8	7.8	12.4
Use of reserves and revenue financing	80.6	73.7	55.9
Total Financed	125.0	184.3	120.1

Spend on the major projects, where in year spend exceeded £1m, is shown in the table below.

Major Projects of over £1m	2021/22 Expenditure £m	2020/21 Expenditure £m
General Fund		
School Places Programme	7.5	1.9
Temporary Accommodation Conversion	4.9	4.2
Schools minor works	4.7	4.2
Edward Street Development	4.4	5.7
Highways & Bridges (incl. TFL programme)	3.8	5.8
Lewisham Homes Property Acquisition	3.0	0.0
Private Sector Grants and Loans (inc. DFG)	2.3	1.5
Deptford Southern Sites Regeneration	2.2	2.6
Leisure Schemes	2.0	0.0
Lewisham Gateway (Phase 2)	0.6	14.8
Fleet Replacement Programme	0.0	6.3
Residential Portfolio Acquisition – Hyde Housing Association	0.0	2.1
Housing Revenue Account		
Building for Lewisham Programme	33.5	15.8
HRA Capital Programme	48.1	38.1
Creekside Acquisition	0.0	6.7

4. LOOKING AHEAD

a) Revenue Budget Outlook

Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity and growth in demand for services. The economic backdrop, post Brexit and recovery from the Covid-19 pandemic, has increased the pressure on costs. This has also driven changes to regulations and service delivery that in turn bring additional risks and uncertainties.

The Council set a net budget requirement of £248.6m for 2022/23 at its meeting on 02 March 2022, which is £5.5m higher than the equivalent figure for 2021/22. The Council has made reductions of £11.8m to its budget, and added £17.3m to provide for risks and pressures. This is sufficient to set a balanced budget for the year, without the need to use reserves, but action is also being taken to ensure that expenditure is affordable in future years. Reserves may be used at the start of the financial year to underpin selected service budgets, pending actions being taken to bring these budgets back in line on an ongoing basis.

- The Medium Term Financial Strategy (MTFS) has been reported to Mayor & Cabinet in July 2022. This sets out that an estimated £36m of cuts would be required from 2023/24 to 2026/27 to meet the remaining budget gap with a profile of £10m, £10m, £8m and £7m, respectively.

Looking further ahead, the Government is due to conclude the delayed work to review arrangements for Local Government financing. This follows consultations on two potential changes that will contribute to shaping the future of Local Government funding:

- A Fair Funding Review of local authorities' relative needs and resources, to now include the recently published Census 2021 data; and
- Business Rates Retention Reform – and the viability of this national tax which disproportionally impacts asset based businesses, in particular retail compared to the growing level of online services.

b) Capital Budget Outlook

The Council set its capital programme budget at its meeting on 03 March 2021. This outlined the Council's programme of £517.5m for the years 2021/22 to 2023/24. The most significant parts of the programme are school expansion to provide additional pupil places, highways and bridges, major regeneration schemes including Catford town centre, plus the Building for Lewisham programme.

The budgeted amount to be invested in 2022/23 is shown in the table below:

2022/23 Capital Programme	**2022/23 Budget £m**
General Fund	
Schools – Pupil Places Programme & other capital works	**11.1**
Edward St. Development	**7.6**
Broadway Theatre	**6.2**
Asset Management programme	**5.2**
Highways, footways and bridges	**4.9**
Temporary Accomodation	**4.7**
Mayow Rd. Development	**4.4**
Lewisham Gateway (Phase 2)	**2.9**
Leisure Schemes	**1.8**
Town Centres & High Street improvements	**1.6**
Beckenham Place Park	**1.3**
Traveller's Site Relocation	**1.1**
Place Ladywell	**1.1**
Achilles St. Development	**1.0**
Private Sector Grants and Loans	**0.6**
Other schemes	**4.2**
	59.7
Housing Revenue Account	
Building for Lewisham Programme	**137.9**
HRA Capital Programme	**93.1**
Other Schemes	**11.6**
	242.6
Total Capital Programme	**302.3**

c) Corporate Risks

The Council has an embedded process to manage risks and assist the achievement of its objectives. The Risk Management Strategy is compliant with the statutory requirements as defined in the Accounts & Audit Regulations 2015 and is summarised as part of the Annual Governance Statement in section 9 of this document.

The Risk Management Objectives of the London Borough of Lewisham are as follows:

- Ensure the health, safety & security of service users, citizens and staff
- Safeguard vulnerable children and adults to help prevent injury and damage
- Help to achieve corporate priorities
- Integrate risk management into the culture of the Authority
- Identify, evaluate and manage risk in accordance with good practice
- Ensure legal and regulatory compliance as a minimum standard
- Anticipate and respond to changing social, environmental and legislative requirements
- Raise awareness of the need for risk management in all service areas
- Mitigate risks
- Enhance corporate governance of risk
- Optimise opportunities
- Reduce the cost of risk
- Safeguarding Council assets

Risks are scored in terms of likelihood and impact, with a range from 1 to 5 (with 5 being the highest) and the result is plotted on a matrix to produce a Red/Amber/Green rating. The risk register contains action plans to manage the risks to target and these are subject to regular review by Directorate Management Teams. The risk registers are reported to the Executive Management Team (previously the now disbanded Internal Control Board) on a quarterly basis, and to every Audit Panel meeting.

5. PENSION FUND VALUATION

The actuarial valuation of the Council's pension scheme liabilities and pension reserve shown on the Balance Sheet has reduced by £207.4m during the year, mainly as a result of changes to the financial assumptions used by the pension fund Actuary (Hymans-Robertson). (It increased by £242.8m during 2020/21). The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation.

It is important to understand that pension benefits do not become payable until employees retire; however the Council is required to account for the future obligations at the same time as the employees earn their future entitlement, in accordance with proper accounting practices. Further details are given in Note 37.

6. THE COUNCIL'S STATEMENT OF ACCOUNTS

The statement of accounts reports the income and expenditure on service provision for the year and the value of the Council's assets and liabilities at the end of the financial year. This is prepared in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Local authorities are required to produce a comprehensive income and expenditure statement, a balance sheet and a cash flow statement, as a private sector company would. From 2016/17 an expenditure and funding analysis was introduced. However, as local authorities are also tax raising bodies (through Council Tax), they are required to produce an additional financial statement, accounting for movements to and from the general fund, through a movement in reserves statement. A review of materiality has also concluded that Group Accounts are again required this year. A brief explanation of the purpose of each of financial statements is provided below:

Section 1 – The Core Financial Statements

Section 1a – Comprehensive Income and Expenditure Statement (CIES)
This statement shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount funded from Council Tax, and other Government grants. The amount funded from Council Tax and Government grants differ from this by a series of adjustments made in accordance with regulations. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Section 1b - Movement in Reserves Statement (MiRS)
This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax [or rents] for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

Section 1c - Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority 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'.

Section 1d - Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources

which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

Section 2 – Statement of Accounting Policies
These outline the accounting and measurement bases used for the recognition, measurement and disclosure of figures and events in preparing the financial statements in the accounts. Other accounting policies used that are relevant to an understanding of the financial statements are also included.

Section 3 – Notes to the Core Financial Statements
This section contains notes that help to explain or give more detail to the Core Financial Statements.

Section 4 – Housing Revenue Account (HRA)
This is a statutory account which shows the major elements of income and expenditure on Council Housing provision and associated services to Council tenants and leaseholders.

Section 5 – Collection Fund Accounts
This is a statutory account which shows the transactions relating to Council Tax and Non-Domestic Rates. It shows how the amounts collected have been distributed to the Council's General Fund, the Greater London Authority and Central Government.

Section 6 – Group Accounts
The Group Accounts combine the financial results of Lewisham Council with those of its subsidiaries, Lewisham Homes Limited and Catford Regeneration Partnership Limited. Transactions between the two subsidiaries and the Council are removed on merging the accounts of all parties. The Group Accounts therefore add the surpluses and balances and show the combined financial position for all three entities.

Section 7 - Glossary
This explains some technical and commonly used terms.

Section 8 – Pension Fund Accounts
The Lewisham Pension Fund is a separate entity from the Council and thus has its own accounts. These show the income and expenditure for the year, the value of the investments held and an assessment of the liabilities at the year end.

Section 9 – Annual Governance Statement (AGS)
This sets out the control and governance framework for all significant corporate systems and processes, cultures and values by which the Council is directed and controlled. It describes the activities with which the community is engaged and enables the monitoring of the achievement of the strategic objectives and the delivery of appropriate and cost effective services. It also reports any significant issues and the actions already taken and planned to be taken to address these.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Executive Director for Corporate Resources;

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- to approve the Statement of Accounts.

Responsibility of the Executive Director for Corporate Resources

The Executive Director for Corporate Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (‘the Code’).

In preparing the Statement of Accounts as set out in this document, I certify that I have:

- selected suitable accounting policies and applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the CIPFA Local Authority Code of Practice.

I certify that I have also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2022.

The Statement of Accounts is unaudited and may be subject to change.

Kathy Freeman CPFA
Executive Director for Corporate Resources (S151)
29 July 2022

INDEPENDENT AUDITOR'S REPORTS TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM

To Follow

SECTION 1 - CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31 MARCH 2022

2020/21				2021/22			
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	SERVICE	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	Note
450,726	(352,975)	97,751	Children & Young People Directorate	450,964	(377,893)	73,071	
201,559	(122,443)	79,116	Community Services Directorate	207,061	(120,446)	86,615	
148,787	(85,150)	63,637	Housing, Regeneration & Public Realm Directorate	130,791	(95,593)	35,198	
223,698	(183,646)	40,052	Corporate Services Directorate	218,738	(177,634)	41,104	
12,489	(576)	11,913	Chief Executive Directorate	13,604	(1,076)	12,528	
98,972	(97,210)	1,762	HRA	99,590	(111,480)	(11,890)	
16,721	(6,953)	9,768	Corporate Provisions	6,941	(26,160)	(19,219)	
1,152,952	**(848,953)**	**303,999**	**Cost of Services**	**1,127,689**	**(910,282)**	**217,407**	1
			Other Operating Expenditure				
37,206	(6,832)	30,374	(Gain) / Loss on the disposal and de-recognition of non-current assets	36,907	0	36,907	
1,706	0	1,706	Levies	1,702	0	1,702	7
1,939	0	1,939	Contribution of housing capital receipts to Government Pool	1,940	0	1,940	19
40,851	**(6,832)**	**34,019**		**40,549**	**0**	**40,549**	
			Financing and Investment Income and Expenditure				
31,713	0	31,713	Interest payable and similar charges	31,031	0	31,031	
0	(3,164)	(3,164)	Interest and Investment Income	0	(1,611)	(1,611)	
21,120		21,120	Loss of Control of Assets	0	0	0	
39,190	(27,088)	12,102	Net interest on the net defined benefit liability	43,121	(27,240)	15,881	37
92,023	**(30,252)**	**61,771**		**74,152**	**(28,851)**	**45,301**	
			Taxation and non-specific Grant Income				
0	(118,065)	(118,065)	Income from Council Tax	0	(118,787)	(118,787)	
0	(85,163)	(85,163)	General Government Grants	0	(31,580)	(31,580)	30
0	(36,508)	(36,508)	Recognised Capital Grants and Contributions	0	(19,839)	(19,839)	
0	(95,735)	(95,735)	Non-Domestic Rates income and expenditure	0	(96,162)	(96,162)	
0	**(335,471)**	**(335,471)**		**0**	**(266,368)**	**(266,368)**	
		64,318	**Deficit/ (Surplus) on provision of services**			**36,889**	1
		(101,373)	Surplus on revaluation of non-current assets			(102,702)	21
		232,272	Remeasurement of the net defined benefit liability			(254,424)	20, 37
		130,899	**Other Comprehensive Income and Expenditure**			**(357,126)**	
		195,217	**Total Comprehensive Income and Expenditure**			**(320,237)**	

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2022

YEAR YEAR ENDING 31 MARCH 2022	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub-Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 01 April 2021 Brought Forward	**20,000**	**200,728**	**220,728**	**74,978**	**1,884**	**58,296**	**26,605**	**382,491**	**1,416,855**	**1,799,346**	
Movement in Reserves during 2021/22											
Surplus or (Deficit) on the provision of services	(4,263)	0	**(4,263)**	(32,626)	0	0	0	**(36,889)**	0	**(36,889)**	
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	0	**0**	357,126	**357,126**	21, 22
Total Comprehensive Income and Expenditure	**(4,263)**	**0**	**(4,263)**	**(32,626)**	**0**	**0**	**0**	**(36,889)**	**357,126**	**320,237**	
Adjustments between accounting basis and funding basis under regulations	34,653	0	**34,653**	(10,336)	(1,771)	6,091	3,767	**32,404**	(32,404)	**0**	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**30,390**	**0**	**30,390**	**(42,962)**	**(1,771)**	**6,091**	**3,767**	**(4,485)**	**324,722**	**320,237**	
Transfers to / (from) Reserves	(30,390)	30,390	**0**	0	0	0	0	**0**	0	**0**	
Increase / (Decrease) in 2021/22	**0**	**30,390**	**30,390**	**(42,962)**	**(1,771)**	**6,091**	**3,767**	**(4,485)**	**324,722**	**320,237**	
Balance at 31 March 2022 Carried Forward	**20,000**	**231,118**	**251,118**	**32,016**	**113**	**64,387**	**30,372**	**378,006**	**1,741,577**	**2,119,583**	
Note		9		HRA 15	HRA 14	19					

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2021

Restated

YEAR ENDING 31 MARCH 2021	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub-Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 01 April 2020 Brought Forward	**20,000**	**151,122**	**171,122**	**84,281**	**16,463**	**61,368**	**23,626**	**356,860**	**1,637,703**	**1,994,563**	
Movement in Reserves during 2020/21											
Surplus or (Deficit) on the provision of services	(25,121)	0	**(25,121)**	(39,197)	0	0	0	**(64,318)**	0	**(64,318)**	
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	0	**0**	(130,899)	**(130,899)**	21, 22
Total Comprehensive Income and Expenditure	**(25,121)**	**0**	**(25,121)**	**(39,197)**	**0**	**0**	**0**	**(64,318)**	**(130,899)**	**(195,217)**	
Adjustments between accounting basis and funding basis under regulations	74,727	0	**74,727**	29,894	(14,579)	(3,072)	2,979	**89,949**	(89,949)	**0**	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**49,606**	**0**	**49,606**	**(9,303)**	**(14,579)**	**(3,072)**	**2,979**	**25,631**	**(220,848)**	**(195,217)**	
Transfers to / (from) Earmarked Reserves	(49,606)	49,606	**0**	0	0	0	0	**0**	0	**0**	
Increase / (Decrease) in 2020/21	**0**	**49,606**	**49,606**	**(9,303)**	**(14,579)**	**(3,072)**	**2,979**	**25,631**	**(220,848)**	**(195,217)**	
Balance at 31 March 2021 Carried Forward	**20,000**	**200,728**	**220,728**	**74,978**	**1,884**	**58,296**	**26,605**	**382,491**	**1,416,855**	**1,799,346**	
Note		9		HRA 15	HRA 14	19					

Core Financial Statements

BALANCE SHEET AS AT 31 MARCH 2022

31/03/2021 £000		31/03/2022 £000	Note
	Property, Plant & Equipment		
1,393,428	Council Dwellings	1,413,440	10b, HRA 1a, 9
1,064,692	Other Land and Buildings	1,104,963	10b
28,785	Vehicles, Plant, Furniture and Equipment	27,001	10b
109,064	Infrastructure	103,286	10b
5,295	Community Assets	5,199	10b
52,244	Surplus Assets not Held for Sale	60,856	10b
69,923	Assets under Construction	126,444	10b
2,723,431		2,841,189	
928	Heritage Assets	955	41
1,924	Long Term Investments	1,873	
56,237	Long Term Debtors	59,520	14a
2,782,520	**Total Long Term Assets**	2,903,537	
313,327	Short Term Investments	275,247	12
188	Inventories	180	
80,677	Debtors	67,505	14b
78,676	Cash and Cash Equivalents	117,639	15
3,786	Prepayments	3,102	
476,654	**Current Assets**	463,673	
1,039	Bank Overdraft	5,932	15
2,073	Short Term Borrowing	3,006	12
21,644	Provisions (Less than 1 year)	15,594	18
117,814	Creditors	145,241	16
100,662	Receipts in Advance	79,236	17
9,302	PFI Liabilities due within one year	10,158	34d
252,534	**Current Liabilities**	259,167	
3,006,640	**Total Assets less Current Liabilities**	3,108,043	
222,784	Long Term Borrowing	221,646	12
8,052	Provisions (More than 1 year)	5,676	18
202,138	Deferred PFI Liabilities	193,246	34d
2,989	Capital Grants Receipts in Advance	3,320	
290	Other Long Term Liabilities	937	
771,041	Liability related to defined benefit pension scheme	563,635	20, 37
1,207,294	**Long Term Liabilities**	988,460	
1,799,346	**NET ASSETS**	2,119,583	
	Usable Reserves		
20,000	General Fund Balance	20,000	
200,728	Earmarked Revenue Reserves	231,118	9
74,978	Housing Revenue Account	32,016	HRA 15
1,884	Major Repairs Reserve	113	HRA 14
58,296	Usable Capital Receipts Reserve	64,387	19
26,605	Capital Grants Unapplied	30,372	42
382,491		378,006	
	Unusable Reserves		
1,209,588	Revaluation Reserve	1,288,111	21
1,044,137	Capital Adjustment Account	1,088,488	22
93	Deferred Capital Receipts	93	
(33,834)	Financial Instruments Adjustment Account	(32,981)	12e
(771,041)	Pensions Reserve	(563,635)	20, 37
(21,141)	Collection Fund Adjustment Account	(11,300)	Coll Fd 3
(2,375)	DSG Unusable Reserve	(8,644)	29
(8,572)	Short Term Compensated Absences Account	(18,555)	
1,416,855		1,741,577	
1,799,346	**TOTAL RESERVES**	2,119,583	

Certification by the Executive Director of Corporate Resources

	Kathy Freeman CPFA - Executive Director of Corporate Resources (S151) **29 July 2022**

CASH FLOW STATEMENT FOR THE YEAR ENDING 31 MARCH 2022

2020/21 £000s		2021/22 £000s	Note
(64,318)	Net surplus or (deficit) on the provision of services	(36,889)	
214,948	Adjustment to surplus or deficit on the provision of services for non-cash movements	136,089	43
(50,403)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(40,307)	44
100,227	**Net Cash flows from Operating Activities**	58,893	
(98,278)	Net Cash flows from Investing Activities	(33,699)	46
(37,154)	Net Cash flows from Financing Activities	8,876	47
(35,205)	**Net Increase or (decrease) in Cash and Cash Equivalents**	34,070	
112,842	**Cash and Cash Equivalents at the beginning of the reporting period**	77,637	15
77,637	**Cash and Cash Equivalents at the end of the reporting period**	111,707	15

SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 (as amended for the Accounts and Audit (Amendment) Regulations 2021), which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and the SERCOP 2021/22, both published by CIPFA, and based on IFRS and statutory guidance under Section 12 of the Local Government Act 2003 (see Glossary for definitions). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis (in other words, on the expectation that the Council will continue to operate in its current form for the foreseeable future).

2. CHANGES IN ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES, MATERIAL ERRORS AND PRIOR PERIOD ADJUSTMENTS

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. Prior period adjustments may arise from a change in an accounting policy or to correct a material error. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council’s financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3. ACCRUALS OF INCOME AND EXPENDITURE

The Council’s revenue and capital accounts are prepared on an accruals basis. This means that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Expenditure on supplies is accounted for when they are used. When there is a significant gap between the date on which supplies are received and the date of their use, and the value is material, they are carried as inventories on the Balance Sheet.
- Expenditure in relation to services received (including those provided by employees) is accounted for as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised in the accounts, but cash has not been received or paid, a debtor or creditor for the amount is recorded in the Balance Sheet. Where it is likely that debts may not be settled, a charge is made to revenue for the income that might not be collected and the debtor is impaired.
- 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 the economic benefits or service potential associated with the transaction will be received by the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.

- Revenue from Council Tax, Non-Domestic Rates and rents is accounted for in the year it is due.
- The Council has a de-minimis level in accounting for manual accruals of £5,000. However, this does not mean that all transactions below this value will not be accrued as they may form part of feeder file accruals (where the file is over £5k) or where similar transactions below £5k add up to a total above £5k.

4. EXCEPTIONAL ITEMS

Where items of expenditure and income are material, their nature and amount are disclosed separately, either in the Comprehensive Income and Expenditure Statement (the “CIES”) or in a note to the accounts, depending on their significance.

5. FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a foreign currency transaction, it is converted into sterling at the exchange rate prevailing on the transaction date. Where amounts are outstanding at year end, they are converted at the exchange rate on 31 March. Any material gains or losses are charged to the Financing and Investment Income and Expenditure line in the CIES.

6. VALUE ADDED TAX (VAT)

Income and Expenditure excludes any amounts related to VAT, unless it is irrecoverable from Her Majesty’s Revenue and Customs. VAT is paid on invoices received and charged to an input tax account and VAT is collected with income and posted to an output tax account. These accounts are reconciled and claims made to HM Revenue and Customs for the net VAT incurred on a monthly basis.

7. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:-

- those that give evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events where they are considered to be material;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events. However, where they would have a material effect, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

8. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to the services where those budgets are controlled, in line with the organisational structure of the Council. However, overheads and support services still continue to be allocated across the benefiting services to cover statutory requirements (for example, between the General Fund and Housing Revenue Account) and for statutory returns to Central Government.

9. 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 not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential of the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or else the future economic benefits or service potential must be returned to the transferor. Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as receipts in advance. When conditions are satisfied, they are credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.
Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement (MiRS). Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

10. LEASES

Leases are classified as finance leases where the terms of the lease substantially transfer 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 which 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 the fulfilment of the arrangement is dependent on the use of specific assets.

a) The Council as Lessee

i) Finance Leases
The Council as lessee does not have any finance leases.

ii) Operating Leases
Rentals paid under operating leases are charged to the CIES as expenditure of the services which benefit from the use of the leased asset. Charges are made on a straight-line basis over the life of the lease, even if this does not match the incidence of payments (e.g. where there is a rent-free period).

b) The Council as Lessor

i) Finance Leases
When the Council grants a finance lease over a property or item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any gain, representing the Council’s net investment in the lease, is credited to the same line in the CIES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset (long-term debtor) in the Balance Sheet. The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the MiRS. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the MiRS. When the future rentals are received, the capital receipt for the disposal of the asset is used to write down the lease debtor, and the associated deferred capital receipt is transferred to the Capital Receipts Reserve.

Lease rentals received are apportioned between a charge for the acquisition of the interest in the property, which is applied to write down the lease debtor (together with any premiums received), and finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

ii) Operating Leases

Where the Council grants an operating lease over a property or item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES on a straight-line basis over the life of the lease, even if this does not match the incidence of payments received.

The implementation of IFRS 16 Leases has been deferred to 1 April 2024 - for further information see Note 2 of Section 3 in these Accounts.

11. INVENTORIES (STOCK)

Highways and fleet stores are valued and included in the Balance Sheet at cost price as a proxy for average price. Revenue accounts are charged with the cost of obsolescent stock written off.

12. LONG TERM CONTRACTS

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

13. EMPLOYEE BENEFITS

a) Benefits Payable during Employment

Short-term employee benefits are those which are settled within 12 months of the year-end. They include salaries, paid annual leave and sick leave for current employees and are recognised as an expense in the year in which employees render their services to the Council. An accrual is made for the cost of entitlements (or any form of leave) earned by employees, but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the year in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS using the Short Term Compensated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. This account shows the differences arising on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March each year. Statutory requirements are that the impact on Council Tax is reversed through the Account.

b) Termination and Discretionary Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before their normal retirement date. They are charged on an accruals basis to the relevant Service Cost line in the CIES in the year in which the Council is committed to the termination of the employment of the officer. The Council has an approved scheme to make awards of benefits in the event of early retirements which requires a panel to consider and agree proposals on the grounds of redundancy and/or efficiency and applications for voluntary early retirement from employees.

Where termination benefits have involved the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable but unpaid at the year-end.
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities arising 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.

c) Post-Employment Benefits

Employees of the Council are members of four separate pension schemes:-

- The Teachers' Pension Scheme, administered by Capita Teachers Pensions for the DfE;
- The NHS Pension Scheme, administered by EA Finance NHS Pensions;
- The London Pension Fund administered by the Local Pensions Partnership Limited (LPP) on behalf of the London Pensions Fund Authority (LPFA);
- The Local Government Pension Scheme (LGPS), administered by Lewisham Council.

These schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as they work for the Council.

(i) Teachers' Pension Scheme and the NHS Pension Scheme
These schemes are defined benefit schemes, but are accounted for as if they were defined contributions schemes, since their liabilities cannot be separately identified to individual Local Authorities. No liabilities for future payment of benefits are therefore recognised in the Balance Sheet for these schemes. The CIES is charged with the employer's contributions paid to the schemes during the year.

(ii) London Pension Fund Scheme
This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets can be identified to individual Councils. The CIES is charged with a levy from the LPFA to meet the employer's contributions such as premature retirement costs in respect of former employees of the GLC, ILEA and LRB.

(iii) Local Government Pension Scheme
This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets are attributable to individual Local Authorities. The Council's attributed liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments to be made by the Scheme in relation to benefits earned to date, based on a number of assumptions about mortality rates, turnover, projected earnings etc. These liabilities are discounted to their value at current prices, using a discount rate recommended by the Scheme's Actuaries.
The assets of the Scheme are included in the Balance Sheet at their fair value as follows:

Quoted securities – current bid price
Unquoted securities – professional estimate
Unitised securities – current bid price
Property – market value.

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

- <u>Service Costs comprising</u>
  The current service cost which is the increase in liabilities as a result of years of service earned this year. These are allocated in the CIES to the services for which the employees worked.
  The past service cost which is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited to the relevant Service Directorate in the Surplus or Deficit on the Provision of Services in the CIES.

- <u>Net interest on the net defined benefit liability</u>
  This is the change in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate to the net defined benefit liability at the beginning of the period, accounting for any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- <u>Re-measurement comprising</u>
  The return on plan assets excluding amounts included in net interest.
  The actuarial gains and losses arising from changes in demographic and financial assumptions since the last actuarial valuation.
  Other changes not accounted for elsewhere.

Statutory regulations require Council Tax to fund the amounts payable to the Pension Scheme in the year, rather than the amount calculated according to the relevant accounting standards. The notional entries for assets and liabilities are therefore matched with appropriations to and from the Pension Reserve in the Movement in Reserves Statement. The negative balance on the Pensions Reserve thus measures the beneficial impact on the General Fund of being required to account on the basis of cash flows rather than as benefits are earned by employees.
The detailed accounting policies followed in preparing the pension fund accounts are disclosed separately in the Council's Pension Fund Accounts in Section 8 of the Statement of Accounts.

14. INTERESTS IN COMPANIES

The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited. These are accounted for at cost in the single entity accounts. It also is an equal partner (50:50) in Lewisham Grainger Holdings LLP with Grainger Developments Ltd and has a minority interest (significantly lower than 50%) in a number of other companies. The transactions between the Council and all of these companies are included in the Council's accounts. An annual review of the necessity of preparing Group Accounts is undertaken, and for 2021/22 it has again been concluded that the activities of Group's entities are sufficiently material to warrant the production of Group Accounts. See also Section 6 – Group Accounts, and Note 25 - Investment in Companies.

15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES

a) Provisions

The Council has set aside amounts from revenue as provisions which will be used to cover future expenditure. Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement at a later date and where a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the CIES 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 in the Balance Sheet. All provisions are reviewed at the end of the financial year, and where it is assessed that it is less than probable that a settlement will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

b) Impairment Allowances

Impairment allowances to cover Council Tax, housing rents and other debtors are set up where it is doubtful that the debts will be settled. A charge is made to the relevant account for the income and is deducted from the current debtors balance on the Balance Sheet. When it is deemed that the debts are irrecoverable they are written off to the impairment allowance. Where payments are made, they are credited to the provision on the Balance Sheet.

16. RESERVES

The Council has set aside specific amounts as reserves to cover future expenditure for contingencies or policy purposes, which fall outside the definition of provisions, and are shown in Note 9 of Section 3. The reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then credited back to the General Fund Balance in the MiRS so that there is no net charge against Council Tax. Statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and are not available for the Council to use to finance services.

17. CONTINGENT LIABILITIES AND ASSETS

A contingent liability or asset arises where an event has taken place that gives the Council a possible obligation or asset. However, this will only be confirmed by the occurrence or otherwise of another event not wholly within the control of the Council. These are not recognised in the Balance Sheet but are disclosed in a note to the accounts. A contingent liability could also arise in circumstances where a provision would otherwise be made but either it is not probable that a payment will be required or the amount of the obligation cannot be measured reliably.

18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred which can be capitalised under statutory provisions but does not result in the creation of a non-current asset for the Council (e.g. home improvement grants or voluntary aided schools expenditure), is charged to the relevant service cost line in the CIES. Where this expenditure is met from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on Council Tax.

19. FINANCIAL INSTRUMENTS

a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by its effective rate of interest. This rate exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council’s borrowings, the amount on the Balance Sheet is the outstanding principal repayable (plus accrued interest), and the interest charged to the CIES is the amount payable for the year for the loan. Following a change in the Code in 2019/20 call options within LOBO contracts are no longer accounted for separately.

Premiums and discounts from previous year’s settlements are charged to the CIES in accordance with regulations requiring the impact on the General Fund and the HRA to be spread over future years. The Council’s policy is to spread the gain or loss over the remaining term of the loan repaid on which the premium was payable or discount receivable. As required by statute, the amounts charged to the CIES are adjusted to the required charge against Council Tax or Housing Rents by a transfer to or from the Financial Instruments Adjustment Account in the MiRS. This account holds the accumulated difference between the financing costs charged to the CIES and the accumulated financing costs required to be charged to the General Fund Balance in accordance with regulations.

b) Financial Assets

Following the adoption of accounting standard IFRS 9 from 01 April 2018, which replaced IAS 39 Financial Instruments, the Available for Sale Financial Asset category is no longer available. Assets previously held as available for sale have now been reclassified in line with IFRS 9 code. In order to comply with the new requirements of the Code, financial assets are now classified into three categories:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

b (i) Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value, then subsequently at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES

c) Expected Credit Loss Model

The Council will recognise expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis, where material. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

20. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than twenty four hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value. The Cash Flow Statement shows cash and cash equivalents net of repayable on demand bank overdrafts which form an integral part of the Council's cash management.

21. INTANGIBLE NON CURRENT ASSETS

Intangible Non-Current Assets (e.g. software licences) do not have any physical substance and are identifiable and controllable by the Council through custody or legal rights. The expenditure is only capitalised when it and the future economic benefits or service potential flowing from it are both material. The level of spend on these assets is immaterial and therefore is charged direct to the CIES.

22. NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it adds value, increases its ability to deliver future economic benefits or service potential, or can be capitalised as a component and exceeds the Council's de-minimis limit of £40,000. Expenditure financed from the government's Devolved Formula Capital Grant is also capitalised on the basis that it increases the school's service potential. Expenditure that only maintains an asset's value (i.e. repairs and maintenance) and does not increase its ability to deliver benefits or services is charged as revenue expenditure when it is incurred.

b) Measurement and Valuation

Non-current assets are initially measured at cost, comprising the purchase price and 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. The Council capitalises costs incurred whilst assets are under construction if these costs are directly attributable to an asset and it is probable that future economic benefits will flow to the authority (in accordance with IAS 16). These balances are held on the balance sheet under the category Assets Under Construction (AUC) and are transferred to the specific non-current assets category when the project reaches practical completion. Non-current assets are carried on the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, using the basis of existing use value for social housing (EUV-SH);
- all other assets – current value, being the amount that would be paid for the asset in its existing use (existing use value – EUV);
- where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value;
- where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Non-current assets included in the Balance Sheet at fair value are revalued regularly in accordance with the Statements of Appraisal and Valuation Manual and Guidance Notes issued by the RICS and recommended by CIPFA.

The cost of an asset acquired other than by purchase is deemed to be its fair value. Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the CIES. Where the donation has been made conditionally, the gain is held in the Donated Assets Account until conditions are satisfied. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MiRS.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the CIES where they arise from the reversal of a loss previously charged to a service. 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 or an insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line in the CIES.

Surplus Assets not Held for Sale are assets that are not being used to supply goods and services and do not meet the criteria of assets held for sale. The adoption of IFRS 13 requires that these assets are measured at fair value and not existing use value. Fair value is 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.

For surplus assets the gross value has been apportioned between land and building elements (residual and depreciable). Remaining useful life elements have also been provided for each asset. The aim is to arrive at the notional ‘Highest and Best use value’ for the asset. This has been achieved, for these purposes, by comparing the ‘current use’ of the asset to the notional ‘alternative use’ based on potential redevelopment on a land value basis for the site.

The valuer (Wilks Head and Eve) has stated in their valuation report that these assets have been categorised at Level 2 of the hierarchy as there are significant observable inputs:

- Land, Office, and Retail assets have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the locality.
- Market conditions for these asset types are such that the levels of observable inputs are significant leading to the properties being categorised at Level 2 in the Fair Value hierarchy.

Typical valuation inputs which have been analysed in arriving at the Fair Valuations include: Market Rental and Sale Values; Yields; Void and Letting Periods; Size; Configuration, proportions and layout; Location, visibility and access; Condition; Lease covenants; Obsolescence; Construction.

The Fair Value of the asset, for the current use, has been determined by applying an income or comparative approach based on the rental value of the property.

In most cases the assets have been leased on the open market and there are comparables to draw upon in relation to rental values, yields and rental growth.

Although there is an element of Valuer subjectivity, the valuers are of the view that the valuations comprise a higher proportion of observable inputs rather than unobservable inputs.

c) Charges to Revenue for Non-Current Assets

All services are charged with the following amounts to reflect the cost of using Property, Plant and Equipment assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service (where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off).

These amounts are not required to be charged against Council Tax; however the Council is required to make an annual contribution from revenue (the Minimum Revenue Provision – MRP) to reduce its overall outstanding borrowing, calculated on a prudent basis in accordance with statutory guidance. The difference between the two is accounted for within the Capital Adjustment Account in the Movement in Reserves Statement.

d) Impairment

Non-current assets held on the Balance Sheet are reviewed at year-end to assess whether they may be impaired. Where an impairment exists, the recoverable amount of the asset is estimated and if material, an impairment loss is recognised for the shortfall and is 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 or an insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

e) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets by applying the straight-line method based on the asset's useful life. Depreciation is not charged for assets with an indeterminable finite useful life, a long life such that depreciation would be immaterial, assets where the recoverable amount exceeds the carrying amount (i.e. freehold land, community assets) and assets under construction. Deprecation is calculated on the following bases:

- council dwellings – 40 years
- other land & buildings (including hostels) – 40 years
- vehicles, plant & equipment – range of 5 to 40 years
- infrastructure – range of 10 to 40 years (but the majority being 25 years)

The Council's policy is to charge depreciation on the assets value at 01 April each year. It is charged from the year following the date of purchase or completion of construction, and is not adjusted for disposals or additions of assets during the year. Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. 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.

f) Disposals of Non-Current Assets

When an asset is disposed of or decommissioned, the carrying amount in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any receipts from disposals are credited to the same line in the CIES 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 asset disposals are classified as capital receipts. A proportion of receipts from housing disposals (as per the relevant regulations) are payable to the Government. The retained receipts are required to be credited to the Usable Capital Receipts Reserve, and can only be used to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the MiRS. The written-off value of disposals is not a charge against Council Tax. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

g) Deferred Capital Receipts

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

23. HERITAGE ASSETS

These are assets which are primarily held for their contribution to knowledge or culture; however, where they are used as operational assets, they are classified as such. They are recognised and measured in accordance with the accounting policies on Property, Plant and Equipment in respect of revaluation, impairment and disposal. The Council has, however, opted not to depreciate these assets since they are enduring by nature. The threshold for disclosure is £40,000.

24. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

These are agreements to receive services where the responsibility for making available the assets 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 assets 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 is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Where schemes include a capital contribution, the liability is written down accordingly. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as other non-current assets owned by the Council. The amounts payable to the PFI operators each year are analysed into the following five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the CIES;
- contingent rent – increases in the amount to be paid for the asset arising during the contract, debited to Interest Payable and Similar Charges in the CIES;
- payment towards liability – applied to write down the liability towards the PFI operator;
- lifecycle replacement costs – recognised as prepayments in the Balance Sheet and then recognised as non-current assets on the Balance Sheet when the work is carried out.

25. ACCOUNTING FOR SCHOOLS

Schools' accounting policies are the same as the Council's, with their income and expenditure being attributed to the appropriate service line in the CIES and their assets, liabilities and balances being included on the Balance Sheet. Schools' earmarked reserves are shown separately within Note 9 to the Core Financial Statements. An analysis of Dedicated Schools' Grant (the main source of funding for schools) is shown in Note 29. Any critical judgements made relating to accounting for schools' non-current assets (i.e. land and buildings) are shown in Note 3.

SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31 MARCH 2022

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities 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 directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

SERVICE	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 (see Notes to EFA (i))	Net Expenditure in the CIES
	£'000	£'000	£'000	£'000	£'000
Children & Young People Directorate	64,000	(23,694)	40,306	32,765	73,071
Community Services Directorate	96,500	(19,413)	77,087	9,528	86,615
Housing, Regeneration & Public Realm Directorate	26,700	(670)	26,030	9,168	35,198
Corporate Services Directorate	35,400	(62)	35,338	5,765	41,103
Chief Executive Directorate	10,700	(183)	10,517	2,010	12,527
HRA	0	42,021	42,021	(53,911)	(11,890)
Corporate Provisions	10,300	(17,977)	(7,677)	(11,539)	(19,216)
Cost of Services	**243,600**	**(19,978)**	**223,622**	**(6,214)**	**217,408**
Other Income and Expenditure	(243,100)	32,050	(211,050)	30,531	(180,519)
(Surplus) or Deficit	**500**	**12,072**	**12,572**	**24,317**	**36,889**

Analysis of Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances £12.0m

General Fund -£29.9m

The “Other Income and Expenditure” that is reported to management is equal to the net general fund budget set for the year (£243.1m). This is then compared to the net cost of services to get to the reported overspend for the year of £0.5m. However, the net increase in General Fund reserves for the year was £30.4m, the difference to the reported outturn position being mostly made up of the transfer of S106 income received that now has no remaining conditions to be met, which has been transferred from Receipts in Advance to Reserves (£21.4m) as well as an increase in the reserve of pooled funds for Health and Social Care system improvements (£9.5m).

HRA £42.0m

Within reports to management the net over/ underspend position of the HRA is always reported as nil, after taking account of/ noting the various movements and forecasts for the main income and expenditure items and the required action to return the account to a net nil budget. The net movement in HRA reserves in the year was a reduction of £42.0m, so this needs to be added back into the “Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances” to get to the required “Net Expenditure Chargeable to the General Fund and HRA Balances”.

Opening General Fund and HRA Balance at 01 April 2021	(295,706)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	12,572
Closing General Fund and HRA Balance at 31 March 2022	**(283,134)**

Analysed between General Fund and HRA Balances

	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2021	(220,728)	(74,978)	**(295,706)**
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(30,390)	42,962	**12,572**
Closing General Fund and HRA Balance at 31 March 2022	**(251,118)**	**(32,016)**	**(283,134)**

EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31 MARCH 2021

SERVICE	As reported for resource management (Narrative report) £'000	Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	69,100	(18,815)	50,285	47,466	97,751
Community Services Directorate	98,300	(26,177)	72,123	6,993	79,116
Housing, Regeneration & Public Realm Directorate	30,700	(21,678)	9,022	54,615	63,637
Corporate Services Directorate	40,200	(2,487)	37,713	2,339	40,052
Chief Executive Directorate	11,600	(59)	11,541	373	11,914
HRA	0	11,049	11,049	(9,288)	1,761
Corporate Provisions	-1,000	66,972	65,972	(56,204)	9,768
Cost of Services	**248,900**	**8,805**	**257,705**	**46,294**	**303,999**
Other Income and Expenditure	(248,700)	(49,308)	(298,008)	58,327	(239,681)
(Surplus) or Deficit	**200**	**(40,503)**	**(40,303)**	**104,621**	**64,318**

Opening General Fund and HRA Balance at 01 April 2020	(255,403)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(40,303)
Closing General Fund and HRA Balance at 31 March 2021	**(295,706)**

Analysed between General Fund and HRA Balances	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2020	(171,122)	(84,281)	**(255,403)**
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(49,606)	9,303	**(40,303)**
Closing General Fund and HRA Balance at 31 March 2021	**(220,728)**	**(74,978)**	**(295,706)**

Notes to the EFA

(i) Adjustments between Funding and Accounting Basis

	2021/22			
Adjustments from General Fund to arrive at the CIES amounts	**Adjustment for Capital Purposes £'000**	**Net change for the Pensions Adjustments £'000**	**Other Differences £'000**	**Total Adjustments £'000**
SERVICE				
Children & Young People Directorate	774	23,194	8,797	**32,765**
Community Services Directorate	2,974	3,875	2,679	**9,528**
Housing, Regeneration & Public Realm Directorate	14,326	2,908	(8,066)	**9,168**
Corporate Services Directorate	911	2,853	2,001	**5,765**
Chief Executive Directorate	0	1,010	1,000	**2,010**
HRA	(54,038)	127	0	**(53,911)**
Corporate Provisions	(7,856)	(2,830)	(853)	**(11,539)**
Cost of Services	**(42,909)**	**31,137**	**5,558**	**(6,214)**
Other Income and Expenditure	14,650	15,881	0	**30,531**
Difference between General Fund surplus or deficit and CIES surplus or deficit	**(28,259)**	**47,018**	**5,558**	**24,317**

Notes to the Core Financial Statements

	2020/21			
Adjustments from General Fund to arrive at the CIES amounts	**Adjustment for Capital Purposes £'000**	**Net change for the Pensions Adjustments £'000**	**Other Differences £'000**	**Total Adjustments £'000**
SERVICE				
Children & Young People Directorate	33,872	9,460	4,134	**47,466**
Community Services Directorate	5,599	1,359	35	**6,993**
Housing, Regeneration & Public Realm Directorate	39,411	1,172	14,032	**54,615**
Corporate Services Directorate	1,174	1,112	53	**2,339**
Chief Executive Directorate	0	373	0	**373**
HRA	(9,393)	105	0	**(9,288)**
Corporate Provisions	(65,577)	6,722	2,651	**(56,204)**
Cost of Services	**5,086**	**20,303**	**20,905**	**46,294**
Other Income and Expenditure	58,327	0	0	**58,327**
Difference between General Fund surplus or deficit and CIES surplus or deficit	**63,413**	**20,303**	**20,905**	**104,621**

(ii) Segmental Income and Expenditure

	2021/22
	£'000
Revenues from external customers	(301,467)
Revenues from transactions with other operating segments of the authority	0
Interest revenue	(1,611)
Interest expense	31,031
Depreciation and amortisation	43,915
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	36,907
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

	2020/21
	£'000
Revenues from external customers	(243,767)
Revenues from transactions with other operating segments of the authority	0
Interest revenue	(3,164)
Interest expense	31,713
Depreciation and amortisation	110,434
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	30,374
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2021/22 ACCOUNTS

The Code of Practice requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the Code:

- Leases: IFRS 16 will require lessees to recognise most leases on their balance sheet – this is a significant change from current practice. Lessees will have a single accounting model for all leases, with two exemptions (low value assets and short term leases). Lessor accounting will be substantially unchanged. The new standard will come into effect in financial year 2024/25; therefore there is no impact on the 2021/22 Accounts.

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect on local authority financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the Accounting Policies the Council has had to make certain judgements about complex transactions (shown in this note) and a number of assumptions which involve uncertainty about future events (shown in the following note). The major judgements made are as follows:

a. The Authority has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the Authority is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Authority it is deemed to be a Property, Plant and Equipment asset. If there were no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.

b. An accounting judgement has been made for each school as to whether their land and buildings should be included within the Council's Balance Sheet. All Community Schools are deemed to be held on the Council's Balance Sheet due to the risks and rewards that the Council is deemed to have. Similarly, the Council's two Nursery Schools and the Pupil Referral Unit are owned and operated by the Local Authority and therefore on the Council's Balance Sheet.
Voluntary Aided Schools and Academies together with a further two Foundation Schools are not included on the Council's balance sheet as ownership of Land and Buildings rests either with the relevant Diocesan body or, in the case of Academies the Government or the Foundation. In summary therefore:
   - Included are 40 Community Primary Schools, 4 Community Secondary Schools, 3 Community Special Schools, 2 Community Foundation Schools, 1 Pupil Referral Unit and 2 Nursery Schools (52 schools).
   - Excluded are 21 Voluntary-aided Schools, 2 Foundation Schools, 10 Academies and 3 others (35 schools).
   - Also excluded are assets acquired via PFI contracts where they relate to the excluded schools given above, although the PFI liability remains with the Council.

c. A judgement has been made by the Council that it is proper practice to prepare Group Accounts for 2021/22, on grounds of materiality. For further information, see Section 2 – Accounting Policies (para. 14 – Interests in Companies); also Section 6 – Group Accounts; and Note 25 – Investment in Companies. All relevant entities have been consolidated into the Group Accounts.

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

These Accounts contain a number of estimated figures that are based on assumptions made about the future or that are otherwise uncertain, and take into account historical experience, current trends and other relevant factors. Because of this, the actual outcomes could be materially different from the assumptions and estimates made. The areas in the Council's Accounts at 31 March 2022 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment - PP&E (Valuations, Asset Lives and Derecognition)	Land and building assets included in the Balance Sheet at fair value are revalued regularly in accordance with the Statements of Appraisal and Valuation Manual and Guidance Notes issued by the RICS and recommended by CIPFA. Land and building assets carrying value and remaining useful life are assessed by the Council's Valuers. These valuations include an assessment of the extent and feature of the sites, construction and the accommodation of the building etc.	Changes to asset value and lives will have an effect on the annual depreciation charge for use of assets charged to services in the CI&ES. The annual depreciation charge for PP&E in 2021/22 is £50.981m (£49.862m in 2020/21) and the gross book value of these assets is £2,928m (£2,844m in 2020/21). 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. If the value of the Council's operational properties were to reduce by 5%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £126m. 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. Depreciation charges for operational buildings will change in direct relation to changes in estimated current value. The asset life has an inverse effect with depreciation charge. The lower the asset life, the higher the depreciation charge; the higher the asset life, the lower the depreciation charge.
Valuation of HRA Dwellings	The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available	A reduction in the estimate value of HRA dwellings would be a reduction on the revaluation reserve or a loss in the CIES. If the value of dwellings were to reduce by 10% this would lead to a reduction in value of about £141m. An increase in estimated valuations would result in increases to the Revaluation Reserve or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

Actuarial present value of promised retirement benefits	The figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on Fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. Further sensitivity analysis is included in note 19 to the Pension Fund in Section 8, below.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption is estimated to reduce the present value of the pension liability by £37m. A 0.1% increase in the assumed level of pension increases will increase the net pension liability by £34m.
Impairment allowance for doubtful debt	As at 31 March 2022, the Council had an outstanding balance of short-term debtors totalling £138.3m. Against this debtors' balance, there is an impairment allowance of £68.4m. 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. In 2021/22 the Council has carried out a review of debt aged over 5 years and impaired a significant amount of this to nil (matching this to the impairment allowances brought forward). The most significant movements in debt balances was Council Tax (from £45.1m to £27.1m; impairment reserve from £41.7m to £23.6m) and Housing Benefits Overpayments (from £24.2m to £13.1m; impairment reserve from £19.9m to £9.3m). Calculation of expected credit loss is forward looking and doesn't just rely upon historic information without considering if that needs to be adapted to reflect current and future conditions. The calculation of the impairment allowance takes into account current and forecast future conditions.	An understatement of doubtful debts would lead to a future adjustment and impairment to be reflected. The impairment allowances held are based on policies adapted to historic experience and success rates experienced in collection. The nature of the debt and service area have been considered and further review has been carried out to reflect the uncertainty of the collection rates as a result of Covid-19. If collection rates were to deteriorate significantly then the Council would need to review its policies on the calculation of its impairment allowance for doubtful debts.
Private equity and infrastructure investment valuations	These investments are not publicly listed and involve estimation techniques in their valuation. In addition, timing issues in producing capital statements for inclusion in the statement of accounts means that several assets are valued in the accounts at previous quarter valuations or later, and rolled forward to 31 March 2022 with adjustments and estimations where possible for known activity such as disbursements and capital calls. The Fund's private equity and infrastructure holdings (all level 3 investments) are impacted by this delay; as such, the final realised value of those assets may differ from the valuations presented in the accounts. The Council makes up approximately 83% of the active members of the Pension Fund so would be impacted by this uncertainty.	Private equity and infrastructure investments are valued at £215.1m in the financial statements. Based on the assessed valuation range of these level 3 investments, there is a risk that this investment type may be under or overstated in the accounts by up to 4.2% i.e. an increase or decrease of £9.0m. The Council makes up approximately 83% of the active members of the Pension Fund so would be impacted by this uncertainty - 83% of this risk is £7.5m.

Property investment valuations	Valuation techniques are used to determine the carrying values of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used. The Council makes up approximately 83% of the active members of the Pension Fund so would be impacted by this uncertainty.	Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the percentage of volatility that can be applied to the Fund's Property assets in 2021/22, assuming all other variables such as foreign exchange rates and interest rates remain the same, is estimated to be 1.9%. This would be an increase or decrease in the value of property investments of £3.0m, on a fair value of £156m. The Council makes up approximately 83% of the active members of the Pension Fund so would be impacted by this uncertainty - 83% of this risk is £2.5m.

a) Movement in Land and Buildings valuations analysis

A sensitivity analysis detailing movement in valuations is as follows:

Asset Category	Assets Valued at 31 March 22	Value on Increase 1% £000	Value on Increase 5% £000	Value on Increase 10% £000	Value on Decrease 1% £000	Value on Decrease 5% £000	Value on Decrease 10% £000
Council Dwellings	1,413,440	1,427,574	1,484,112	1,554,784	1,399,306	1,342,768	1,272,096
Other Land & Buildings	1,104,963	1,116,013	1,160,211	1,215,459	1,093,913	1,049,715	994,467
Surplus Assets	60,856	61,465	63,899	66,942	60,247	57,813	54,770
Total	**2,579,259**	**2,605,052**	**2,708,222**	**2,837,185**	**2,553,466**	**2,450,296**	**2,321,333**

Asset Category	Assets Valued at 31 March 21	Value on Increase 1% £000	Value on Increase 5% £000	Value on Increase 10% £000	Value on Decrease 1% £000	Value on Decrease 5% £000	Value on Decrease 10% £000
Council Dwellings	1,393,428	1,407,362	1,463,099	1,532,771	1,379,494	1,323,757	1,254,085
Other Land & Buildings	1,064,692	1,075,339	1,117,927	1,171,161	1,054,045	1,011,457	958,223
Surplus Assets	52,244	52,766	54,856	57,468	51,722	49,632	47,020
Total	**2,510,364**	**2,535,468**	**2,635,882**	**2,761,400**	**2,485,260**	**2,384,846**	**2,259,328**

b) Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 19 to the Pension Fund, see section 8, below. This estimate is subject to significant variances based on changes to underlying assumptions.

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

There are no material items of Income and Expenditure that are not disclosed elsewhere in these Accounts.

6. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Corporate Resources on 29 July 2022. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. There are no events after the balance sheet date to report for 2021/22.

7. OTHER OPERATING EXPENDITURE - LEVIES

These are included under the "Other Operating Expenditure" line in the Comprehensive Income and Expenditure Statement, and comprises the statutory levies for services carried out by other bodies.

	2021/22 £000	2020/21 £000
London Pension Fund Authority (a)	1,281	1,289
Lee Valley Regional Park Authority	213	211
Environment Agency	208	206
Total Levies Paid	**1,702**	**1,706**

(a) London Pension Fund Authority
The CIES is charged with a levy from the LPFA to meet the employer's contributions such as premature retirement costs in respect of former employees of the GLC, ILEA and LRB.

8. TECHNICAL NOTE: AN ANALYSIS OF THE MOVEMENT IN RESERVES STATEMENT ADJUSTMENTS BETWEEN THE ACCOUNTING BASIS AND FUNDING BASIS

This note details the adjustments that are made to the CIES recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The total of these adjustments appears as a line on the Movement in Reserves Statement.

2021/22	Usable Reserves					
	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 to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	46,824	194				(47,018)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(853)	0				853
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	(9,841)					9,841
Holiday Pay (transferred to the Accumulated Absences Account)	9,983					(9,983)
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	14,541	56,985	25,293			(96,819)
Schools Budget deficit accounting (to account for the in-year deficit and year-end deficit balance)	6,269					(6,269)
Total Adjustments to Revenue Resources	**66,923**	**57,179**	**25,293**	**0**	**0**	**(149,395)**

Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,067)	(12,748)		15,815		0
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,940			(1,940)		0
Statutory provision for the repayment of debt (transfer from the CAA)	(9,338)	(3,025)				12,363
Revenue Expenditure Funded from Capital under Statute	2,738					(2,738)
Capital expenditure funded from revenue balances (transfer to the CAA)	0	(51,742)				51,742
Total Adjustments between Revenue and Capital Resources	**(7,727)**	**(67,515)**	**0**	**13,875**	**0**	**61,367**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(7,784)		7,784
Use of the Major Repairs Reserve to finance capital expenditure			(27,064)			27,064
Application of capital grants to finance capital expenditure	(24,543)				3,767	20,776
Total Adjustments to Capital Resources	**(24,543)**	**0**	**(27,064)**	**(7,784)**	**3,767**	**55,624**
Total Adjustments	**34,653**	**(10,336)**	**(1,771)**	**6,091**	**3,767**	**(32,404)**

2020/21	**Usable Reserves**					
	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 to Revenue Resources Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	20,199	104				(20,303)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(860)	0				860
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	17,571					(17,571)
Holiday Pay (transferred to the Accumulated Absences Account)	1,819					(1,819)
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	73,728	55,308	23,379			(152,415)
Schools Budget deficit accounting (to account for the in-year deficit and year-end deficit balance)	2,375					(2,375)
Total Adjustments to Revenue Resources	**114,832**	**55,412**	**23,379**	**0**	**0**	**(193,623)**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,791)	(8,476)		11,267		0
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,939			(1,939)		0

Statutory provision for the repayment of debt (transfer from the CAA)	(9,894)	(3,165)				13,059
Revenue Expenditure Funded from Capital under Statute	8,953					(8,953)
Capital expenditure funded from revenue balances (transfer to the CAA)	875	(13,877)				13,002
Total Adjustments between Revenue and Capital Resources	**(918)**	**(25,518)**	**0**	**9,328**	**0**	**17,108**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(12,400)		12,400
Use of the Major Repairs Reserve to finance capital expenditure			(37,958)			37,958
Application of capital grants to finance capital expenditure	(39,187)				2,979	36,208
Total Adjustments to Capital Resources	**(39,187)**	**0**	**(37,958)**	**(12,400)**	**2,979**	**86,566**
Total Adjustments	**74,727**	**29,894**	**(14,579)**	**(3,072)**	**2,979**	**(89,949)**

9. EARMARKED RESERVES

The Council has a number of earmarked reserves on its Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up to provide resources for future spending plans. This note shows the amounts used to meet General Fund expenditure in 2021/22 and amounts set aside in the year to finance future expenditure plans. The use of HRA earmarked reserves is shown in the notes to the HRA in Section 4.

	Balance	**2021/22 Transfers**		**Balance**	
	31/03/21	**Out**	**In**	**31/03/22**	
Name of Reserve	**£000**	**£000**	**£000**	**£000**	
Specific Revenue Earmarked	60,851	(1,961)	42,313	**101,203**	(a (i))
S31 Covid Business Rates Grant	33,157	(33,157)	5,327	**5,327**	(a (ii))
Covid Grants	16,055	(11,941)	3,868	**7,982**	(a (iii))
PFI and BSF Schemes	29,317	0	323	**29,640**	(b)
New Homes Bonus Reserve	20,203	(33)	2,651	**22,821**	(c)
Insurance	16,175	(725)	641	**16,091**	(d)
Capital Programme Expenditure	480	(5,198)	5,630	**912**	(e)
Section 106 Reserve	0	0	21,380	**21,380**	(f)
	176,238	**(53,015)**	**82,133**	**205,356**	
Schools Reserves and External Funds	24,490	(24,393)	25,665	**25,762**	(g)
	24,490	**(24,393)**	**25,665**	**25,762**	
Total	**200,728**	**(77,408)**	**107,798**	**231,118**	

a) Specific Earmarked Reserves

(i) These comprise a number of specific reserves which are earmarked for particular purposes.

(ii) The Earmarked Revenue reserve contains the S31 Covid Business rates relief grant carried forward to 2022/23.

(iii) Revenue reserves balances also includes £8.0m of Other Covid-19 grants. These will either be used against revenue spend in 2022/23, used to support the Collection Fund, or returned to Central Government.

b) PFI and BSF Schemes Reserves

These reserves enable services to make revenue contributions towards their committed PFI and Building Schools for the Future (BSF) schemes in future years. This now includes the Street Lighting PFI Sinking Fund which was previously reported under the “Specific Revenue Earmarked Reserves” line.

c) New Homes Bonus Reserve

The reserve is made up of unused grant from central government. The grant is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. Use of the reserve is not ring-fenced.

d) Insurance Reserve

This has been established in order to supplement the insurance provision and covers potential costs arising from self-insured risks.

e) Capital Programme Expenditure Reserve

This reserve will be used to finance capital programme expenditure in future years.

f) Section 106 Reserve

In 2021/22 a review was carried out on the balances being held from S106 income received to determine if conditions had been met or not. From the balance previously being held as receipts in advance £21.4m was determined to have no further conditions applied. Therefore this was transferred from receipts in advance and a new reserve was set up. This reserve will be used to finance capital programme expenditure in future years.

g) Schools Reserves and Schools External Funds

The Schools Reserves consist of the unspent year-end balances from schools' self-managed budgets. School External Funds are unspent balances from schools' locally generated funds. All these balances are earmarked to be used by schools in future years.

10. NON CURRENT ASSETS

a) Non-Current Assets Revaluations

Assets are valued at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value, to ensure that the Council's assets are valued in accordance with RICS and CIPFA guidance. The valuations this year were undertaken and signed off by the valuers Wilkes, Head and Eve LLP. Where revaluations have occurred in 2021/22, their exact effective date was 31 March 2022 for council dwellings and 31 March 2022 for other assets.

	Council Dwellings £000	Other Land & Buildings £000	Surplus Assets £000	Total £000
Valued at Historic Cost	**0**	**0**	**0**	**0**
Valued at Current Value				
2021-22	1,413,347	1,104,260	59,967	**2,577,574**
2020-21	93	108	889	**1,090**
2019-20	0	0	0	**0**
2018-19	0	391	0	**391**
2017-18	0	204	0	**204**
Total Net Book Value	**1,413,440**	**1,104,963**	**60,856**	**2,579,259**

b) Movements in Non-Current Assets

The movements in non-current assets during 2021/22 were as follows:

2021/22	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 01 April 2021	**1,393,428**	**1,064,737**	**62,187**	**194,757**	**5,562**	**53,823**	**69,923**	**2,844,417**
Additions	49,713	1,126	1,709	2,774	0	0	56,521	**111,843**
Revaluations (recognised in Revaluation Reserve)	25,458	40,985	0	0	0	3,394	0	**69,837**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(1,674)	6,742	0	0	0	(657)	0	**4,411**
Impairments (recognised in Revaluation Reserve)	0	(813)	0	0	0	(1,120)	0	**(1,933)**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(76)	(348)	0	(854)	0	(719)	0	**(1,997)**
Loss of Control of Assets (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Loss of Control of Assets (recognised in Financing and Investment Income and Expenditure)	0	0	0	0	0	0	0	**0**
De-recognition of Assets (recognised in Other Operating Expenditure)	(46,929)	0	0	0	0	0	0	**(46,929)**
Disposals	(5,809)	0	(16,924)	(26,670)	(100)	(1,952)	0	**(51,455)**
Transfers	(670)	(7,418)	0	0	0	8,088	0	**0**
Gross Book Value c/fwd at 31 March 2022	1,413,441	1,105,011	46,972	170,007	5,462	60,857	126,444	**2,928,194**
Depreciation b/fwd at 01 April 2021	0	(45)	(33,402)	(85,693)	(267)	(1,579)	0	**(120,986)**
Depreciation for year	(24,394)	(14,854)	(3,628)	(7,705)	(95)	(305)	0	**(50,981)**
<u>Depreciation written back on:</u>								
Transfers	12	72	0	0	0	(84)	0	**0**
Revaluations (recognised in Revaluation Reserve)	22,760	11,627	135	0	0	249	0	**34,771**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,621	3,139	0	0	0	43	0	**4,803**
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	13	0	0	0	0	0	**13**
Assets Sold	0	0	16,924	26,677	99	1,675	0	**45,375**
Depreciation c/fwd at 31 March 2022	(1)	(48)	(19,971)	(66,721)	(263)	(1)	0	**(87,005)**
Net Book Value at 31 March 2022	**1,413,440**	**1,104,963**	**27,001**	**103,286**	**5,199**	**60,856**	**126,444**	**2,841,189**

Notes to the Core Financial Statements

The movements in non-current assets during 2020/21 were as follows:

2020/21	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 01 April 2020	**1,284,065**	**1,077,934**	**59,003**	**191,981**	**5,596**	**94,858**	**80,532**	**2,793,969**
Additions	38,960	3,700	7,781	3,136	0	0	45,211	**98,788**
Revaluations (recognised in Revaluation Reserve)	112,685	37,578	0	0	0	(31,635)	0	**118,628**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(9,333)	(31,238)	0	0	0	(2,846)	0	**(43,417)**
Impairments (recognised in Revaluation Reserve)	(1,943)	(1,172)	0	0	(14)	(3,667)		**(6,796)**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(2,059)	(437)	0	(360)	(20)	(2,729)	0	**(5,605)**
Loss of Control of Assets (recognised in Revaluation Reserve)	0	(45,617)	0	0	0	0	0	**(45,617)**
Loss of Control of Assets (recognised in Financing and Investment Income and Expenditure)	0	(21,120)	0	0	0	0	0	**(21,120)**
De-recognition of Assets (recognised in Other Operating Expenditure)	(37,206)	0	0	0	0	0	0	**(37,206)**
Disposals	(4,274)	0	(2,728)	0	0	(205)	0	**(7,207)**
Transfers	12,533	45,109	(1,869)	0	0	47	(55,820)	**0**
Gross Book Value c/fwd at 31 March 2021	1,393,428	1,064,737	62,187	194,757	5,562	53,823	69,923	**2,844,417**
Depreciation b/fwd at 01 April 2020	(1,001)	(3,358)	(34,844)	(78,079)	(172)	(159)	0	**(117,613)**
Depreciation for year	(22,564)	(14,950)	(3,596)	(7,614)	(95)	(1,043)	0	**(49,862)**
<u>Depreciation written back on:</u>								
Transfers	72	11	1,578	0	0	(1,359)	(302)	**0**
Revaluations (recognised in Revaluation Reserve)	21,039	12,136	1,065	0	0	248	0	**34,488**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,294	6,059	0	0	0	668	0	**9,021**
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	160	57	0	0	0	30	302	**549**
Assets Sold	0	0	2,395	0	0	36	0	**2,431**
Depreciation c/fwd at 31 March 2021	0	(45)	(33,402)	(85,693)	(267)	(1,579)	0	**(120,986)**
Net Book Value at 31 March 2021	**1,393,428**	**1,064,692**	**28,785**	**109,064**	**5,295**	**52,244**	**69,923**	**2,723,431**

11. INVESTMENT PROPERTIES

Investment Properties were all reclassified to Property, Plant & Equipment in a previous year (2015/16), hence the nil balance.

12. FINANCIAL INSTRUMENTS

The following categories of financial instruments are carried in the Balance Sheet. Where values are zero, the relevant lines have been excluded from the table.

a) Categories of Financial Instruments

The value of debtors and creditors reported in the table below are solely those amounts meeting the definition of a financial instrument.
The balances of debtors and creditors reported in the balance sheet and Notes 14 and 16 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

31-Mar-21			31-Mar-22	
Long Term	Short Term		Long Term	Short Term
£000	£000		£000	£000
		Fair Value Through Profit & Loss		
0	74,164	Investments	0	116,263
		Financial assets at amortised cost		
0	313,327	Investments	0	275,247
56,237	45,730	Debtors	57,911	37,386
0	3,472	Other Cash & Cash Equivalents	0	174
56,237	**436,693**	**Total financial assets**	**57,911**	**429,070**

Financial Liabilities

31-Mar-21			31-Mar-22	
Long Term	Short Term		Long Term	Short Term
£000	£000		£000	£000
		Financial liabilities at amortised cost		
222,784	2,073	Borrowing	221,646	3,006
202,138	9,302	Private finance initiative (PFI) liabilities	193,246	10,158
0	101,858	Creditors	0	119,755
424,922	**113,233**	**Total financial liabilities**	**414,892**	**132,919**

Under accounting requirements the carrying value of financial instruments is shown in the balance sheet (including the principal amount borrowed or lent and adjustments for accrued interest where relevant). Accrued interest is included in current assets / liabilities where it is due within one year.
The value of short-term investments on the Balance Sheet of £275m includes short term fixed deposits of £185m and notice accounts of £90m, including accrued interest.

b) Financial and Non-Financial Instruments split

Debtors and creditors carried in the Balance Sheet include transactions which, by their nature, are not financial instruments due to their non-contractual status, including taxation debtors such as Council Tax and non-domestic rates. Those balances are as follows:

Debtors:

	Long Term Debtors		Current Debtors		Total	
	31/03/22	31/03/21	31/03/22	31/03/21	31/03/22	31/03/21
	£000	£000	£000	£000	£000	£000
Financial instruments	57,911	56,237	37,386	45,730	95,297	101,967
Non-financial instruments	0	0	22,214	34,947	22,214	34,947
Total Debtors	**57,911**	**56,237**	**59,600**	**80,677**	**117,511**	**136,914**

Creditors

	Long Term Creditors		Current Creditors		Total	
	31/03/22	31/03/21	31/03/22	31/03/21	31/03/22	31/03/21
	£000	£000	£000	£000	£000	£000
Financial instruments	0	0	119,755	101,858	119,755	101,858
Non-financial instruments	0	0	25,486	15,956	25,486	15,956
Total Creditors	**0**	**0**	**145,241**	**117,814**	**145,241**	**117,814**

c) Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are as follows (there were no revaluations of financial instruments in 2021/22 or 2020/21):

	2021/22		2020/21	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Interest Income	(719)	0	(1,872)	0
Total income in Surplus/Deficit on the Provision of Services	**(719)**	**0**	**(1,872)**	**0**
Interest expense	8,251	0	8,339	0
Expected Credit Loss: Financial Liabilities Measured at Amortised Cost	2,995	0	287	0
Total Expense in Surplus/Deficit on the Provision of Service	**11,246**	**0**	**8,626**	**0**
Net (Gain)/ Loss for the Year	**10,527**	**0**	**6,754**	**0**

d) Fair value of assets and liabilities

Financial Liabilities

Financial liabilities classed as financial liabilities at amortised cost are carried in the balance sheet at amortised cost. Their fair values can be estimated by calculating the present value of cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Borrowing rates from the PWLB have been applied to PWLB loans and disclosed at the New Loan/ Certainty discount rate, which is the rate that would be offered by the PWLB to undertake new borrowing at the Balance Sheet date.
- For non-PWLB loans, fair value has also been estimated using the PWLB New Loan/ Certainty discount rate. In the absence of any tangible market evidence, rates are based on discussions with possible market participants for new lending. The lenders are targeting lower than PWLB rates to encourage public sector bodies to consider alternatives to the PWLB and, based on discussions with those potential lenders, the differing structures and rates being offered would suggest an immaterial difference between those spot rates and the PWLB New Loan/Certainty rates.
- Where an instrument has a maturity of less than 12 months the fair value is taken to be the carrying amount.

The fair values for financial liabilities have been assessed by reference to Level 2 Inputs, i.e. inputs other than quoted prices that are observable for the financial liability. These give a reasonable estimate for the fair value of a financial instrument, and includes accrued interest.

31/03/21			**31/03/22**	
Carrying Amount £000	**Fair Value £000**		**Carrying Amount £000**	**Fair Value £000**
		Financial liabilities at amortised cost:		
		Borrowing		
93,844	129,299	Public Works Loan Board loans	93,843	118,854
131,013	177,897	Lender Option Borrower Option (LOBO) loans	130,809	162,520
211,863	211,863	PFI and finance lease liabilities	203,404	203,404
436,720	**519,059**	**Sub-Total**	**428,056**	**484,778**
101,858	101,858	Creditors	119,755	119,755
538,578	**620,917**	**Total Financial Liabilities**	**547,811**	**604,533**

The fair value of borrowings is greater than the carrying amount because the authority’s portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2022) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets

Financial assets classed as financial assets held at amortised cost are carried in the balance sheet at amortised cost. Their fair values can be estimated by calculating the present value of cash flows that will take place over the remaining term of the instruments, using the assumption that the fair value of the financial assets is equal to the carrying value, where the carrying value of assets with a maturity of less than 12 months is taken to be the fair value.

Financial assets classed as fair value through profit and loss are carried in the balance sheet at fair value. The fair values of these assets have been assessed by reference to Level 1 Inputs. Level 1 inputs are quoted prices for identical assets or liabilities in active markets.

31/03/21			31/03/22	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
		Fair Value Through Profit and Loss		
74,164	74,164	Investments	116,263	116,263
		Financial Assets Held at Amortised Cost		
313,327	313,327	Investments	275,247	275,247
101,967	101,967	Debtors	95,297	95,297
3,472	3,472	Cash and Cash Equivalents	174	174
492,930	**492,930**	**Total Financial Assets**	**486,981**	**486,981**

e) Financial Instruments Adjustment Account

Details of the balances and the in-year movements in the Financial Instruments Adjustment Account can be found in the table below:

	Balance 31/03/21 £000	21/22 Transfers Net £000	Balance 31/03/22 £000
LOBO Premium (created in Nov-17 following LOBO restructure)	(21,324)	569	**(20,755)**
FV recognition adjustment following LOBO restructure	(9,967)	(5)	**(9,972)**
Other Premiums and Discounts	(2,543)	289	**(2,254)**
Total	**(33,834)**	**853**	**(32,981)**

e) Other Required Declarations

There have been no reclassifications of financial instruments in the year or in regards to the previous year.

There were no unusual movements during the year or the previous year.

The Council provided no financial guarantees in the year and has none outstanding from previous years. The Council has made no loans to voluntary organisations at less than market rates (soft loans), nor has it received any such loans.

No de-recognition is expected to impact where the Council has transferred financial assets to a third party.
The Council did not hold and did not obtain any collateral for third party debts or other credit enhancements in the year or the previous year.

The adoption of IFRS 9 includes the requirement for disclosure of the expected credit loss impairment or gain associated with financial instruments held at amortised cost. For 2021/22 this loss is set out in the following section as £0.042m (£0.041m loss in 2020/21). These gains relate to the expected debit gains on trade receivables.

No defaults or breaches relating to the Council's financial instruments were incurred during the year or the previous year.

13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Key Risks

The Council's activities necessarily expose it to a variety of financial risks. The key risks are:

Credit Risk - The possibility that other parties might fail to pay amounts due to the Council;
Liquidity Risk - The possibility that the Council might not have funds available to meet its commitments to make payments;
Re-financing Risk - The possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms;
Market Risk - The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

b) Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and seek to minimise potential adverse effects on the resources available to fund services. They are set out through a legal framework based on the Local Government Act 2003 and associated regulations, and require the Council to manage risk in the following ways:

- formally adopt the requirements of the CIPFA Treasury Management Code of Practice;
- adopt a Treasury Policy Statement and include treasury management clauses within its financial regulations/standing orders/constitution;
- approve annually in advance prudential and treasury indicators for the following three years which includes limiting the Council's overall borrowing, managing interest rate exposure, and managing the maturity structure of debt.
- approve an investment strategy for the forthcoming year setting out its criteria for investing and selecting investment counterparties in compliance with Government guidance.

These procedures are required to be reported and approved at Council before the start of the year to which they relate. These items are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year. The annual treasury management strategy which incorporates the prudential indicators was last approved by Council in February 2020 and is available on the Council website. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These are a requirement of the Code of Practice and are reviewed periodically.

c) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. It also considers maximum amounts and time limits in respect of each financial institution. The Council uses the creditworthiness service provided by Link Asset Services which uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element. This is combined with credit watches and credit outlooks in a weighted scoring system, with an overlay of CDS spreads which gives an early warning of likely changes in credit ratings, for which the end product is an indication of the relative creditworthiness of counterparties.

The Council's maximum exposure to credit risk in respect of its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to an individual institution. It is rare for such entities to be unable to meet their commitments and a risk of irrecoverable losses applies to all of the Council's deposits; however at the 31 March 2022 there was no evidence that this was likely to happen.

d) Amounts Arising from Expected Credit Losses (ECL)

As required by the Code of Practice, the Council is required to calculate an Expected Credit Loss (ECL) for its financial assets, which reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. All of the Council's financial instrument assets are held at amortised cost.

The Council's investment assets are held with highly rated counterparties with very low historical rates of default, and are mainly simple deposit products held for durations of less than a year to collect contractual cash flows. Using the 12 month ECL model, at 31 March 2022 the Council's investment assets with a value of £391m had a calculated ECL of £0.042m; the Council has deemed this immaterial for adjusting the carrying values of those assets.

e) Liquidity Risk

The Council manages its liquidity position through the procedures above as well as using a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice, which ensures that cash is available when needed. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the PWLB and money markets for access to longer term funds; there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the proportion of its fixed rate borrowing maturing during specified periods, and a maturity analysis of financial liabilities within those periods is as follows:

31/03/22					31/03/21			
PWLB	LOBO	PFI and Finance Leases	Total		PWLB	LOBO	PFI and Finance Leases	Total
£000	£000	£000	£000	Maturity Period	£000	£000	£000	£000
935	203	10,158	**11,296**	Less than 1 year	0	203	9,302	**9,505**
1,496	203	10,852	**12,551**	Between 1 and 2 years	935	203	10,147	**11,285**
3,367	608	40,251	**44,226**	Between 2 and 5 years	3,367	608	35,922	**39,897**
12,907	1,014	59,600	**73,521**	Between 5 and 10 years	10,662	1,014	60,565	**72,241**
13,690	27,028	82,543	**123,261**	Between 10 and 20 years	17,431	17,028	95,927	**130,386**
8,581	12,028	0	**20,609**	Between 20 and 30 years	8,581	22,028	0	**30,609**
51,939	35,101	0	**87,040**	Between 30 and 40 years	51,939	35,101	0	**87,040**
0	43,717	0	**43,717**	Above 40 years	0	43,919	0	**43,919**
92,915	**119,902**	**203,404**	**416,221**	**Total**	**92,915**	**120,104**	**211,863**	**424,882**

The LOBO maturity profile assumes that the lenders will not exercise any options embedded in the loans until maturity. As at 31 March 2022, LOBO loans with nominal value £83m have fixed interest rates ranging from 3.98% to 4.67%, whilst a loan with nominal value £38m has a stepped rate ranging from 2.19% at 31 March 2022 to 6.30% at maturity. Of the total amount of LOBO loans, £35m have a break clause at every biannual interest payment date, £5m have a break clause every three years, and £80m every five years. In the current low interest rate environment, it is unlikely that the lenders will exercise their options to request early repayment of these LOBOs.

f) Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered sufficient to manage the refinancing risk, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments over one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the corporate treasury team address the operational risks within these parameters.

g) Market Risk – Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments and these impact the Council according to how variable and fixed interest rates move across differing financial instrument periods. The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy includes expected interest rate movements. A treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure, and this is monitored regularly.
If variable interest rates had been 0.1% higher (with all other variables held constant) the financial effect would be a net increase in income of £0.3m. The impact of a 0.1% fall in interest rates would be a net decrease in income of £0.3m.

14. DEBTORS

a) Long Term Debtors

These consist of sums repayable to the Council over a period of time of more than one year.

	31/03/22 £000	31/03/21 £000	
Lewisham Homes Limited - Loan	**40,050**	**37,000**	(a)
Catford Regeneration Partnership Limited (CRPL) - Loan	**15,448**	**14,801**	(b)
Street Lighting PFI Sinking Fund	**2,950**	**2,950**	(c)
Land Charges Debts	**257**	**257**	
Other Long Term Debtors	**815**	**1,229**	(d)
Total Long Term Debtors	**59,520**	**56,237**	

<u>a) Lewisham Homes Limited Loan</u>
A loan of £8m was advanced to Lewisham Homes Limited in 2015/16, a further £6m in 2016/17 a further £12m in 2017/18, a further £11m in 2018/19 and a further £3m in 2021/22. (See Section 6 – Group Accounts.)

<u>b) Catford Regeneration Partnership Limited Loan</u>
A loan of £12m was advanced to CRPL in 2010/11, followed by further loans of £0.25m in 2015/16, £1.0m in 2016/17, £0.5m in 2019/20, £1.2m in 2020/21 and £0.6m in 2021/22. (See Section 6 – Group Accounts.)

<u>c) Street Lighting PFI Sinking Fund</u>
This fund is held by LB Croydon on behalf of the Council in their role as lead borough for the on-going PFI scheme for the upgrade and maintenance of the borough's street lights.

Notes to the Core Financial Statements

b) Current Debtors

These are short term debts for goods and services which are expected to be repayable within a year.

	31/03/22 £000	31/03/21 £000	
Government and Other Public Bodies:			
HM Revenue & Customs - VAT	**8,353**	**6,516**	
Central Government bodies	**4,146**	**11,816**	(a)
Other Local Authorities	**11,801**	**13,936**	(b)
NHS bodies	**3,558**	**5,784**	
Other Public bodies	**639**	**219**	
Council Tax Payers	**31,118**	**45,112**	(c)
NDR Payers	**2,312**	**2,351**	
Council Tax Court Costs	**4,609**	**9,136**	
Housing Benefit Overpayments	**13,098**	**24,153**	(d)
Housing Rents (inc PSL, B & B, Hostels, Commercial)	**10,119**	**11,209**	
Leaseholders Services Charges	**5,569**	**5,655**	
Parking	**0**	**0**	
LBL Pension Fund	**1,496**	**3,518**	
General Debtors due for Supplies and Services	**38,718**	**40,902**	
Total Current Debtors	**135,536**	**180,307**	
Impairment Allowances	**(68,031)**	**(99,630)**	
Total Net Current Debtors	**67,505**	**80,677**	

a) Central Government bodies

The 2020/21 balance of £11.8m contains an amount for MHCLG's element of the NDR deficit of £7.7m, in 2021/22 this is now a Creditor of £0.1m.

b) Other Local Authorities

The 2020/21 balance of £13.9m contains an amount for GLA's element of the NDR deficit of £8.6m, in 2021/22 this is now a Creditor of £0.1m.

c) Council Tax Payers

After a review in 2021/22 £23.6m of historic debt for balances over six years old was written off against the impairment allowance for Council Tax payers debtors (see also Impairment Allowances note below).

d) Housing Benefits Overpayments

After a review in 2021/22 £10.5m of historic debt for balances over six years old was written off against the impairment allowance for Housing Benefits Overpayments debtors (see also Impairment Allowances note below).

c) Impairment Allowances

	Balance at 31/03/21 £000	Movement in 2021/22 £000	Balance at 31/03/22 £000	
Council Tax Payers	(41,712)	14,103	**(27,609)**	(c)
Council Tax Court Costs	(8,627)	4,562	**(4,065)**	
NDR Payers	(2,140)	96	**(2,044)**	
Housing Benefit Overpayments	(19,838)	9,799	**(10,039)**	(d)
Housing Rents (inc PSL, B & B, Hostels, Commercial)	(4,604)	1,178	**(3,426)**	
Leaseholders Services Charges	(1,884)	(479)	**(2,363)**	
General Debtors due for Supplies and Services	(20,825)	2,340	**(18,485)**	
Total Impairment Allowances	**(99,630)**	**31,599**	**(68,031)**	

The above have been determined individually according to the particular factors for each type of debtor.

15. CASH AND CASH EQUIVALENTS

	Balance 31/03/21 £000	Movement in 2021/2 £000	Balance 31/03/22 £000
Cash Equivalents			
Short Term Deposits	0	0	**0**
Cash			
Money Market Funds	74,164	42,099	**116,263**
Call Accounts with Banks	0	0	**0**
	74,164	**42,099**	**116,263**
Other Cash and Bank Balances			
Main Bank Accounts	3,177	(3,177)	**0**
Other Cash and Bank Accounts	1,335	41	**1,376**
	4,512	**(3,136)**	**1,376**
Total Cash and Cash Equivalents	**78,676**	**38,963**	**117,639**
Bank Accounts Overdrawn			
Main Bank Accounts	0	(5,047)	**(5,047)**
Schools Bank Accounts	(1,039)	154	**(885)**
	(1,039)	**(4,893)**	**(5,932)**
Net Cash and Cash Equivalents	**77,637**	**34,070**	**111,707**

a) Short term deposits are made for varying periods of between one day and three months (less than 92 days), depending on the immediate cash requirements, and earn interest at the respective rates.

b) The carrying amounts of cash equivalents, cash and bank overdrafts approximate to their fair values.

c) The schools bank accounts are an integral part of the Council's overall cash management arrangements, and are therefore included under Net Cash and Cash Equivalents. They consist of individual accounts for each school, and an overall treasury account which is used to invest the net balance in conjunction with the Council's other balances. The balances on these accounts were £17.7m (2020/21 £8.5m) and overdrawn £18.6m (2020/21 overdrawn £9.5m) respectively.

16. CREDITORS

These are amounts owed to the Government and other public bodies and all unpaid sums for goods and services received as at the end of the year.

	31/03/22 £000	31/03/21 £000	
Government and other public bodies:			
HM Revenue & Customs	**5,964**	**7,188**	
Central Government bodies	**51,808**	**52,511**	(a)
Other Local Authorities	**4,650**	**3,368**	
NHS bodies	**2,814**	**1,511**	
Other Public bodies	**1,579**	**964**	
	66,815	**65,542**	
Short Term Compensated Absences	**18,555**	**8,572**	(b)
General Creditors (amounts owed for supplies and services)	**59,871**	**43,700**	
Total Creditors	**145,241**	**117,814**	

a) Central Government bodies

The 2021/22 balance of £51.8m contains an amount for Covid Grants owed back to MHCLG where LBL was acting as an agent of £41.8m (2020/21 £37.5m).

b) Short Term Compensated Absences

In 2021/22 the Council used a report from the Oracle HR system for leave untaken at year end for the first time. This showed that a lot more leave was untaken compared to the calculation in previous years based on a survey of employees.

17. REVENUE RECEIPTS IN ADVANCE

	31/03/22 £000	31/03/21 £000	
Capital Contributions Unapplied	**16,374**	**39,966**	(a)
PFI Schemes	**25,172**	**24,431**	
Council Tax	**9,700**	**9,254**	
Revenue Grants and Contributions	**9,490**	**6,692**	
Rents in Advance	**8,383**	**6,037**	
NDR	**3,784**	**2,983**	
Other Receipts in Advance	**6,333**	**11,299**	
Total Receipts in Advance	**79,236**	**100,662**	

(a) Capital Contributions Unapplied

Capital Contributions Unapplied includes a balance of £16.4m Section 106 Contributions, where the conditions have not yet been met, in 2021/22 (2020/21 was £39.9m).

A review was carried out in 2021/22 to determine if there were conditions remaining or if conditions hadn't been met. This resulted in £21.4m moving to Reserves as no conditions were remaining and £1.3m moving to Creditors as this is to be repaid.

18. PROVISIONS

These are amounts which are set aside to meet liabilities that are likely or certain to arise from events which have taken place, but where it is not possible to determine precisely when the event will take place.

	Balance	2021/22 Transfers		Balance
	31/03/21	Out	In	31/03/22
	£000	£000	£000	£000
Current (less than 1 year)				
Insurance Provision (a)	2,648	(2,497)	2,284	**2,435**
Water Charges Provision (b)	4,943	(4,467)	5,513	**5,989**
Term Time Only Claims Provision (c)	4,700	(3,710)	0	**990**
NDR Appeals Provision	5,999	(1,678)	0	**4,321**
Other Provisions (d)	3,354	(5,061)	3,566	**1,859**
	21,644	**(17,413)**	**11,363**	**15,594**
Non Current (Over 1 year)				
Insurance Provision (a)	3,593	(1)	0	**3,592**
Water Charges Provision (b)	2,119	(2,119)	0	**0**
Other Provisions (d)	2,340	(256)	0	**2,084**
	8,052	**(2,376)**	**0**	**5,676**
Total - Provisions	**29,696**	**(19,789)**	**11,363**	**21,270**

(a) Insurance Provisions

The Council's insurance programme comprises a mix of external insurance, largely for cover at catastrophe level or where required by contract or lease arrangements, and self-insurance. Dedicated Insurance Provisions and Reserves are maintained to provide 'self-insurance' to meet either uninsured losses or losses that fall below the external insurance excess. The appropriate levels are assessed annually by the Council's insurance actuaries.

(b) Water Charges Provision

This is a provision to refund tenants their water charge discounts going back to 2001. This follows a Court of Appeal ruling in October 2020 regarding Kingston Council. A provision was set up in 2019/20 and payments are expected to be concluded in 2022/23.

(c) Term Time Only Claims Provision

There were errors with the formula used by some Councils to calculate holiday pay for term-time only support staff in schools dating back several years. A provision was set up for this in 2020/21 with most payments being made in 2021/22, it is expected that the remainder of the provision will be used in 2022/23.

(d) Other Provisions

Other Provisions includes two new provisions set up in 2020/21, a provision for the potential liability in respect of savings accounts for Children Leaving Care, which extends back a number of years (£1.7m) and a provision for a potential liability for London Borough of Lewisham for claims that may follow after the high court ruled that Norfolk County Council discriminated against disabled people with high support needs in its charging policy (known as the Norfolk Judgement) (£1.0m). Payments related to these are expected in 2022/23

19. USABLE CAPITAL RECEIPTS

Capital Receipts are mainly sums received from the sale of non-current assets. Housing capital receipts are subject to pooling arrangements whereby under certain conditions a portion is payable to central government. Non housing capital receipts are wholly usable to finance new capital expenditure. The balance on this account is available to fund future capital expenditure.

	2021/22 £000	2020/21 £000
Balance brought forward at start of year	**58,296**	**61,368**
Amounts Received	**15,815**	**11,267**
Poolable to Central Government	**(1,940)**	**(1,939)**
Receipts returned to Central Government	**0**	**0**
Amounts applied to finance new capital investment	**(7,784)**	**(12,400)**
Total increase/(decrease) in capital receipts in year	**6,091**	**(3,072)**
Balance carried forward at end of year	**64,387**	**58,296**

20. PENSION RESERVE

The Pensions Reserve reflects the timing differences which arise from the accounting treatment for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES 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 between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements ensure that funding will have been set aside by the Council by the time the benefits are due to be paid.

	2021/22 £000	2020/21 £000
Balance brought forward at start of year	**(771,041)**	**(518,466)**
Actuarial gains or losses on pensions assets and liabilities	**148,922**	(422,364)
Return on Assets excluding amounts included in Net Interest	**105,502**	190,092
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	**(78,871)**	(51,156)
Employer's pensions contributions and direct payments to pensioners payable in the year	**31,853**	30,853
Balance carried forward at end of year	**(563,635)**	**(771,041)**

21. REVALUATION RESERVE

The Revaluation Reserve records the accumulated gains since 1st April 2007 on non-current assets held by the Council arising from increases in value (to the extent that these gains have not been consumed by subsequent downward movements in value). The Reserve is also debited with the part of the depreciation that has been incurred because the asset has been revalued. On disposal of an asset, its Revaluation Reserve balance is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

	2021/22 £000	2020/21 £000
Balance brought forward at start of year	**1,209,588**	**1,130,110**
Balance brought forward adjustment	**0**	0
Restated Balance brought forward at start of year	**1,209,588**	**1,130,110**
Revaluation of Assets	**104,636**	153,787
Impairment Losses	**(1,934)**	(6,797)
Loss of Control of Assets	**0**	(45,617)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**102,702**	**101,373**
Difference between fair value and historic cost depreciation	**(20,992)**	(19,372)
Accumulated gains on assets sold or scrapped	**(3,187)**	(2,523)
Amount written off to the Capital Adjustment Account	**(24,179)**	**(21,895)**
Balance carried forward at end of year	**1,288,111**	**1,209,588**

22. CAPITAL ADJUSTMENT ACCOUNT

This reflects the timing differences arising from the accounting treatment for the use 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 CIES (with reconciling entries from the Revaluation Reserve to convert fair value figures to a historical cost basis). It is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

	2021/22 £000	2020/21 £000
Balance brought forward at start of year	**1,044,137**	**1,070,983**
Reversal of capital expenditure items debited or credited to the CIES		
Charges for depreciation and impairment of non-current assets	**(43,751)**	(110,434)
Revenue expenditure funded from capital under statute	**(2,738)**	(8,953)
Non-current assets written off on disposal and de-recognition - gain/loss to the CIES	**(49,881)**	(39,458)
	(96,370)	**(158,845)**
Adjusting amounts written out of the Revaluation Reserve	**20,992**	19,372
Net amount written out of the cost of non-current assets consumed in the year	**(75,378)**	**(139,473)**
Capital Financing applied in the year:		
Use of Capital Receipts to finance new capital expenditure	**7,784**	12,400
Use of Major Repairs Reserve to finance new capital expenditure	**27,064**	37,958
Capital grants and contributions credited to the CIES	**20,776**	36,208
Statutory Provision for the financing of capital investment	**4,327**	4,134
Repayment of Principal on PFI schemes	**8,036**	8,925
Capital expenditure charged to General Fund and HRA	**51,742**	13,002
	119,729	**112,627**
Balance carried forward at end of year	**1,088,488**	**1,044,137**

23. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed by type in the table below:

	2021/22 £000	2020/21 £000
Employee expenses - LBL	**303,043**	288,535
Employee expenses - Schools Non-LBL	**65,589**	61,700
Other Expenditure	**715,213**	692,283
Revaluation, Depreciation, Amortisation and Impairment	**43,846**	110,434
Interest payments	**31,031**	31,713
Loss of Control of Assets	**0**	21,120
Precepts and levies	**1,702**	1,706
Payments to Housing Capital Receipts Pool	**1,940**	1,939
Gain or loss on disposal and de-recognition of non-current assets	**36,907**	37,206
Net interest on the net defined benefit liability	**15,881**	12,102
Total Expenditure	**1,215,152**	**1,258,738**
Government grants and contributions	**(640,397)**	(690,349)
Fees, Charges and Other service income	**(301,467)**	(243,767)
Interest and Investment income	**(1,611)**	(3,164)
Income from council tax, non-domestic rates, district rate income	**(214,949)**	(213,800)
Recognised Capital Grants and Contributions	**(19,839)**	(36,508)
Gain or loss on disposal and de-recognition of non-current assets	**0**	(6,832)
Other Income	**0**	0
Total Income	**(1,178,263)**	**(1,194,420)**
(Surplus) or Deficit on the Provision of Services	**36,889**	**64,318**

The Council's Fees, Charges and Other Service Income is analysed by type in the table below:

Fees, Charges and Other Service Income	**2021/22 £000**	**2020/21 £000**
Rent & Service Charges	**(126,229)**	(119,476)
Contributions from Health	**(30,243)**	(26,914)
Schools Income	**(15,294)**	(7,051)
Parking Income	**(13,158)**	(12,016)
Non-Government Grants	**(7,900)**	(6,667)
Fees & Charges Income	**(7,445)**	(7,669)
Other Care Charges Income	**(6,093)**	(5,684)
Fairer Charging Income	**(5,343)**	(4,550)
PFI Credits Income	**(2,564)**	(2,352)
Cemeteries & Crematoria Income	**(2,387)**	(2,824)
Licenses & Permits	**(1,801)**	(1,100)
Planning Fees	**(1,502)**	(1,517)
Other Income	**(81,508)**	(45,947)
Total Income	**(301,467)**	**(243,767)**

24. AGENCY SERVICES AND POOLED BUDGETS

The Council did not carry out any agency services, construction work or any other work for any other Local Authorities, public bodies or entities in 2021/22 (nor 2020/21).
In 2021/22 the Council operated a pooled budget as defined by the terms of a Section 75 Agreement (National Health Service Act 2006)
There is one Pooled fund called Lewisham Better Care Fund (BCF). The Host Partner for the pooled fund is the Council (LBL) and the Pooled Fund Manager, is an officer of the council; the Group Finance Manager, Community Services.
The two partners in the agreement are LBL and NHS Lewisham CCG.
Before the start of the financial year the Partners agree an expenditure plan and the financial contribution of each party. Each element of the plan indicates which party will be the Lead Commissioner (or whether there will be joint commissioning). All BCF expenditure will require the approval of the Partnership Board; as such there is joint control of the Fund. Payments to and from the Pooled Fund are made from and recorded on the Council's financial systems.
Except where agreed otherwise payments to providers for services that are part of the BCF are made by the Partner holding the contract. These are identified and agreed by the Partners at least yearly before the start of each financial year. The Council invoices the CCG monthly for 1/12th of the agreed annual contribution less all planned payments made by the CCG in relation to CCG let contracts delivering the Schemes. Each party therefore accounts only for its share of the relevant expenditure within its own accounts with any surplus or deficit on the Fund held on behalf of the Fund by the Lead Authority.
The total Lewisham Better Care Fund for 2021/22 was £41.4m, the split of which can be seen in the table below:

	2021/22 £000	2020/21 £000
Funding provided to the pooled budget:		
Lewisham Borough Council	**(16,795)**	**(16,795)**
NHS Lewisham CCG	**(24,581)**	**(23,287)**
	(41,376)	**(40,082)**
Expenditure met from the pooled budget:		
Lewisham Borough Council	**26,978**	**26,467**
NHS Lewisham CCG	**14,398**	**13,615**
	41,376	**40,082**
Net surplus arising in year	**0**	0
LBL share being 9.6% of the net surplus in year	***0***	*0*

Note: (i) The LBL share of any in-year net surplus would be 9.6%. This was nil in 2021/22 (and 2020/21) due to there not being a surplus.

25. INVESTMENT IN COMPANIES

a) Companies of which the Council is the sole owner.

The Council is sole owner of two companies:

i) Lewisham Homes Limited
ii) Catford Regeneration Partnership Limited
Further detail on these companies is given in the Group Accounts section of these statements.

b) Companies of which the Council is a joint owner or shareholder.

i) Lewisham Schools for the Future LEP Limited and Lewisham Schools for the Future SPV Limited
The Council has a stake of 10% in Lewisham Schools for the Future LEP Limited which is the Local Education Partnership company also comprising Costain Engineering & Construction Limited, Babcock Project Investments Limited and Building Schools for the Future Limited as well. It was established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish the secondary schools within the Borough. No payments were made to this company in 20/21 (£8.5k in 2020/21).

The Council also has a 10% stake in four Special Purpose Vehicles which were set up in relation to the schools which were built within this BSF Programme. The companies concerned are Lewisham Schools For The Future SPV Limited (21/22 £9.5m, 20/21 £9.1m), Lewisham Schools For The Future SPV2 Limited (21/22 £3.2m, 20/21 £3.1m), Lewisham Schools For The Future SPV3 Limited (21/22 £4.7m, 20/21 £4.6m) and Lewisham Schools For The Future SPV4 Limited (21/22 £8.6m, 20/21 £8.6m). The Director of Financial Services is the Council's Director on all of these companies' boards. The corporate structure is standard to BSF schemes.

ii) South-East London Combined Heat and Power Limited (SELCHP)
The Council has a minority share of less than 1% in South-East London Combined Heat and Power Limited (SELCHP) which is a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy services. Payments of £4.7m were made in 2021/22 to the company (£5.3m in 2020/21) and are included in the Housing, Regeneration & Environment line of the CIES.

iii) Lewisham Grainger Holdings LLP
During 2018/19 the Council formed a Limited Liability Partnership with Grainger Developments Ltd. The Council and Grainger are each 50:50 shareholders in the holding company and this (and its subsidiaries) are all registered at Companies House. Therefore this is not a subsidiary of the Council as LBL do not have the majority shareholding. The partnership will build housing for rent in Besson Street, New Cross. No payments were made to the company by the Council in 2021/22 or 2020/21.

26. MEMBERS' ALLOWANCES

The Council paid the following amounts to elected members of the Council during the year.

	2021/22 £000	2020/21 £000
Allowances (incl. NI)	1,005	971
Other Expenses	13	1
Total Expenditure in Year	1,018	972

27. OFFICERS' REMUNERATION

a) The number of Employees whose Remuneration was £50,000 or more:-

	Non-Schools		Schools		Totals	
Remuneration Band	**2021/22**	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**
£50,000 to £54,999	159	138	278	289	437	427
£55,000 to £59,999	61	58	66	73	127	131
£60,000 to £64,999	23	7	81	84	104	91
£65,000 to £69,999	13	18	33	34	46	52
£70,000 to £74,999	22	25	37	38	59	63
£75,000 to £79,999	17	2	24	30	41	32
£80,000 to £84,999	2	2	22	24	24	26
£85,000 to £89,999	5	2	14	10	19	12
£90,000 to £94,999	0	0	3	5	3	5
£95,000 to £99,999	1	1	4	3	5	4
£100,000 to £104,999	2	1	2	3	4	4
£105,000 to £109,999	6	9	4	3	10	12
£110,000 to £114,999	0	1	1	1	1	2
£115,000 to £119,999	4	0	1	1	5	1
£120,000 to £124,999	0	0	1	2	1	2
£125,000 and over	0	0	3	2	3	2
Total	**315**	**264**	**574**	**602**	**889**	**866**

Note (i) These figures do not include the senior employees disclosed separately in note b) below.

b) Disclosure of Senior Employees' Remuneration

The definition of a "Senior Employee" is set out in Regulation 7 of the Accounts and Audit (England) Regulations 2011 (SI 2011/817). In summary, they are either a statutory chief officer, or have the power to direct or control the major activities of the Council or report direct to the Head of the Council's paid service. They are not the same group of senior staff whose salaries are published on the Council's website.

After a review in 2020/21 it was decided to only include the current members of the Executive Management Team (EMT) and the statutory post holders.

Financial Year 2021/22	**Salary (inc fees and allowances)**	**Employer's Pension Contributions**	**Total (inc. Pension Contributions)**
	£	**£**	**£**
Senior Employees			
Chief Executive (Kim Wright)	**184,950**	**41,614**	**226,564**
Assistant Chief Executive	**117,121**	**26,353**	**143,474**
Executive Director for Corporate Resources (Kathy Freeman)	**151,029**	**33,982**	**185,011**
Executive Director for Children and Young People (Pinaki Ghoshal)	**153,897**	**34,627**	**188,524**
Executive Director for Community Services (Tom Brown)	**153,897**	**34,627**	**188,524**
Executive Director for Housing, Regeneration and Public Realm (a)	**124,815**	**28,084**	**152,899**
01-Apr-21 to 15-Aug-21	*57,505*	*12,939*	*70,444*
18-Oct-21 to 31-Mar-22	*67,310*	*15,145*	*82,455*
Director of Public Health	**105,492**	**23,736**	**129,228**
Director of Law & Corporate Governance (b)	**59,427**	**13,372**	**72,799**
01-Apr-21 to 31-Jul-21	*48,175*	*10,840*	*59,015*
17-Nov-21 to 31-Mar-22	*11,252*	*2,532*	*13,784*
Totals	**1,050,628**	**236,395**	**1,287,023**

(a) Executive Director for Housing, Regeneration and Public Realm: The post was vacant from when the previous post holder left (15-Aug-21) to when the new post holder joined (18-Oct-21)
(b) Director of Law & Corporate Governance: The post was vacant from when the previous post holder left (31-Jul-21) to when the new post holder joined (17-Nov-21). The current post holder was seconded to LBL part time (from 17-Nov-21 to 31-Mar-22)

Financial Year 2020/21	**Salary (inc fees and allowances)**	**Employer's Pension Contributions**	**Total (inc. Pension Contributions)**
	£	**£**	**£**
Senior Employees			
Chief Executive (Kim Wright)	**184,950**	**41,614**	**226,564**
Assistant Chief Executive	**111,200**	**25,020**	**136,220**
Executive Director for Corporate Resources (a)	**141,825**	**31,911**	**173,736**
01-Apr-20 to 14-Sep-20 (Acting)	*60,748*	*13,668*	*74,416*
14-Sep-20 to 31-Mar-21	*81,077*	*18,243*	*99,320*
Executive Director for Children and Young People (b)	**172,348**	**28,856**	**201,204**
01-Apr-20 to 12-Jun-20 (Interim - Agency)	*44,100*	*0*	*44,100*
01-Jun-20 to 31-Mar-21	*128,248*	*28,856*	*157,104*
Executive Director for Community Services (Tom Brown)	**151,029**	**33,982**	**185,011**
Executive Director for Housing, Regeneration and Public Realm (Kevin Sheehan)	**153,897**	**34,627**	**188,524**
Director of Public Health	**102,789**	**23,128**	**125,917**
Director of Law, Governance & HR (c)	**94,546**	**21,273**	**115,819**
13-Jul-20 to 31-Mar-21	*94,546*	*21,273*	*115,819*
Head of Law and Monitoring Officer (part-time) (c)	**172,906**	**4,515**	**177,421**
01-Apr-20 to 16-Jul-20 (Kath Nicholson)	*172,906*	*4,515*	*177,421*
Totals	**1,285,490**	**244,926**	**1,530,416**

(a) Executive Director for Corporate Resources - This was an interim appointment for 01-Apr-20 to 14-Sep-20. The postholder then returned to their position of Director of Corporate Services.
(b) Executive Director for Children and Young People - The post was covered by an interim (agency) from 01-Apr-20 to 12-Jun-20. Agency costs of £7,938 (not included above) were also incurred for the interim employee. There was a brief overlap between agency and permanent postholders.
(c) Head of Law - The part-time head of Law retired in Jul-20. The figure in the table above consists of their salary plus exit package; their exit package is also included in Note 27c below (band £100,001 and over). There was a brief overlap in employment with the newly appointed Director of Law, Governance & HR.

c) Termination Benefits - Exit Packages Agreed in Year

The number and cost of exit packages granted to employees in the year are shown below. These costs include redundancy payments to employees which were charged to the CIES. They also include payments to the Pension Fund in respect of the extra pension costs of employees who were granted early access to their pensions.

Cost Band (inc Pension Fund Contributions)	Total Number of Exit Packages		Total Cost of Exit Packages	
	2021/22 No.	2020/21 No.	2021/22 £000	2020/21 £000
£0 to £20,000	118	30	891	249
£20,001 to £40,000	46	9	1,356	244
£40,001 to £60,000	9	1	438	58
£60,001 to £80,000	6	1	399	79
£80,001 to £100,000	2	0	178	0
£100,001 and over	1	3	104	405
Total	182	44	3,366	1,035

28. EXTERNAL AUDIT COSTS

	2021/22 £000	2020/21 £000
External Audit Services	253	233
Certification of Grant Claims and Returns	47	42
Other services provided by the appointed auditor (*)	0	24
	300	299

(*) The Other services provided by the appointed auditor in 2020/21 is work on prior year objections relating to LOBO’s and PFI’s that were finalised during 2020/21.

The Council’s External Auditors are Grant Thornton.

29. DEDICATED SCHOOLS' GRANT

The Council's expenditure on schools is funded primarily by the Dedicated Schools' Grant (DSG) provided by the DfE. The DSG is ring-fenced and can only be used to meet expenditure as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

	2021/22			2020/21		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
Final DSG before academy & high needs recoupment	59,107	253,396	312,503	49,065	247,214	296,279
Academy & high needs figure recouped	0	39,831	39,831	(601)	(35,748)	(36,349)
Total DSG after academy & high needs recoupment	59,107	293,227	352,334	48,464	211,466	259,930
Brought forward from previous year (Restated)	0	0	0	(629)	1,180	551
Carry forward to next year agreed in advance	0	0	0	0	0	0
Agreed initial budgeted distribution	59,107	213,565	272,672	47,835	212,646	260,481
In year adjustments	0	(167)	(167)		(547)	(547)
Final Budget Distribution	59,107	213,398	272,505	47,835	212,099	259,934
Actual Central Expenditure	64,455		64,455	52,659		52,659
Actual ISB deployed to schools		214,319	214,319		209,650	209,650
Total In-Year (Deficit)/ Surplus	(5,348)	(921)	(6,269)	(4,824)	2,449	(2,375)

DSG Unusable Reserve

	£000
DSG unusable reserve (cumulative deficit) at the end of 2020/21	(2,375)
Addition to DSG unusable reserve at the end of 2021/22 (in-year deficit)	(6,269)
Total of DSG unusable reserve (cumulative deficit) at the end of 2021/22	(8,644)

30. GRANT INCOME

The following grants were credited to services during the year:

	2021/22 £000	2020/21 £000
Dedicated Schools Grant	(272,505)	(259,383)
Housing Benefit Grant	(159,901)	(169,277)
BSF/ Grouped Schools PFI Unitary Charge Grant	(26,150)	(26,329)
Covid-19 Grants	(25,352)	(38,529)
Public Health Grant	(25,352)	(24,776)
Housing Subsidy/ Decent Homes Backlog Grant	(19,863)	(10,353)
Improved Better Care Fund	(14,502)	(14,502)
Pupil Premium Grant	(11,800)	(12,035)
Children's Social Care Grant	(10,773)	0
Other Grants	(42,619)	(50,002)
Total	(608,817)	(605,186)

The following grants were credited to Taxation and non-specific Grant Income during the year:

	2021/22 £000	2020/21 £000
Revenue Support Grant (RSG)	(28,151)	(27,996)
S31 Business rate relief grant	0	(33,157)
Children's Social Care Grant	0	(8,434)
S31 Business rate grants - Other	0	(6,918)
New Homes Bonus	(2,652)	(6,176)
Covid-19 Grants	0	(1,816)
Other	(777)	(666)
Total	(31,580)	(85,163)

31. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties, which are bodies or individuals that have the potential to control or influence the Council or to be controlled by the Council.

(a) Central Government and Other Local Authorities
Central government exerts significant influence over the Council through legislation and grant funding. The general government grants received are shown in Note 30 to the Core Financial Statements. The precept to the Greater London Authority is shown in the notes of the Collection Fund in Section 5 of these Accounts. There were numerous other transactions between the Council and other Local Authorities.

(b) Subsidiaries, Associated Companies and Joint Ventures
Further details on these companies are given in Note 25 – Investment in Companies – and the Group Accounts section of these statements.

Transactions with the companies that are solely owned by the Council are in the table below:

Name	Loan with LBL	Expenditure	Income	Income outstanding to LBL (LBL debtor balance)	Balance outstanding (LBL creditor balance)
	£'000	£'000	£'000	£'000	£'000
Lewisham Homes Ltd	40,050	60,910	10,814	3,968	4,685
Catford Regeneration Partnership Ltd	15,448	798	20	0	0

Name	Loan with LBL	Expenditure	Income	Income outstanding to LBL (LBL debtor balance)	Balance outstanding (LBL creditor balance)
	£'000	£'000	£'000	£'000	£'000
Lewisham Homes Ltd	37,000	35,066	10,995	4,587	1,297
Catford Regeneration Partnership Ltd	14,801	603	134	6	298

(c) Companies of which the Council is a Joint Owner or Shareholder
Further details on these companies are given in Note 25 – Investment in Companies.

Payments made by the Council to these companies in 2021/22 are shown below:

i) Lewisham Schools for the Future LEP Limited – £0m
Lewisham Schools for the Future SPV Limited – £9.5m
Lewisham Schools for the Future SPV2 Limited – £3.2m
Lewisham Schools for the Future SPV3 Limited – £4.7m
Lewisham Schools for the Future SPV4 Limited – £8.6m

ii) South-East London Combined Heat and Power Limited (SELCHP) – £4.7m

iii) Lewisham Grainger Holdings LLP – no payments were made.

(d) Elected Members (Councillors) and Chief Officers
Councillors have direct control over the Council’s financial and operating policies, and their total cost is shown in Note 26. They are required to declare all related party transactions which they have with any organisation in which they have a controlling interest. This information is recorded on the Council's Register of Members and Chief Officers' Declarations of Interests and is open to public inspection at the Civic Suite at Lewisham Civic Suite during office hours. The information is also published on the Council’s website. The Council is compliant with the Localism Act 2012.
The Council has concluded that no related party transactions should be disclosed since all declared interests by Members or Offices are within organisations where they cannot exert a controlling interest.

(e) Lewisham Pension Fund
The Pension Fund Accounts are included in Section 8 of this document.

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The capital expenditure incurred in the year (excluding the value of assets acquired under finance leases and PFI contracts) and the resources used to finance it are shown below. Any expenditure which is not financed in the year will add to the Capital Financing Requirement (CFR), which measures the capital expenditure incurred historically by the Council that has yet to be financed. The Council is required to set aside an amount each year (the Minimum Revenue Provision - MRP) to repay debt, this reduces the CFR.

	2021/22 £000	2020/21 £000
Opening Capital Financing Requirement	**507,210**	**519,801**
Capital Investment		
Property, Plant and Equipment	**111,843**	98,788
Capital Expenditure not added to Fixed Assets (*)	**3,000**	0
Revenue Expenditure Funded from Capital under Statute	**2,738**	8,953
	117,581	**107,741**
Resources Used for Financing		
Capital Receipts	**(7,784)**	(12,400)
Government Grants and Other Contributions	**(20,776)**	(36,208)
Major Repairs Reserve	**(27,064)**	(37,958)
Sums set aside from Revenue:	**(51,742)**	(13,002)
	(107,366)	**(99,568)**
Increase in the underlying need to borrowing	**10,215**	**8,173**
<u>Adjustment (**)</u>		
Bring in PFI Schemes Asset	**1,276**	(7,705)
	1,276	**(7,705)**
Debt Redeemed		
Minimum Revenue Provision	**(4,327)**	(4,134)
Repayment of Principal on PFI schemes (**)	**(9,312)**	(8,925)
	(13,639)	**(13,059)**
Increase/ (decrease) in Capital Financing Requirement	**(2,148)**	**(12,591)**
Closing Capital Financing Requirement	**505,062**	**507,210**

* Lewisham Homes Loan £3m in 2021/22

** It was found that the PFI asset was not included in the CFR Calculation from 2018/19, and therefore did not match the PFI liability already being shown on the balance sheet. This was corrected by restating the CFR 2018/19 figures in 2019/20. On review we found that the adjustment to the PFI asset value in 19/20 did not reflect the writing down of the liability for that year and so a further adjustment to correct the CFR was needed in 2020/21 & 2021/22.

33. LEASES

a) Council as a Lessee

<u>i) Finance Leases</u>

The council does not have any assets held under Finance Leases.

ii) Operating Leases

The Council has operating leases in the areas of Council Dwellings, School Plant and Equipment and Refuse Vehicles. The expenditure charged to services in the CIES during the year in relation to these leases was £1.6m (£1.6m in 2020/21). The future minimum lease payments due under non-cancellable leases in futures are:

	31/03/22 £000	31/03/21 £000
Not later than one year	1,614	1,241
Later than one year and not later than five years	3,382	3,328
Later than five years	14,293	14,866
	19,289	19,435

b) Council as a Lessor

i) Finance Leases

The Council does not lease out any assets held under Finance Leases.

ii) Operating Leases

The Council leases out a number of commercial properties for Investment purposes. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/22 £000	31/03/21 £000
Not later than one year	3,406	3,414
Later than one year and not later than five years	6,598	5,389
Later than five years	5,425	5,858
	15,429	14,661

34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

a) Summary of PFI Schemes

PFI Scheme	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting
Start of Contract	2007	2007	2007	2009	2011	2012	2012	2011
End of Contract	2027	2039	2036	2035	2037	2037	2038	2036
Total Estimated Cost	**£287m**	**£83m**	**£228m**	**£242m**	**£86m**	**£119m**	**£225m**	**£95m**
Total PFI Credits	£207m	£30m			£674m			£54m
Net PFI Cost	**£80m**	**£53m**			**£226m**			**£41m**

b) Payments made under PFI contracts

	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
2021/22									
Service Charges	10,339	515	4,077	3,856	1,120	1,188	1,939	859	23,893
Interest	3,045	1,817	2,967	3,692	1,616	2,461	4,948	2,234	22,780
Liability Repayment	3,025	176	900	1,744	390	869	1,456	751	9,311
Unitary Charge	**16,409**	**2,508**	**7,944**	**9,292**	**3,126**	**4,518**	**8,343**	**3,844**	**55,984**
2020/21									
Service Charges	9,213	497	3,833	3,732	1,025	1,075	2,076	838	22,289
Interest	3,474	1,652	3,055	3,780	1,660	2,504	4,967	2,280	23,372
Liability Repayment	3,165	275	844	1,537	382	835	1,196	692	8,926
Unitary Charge	**15,852**	**2,424**	**7,732**	**9,049**	**3,067**	**4,414**	**8,239**	**3,810**	**54,587**

c) Movement in PFI Assets in year

The assets which are used to provide the services under these PFI contracts are recognised within the Council's Balance Sheet. The movements in value over the year are detailed in the following table.

	2021/22		2020/21	
	£000	£000	£000	£000
Gross Book Value b/fwd		372,901		415,835
Additions		0		0
Revaluations (recognised in Revaluation Reserve)	13,354		23,949	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,551	14,905	462	24,411
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0
Loss of Control of Assets (recognised in Revaluation Reserve)	0		(45,617)	
Loss of Control of Assets (recognised in Financing and Investment Income and Expenditure)	0	0	(21,120)	(66,737) *
Disposals		(566)		(608)
Transfers		0		0
Assets reclassified (to)/ from Held for Sale		0		0
Gross Book Value c/fwd		387,240		372,901
Depreciation b/fwd		(7,340)		(6,653)
Depreciation for year		(7,178)		(7,785)
Depreciation written back on:				
Transfers		0		0
Revaluations (recognised in Revaluation Reserve)	5,774		6,686	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	238	6,012	412	7,098
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0		0	
Assets sold		0		0
Depreciation c/fwd		(8,506)		(7,340)
Net Book Value at End of Year		**378,734**		**365,561**

***** The £66.7m Loss of Control of Assets relates to the de-recognition of the asset value of Sedgehill secondary school held on the balance sheet when it transferred to an academy.

d) PFI Liabilities

The unitary payments made to the contractors have been calculated to pay them the fair value of the services they provide, the capital expenditure they have incurred and interest they will pay whilst the capital expenditure remains to be reimbursed. The Council's total outstanding liability to the contractors is shown in the following table.

	Current Liabilities (Due within 1 Year)		Deferred (Future) Liabilities	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Balance outstanding at start of year	9,302	8,797	202,138	211,880
Balance outstanding at end of year	10,158	9,302	193,246	202,138

e) Payments due under PFI contracts in future years

The Council makes an agreed payment each year which is linked to inflation and can be reduced if the contractor fails to meet availability and performance standards. The following table shows the estimated payments due to be paid (as part of a unitary charge) for each PFI. The price base is in nominal terms assuming a 1.9% RPI increase per annum compounded until the end of the contract. The amounts are broken down into the different elements of the payments reflecting how they will be accounted for.

Note: Amounts shown for Brockley HRA PFI relate only to the unitary charge for tenanted properties.

Notes to the Core Financial Statements

	In 2022/23 £000s	2 to 5 years £000s	6 to 10 years £000s	11 to 15 years £000s	16 to 20 years £000s	Total £000s
Brockley HRA						
Service charges	9,779	39,857	635			**50,271**
Interest	2,799	7,978	215			**10,992**
Repayment of liability	3,455	19,657	647			**23,759**
Planned lifecycle replacement	681	2,397	1			**3,079**
Downham Lifestyles						
Service charges	262	1,116	1,560	1,765	769	**5,472**
Interest	1,837	7,427	9,020	8,193	2,782	**29,259**
Repayment of liability	198	1,104	2,166	3,846	2,378	**9,692**
Planned lifecycle replacement	277	1,180	1,666	1,885	821	**5,829**
Grouped Schools						
Service charges	3,081	13,222	18,759	17,575		**52,637**
Interest	2,884	10,514	10,285	4,281		**27,964**
Repayment of liability	956	4,970	11,010	14,095		**31,031**
Planned lifecycle replacement	1,155	4,704	4,153	3,244		**13,256**
BSF 1						
Service charges	2,940	12,678	18,107	12,231		**45,956**
Interest	3,460	12,055	10,431	1,678		**27,624**
Repayment of liability	1,747	8,243	16,363	12,263		**38,616**
Planned lifecycle replacement	1,251	5,846	6,630	3,759		**17,486**
BSF 2						
Service charges	862	3,670	5,128	5,802	520	**15,982**
Interest	1,580	5,816	5,737	2,982	40	**16,155**
Repayment of liability	438	2,201	4,349	7,249	751	**14,988**
Planned lifecycle replacement	279	1,279	1,791	1,967	257	**5,573**
BSF 3						
Service charges	1,117	5,181	8,060	9,531	906	**24,795**
Interest	2,391	8,694	8,412	5,024	304	**24,825**
Repayment of liability	920	3,966	6,314	9,361	1,275	**21,836**
Planned lifecycle replacement	143	994	2,109	2,663	283	**6,192**
BSF 4						
Service charges	1,880	8,821	13,752	16,431	3,726	**44,610**
Interest	4,845	17,826	17,688	10,758	947	**52,064**
Repayment of liability	1,628	6,935	11,438	17,571	4,443	**42,015**
Planned lifecycle replacement	165	1,448	3,256	4,301	1,081	**10,251**
Streetlighting						
Service charges	881	3,750	5,239	5,127		**14,997**
Interest	2,182	8,091	8,099	4,247		**22,619**
Repayment of liability	816	4,028	7,314	9,312		**21,470**
Planned lifecycle replacement	0	0	0	0		**0**
Totals	**56,889**	**235,648**	**220,334**	**197,141**	**21,283**	**731,295**

35. CAPITAL CONTRACTUAL COMMITMENTS

The table below lists the contractual commitments for the acquisition of property, plant and equipment. These are estimated amounts based either on the value of open purchase orders or officer estimates.

	Contractual commitments as at 31/03/22 £m	Contractual commitments as at 31/03/21 £m
General Fund		
Greenvale School Expansion	1.8	8.5
Public Sector Decarbonisation Scheme(PSDS)	1.4	0.0
Catford Library Project works	0.4	0.0
Old Town Hall	0.3	0.0
CCTV Modernisation Plan 2017	0.0	1.0
Good Growth Scheme	0.0	0.4
Ashmead School Expansion	0.0	0.3
Housing Revenue Account	37.0	65.1
Total Capital Programme contractual commitments	40.9	75.3

36. DEFINED CONTRIBUTION PENSION SCHEMES

The Teachers and the National Health Service Pension Schemes are technically defined benefit schemes. However, their assets and liabilities cannot reliably be identified at individual employer level and therefore for the purposes of the Council's accounts they are accounted for as defined contribution schemes.

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is run by the Department for Education (DfE). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DfE use a notional fund to set a national employers contribution rate based on a percentage of members' pensionable pay – in 2021/22 this rate was 23.68% (in 2020/21 23.68%). In 2020/21, the Council paid £20.5m to the DfE in respect of teachers' pension costs (£23.8m in 2020/21).

Public Health staff employed by the Council are members of the NHS Pension Scheme, which is run by the Department of Health (DoH). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DoH use a notional fund to set a national employers contribution rate based on a percentage of members pensionable pay – this rate was 14.38% for 2020/21 (20.68% in 2020/21). In 2020/21 the Council paid £0.039m to the DoH in respect of employees' pension costs (£0.079m in 2020/21).

37. DEFINED BENEFIT PENSION SCHEMES

a) Participation in Pension Schemes

The Council offers retirement benefits as part of the terms and conditions of staff employment. Although these benefits will not actually be payable until employees retire, the Council is committed to making these payments, and they are required to be disclosed at the time that employees earn their future entitlement. The Council makes contributions on behalf of its employees to the Local Government Pension Scheme (LGPS) and the London Pensions Fund Authority (LPFA). These are defined benefit pension schemes, meaning that both the Council and the employees pay contributions into a fund, calculated at a level which is intended to balance the pension's liabilities with investment assets.

b) Assessment of the Assets and Liabilities of the Pension Schemes

These are assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. They have been prepared by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on IAS19 assumptions and calculations for the year and the latest triennial valuations as at 31 March 2019. It should be noted the Council has guaranteed any pension liability that may arise for its wholly owned subsidiary, Lewisham Homes Limited – this figure is excluded from the Council's single entity accounts but is included in the Group Accounts (see Section 6).

c) Transactions relating to Retirement Benefits

In accordance with IAS19, the Council recognises the cost of retirement benefits relating to these schemes in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the required charge to the Council Tax is based on the cash paid in the year so the real cost of retirement benefits is reversed out of the General Fund via the MiRS. The following transactions were made during the year in the CIES and the General Fund Balance via the MiRS:

Comprehensive Income and Expenditure Statement	**2021/22 £000**	**2020/21 £000**
Cost of Service		
Current Service Cost	61,883	39,968
Past Service Cost (inc.settlements and curtailments)	1,107	(914)
	62,990	39,054
Financing and Investment Income and Expenditure		
Net Interest on the Net Defined Benefit Liability		
Interest Income on Scheme Assets	(27,240)	(27,088)
Interest Cost on Defined Benefit Obligation (Liabilities)	43,121	39,190
	15,881	12,102
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	78,871	51,156
Remeasurements of the Net Defined Benefit Liability		
Return on Assets excluding amounts included in Net Interest	(105,502)	(190,092)
Actuarial Losses from changes in Demographic Assumptions	(12,793)	27,775
Actuarial Losses from changes in Financial Assumptions	(135,295)	413,441
Other Gains and Losses	(834)	(18,852)
Total Remeasurements recognised in CIES	(254,424)	232,272
Total Post Employment Benefits Charged to the CIES	(175,553)	283,428

Movement in Reserves Statement	**2021/22 £000**	**2020/21 £000**
Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services	**(78,871)**	**(51,156)**
Employers' Contributions Payable to the Scheme	**31,853**	**30,853**
Return on Assets excluding amounts included in Net Interest	**105,502**	**190,092**
Actuarial Gains and Losses	**148,922**	**(422,364)**
Net Movement in Pensions Reserve	**207,406**	**(252,575)**

d) Pensions Assets and Liabilities Recognised in the Balance Sheet

	31/03/22 £000	**31/03/21 £000**
Fair Value of Plan Assets	**1,505,045**	1,390,628
Present Value of Defined Benefit Liability (Obligation)	**(2,016,555)**	(2,100,702)
	(511,510)	**(710,074)**
Present Value of Unfunded Liabilities	**(52,125)**	(60,967)
Pensions Reserve - Year End Balance	**(563,635)**	**(771,041)**

e) Reconciliation of the Movements in the Fair Value of Scheme Assets

	31/03/22 £000	**31/03/21 £000**
Opening Fair Value of Scheme Assets	**1,390,628**	**1,191,887**
Interest Income on Scheme Assets	27,349	27,184
Administration	(109)	(96)
Remeasurement Gains / Losses		
Return on Assets excluding amounts included in Net Interest	105,502	190,092
Employer Contributions	27,914	26,447
Contributions in respect of Unfunded Benefits	3,939	4,406
Contributions from Scheme Participants	8,131	7,968
Assets distributed on settlements	0	(838)
Benefits Paid	(54,370)	(52,016)
Unfunded Benefits Paid	(3,939)	(4,406)
Other Gains and Losses	0	0
Closing Fair Value of Scheme Assets	**1,505,045**	**1,390,628**

f) Reconciliation of the Movements in the Present Value of Scheme Liabilities

	31/03/22 £000	31/03/21 £000
Opening Present Value of Scheme Liabilities (Obligations)	**(2,161,669)**	**(1,710,353)**
Current Service Cost	(61,883)	(39,968)
Interest Cost on Defined Benefit Obligation (Liabilities)	(43,121)	(39,190)
Contributions from Scheme Participants	(8,131)	(7,968)
<u>Remeasurement Gains / Losses</u>		
Benefits Paid	54,370	52,016
Unfunded Benefits Paid	3,939	4,406
Actuarial Losses from changes in Demographic Assumptions	12,793	(27,775)
Actuarial Losses from changes in Financial Assumptions	135,295	(413,441)
Other Gains and Losses	834	18,852
Past Service Costs / Curtailments / Settlements	(1,107)	1,752
Closing Present Value of Scheme Liabilities (Obligations)	**(2,068,680)**	**(2,161,669)**

g) Pension Scheme Assets

	31/03/22			31/03/21		
LGPS (LBL)	**Active Market £000**	**Not in Active Markets £000**	**Total £000**	**Active Market £000**	**Not in Active Markets £000**	**Total £000**
Equities	0	0	0	0	0	0
Debt Securities	177,651	0	177,651	170,700	0	170,700
Real Estate	0	123,989	123,989	0	91,627	91,627
Investment Funds / Unit Trusts	849,662	126,233	975,896	800,696	118,579	919,275
Private Equity	0	60,003	60,003	0	39,113	39,113
Cash and Cash Equivalents	0	75,708	75,708	0	86,311	86,311
Total LGPS Assets	**1,027,313**	**385,932**	**1,413,245**	**971,396**	**335,630**	**1,307,026**

	31/03/22			31/03/21		
LPFA	**Active Market £000**	**Not in Active Markets £000**	**Total £000**	**Active Market £000**	**Not in Active Markets £000**	**Total £000**
Equities	44,002	8,250	52,252	38,605	7,813	46,418
Target Return Portfolio	11,447	8,325	19,772	11,091	8,093	19,184
Infrastructure	0	9,352	9,352	0	7,139	7,139
Real Estate	0	8,237	8,237	0	7,370	7,370
Cash	2,187	0	2,187	3,090	401	3,491
Total LPFA Assets	**57,636**	**34,164**	**91,800**	**52,786**	**30,816**	**83,602**

h) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme		LPFA	
	2021/22	2020/21	2021/22	2020/21
Rate of Inflation – CPI	3.2%	2.9%	3.5%	2.9%
Salary Increase Rate	3.9%	3.6%	4.5%	3.9%
Pensions Increases	3.2%	2.9%	3.5%	2.9%
Rate for discounting scheme liabilities	2.7%	2.0%	2.6%	1.9%
Mortality assumptions				
Longevity at 65 for current pensioners - Men	21.2	21.4	21.0	20.9
Longevity at 65 for current pensioners - Women	23.8	24.0	24.2	24.1
Longevity at 65 for future pensioners - Men	22.5	22.8	22.2	22.1
Longevity at 65 for future pensioners - Women	25.5	25.8	25.7	25.6

i) Sensitivity Analysis

Change in Assumption at 31st March 2022	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
LGPS - LB Lewisham		
0.1% Decrease in Real Discount Rate	2%	36,509
1 Year Increase in Member Life Expectancy	4%	79,811
0.1% Increase in the Salary Increase Rate	0%	2,234
0.1% Increase in the Pension Increase Rate	2%	34,016
LPFA		
0.1% Decrease in Real Discount Rate	n/a	97
1 Year Increase in Member Life Expectancy	n/a	100
0.1% Increase in the Salary Increase Rate	n/a	95
0.1% Increase in the Pension Increase Rate	n/a	97

These are based on reasonably possible changes to the assumptions occurring at the end of the year and assumes for each change that the assumption changes while all the other assumptions remain constant.

j) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Council anticipates paying £27.4m in contributions to the scheme in 2022/23.

38. CONTINGENT LIABILITIES

A contingent liability is an item of expenditure that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council had the following contingent liability:

- There were 13 schools with licensed deficit budgets at the year end, totalling £2.9m. There were also three schools with local authority loans with a total balance of £1.3m, two of which had licensed deficit budgets. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits/loans, some or all of this total of £4.2m may ultimately fall to be met from the Council's General Fund, either in 2022/23 or a later year.

39. CONTINGENT ASSETS

A contingent asset is an item of income that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council has no contingent assets.

40. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances. The total amount held as at 31 March 2022 was £0.1m (£0.2m as at 31 March 2021).

41. HERITAGE ASSETS

These assets comprise Lewisham Clock Tower (£706k) and the Civic Regalia (£249k). Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31 March 2022 is £0.96m (£0.93m as at 31 March 2021).

The Council has two other "categories" of heritage asset which have not been included on the Balance Sheet. 28 assets, mainly works of art with a total insurance value of approximately £45,000, have individual insurance values which are immaterial. Another 28 assets, mainly paintings and sculptures, have not been included on the balance sheet because the cost of obtaining valuations is not felt to be economic to the benefits of the users of the accounts.

42. CAPITAL GRANTS UNAPPLIED

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have 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. The grants that make up the balance are detailed in the table below:

	2021/22 £000	2020/21 £000
Community Infrastructure Levy - LB Lewisham	(21,750)	(17,046)
Adults PSS Grant (DoH)	(2,626)	(2,895)
Disabled Facilities Grant	(1,790)	(1,863)
Public Sector Decarbonisation Scheme(PSDS)	(1,612)	0
River Ravensbourne Corridor (QUERCUS)	(285)	0
Social Care Single Capital Pot (DoH)	(239)	(681)
NHS Capital Grant	0	(642)
Other Housing Grants (GLA)	(1,900)	(3,219)
Other Grants	(170)	(259)
Total	**(30,372)**	**(26,605)**

43. CASH FLOW STATEMENT - ADJUSTMENT TO SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

	2021/22 £000	2020/1 £000
Depreciation, Impairment and Downward Valuations	43,915	110,434
Increase/ (decrease) in creditors	6,417	22,123
(Increase)/ decrease in debtors	(5,660)	5,086
(Increase)/ decrease in inventories (stock)	8	(17)
Movement in pension liability	47,018	20,303
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	52,852	41,981
Other non-cash items charged to the net surplus or deficit on the provision of services	(8,461)	15,038
Total Adjustment to net surplus or deficit on the provision of services for non-cash movements	136,089	214,948

44. CASH FLOW STATEMENT - ADJUSTMENT FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

	2021/2 £000	2020/21 £000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	51	51
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(15,815)	(11,267)
Any other items for which the cash effects are investing or financing cash flows.	(24,543)	(39,187)
Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(40,307)	(50,403)

45. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2021/22 £000	2020/21 £000
Interest Received	1,765	3,749
Interest Paid	(31,035)	(31,853)
Net Interest Paid	(29,270)	(28,104)

46. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2021/22 £000	2020/21 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(108,214)	(101,146)
Purchase of short and long term investments	(415,000)	(378,000)
Other payments for Investing Activities	(7,818)	(1,204)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	15,815	11,267
Proceeds from short-term and long-term investments	453,000	333,000
Other Receipts from Investing Activities	28,518	37,805
Net Cash Flows from Investing Activities	(33,699)	(98,278)

47. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2021/22 £000	2020/21 £000
Cash receipts of short and long term borrowing	0	0
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(8,036)	(8,924)
Repayment of Short-Term and Long-Term Borrowing	(203)	(4,028)
Other payments for financing activities	17,115	(24,202)
Net Cash Flows from Financing Activities	8,876	(37,154)

48. PRIOR YEAR ADJUSTMENTS/ RESTATEMENTS

In 2021/22 there are no prior year restatements of the Councils Accounts or notes.

SECTION 4 - HOUSING REVENUE ACCOUNT

This account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all income and expenditure relating to the Council's responsibilities as landlord of dwellings and associated property.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

	2021/22 £000	2020/21 £000	Note
INCOME			
Gross Rent - Dwellings	**(70,248)**	**(69,396)**	1
Gross Rent - Other Housing Properties	**(3,604)**	**(3,365)**	1
Charges for Services and Facilities	**(13,472)**	**(12,588)**	1
Housing Subsidy and Government Grants	**(19,863)**	**(10,353)**	2
Contribution towards Expenditure	**(3,825)**	**(1,041)**	4
Total Income	**(111,012)**	**(96,743)**	
EXPENDITURE			
Supervision and Management - General Expenses	**39,296**	**37,472**	5
Supervision and Management - Special Expenses	**5,247**	**5,263**	5
Repairs and Maintenance	**24,824**	**17,035**	6
Rent, Rates and Other Charges	**235**	**513**	8
Rent Rebate Subsidy Shortfall	**0**	**0**	3
Contribution to Doubtful Debts & Other Provisions	**3,298**	**479**	7
Depreciation - Dwellings	**24,394**	**22,564**	10
Depreciation - Other Housing Assets	**899**	**816**	10
Impairment of Non Current Assets	**729**	**14,167**	10
Debt Management Expenses	**19**	**19**	
Total Expenditure	**98,941**	**98,328**	
Net Cost of Services included in the Council's Income and Expenditure Account	**(12,071)**	**1,585**	
HRA Services share of Corporate and Democratic Core Costs	**181**	**177**	
Net Cost of HRA Services	**(11,890)**	**1,762**	
HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement			
(Gain) / Loss on Sale and de-recognition of HRA Non Current Assets	**39,787**	**32,664**	
Interest Payable and Similar Charges	**4,840**	**5,283**	11
Interest and Investment Income	**(178)**	**(571)**	
Pension Interest Cost and Expected Return on Pension Assets	**67**	**59**	12
(Surplus) / Deficit for the Year on HRA Services	**32,626**	**39,197**	

HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

	2021/22 £000	2020/21 £000
Balance on the HRA at the End of the Previous Year	**74,978**	**84,281**
<u>Movement in Year</u>		
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	**(32,626)**	**(39,197)**
Adjustments between Accounting Basis and Funding Basis under Statute	**14,957**	**29,894**
Net Increase or (Decrease) before Transfers (To) / From Reserves	**(17,669)**	**(9,303)**
Transfers (To) / From Reserves	**(25,293)**	**0**
Increase or (Decrease) in Year on the HRA	**(42,962)**	**(9,303)**
Balance on the HRA at the End of the Year	**32,016**	**74,978**

An analysis of the amounts included within the figures for Adjustments between Accounting Basis and Funding Basis under Statute can be found within Note 8 to the Core Financial Statements.

Details of the movement in the Housing Revenue Account Reserves and Balances can be found in Note 15 to the Housing Revenue Account.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. GROSS RENT OF DWELLINGS

This is the total rent collectable for the year after allowance is made for empty property. At 31 March 2022, 0.65% of lettable property was empty (0.47% at 31 March 2021). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £99.19 In 2021/22 and £97.72 per week In 2020/21.

Service charges have been disaggregated from rents and are now shown under charges for services and facilities.

(a) Housing stock

The Council was responsible for managing 13,699 dwellings as at 31 March 2022 (13,762 as at 31 March 2021).
There have been no stock transfers undertaken in 2021/22.
The stock was made up as follows:

	31/03/22	31/03/21
Stock Numbers at year end		
Houses and Bungalows	2,298	2,309
Flats and Maisonettes	11,401	11,453
Stock at End of Year	13,699	13,762

	2021/22	2020/21
Change in Stock Numbers during the year		
Stock at 1 April	13,762	13,796
Less Sales, Demolitions, etc.	(72)	(46)
Add Re-purchases, Conversions etc.	9	12
Stock at End of Year	13,699	13,762

b) Rent Arrears

	2021/22 £000	2020/21 £000
Rent Arrears due from Current Tenants	4,442	4,420
Rent Arrears due from Former Tenants	1,072	2,034
Total Arrears	5,514	6,454
Total Arrears as % of Gross Rent of Dwellings Due	5.9%	7.1%

The arrears shown in this note exclude water charges, heating charges and all other charges collected as part of tenants' rent. Housing rent represents 94.1% of the total collectable from tenants.

c) Rent – Other Housing Property

	2021/22 £000	2020/21 £000
Aerial Sites	297	337
Garages	159	154
Reception Hostels	2,616	2,547
Commercial Property	473	268
Ground Rents	59	59
Total Other Rents and Charges	**3,604**	**3,365**

d) Charges for Services and Facilities to Tenants and Leaseholders.

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal and disposal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £9.47 In 2021/22 (£9.26 in 2020/21).

	2021/22 £000	2020/21 £000
Heating Charges	660	653
Leasehold Service Charges	6,186	5,511
Tenants Service Charges	6,626	6,424
Total Charges for Services and Facilities	**13,472**	**12,588**

2. GOVERNMENT HOUSING EXCHEQUER SUBSIDY

From 1st April 2012 HRA accounts were prepared under the Government's HRA self-financing regime. Under this system no further housing subsidy transactions are made between government and stock owning Councils. This is in recognition that all rent collected will be retained by the Council and not contributed into the national rent pool.

As the Council has a housing PFI scheme, it will continue to receive the PFI credit until completion of the contract in 2027. This represents an annual payment of £10.353m.

The Council has also received £9.5m in funding towards the removal and recladding of 3 tower blocks within the borough.

	2021/22 £000	2020/21 £000
Other Reckonable Expenditure	9,510	0
PFI Credit	10,353	10,353
Decent Homes Grant	0	0
Total Grants and Subsidy	**19,863**	**10,353**

3. REBATES

Assistance with rents is available under the Housing benefits scheme for those on low income. The scheme is administered by the Council and approximately 33% of tenants received help in 2021/22 (36% in 2020/21). Rent rebates are chargeable to, and the corresponding subsidy is credited to the General Fund.

Subsidy on rent rebates is capped and if the Council's rent exceeds the Government's limit for subsidy, the cost is charged to the HRA. The shortfall on subsidy due to overpayments is charged to the General Fund, as are the administration costs.

The costs, income and rebates over limitation charged back to the HRA are shown below:

	2021/22 £000	2020/21 £000
Rent Rebates Given (GF)	26,552	28,412
Subsidy Received on Rebates (GF)	(26,552)	(28,412)
Net cost to the HRA	0	0

4. CONTRIBUTIONS TOWARDS EXPENDITURE

	2021/22 £000	2020/21 £000
Court Costs	58	21
Recharges of repairs	141	415
Recharge to Capital Receipts	441	413
Hostels: Heat, Light and Water Charges	102	100
Reimbursement of overpaid Capital Charges	2,979	0
Professional fees	104	99
Other miscellaneous income	0	7
Total Other Income	3,825	1,055

5. SUPERVISION AND MANAGEMENT

General expenses

This includes the provision of services to all tenants including rent collection and accounting, rent arrears recovery, tenancy application and lettings, finance and administration, policy and management functions.

Special expenses

This includes the provision of services applicable to particular tenants including central heating, metered energy supplies, maintenance of grounds, communal lighting, lifts and ancillary services.

6. REPAIRS AND MAINTENANCE

This includes day-to-day repairs to Council housing stock and cyclical external decoration. Void properties prior to re-letting and certain tenants' properties are eligible for internal decoration. Repairs & Maintenance expenditure was as follows:

	2021/22 £000	2020/21 £000
Revenue R&M works	24,824	17,035
Total Repairs and Maintenance	**24,824**	**17,035**

7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE

a) Contributions to Impairment Allowance

A contribution of £1.515m (2020/21 £0.479m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

	2021/22 £000	2020/21 £000
Housing Tenants	3,276	4,519
Leaseholders	2,499	1,969
Commercial Properties, Miscellaneous Debts	966	878
Total Impairment Allowance	**6,741**	**7,366**

b) Contributions to Provisions

A contribution of £1.783m (2020/21 £0) was transferred from the HRA to provisions as an additional contribution to the Water Charges Provision.

The provision relates to the issue of whether the local authority was acting as an agent for Thames Water or was a water re-seller for the purposes of the Resale Order, which limited the maximum charge that could be applied to individual tenancies.

The value in question is not the Water Charge itself, but the income the authority received from Thames Water and whether this should have been passed onto the relevant tenancies.

Following a Court of Appeal ruling in October 2020 a provision was created to cover the liability for London Borough of Lewisham and to start the refund process to tenant's accounts. This was calculated with the data currently available at the time as £8.673m.

An additional contribution of £1.783m was transferred from the HRA to provisions in 2021/22 after further analysis showed that the total potential liability was £10.456m including additional administration costs.

8. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)

Under the current HRA self-financing system, which began on 1st April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31st March 2022 was £55.5m

9. NON CURRENT ASSET VALUATION

A full valuation of the housing stock is commissioned every five years with a market adjustment being applied in the year's in-between. The difference between the value of dwellings in their existing use as social housing and the vacant possession value reflects the economic cost to the Council of providing housing at less than open market rents.

	31/03/22 £000	31/03/21 £000
Operational Assets:		
Dwellings (Existing Use Value - Social Housing)	1,413,440	1,393,428
Other Land and Buildings	19,083	18,931
Infrastructure	86	91
Vehicles, Plant and Equipment	7,592	7,211
	1,440,201	1,419,661
Investment Properties	0	0
Surplus Assets	6,753	7,007
Total Housing Assets	1,446,954	1,426,668
Full Valuation of Council Dwellings	5,653,760	5,573,712

10. DEPRECIATION AND REVALUATION CHARGES

The total charges for the depreciation and revaluation of housing assets is as follows:

	2021/22 £000	2020/21 £000
Operational Assets		
Dwellings	24,394	22,564
Other Land and Buildings	334	286
Infrastructure	5	5
Vehicles, Plant and Equipment	560	525
Total Depreciation	25,293	23,380
Revaluation losses on non-current assets	729	14,167
Total Depreciation & Revaluation Charges	26,022	37,547

Revaluation charges arise from capital expenditure carried out on dwellings which has not changed the value of those dwellings, or from reductions in the value of assets in excess of any carrying values held in the revaluation reserve.

11. INTEREST PAYABLE AND SIMILAR CHARGES

This line includes the charge of £3.0m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2019/20 (£3.5m in 2020/21). It no longer includes any costs for the net cost of amortised loan redemption premiums and discounts as the final payment was made in 2017/18.

12. PENSIONS COSTS – IAS 19

In accordance with IAS 19, Lewisham recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the cost to the HRA is based on the amounts payable in the year, so the accrued cost of retirement benefits is reversed out of the HRA.

13. HOUSING CAPITAL EXPENDITURE

There was a contribution to Capital from HRA revenue of £48.0m to fund the new development and investment programme for 2021/22.

	2021/22 £000	2020/21 £000
Expenditure:		
Dwellings	82,270	61,172
Revenue Expenditure Funded from Capital under Statute	0	0
	82,270	61,172
Financed by:		
Capital Receipts	7,186	9,337
HRA Contribution to Capital	48,020	13,877
Major Repairs Reserve	27,064	37,958
Total Capital Expenditure Financed	82,270	61,172

14. MAJOR REPAIRS RESERVE

The movements on the major repairs reserve are as follows:

	2021/22 £000	2020/21 £000
Balance brought forward at start of year	1,884	16,462
Transferred in (depreciation dwellings)	25,293	23,380
Financing of capital expenditure on housing assets	(27,064)	(37,958)
Balance carried forward at end of year	113	1,884

15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

The movements in housing revenue account reserves and balances are as follows:

	Balance at 31/03/21 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/22 £000
Property and Stock Related Reserves	5,425	113	0	5,538
Staff Related Reserves	750	0	0	750
Other Earmarked Reserves	68,803	0	(43,075)	25,728
Total Reserves and Balances	74,978	113	(43,075)	32,016

SECTION 5 - THE COLLECTION FUND

Lewisham Council is a designated 'Billing' Authority and is required by statute to maintain a separate Collection Fund. The transactions are on an accruals basis and include income from Council Tax and Non-Domestic Rates (NDR) and distributions to the Council's General Fund and the Greater London Authority (GLA) in respect of both Council Tax & NDR, and to the Government in respect of NDR only.

The costs of collecting these taxes are charged to the General Fund, but an allowance towards the cost of collecting NDR is credited to the General Fund from the NDR receipts.

The Council's share of the year end balances of the Collection Fund is included in the Council's Balance Sheet and its share of the transactions is included in the Council's Cash Flow Statement.

	2021/22			2020/21			
	Council Tax	NDR	Total	Council Tax	NDR	Total	
	£000	£000	£000	£000	£000	£000	Note
INCOME							
Income from Council Tax (net)	160,951		160,951	151,060		151,060	4
Income from Non-Domestic Rates (net)		51,901	51,901		33,958	33,958	5
Income from Non-Domestic Rates (net) - BRS		1,547	1,547		937	937	5
TOTAL INCOME	160,951	53,448	214,399	151,060	34,895	185,955	
EXPENDITURE							
Precepts and Demands upon Fund (C.Tax)							
- London Borough of Lewisham	122,285		122,285	118,424		118,424	
- Greater London Authority	32,225		32,225	29,828		29,828	
Precepts and Demands upon Fund (NDR)							
- London Borough of Lewisham		19,881	19,881		19,344	19,344	
- Greater London Authority		24,520	24,520		23,858	23,858	
- Central Government		21,869	21,869		21,278	21,278	
- Cost of Collection Allowance		302	302		303	303	
Business Rate Supplement (BRS)							
- Paid to Greater London Authority		1,604	1,604		751	751	
- Administrative Costs		6	6		6	6	
Bad and Doubtful Debts							
- Net adj to Impairment Allowance	(17,410)		(17,410)	7,011		7,011	6a
- Net adj to Impairment Allowance		(319)	(319)		5,000	5,000	6b
- Amounts Written Off	24,680		24,680	664		664	
- Amounts Written Off		1,235	1,235		72	72	
Contributions from previous year							
- London Borough of Lewisham	(2,498)	(11,165)	(13,663)	(359)	(1,355)	(1,714)	
- Greater London Authority	(437)	(11,955)	(12,392)	0	(179)	(179)	
- Central Government		(13,393)	(13,393)		(762)	(762)	
Provision for Appeals							
- Net contribution		(5,594)	(5,594)		15,442	15,442	
TOTAL EXPENDITURE	158,845	26,991	185,836	155,568	83,758	239,326	
Deficit / (Surplus) for the year	(2,106)	(26,457)	(28,563)	4,508	48,863	53,371	3
Deficit / (Surplus) at start of year	6,578	52,330	58,908	2,070	3,467	5,537	3
Opening Balance Adjustment	0	0	0	0	0	0	3
Deficit / (Surplus) at end of year	4,472	25,873	30,345	6,578	52,330 (*)	58,908	

** See note 2 below regarding NDR deficit.*

NOTES TO THE COLLECTION FUND

1. THE COUNCIL TAX BASE AND THE “BAND D” EQUIVALENT

The annual budget process requires that each Council determines its own ‘Band D' tax charge by dividing its own budget requirement by the respective tax base for the financial year. The ‘Band D’ tax calculated forms the basis of the charge for all properties. Properties fall into one of eight valuation bands based on market values at 01 April 1991. Those that fall in other valuation bands pay a proportion of the ‘Band D’ tax charge according to its banding and the band proportion.

The tax base used in setting the Council Tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a “Band D” equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for 2021/22 assumed a collection rate of 95.0% (97.0% for 2020/21).

The table below sets out the original tax base calculation for 2021/22 and has been prepared in accordance with The Welfare Reform Act that abolished the system of Council Tax benefits and replaced it with the Council Tax Reduction Scheme (CTRS) with effect from 01 April 2013.

		2021/22			2021/22		2020/21	
Council Tax Band	**Property Value**	**No.of Properties Actual Number**	**Adjusted Number**	**Band D Ratio**	**Band D Equivalents as per Ratio**	**Council Tax Charge**	**Band D Equivalents as per Ratio**	**Council Tax Charge**
	£000	**(1)**	**(2)**		**No.**	**£**	**No.**	**£**
A	up to 40	8,126	5,333	6/9	3,555.4	**1,162.41**	3,458.4	**1,097.62**
B	40 - 52	34,334	24,912	7/9	19,375.7	**1,356.15**	19,434.3	**1,280.57**
C	52 - 68	45,775	36,786	8/9	32,698.9	**1,549.18**	32,668.9	**1,463.50**
D	68 - 88	26,670	23,046	1	23,046.0	**1,743.62**	22,853.3	**1,646.44**
E	88 - 120	7,757	6,920	11/9	8,458.3	**2,131.09**	8,370.9	**2,012.44**
F	120 - 160	2,750	2,569	13/9	3,710.3	**2,518.56**	3,705.8	**2,378.19**
G	160 - 320	1,332	1,267	15/9	2,111.6	**2,906.03**	2,071.8	**2,744.06**
H	over 320	170	161	18/9	322.0	**3,487.24**	322.5	**3,292.88**
Totals		**126,914**	**100,994**		**93,278.2**		**92,885.9**	
Add: Contributions in lieu					0.0		0.0	
Total Band D Equivalents					**93,278.2**		**92,885.9**	
Estimated Collection Rate					95.0%		97.0%	
NET COUNCIL TAX BASE					**88,614.3**		**90,099.3**	

(1) Total number of dwellings as per Valuation Officer's List

2. COLLECTION FUND SURPLUS OR DEFICIT

Every January, a forecast of the estimated Collection Fund balance at the end of the financial year is made. This estimated surplus or deficit is then distributed to or recovered from the Council and the GLA in the following year in proportion to their respective annual demands made on the Fund. Any difference between the estimated and actual year-end balance on the Fund is taken into account as part of the forecast to be made of the Fund's balance during the following financial year.

<u>Note on 2020/21 NDR deficit (£52,330k at year-end)</u>
The deficit has increased significantly during 2020/21 because of Covid reliefs for businesses covered by Section 31 grant from Central Government, which is being held in General Fund earmarked reserves at year-end.

3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

	(Surplus)/ Deficit			(Surplus)/ Deficit	
	Balance at 31/03/20 £000	Movement in 2020/21 £000	Balance at 31/03/21 £000	Movement in 2021/22 £000	Balance at 31/03/22 £000
Council Tax					
London Borough of Lewisham	1,652	3,597	5,249	**(1,711)**	**3,538**
Greater London Authority	418	911	1,329	**(395)**	**934**
	2,070	**4,508**	**6,578**	**(2,106)**	**4,472**
Non-Domestic Rates					
London Borough of Lewisham	1,917	13,993	15,910	**(8,148)**	**7,762**
Greater London Authority	1,078	18,167	19,245	**(9,672)**	**9,573**
Central Government	472	16,703	17,175	**(8,637)**	**8,538**
	3,467	**48,863**	**52,330**	**(26,457)**	**25,873**
Collection Fund Balances	**5,537**	**53,371**	**58,908**	**(28,563)**	**30,345**

<u>Collection Fund Adjustment Account</u>
The Council's share of the Collection Fund balance is managed by the Collection Fund Adjustment Account which shows the differences arising from the recognition of Council Tax income in the CIES as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

4. COUNCIL TAX INCOME

	2021/22		2020/21
	£000	£000	£000
Gross Council Tax Income Due		**206,498**	**194,195**
Less: Exemptions	**(6,545)**		**(5,913)**
Disabled Relief	**(119)**		**(97)**
Discounts	**(19,104)**		**(17,659)**
Adjustment for Council Tax Reduction Scheme	**(20,145)**		**(23,254)**
Plus: Adjustments to charge	**366**		**647**
Covid Grants	**0**		**3,141**
		(45,547)	**(43,135)**
Total Due from Council Tax payers		**160,951**	**151,060**

5. NON-DOMESTIC RATES

The Council is responsible for collecting the Non-Domestic Rates (NDR) (often referred to as Business Rates) which are payable within its area. The amount payable is based upon the rateable value of commercial properties multiplied by the NDR multiplier, which is set annually by the Government. The amount due is paid as precepts to London Borough of Lewisham's General Fund (30%), Greater London Authority (37%) and Central Government (33%).

	2021/22		2020/21
	£000	£000	£000
Gross NDR Collectable (after voids and exemptions)		88,008	86,675
Reductions and Relief:			
Mandatory Relief	(18,517)		(17,406)
Discretionary Relief	(16,044)		(34,374)
		(34,561)	(51,780)
Total Receivable from Business Rates		53,447	34,895

	2021/22	2020/21
	£m	£m
Non-Domestic Rateable Value	177.0	178.2

	2021/22	2020/21
	pence	pence
Non-Domestic Rate Multiplier	51.2	51.2
Non-Domestic Rate Multiplier (Small Business)	49.9	49.9

6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

	31/03/22	31/03/21
	£000	£000
Council Tax Arrears	40,151	57,000
Impairment Allowance	(35,295)	(52,705)
As a Percentage of Arrears	87.9%	92.5%

	2021/22		2020/21	
	Amount	Percentage	Amount	Percentage
Age of Arrears	£000	%	£000	%
Year of Accounts	12,203	30	10,598	19
Under 2 Years old	8,090	20	7,396	13
Under 3 Years old	6,557	16	5,786	10
Under 5 Years old	9,862	25	8,592	15
Over 5 Years old	3,439	9	24,628	43
Total	40,151	100	57,000	100

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

Collection Fund

b) Non-Domestic Rates

	31/03/2022 £000	31/03/2021 £000
NDR Arrears	7,644	7,939
Impairment Allowance	(6,816)	(7,135)
As a Percentage of Arrears	89.2%	89.9%

	2021/22		2020/21	
	Amount	Percentage	Amount	Percentage
Age of Arrears	£000	%	£000	%
Year of Accounts	3,324	43	3,289	41
Under 2 Years old	1,553	20	2,034	26
Under 3 Years old	1,256	16	1,087	14
Under 5 Years old	1,193	16	802	10
Over 5 Years old	318	4	727	9
Total	7,644	100	7,939	100

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

SECTION 6 – GROUP ACCOUNTS

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and its wholly owned local authority trading companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited have been consolidated.

The group accounts are presented in addition to the Council's "single entity" financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash flow Statement

These statements (the purposes of which are explained on pages 4 and 5), together with those explanatory notes that are considered necessary in addition to those accompanying the "single entity" accounts and accounting policies are set out in the following pages.

Group Accounts

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDING 31 MARCH 2022

2020/21 Gross Expenditure £000s	2020/21 Gross Income £000s	2020/21 Net Expenditure £000s	SERVICE	2021/22 Gross Expenditure £000s	2021/22 Gross Income £000s	2021/22 Net Expenditure £000s
450,726	(352,923)	97,803	Children & Young People Directorate	450,964	(377,772)	73,192
201,559	(122,191)	79,368	Community Services Directorate	207,061	(120,106)	86,955
148,787	(76,865)	71,922	Housing, Regeneration & Public Realm Directorate	130,791	(93,213)	37,578
224,351	(182,390)	41,961	Corporate Services Directorate	219,141	(176,205)	42,936
12,489	(561)	11,928	Chief Executive Directorate	13,604	(1,063)	12,541
100,913	(106,128)	(5,215)	HRA	89,709	(101,356)	(11,647)
16,721	(6,826)	9,895	Corporate Provisions	6,941	(26,160)	(19,219)
1,155,546	(847,884)	307,662	**Cost of Services**	1,118,211	(895,875)	222,336
			Other Operating Expenditure			
37,206	(6,832)	30,374	(Gain) / Loss on the disposal and de-recognition of non-current assets	36,907	0	36,907
1,706	0	1,706	Levies	1,702	0	1,702
1,939	0	1,939	Contribution of housing capital receipts to Government Pool	1,940	0	1,940
40,851	(6,832)	34,019		40,549	0	40,549
			Financing and Investment Income and Expenditure			
31,772	0	31,772	Interest payable and similar charges	31,518	0	31,518
0	(1,407)	(1,407)	Interest and Investment Income	0	195	195
21,120	0	21,120	Loss of Control of Assets	0	0	0
42,498	(30,382)	12,116	Net interest on the net defined benefit liability	47,107	(30,643)	16,464
95,390	(31,789)	63,601		78,625	(30,448)	48,177
			Taxation and non-specific Grant Income			
0	(118,065)	(118,065)	Income from Council Tax	0	(118,787)	(118,787)
0	(85,163)	(85,163)	General Government Grants	0	(31,580)	(31,580)
0	(36,508)	(36,508)	Recognised Capital Grants and Contributions	0	(19,839)	(19,839)
0	(95,735)	(95,735)	Non-Domestic Rates income and expenditure	0	(96,162)	(96,162)
518	0	518	Corporation Tax Payable	145	0	145
518	(335,471)	(334,953)		145	(266,368)	(266,223)
		70,329	**Deficit/(Surplus) on provision of services**			44,839
		(104,787)	Surplus or deficit on revaluation of non-current assets			(108,069)
		256,650	Remeasurement of the net defined benefit liability			(283,339)
		151,863	**Other Comprehensive Income and Expenditure**			(391,408)
		222,192	**Total Comprehensive Income and Expenditure**			(346,569)

GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2022

YEAR ENDING 31ST MARCH 2022	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority share of subsidiaries £000	Total Group Reserves £000
Balance at 31 March 2021 Brought Forward	**20,000**	**200,728**	**74,978**	**1,884**	**58,296**	**26,605**	**382,491**	**1,416,855**	**1,799,346**	**(27,825)**	**1,771,521**
Movement in Reserves during 2021/22											
Surplus or (Deficit) on the provision of services	43,824	0	(32,626)	0	0	0	**11,198**	0	**11,198**	(56,037)	**(44,839)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	357,126	**357,126**	34,282	**391,408**
Total Comprehensive Income and Expenditure	**43,824**	**0**	**(32,626)**	**0**	**0**	**0**	**11,198**	**357,126**	**368,324**	**(21,755)**	**346,569**
Adjustments between group accounts and authority accounts	(48,087)	0	0	0	0	0	**(48,087)**	0	**(48,087)**	48,087	**0**
Net increase before transfers	**(4,263)**	**0**	**(32,626)**	**0**	**0**	**0**	**(36,889)**	**357,126**	**320,237**	**26,332**	**346,569**
Adjustments between accounting basis and funding basis under regulations	34,653	0	(10,336)	(1,771)	6,091	3,767	**32,404**	(32,404)	**0**	0	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**30,390**	**0**	**(42,962)**	**(1,771)**	**6,091**	**3,767**	**(4,485)**	**324,722**	**320,237**	**26,332**	**346,569**
Transfers to / from Earmarked Reserves	(30,390)	30,390	0	0	0	0	**0**	0	**0**	0	**0**
Increase / (Decrease) in 2021/22	**0**	**30,390**	**(42,962)**	**(1,771)**	**6,091**	**3,767**	**(4,485)**	**324,722**	**320,237**	**26,332**	**346,569**
Balance at 31 March 2022 Carried Forward	**20,000**	**231,118**	**32,016**	**113**	**64,387**	**30,372**	**378,006**	**1,741,577**	**2,119,583**	**(1,493)**	**2,118,090**

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2021

YEAR ENDING 31 MARCH 2021	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority share of subsidiaries £000	Total Group Reserves £000
Balance at 31 March 2020 Brought Forward	**20,000**	**151,122**	**84,281**	**16,463**	**61,368**	**23,626**	**356,860**	**1,637,703**	**1,994,563**	**(850)**	**1,993,713**
Movement in Reserves during 2020/21											
Surplus or (Deficit) on the provision of services	(3,018)	0	(39,197)	0	0	0	**(42,215)**	0	**(42,215)**	(28,114)	**(70,329)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	(130,899)	**(130,899)**	(20,964)	**(151,863)**
Total Comprehensive Income and Expenditure	**(3,018)**	**0**	**(39,197)**	**0**	**0**	**0**	**(42,215)**	**(130,899)**	**(173,114)**	**(49,078)**	**(222,192)**
Adjustments between group accounts and authority accounts	(22,103)	0	0	0	0	0	**(22,103)**	0	**(22,103)**	22,103	**0**
Net increase before transfers	**(25,121)**	**0**	**(39,197)**	**0**	**0**	**0**	**(64,318)**	**(130,899)**	**(195,217)**	**(26,975)**	**(222,192)**
Adjustments between accounting basis and funding basis under regulations	74,727	0	29,894	(14,579)	(3,072)	2,979	**89,949**	(89,949)	**0**	0	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**49,606**	**0**	**(9,303)**	**(14,579)**	**(3,072)**	**2,979**	**25,631**	**(220,848)**	**(195,217)**	**(26,975)**	**(222,192)**
Transfers to / from Earmarked Reserves	(49,606)	49,606	0	0	0	0	**0**	0	**0**	0	**0**
Increase / (Decrease) in 2020/21	**0**	**49,606**	**(9,303)**	**(14,579)**	**(3,072)**	**2,979**	**25,631**	**(220,848)**	**(195,217)**	**(26,975)**	**(222,192)**
Balance at 31 March 2021 Carried Forward	**20,000**	**200,728**	**74,978**	**1,884**	**58,296**	**26,605**	**382,491**	**1,416,855**	**1,799,346**	**(27,825)**	**1,771,521**

GROUP BALANCE SHEET AS AT 31 MARCH 2022

31/03/2021 £000		31/03/2022 £000
	Property, Plant & Equipment	
1,421,775	Council dwellings	1,446,393
1,064,692	Other land and buildings	1,104,963
29,383	Vehicles, plant, furniture and equipment	27,545
109,064	Infrastructure	103,286
5,295	Community	5,199
52,244	Surplus Assets not held for Sale	60,856
69,923	Assets under Construction	126,444
2,752,376		2,874,686
928	Heritage Assets	955
17,092	Investment Property	17,503
1,924	Long term investments	1,873
4,436	Long term debtors	4,072
2,776,756	**Total Long Term Assets**	2,899,089
313,327	Short Term Investments	275,247
240	Inventories	233
82,540	Debtors	71,419
80,147	Cash and Cash Equivalents	120,171
3,786	Prepayments	3,102
480,040	**Current Assets**	470,172
1,039	Bank Overdraft	5,932
2,073	Short term borrowing	3,006
21,789	Provisions	15,658
116,451	Creditors	144,301
100,662	Receipts in advance	79,236
9,302	PFI Liabilities due within one year	10,158
251,316	**Current Liabilities**	258,291
3,005,480	**Total Assets less Current Liabilities**	3,110,970
222,784	Long term borrowing	221,646
8,710	Provisions (More than 1 year)	6,404
202,138	Deferred PFI Liabilities	193,246
2,989	Capital Grants Receipts in Advance	3,320
0	Other Long Term Liabilities	937
797,338	Liability related to defined benefit pension scheme	567,327
1,233,959	**Long Term Liabilities**	992,880
1,771,521	**NET ASSETS**	2,118,090
	Usable Reserves	
20,000	General Fund Balance	20,000
200,728	Earmarked Revenue Reserves	231,118
(6,361)	Lewisham Homes Profit & Loss Reserve	(7,628)
(26,297)	Lewisham Homes Pensions Reserve	(3,692)
218	Catford Regeneration Partnership Profit & Loss Reserve	(155)
74,978	Housing Revenue Account	32,016
1,884	Major Repairs Reserve	113
58,296	Usable Capital Receipts Reserve	64,387
26,605	Capital Grants Unapplied	30,372
350,051		366,531
	Unusable Reserves	
1,214,203	Revaluation Reserve	1,298,093
1,044,137	Capital Adjustment Account	1,088,488
93	Deferred Capital Receipts	93
(33,834)	Financial Instruments Adjustment Account	(32,981)
(771,041)	LBL Pensions Reserve	(563,635)
(21,141)	Collection Fund Adjustment Account	(11,300)
(2,375)	DSG Unusable Reserve	(8,644)
(8,572)	Short Term Compensated Absences Account	(18,555)
1,421,470		1,751,559
1,771,521	**TOTAL RESERVES**	2,118,090

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDING 31 MARCH 2022

2020/21 £000s		2021/22 £000s
(70,329)	Net surplus or (deficit) on the provision of services	(38,529)
220,495	Adjustment to surplus or deficit on the provision of services for noncash movements	140,800
(50,403)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(40,307)
99,763	**Net Cash flows from operating activities**	61,964
(100,234)	Net Cash flows from Investing Activities	(36,356)
(35,714)	Net Cash flows from Financing Activities	9,523
(36,185)	**Net increase or (decrease) in cash and cash equivalents**	35,131
115,293	**Cash and cash equivalents at the beginning of the reporting period**	79,108
79,108	**Cash and cash equivalents at the end of the reporting period**	114,239

Notes to the Group Accounts

1. General

The Group Accounts should be read in conjunction with the Lewisham Council single entity accounts. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

2. Group Boundary

The Council has an interest in a number of entities, the most significant of which are the wholly owned subsidiaries Lewisham Homes Limited and Catford Regeneration Partnership Limited which are consolidated into these accounts. The table below provides information on the nature of company business and associated risks:

Company	Business	Risks
Lewisham Homes Limited	An arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.	If Lewisham Homes Limited was in any way unable to deliver a satisfactory housing management service, the Council would have to provide such a service itself.
Catford Regeneration Partnership Limited (CRPL)	The company owns the Catford Shopping Centre and aims to drive forward a regeneration programme for the town centre and the surrounding area.	As a property investment company, CRPL is exposed to risk in market movements in terms of the capital value of properties and in the level of income that can be generated through rental charges

3. Accounting Policies

(i) In preparing the Group Accounts the Council has aligned the accounting policies of its companies with those of the Council and made consolidation adjustments where necessary.

(ii) In 2021/22 Lewisham Homes “Council Dwellings” assets were re-valued using the same accounting standards as LBL to consolidate Lewisham Homes assets into the Group balance sheet. This resulted in a credit to the Group CIES of £4.956m due to an upward valuation of the assets compared to the 2020/21 valuation (2020/21 was a credit of £1.292m to the Group CIES due to the upward revaluation of the assets).

(iii) Lewisham Homes account for their assets in their single entity balance sheet as cost based. Within the Lewisham Homes accounts the assets are valued at NBV £42.366m (£42.770m in 2020/21). To be included in the Group Accounts these were valued at Fair Value of NBV £33.497m (£28.945m in 2020/21).

(iv) The Council has consolidated the companies’ financial statements with those of the Council on a line by line basis and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiaries.

4. Movements in Non-Current Assets

The movements in non-current assets during 2021/22 and 2020/21 were as follows:

2021/22	Council Dwellings £000	Other Land & Bldgs £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 01 April 2021	**1,421,775**	**1,064,737**	**65,526**	**194,757**	**5,562**	**53,853**	**69,923**	**2,876,133**
Additions	49,936	1,126	1,799	2,774	0	0	56,521	**112,156**
Revaluations (recognised in Revaluation Reserve)	25,458	40,985	0	0	0	3,394	0	**69,837**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,709	6,742	0	0	0	(657)	0	**8,794**
Impairments (recognised in Revaluation Reserve)	0	(813)	0	0	0	(1,120)	0	**(1,933)**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(76)	(348)	0	(854)	0	(719)	0	**(1,997)**
Loss of Control of Assets (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Loss of Control of Assets (recognised in Financing and Investment Income and Expenditure)	0	0	0	0	0	0	0	**0**
De-recognition of Assets (recognised in Other Operating Expenditure)	(46,929)	0	0	0	0	0	0	**(46,929)**
Disposals	(5,809)	0	(16,924)	(26,670)	(100)	(1,952)	0	**(51,455)**
Transfers	(670)	(7,418)	0	0	0	8,088	0	**0**
Gross Book Value c/fwd at 31 March 2022	**1,446,394**	**1,105,011**	**50,401**	**170,007**	**5,462**	**60,887**	**126,444**	**2,964,606**
Depreciation b/fwd at 01 April 2021	**0**	**(45)**	**(36,143)**	**(85,693)**	**(267)**	**(1,609)**	**0**	**(123,757)**
Depreciation for year	(25,103)	(14,854)	(3,772)	(7,705)	(95)	(305)	0	**(51,834)**
Depreciation written back on:								
Transfers	12	72	0	0	0	(84)	0	**0**
Revaluations (recognised in Revaluation Reserve)	22,760	11,627	135	0	0	249	0	**34,771**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,330	3,139	0	0	0	43	0	**5,512**
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	13	0	0	0	0	0	**13**
Assets Sold	0	0	16,924	26,677	99	1,675	0	**45,375**
Depreciation c/fwd at 31 March 2022	**(1)**	**(48)**	**(22,856)**	**(66,721)**	**(263)**	**(31)**	**0**	**(89,920)**
Net Book Value at 31 March 2022	**1,446,393**	**1,104,963**	**27,545**	**103,286**	**5,199**	**60,856**	**126,444**	**2,874,686**

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2020/21	Council Dwellings £000	Other Land & Bldgs £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 01 April 2020	**1,311,559**	**1,077,934**	**62,291**	**191,981**	**5,596**	**94,858**	**80,532**	**2,824,751**
Additions	39,050	3,700	7,832	3,136	0	0	45,211	**98,929**
Revaluations (recognised in Revaluation Reserve)	112,685	37,578	0	0	0	(31,635)	0	**118,628**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(8,570)	(31,238)	0	0	0	(2,846)	0	**(42,654)**
Impairments (recognised in Revaluation Reserve)	(1,943)	(1,172)	0	0	(14)	(3,667)	0	**(6,796)**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(2,059)	(437)	0	(360)	(20)	(2,699)	0	**(5,575)**
Loss of Control of Assets (recognised in Revaluation Reserve)	0	(45,617)	0	0	0	0	0	**(45,617)**
Loss of Control of Assets (recognised in Financing and Investment Income and Expenditure)	0	(21,120)	0	0	0	0	0	**(21,120)**
De-recognition of Assets (recognised in Other Operating Expenditure)	(37,206)	0	0	0	0	0	0	**(37,206)**
Disposals	(4,274)	0	(2,728)	0	0	(205)	0	**(7,207)**
Transfers	12,533	45,109	(1,869)	0	0	47	(55,820)	**0**
Gross Book Value c/fwd at 31 March 2021	1,421,775	1,064,737	65,526	194,757	5,562	53,853	69,923	**2,876,133**
Depreciation b/fwd at 01 April 2020	(1,001)	(3,358)	(37,355)	(78,079)	(172)	(159)	0	**(120,124)**
Depreciation for year	(23,251)	(14,950)	(3,826)	(7,614)	(95)	(1,043)	0	**(50,779)**
Depreciation written back on:								
Transfers	72	11	1,578	0	0	(1,359)	(302)	**0**
Revaluations (recognised in Revaluation Reserve)	21,039	12,136	1,065	0	0	248	0	**34,488**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,981	6,059	0	0	0	668	0	**9,708**
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	160	57	0	0	0	0	302	**519**
Assets Sold	0	0	2,395	0	0	36	0	**2,431**
Depreciation c/fwd at 31 March 2021	0	(45)	(36,143)	(85,693)	(267)	(1,609)	0	**(123,757)**
Net Book Value at 31 March 2021	**1,421,775**	**1,064,692**	**29,383**	**109,064**	**5,295**	**52,244**	**69,923**	**2,752,376**

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5. Investment Properties

Whilst the Council has no investment properties, CRPL owns Catford shopping centre and several surrounding properties. As these properties were solely being used to generate income at 31 March 2022, under the code of practice they are classed as investment properties.

The fair value of the properties owned by CRPL as at 31 March 2022 £17.503m) (31 March 2021 was £17.092m). This is a £0.411m increase in value from 2020/21.

6. Note to the Group MIRS - Adjustments between group accounts and authority accounts

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund back to its Council position prior to funding basis adjustments being made.

An analysis of the adjustments between group accounts and authority accounts row within the Group MIRS in 2021/22 is as follows:

Adjustment for:	**£'000**
London Borough of Lewisham Payments to Lewisham Homes	(60,910)
Lewisham Homes Payments to London Borough of Lewisham	12,045
London Borough of Lewisham Payments to CRPL	(20)
CRPL Payments to London Borough of Lewisham	798
Total Adjustments to GF Net Expenditure	**(48,087)**

2020/21 comparator:

Adjustment for:	**£'000**
London Borough of Lewisham Payments to Lewisham Homes	(35,066)
Lewisham Homes Payments to London Borough of Lewisham	12,226
London Borough of Lewisham Payments to CRPL	134
CRPL Payments to London Borough of Lewisham	603
Total Adjustments to GF Net Expenditure	**(22,103)**

7. Pensions

Lewisham Homes Limited is a scheduled body in the London Borough of Lewisham Pension Fund. The Council has indemnified Lewisham Homes Limited against any liability that may arise on its notional share of the Pension Fund's assets and obligations.

As per the CIPFA Guidance notes, the Pensions Reserves of the authority and Lewisham Homes have different characteristics – in the private sector the reserve is a subset of the Profit and Loss Reserve that accumulates actuarial gains and losses and other remeasurement. Therefore in the Group Accounts the Lewisham Homes Pension reserve is included under Usable Reserves and the LBL Pensions reserve is under Unusable Reserves.

Lewisham Homes include the asset and liability for the Pension Fund under Current Assets and Long Term Liabilities in their single entity accounts. When consolidating with the LBL accounts to create the Group Accounts this has to be changed to Usable Reserves and Long Term Liabilities. This results in the various elements of the in-year movement in the valuation being charged through the different areas of the Group CIES.

a) Transactions relating to Retirement Benefits

In accordance with IAS19, the Council recognises the cost of retirement benefits relating to these schemes in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the required charge to the Council Tax is based on the cash paid in the year so the real cost of retirement benefits is reversed out of the General Fund via the MiRS. The following transactions were made during the year in the CIES and the General Fund Balance via the MiRS:

Comprehensive Income and Expenditure Statement	2021/22 £000	2020/21 £000
Cost of Service		
Current Service Cost	71,139	46,074
Past Service Cost (inc.settlements and curtailments)	1,170	(868)
	72,309	45,206
Financing and Investment Income and Expenditure		
Net Interest on the Net Defined Benefit Liability		
Interest Income on Scheme Assets	(30,643)	(30,382)
Interest Cost on Defined Benefit Obligation (Liabilities)	47,107	42,498
	16,464	12,116
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	88,773	57,322
Remeasurements of the Net Defined Benefit Liability		
Return on Assets excluding amounts included in Net Interest	(117,839)	(211,307)
Actuarial Losses from changes in Demographic Assumptions	(14,685)	30,971
Actuarial Losses from changes in Financial Assumptions	(150,381)	457,451
Other Gains and Losses	(434)	(20,465)
Total Remeasurements recognised in CIES	(283,339)	256,650
Total Post Employment Benefits Charged to the CIES	(194,566)	313,972

b) Pensions Assets and Liabilities Recognised in the Balance Sheet

	31/03/22 £000	31/03/21 £000
Fair Value of Plan Assets	1,692,244	1,559,763
Present Value of Defined Benefit Liability (Obligation)	(2,207,446)	(2,296,134)
	(515,202)	(736,371)
Present Value of Unfunded Liabilities	(52,125)	(60,967)
Pensions Reserve - Year End Balance	(567,327)	(797,338)

Group Accounts

c) Reconciliation of the Movements in the Fair Value of Scheme Assets

	31/03/22 £000	31/03/21 £000
Opening Fair Value of Scheme Assets	**1,559,763**	**1,333,900**
Interest Income on Scheme Assets	30,752	30,478
Administration	(109)	(96)
Remeasurement Gains / Losses		
Return on Assets excluding amounts included in Net Interest	117,839	211,307
Employer Contributions	31,506	29,995
Contributions in respect of Unfunded Benefits	3,939	4,406
Contributions from Scheme Participants	9,484	9,348
Assets distributed on settlements	0	(838)
Benefits Paid	(56,991)	(54,331)
Unfunded Benefits Paid	(3,939)	(4,406)
Other Gains and Losses	0	0
Closing Fair Value of Scheme Assets	**1,692,244**	**1,559,763**

d) Reconciliation of the Movements in the Present Value of Scheme Liabilities

	31/03/22 £000	31/03/21 £000
Opening Present Value of Scheme Liabilities (Obligations)	**(2,357,101)**	**(1,851,667)**
Current Service Cost	(71,139)	(46,074)
Interest Cost on Defined Benefit Obligation (Liabilities)	(47,107)	(42,498)
Contributions from Scheme Participants	(9,484)	(9,348)
Remeasurement Gains / Losses		
Benefits Paid	56,991	54,331
Unfunded Benefits Paid	3,939	4,406
Actuarial Losses from changes in Demographic Assumptions	14,685	(30,971)
Actuarial Losses from changes in Financial Assumptions	150,381	(457,451)
Other Gains and Losses	434	20,465
Past Service Costs / Curtailments / Settlements	(1,170)	1,706
Closing Present Value of Scheme Liabilities (Obligations)	**(2,259,571)**	**(2,357,101)**

e) Pension Scheme Assets

LGPS (LBL + LH)	31/03/22 Active Market £000	31/03/22 Not in Active Markets £000	31/03/22 Total £000	31/03/21 Active Market £000	31/03/21 Not in Active Markets £000	31/03/21 Total £000
Equities	119,807	0	119,807	116,703	0	116,703
Debt Securities	177,651	0	177,651	170,700	0	170,700
Real Estate	0	140,836	140,836	0	103,467	103,467
Investment Funds / Unit Trusts	890,846	126,233	1,017,079	837,906	118,579	956,485
Private Equity	0	60,003	60,003	0	39,113	39,113
Cash and Cash Equivalents	0	85,068	85,068	0	89,694	89,694
Total LGPS Assets	**1,188,304**	**412,140**	**1,600,444**	**1,125,309**	**350,852**	**1,476,161**

LPFA	31/03/22 Active Market £000	31/03/22 Not in Active Markets £000	31/03/22 Total £000	31/03/21 Active Market £000	31/03/21 Not in Active Markets £000	31/03/21 Total £000
Equities	44,002	8,250	52,252	38,605	7,813	46,418
Target Return Portfolio	11,447	8,325	19,772	11,091	8,093	19,184
Infrastructure	0	9,352	9,352	0	7,139	7,139
Real Estate	0	8,237	8,237	0	7,370	7,370
Cash	2,187	0	2,187	3,090	401	3,491
Total LPFA Assets	**57,636**	**34,164**	**91,800**	**52,786**	**30,816**	**83,602**

f) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme 2021/22	Local Government Pension Scheme 2020/21	LPFA 2021/22	LPFA 2020/21
Rate of Inflation – CPI	3.2%	2.9%	3.5%	2.9%
Salary Increase Rate	3.9%	3.6%	4.5%	3.9%
Pensions Increases	3.2%	2.9%	3.5%	2.9%
Rate for discounting scheme liabilities	2.7%	2.0%	2.6%	1.9%
Mortality assumptions				
Longevity at 65 for current pensioners - Men	21.2	21.4	21.0	20.9
Longevity at 65 for current pensioners - Women	23.8	24.0	24.2	24.1
Longevity at 65 for future pensioners - Men	22.5	22.8	22.2	22.1
Longevity at 65 for future pensioners - Women	25.5	25.8	25.7	25.6

g) Sensitivity Analysis

Change in Assumption at 31st March 2022	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
LGPS - LB Lewisham		
0.1% Decrease in Real Discount Rate	2%	36,509
1 Year Increase in Member Life Expectancy	4%	79,811
0.1% Increase in the Salary Increase Rate	0%	2,234
0.1% Increase in the Pension Increase Rate	2%	34,016
LGPS - Lewisham Homes		
0.1% Decrease in Real Discount Rate	2%	4,107
1 Year Increase in Member Life Expectancy	4%	7,636
0.1% Increase in the Salary Increase Rate	0%	294
0.1% Increase in the Pension Increase Rate	2%	3,783
LPFA		
0.1% Decrease in Real Discount Rate	n/a	97
1 Year Increase in Member Life Expectancy	n/a	100
0.1% Increase in the Salary Increase Rate	n/a	95
0.1% Increase in the Pension Increase Rate	n/a	97

These are based on reasonably possible changes to the assumptions occurring at the end of the year and assumes for each change that the assumption changes while all the other assumptions remain constant.

h) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Group anticipates paying £30.9m in contributions to the scheme in 2022/23.

8. Long Term Debtors

The value of Long Term debtors has reduced from the Single entity accounts balance to the Group Accounts balance because of the removal of loans to the subsidiaries (Lewisham Homes £40,000k and CRPL £15,448k).

9. Group Accounts Prior Period Adjustments/ Restatements

In 2021/22 there were no restatements to the 2020/21 Group Accounts

SECTION 7 – GLOSSARY OF TERMS USED IN THE ACCOUNTS

ACCRUALS	These are amounts included in the accounts to cover income and expenditure attributable to the financial year, but for which payment had not been received or made as at 31 March.
ACTUARY	An independent professional who advises on the financial position of the Pension Fund and carries out a full valuation every three years.
CAPITAL EXPENDITURE	This is expenditure on the acquisition or enhancement of assets which significantly prolongs their useful lives or increases their market value. This is considered to be of benefit to the Council over a period of more than one year, e.g. land and buildings.
CAPITAL ADJUSTMENT ACCOUNT	This represents the capital resources which have been set aside to meet past capital expenditure.
CAPITAL RECEIPTS	Income received from the sale of land, buildings and plant.
COLLECTION FUND	A separate statutory account into which Council Tax and Non-Domestic Rates (NDR) are paid in order to account for payments due to the Council's General Fund and Preceptors (currently the Greater London Authority for Council Tax and NDR, and Central Government for NDR).
CONTINGENT LIABILITY	A possible liability to incur future expenditure at the balance sheet date dependent upon the outcome of uncertain events.
CREDITORS	This is an amount of money owed by the Council for goods, works or services received.
DEBTORS	This is an amount of money owed to the Council by individuals and organisations.
DEPRECIATION	This is the loss in value of an asset due to age, wear and tear, deterioration or obsolescence. An annual charge in respect of this is made to service revenue accounts over the life of most assets to reflect the usage in the year.
EARMARKED RESERVES	These are amounts set aside for specific purposes to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.
FAIR VALUE	This is defined as the amount for which an asset could be exchanged or liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.
GENERAL FUND	This is the account which comprises the revenue costs of providing services, which are met by General Government Grants and the Council's demand on the Collection Fund.
IMPAIRMENT ALLOWANCE	This is an amount set aside from revenue to cover irrecoverable debts.
INFRASTRUCTURE	These are non-current assets which do not have a market value and primarily exist to facilitate transportation and communication (e.g. roads, street lighting). They are usually valued at historic cost.

Glossary

LEASES	A Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The definition of a lease includes hire purchase contracts. Lease classification is made at the inception of the lease. A Finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An Operating lease is a lease other than a finance lease.
MEMORANDUM ACCOUNT	These Accounts are not part of the Council's formal statutory Accounts and are included in the Statement for added information.
MINIMUM REVENUE PROVISION (MRP)	The prudent amount which must be charged to the Council's revenue account each year for the principal repayment of debt.
NON-DOMESTIC RATES (NDR)	Also known as Business Rates, these are set by the Government and collected by the Council. The income due is paid as precepts to the Council's General Fund, the Greater London Authority and Central Government.
PRIVATE FINANCE INITIATIVE (PFI)	This is a scheme whereby contracts for specified services are let to private sector suppliers by the Council which may include capital investment as well as the provision of the service. Payments are made to the supplier in return, which are reduced if performance targets are not met.
PRECEPTS	These are demands made upon the Collection Fund by the Council's General Fund and the Greater London Authority in accordance with their budget requirements. A share of the NDR precept is also paid to Central Government.
PROVISIONS	This is an amount which is set-aside for a specific liability or loss, which is likely to be incurred, but where the exact amount and date on which they will arise is uncertain.
REVALUATION RESERVE	This represents the gains on the revaluation of non-current assets which have not yet been realised through sales.
REVENUE SUPPORT GRANT (RSG)	This is the main general grant which is paid to the Council by Central Government to fund local services.
REVENUE EXPENDITURE	Day-to-day expenditure incurred in the running of Council services, e.g. salaries, wages, supplies and services.
SPECIAL PURPOSE VEHICLE	This is a legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives.
SUPPORT SERVICES	These are activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front-line services.

COMMON ACRONYMS USED IN THE ACCOUNTS

CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
COP	Code of Practice on Local Authority Accounts in the United Kingdom
DSG	Dedicated Schools Grant
DfE	Department for Education
HRA	Housing Revenue Account
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LEP	Local Education Partnership
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
LSP	Local Strategic Partnership
MiRS	Movement in Reserves Statement
MRP	Minimum Revenue Provision
NDR	Non-Domestic Rates
PFI	Private Finance Initiative
RICS	Royal Institution of Chartered Surveyors
SeRCOP	Service Reporting Code of Practice
SPV	Special Purpose Vehicle
SSAP	Statement of Standard Accounting Practice
TfL	Transport for London
TPS	Teachers' Pensions Scheme
VAT	Value Added Tax

SECTION 8 – PENSION FUND ACCOUNTS

To Follow

SECTION 9 - ANNUAL GOVERNANCE STATEMENT

What is corporate governance?

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; and for having a governance framework that comprises of the culture, values, systems and processes by which this is achieved. It must make sure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively to meet its strategic objectives.

It also has a duty, through the establishment of internal control measures, to manage risk to a reasonable level by identifying, prioritising, evaluating and managing the risks to the achievement of its policies, aims and objectives. Finally, it has a duty to secure continuous improvement in the way in which its functions are exercised.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives and Senior Managers) Framework Delivering Good Governance in Local Government. This statement explains how the authority has complied with the code and also how it meets the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of a statement on internal control.

> *"Corporate governance is about making sure that the Council is run properly. It is about ensuring the Council does the right things, at the right time and in the right way."*

How has this statement been prepared?

Every year a review of the effectiveness of the Council's governance framework is conducted by senior officers from policy, legal and audit with expertise in governance and internal control matters.

Officers monitor and evaluate governance evidence and identify areas requiring action; and is responsible for analysing CIPFA/SOLACE guidance in relation to the development of this statement for the financial statements.

The governance review process includes:

- Oversight of the Annual Governance Statement Action Plan rests with the Council's Executive Management Team.
- Consideration of the Accounts by the Executive Director for Corporate Resources (as s151).
- Reviewing results of work conducted by the Council's assurance services, including the Annual Opinion of the Head of Internal Audit.
- Review of the Annual Governance Statement by the Council's Audit Panel as part of the financial statements.
- A review of the Council's Local Code of Corporate Governance by the Standards Committee, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to Full Council with the Statement of Accounts and sign off by the Speaker of the Council and Chief Executive, once approved.

This year, the Council's governance arrangements have operated as designed. There were some changes in statutory post holders with a change of Monitoring Officer in November 2021.

The Council's governance arrangements in 2021/22

The Council's governance arrangements aim to foster effective leadership and high standards of behaviour; a culture based on openness and honesty; and an external focus on the needs of service users and the public. The diagram below shows the Council's external facing governance structure, as set out in the Council's constitution.

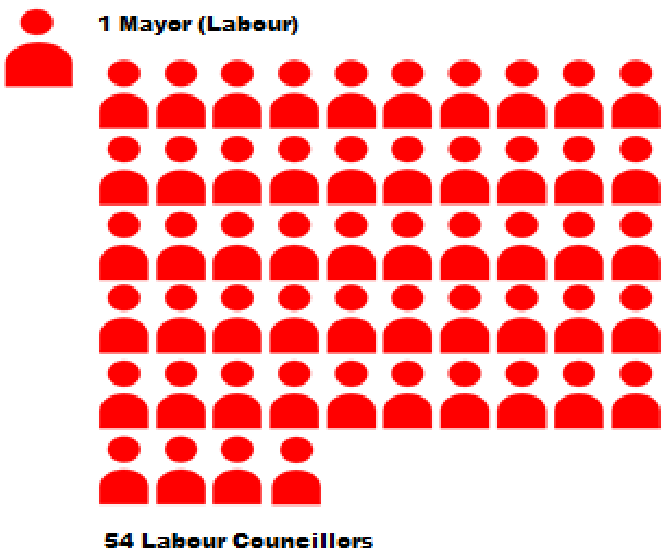
Lewisham's directly elected Mayor provides the Council with clear strategic direction and effective leadership but the Council also benefits from the perspectives and contributions of its 54 Councillors. The Council's constitution clearly defines the roles of councillors and officers, and this clarity contributes to effective working relationships across the Council. The Constitution Working Party, the Standards Committee and the Audit Panel monitor and challenge the governance arrangements and ensure their robustness.

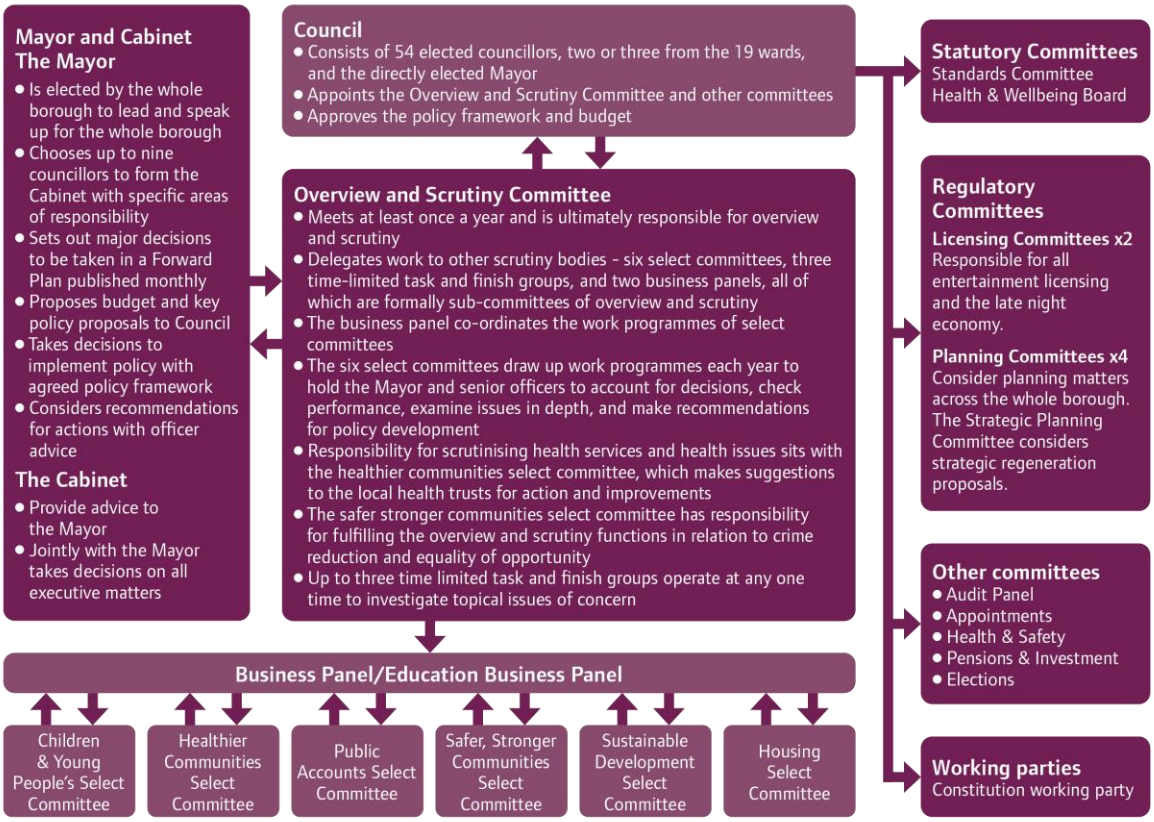
The Council has worked closely with its partners, both strategic and operational. The Council has five statutory partnership boards:

- The Safer Lewisham Partnership is the statutory crime and disorder partnership for Lewisham.
- The Youth Justice Board which is a statutory partnership board that oversees the work of the youth offending service in Lewisham.
- The Health and Wellbeing Board, Chaired by the Cabinet Member for Health & Adult Social Care, works to promote greater partnership engagement that contribute to health and social care outcomes locally.
- Local Adult Safeguarding Board responsible for helping oversee and safeguard adults with care and support needs through effective preventative measures.
- Lewisham Children's Safeguarding Partnership aims to ensure that member agencies work together to keep children and young people safe, hold one another to account and ensure that safeguarding remains a priority.

Council composition

The Council is comprised of 54 Councillors, including the Mayor. Elections were held on 5 May 2022. Damien Egan, Labour Party, was returned as Mayor for his second term. The 54 Councillor positions were all filled by candidates from the Labour Party and the Labour and Co-operative Party. This returned the Council to the following:





Communicating and reviewing the Council's vision

The Council adopted a new Corporate Strategy 2018-2022 in February 2019. The Council's Corporate Strategy sets out how Lewisham Council plans to deliver for our residents over the next four years. There are seven corporate priorities:

Open Lewisham – Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.

Tackling the housing crisis – Everyone has a decent home that is secure and affordable.

Giving children and young people the best start in life – Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.

Building an inclusive local economy – Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.

Delivering and defending: health, social care and support – Ensuring everyone receives the health, mental health social care and support services they need.

Making Lewisham greener – Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.

Building safer communities – Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

Monitoring Performance

The Council's performance is monitored via a suite of regular Directorate (Children and Young People Services, Community Services, Housing Regeneration and Public Realm, Corporate Resources, and Chief Executive) management reports and quarterly at the Executive Management Team. The reports use 'red' exception reporting to focus attention on underperforming or high risk areas and is a critical tool for supporting decisions across the organisation.

These reports are shared with Cabinet Leads, giving them direct line of sight to current and emerging performance issues. The appropriateness of Directorate performance measures is reviewed annually. The quality of services for users is also measured through satisfaction surveys and information from the complaints management resolution processes.

In addition, where areas for improvement are identified, the Council acts swiftly to address them. The overriding priority through 2021/22 has been the Council's response to, and recovery from, the Covid-19 pandemic and the focus on protecting critical services in support of residents, the community, and business. This was done, alongside the usual decision making processes moving on-line and with a streamlined Overview and Scrutiny process, using the Council's emergency response arrangements and establishing a GOLD command to oversee planning and activities on the objectives agreed by Council in May 2020.

Roles and responsibilities

The Council's constitution sets out the roles and responsibilities of the Mayor, the Speaker of the Council, the Council as a whole, the Executive, Statutory Officers, Overview and Scrutiny committees, Standards committees and other committees to help ensure that all decision making activity is lawful and transparent. Decisions are taken and scrutinised in accordance with the Council and Mayoral scheme of delegation, the procedure rules set out in the constitution and on the basis of professional officer advice, as part of an annual programme of regular meetings.

Embedding Roles and Responsibilities

The tone from the top in terms of establishing effective governance arrangements and culture rests with the Council and the Mayor. The Council approve the Constitution and confirm the appointments and delegations annually at their Annual General Meeting.

The Mayor is elected to **lead** the Council. They serve for a period of **four years.** They must act in the **interests of the borough as a whole.** They are responsible for taking most of the **main decisions**, and for **giving the power** to others to do so.

Councillors are elected for a term of **four years**. Councillors who are elected to represent local wards must both represent the people of the ward that elected them and act in the interest of the whole area. They are all expected to contribute to the **good governance** of the area and to encourage **community participation**. They must respond to their constituents' enquiries **fairly and without prejudice**.

The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made **transparently** and **openly**. The Local Code of Corporate Governance and the Codes of Conduct for Members and Officers, set out in the constitution, demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely. An update on complaints made against Members was considered in March 2022.

Training on ethics, governance and the Member Code of Conduct is delivered to all Councillors in the first year of an administration, as in 2018/19, as part of a comprehensive induction programme to enable Members to understand and access all appropriate support and development to undertake their role. This is repeated after by-elections, with training on the code of conduct provided to all Members in May 2021. Training on specific governance issues is provided as required throughout the course of the administration. In 2021/22, there was a continuing focus on supporting Members in terms of the exercise of their functions in the changing Covid-19 environment, including hybrid meetings.

Decision making

The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. This includes declaring if they have a personal interest in the matters under discussion and, if required, withdrawing from the room whilst the decision is taken. Reports are produced in a standard format to ensure that report authors address all significant considerations such as the legal, financial and equalities implications of decisions. These considerations have been expanded to include environment, wellbeing, and (for contracts) social value implications. The minutes of every formal meeting are published on the Council website.

The constitution requires Executive decisions to be published within two working days of being taken and they may be **called-in** (referred to the Mayor for reconsideration) by the Overview and Scrutiny Business Panel and the Education Business Panel.

For 2021/22, no Mayor & Cabinet decisions were called-in by the Overview and Scrutiny Business Panel to be reconsidered.

The Council has a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements but in practice, the procedure rules set out in the constitution are under constant review to reflect changing needs.

Internal Audit

The objective of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The service works within the framework of its Internal Audit Charter to an annual plan approved by members of the Audit Panel which seeks to provide appropriate review and assurance to significant Council activity. Internal Audit conduct their work in conformance with Public Sector Internal Audit Standards and CIPFA's Local Government Application Note.

In 2021/22 the service was obliged to seek an External Quality Assessment (EQA), it being the fifth year since the previous EQA. That review was conducted in winter 2021/22 through the London Audit Group's Peer Review programme by the Head of Audit of the City of London Corporation. His report, published in March 2022, concluded the service 'generally conforms' to Standards. The service has agreed an action plan to address the 3 (out of 135) areas of partial conformance identified.

For the three quarters of 2021/22 the Head of Internal Audit post was covered an external secondee before the Head of Assurance took up the role in January 2022. In defining the role of the Head of Internal Audit, the Council has met all requirements of CIPFA's Statement on the role of the Head of Internal Audit.

The Internal Audit Annual Report and Opinion for 2021/22 was reported to Audit Panel on 21 June 2022. That report details the 62 audit engagements supporting the annual opinion, which holds as follows:

"Internal Control

I am satisfied that during the year ended 31 March 2022 the Council managed its internal controls to offer satisfactory assurance on their adequacy and effectiveness.

Within that opinion, I note some relatively minor but persistent control weaknesses in the operation of control account reconciliations, procedural documentation and evidencing control function. I have discussed these matters with the Council's Executive Management Team and recommended they be included within the Annual Governance Statement along with a plan to improve compliance.

Framework of Governance

I am satisfied that the Council's framework of governance for the year ended 31 March 2022 complies in all material respects with guidance on proper practices as set out the CIPFA/SOLACE publication "Delivering Good Governance in Local Government (2016)".

As an additional comment, I wish to thank Members of this Panel and the Council's Executive Management Team for their efforts in supporting compliance with fulfiling agreed actions arising from audit reports. I set out later in this report the current position on compliance which represents a significant improvement on previous years.

Risk Management

I am satisfied the risk management arrangements at the Council for the year ended 31 March 2022 are effective and provide satisfactory assurance.

Within that opinion, I note some considerable space to develop the Council's risk approach to improve its reporting, comprehensiveness and integration with wider decision-making. I have discussed these matters with the Council's Executive Management Team and recommended they be included within the Annual Governance Statement along with a plan to improve arrangements."

External audit

The Council's governance, risk and control management arrangements are subject to an annual independent review by Grant Thornton, the Council's external auditors. In their last Annual Audit Letter on the 2019/20 accounts Grant Thornton gave an unqualified opinion for the financial statements and unqualified conclusion for the Council's value for money arrangements. Grant Thornton reported:

"In our opinion, the financial statements:

- *give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;*
- *have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and*
- *have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014."*

and

"we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020."

The audit certificates for the years 2016/17 to 2019/20 were issued following the auditors finalising their work into two objections received to the accounts in 2016/17 by a number of authorities. Both of these investigations concluded with no action required.

At the time of writing, the Council awaits the 20/21 Audit Certificate from Grant Thornton pending the delayed work on the Whole of Government Accounts (WGA). The accounts were signed off by Full Council in November 2021 and the Value for Money opinion was considered by the Public Accounts Scrutiny committee in June 2022.

The audit will conclude and report to the Audit Panel and Council in the usual way, the 2021/22 inspection period will be in August with the audit deadlines for completion of audits set for November.

In addition to the annual independent review of the Council's governance, risk and control management arrangements, Children and Young People's Services is subject to regular inspection through one of the following four inspection frameworks (in addition to the inspection of schools):

- Inspection of Local Authority Children's Services (Ofsted)
- Joint Targeted Area Inspection (Ofsted, CQC and HMICFRS) – the latter is the police inspectorate
- Special Educational Needs and disability Inspection (Ofsted and CQC)
    - Youth Offending Inspection (HMIP) – Probation inspectorate

Audit Panel

The Council's Audit Panel meets quarterly and is made up of a mixture of Councillors and independent advisors. The key roles of the Panel are to:

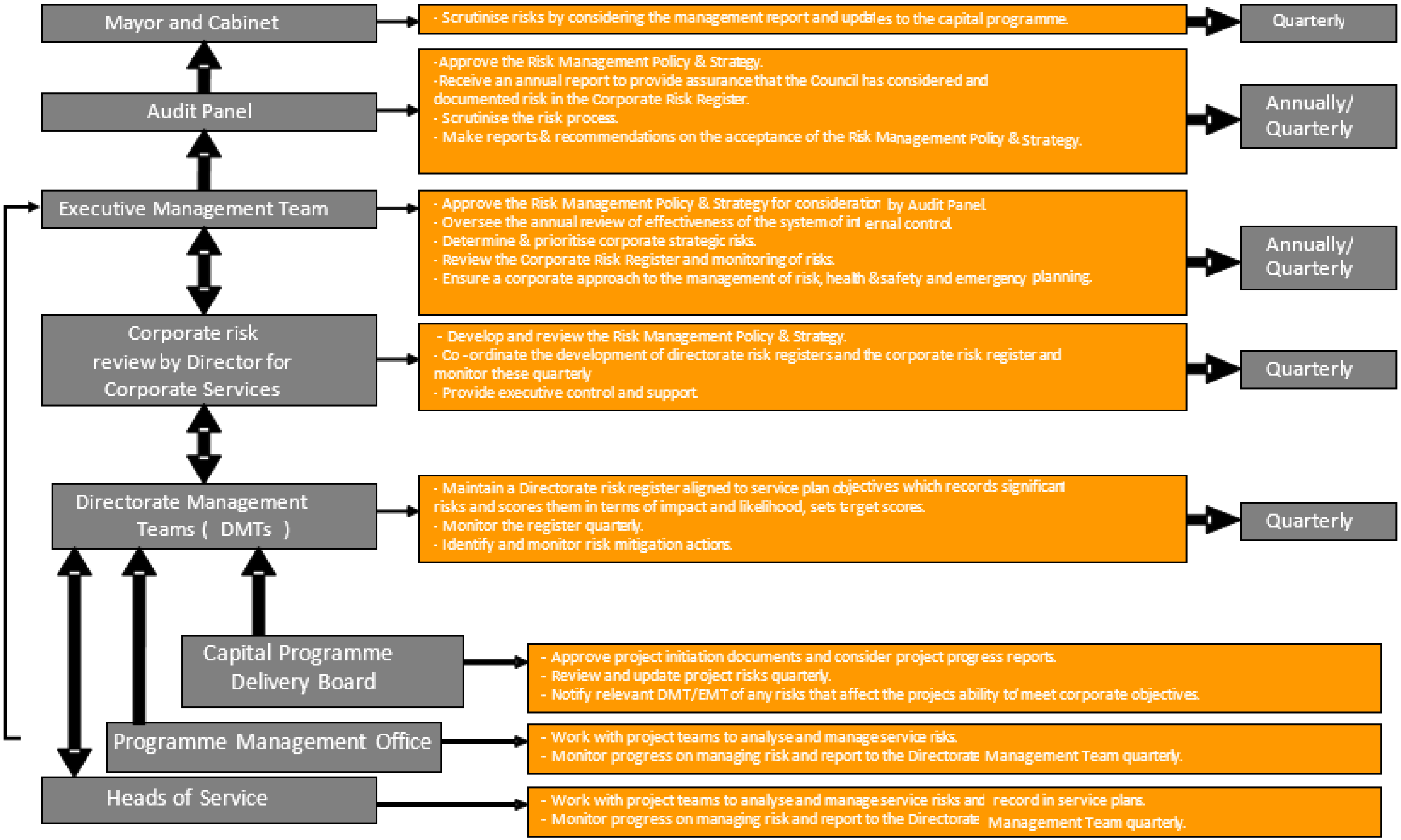
- Review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports, summarising the audit reports issued, management's progress on implementing any recommendations and the performance of the Internal Audit function, are received by the Panel on a quarterly basis.
- Consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Consider the external auditor's annual plan and other relevant external reports which contribute to the level of assurance.
- Consider the Council's annual Statement of Accounts and this statement and make comments to Full Council when it considers the accounts.

Compliance

The Monitoring Officer is central to ensuring compliance with the rules and procedures set out in the constitution. The Monitoring Officer attends Mayor, & Cabinet, Full Council meetings and the Executive Management Team (EMT). The Monitoring Officer regularly briefs councillors and relevant staff on corporate legislative developments; and legal advice is incorporated in every council report. Where gaps or non-compliance are identified, appropriate action is taken.

The financial management of the authority is conducted in accordance with financial regulations set out in the constitution and the Council has designated the Executive Director for Corporate Resources as its Section 151 Officer, who advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. The Council has a whistle-blowing policy in place which is publicised on the Council's website. Complaints made under this policy are handled by the Monitoring Officer and an annual review is considered by the Standards Committee.

Risk and Strategy Framework



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Training and development

The Council runs a comprehensive Member Development Programme, with an intensive induction programme in the period following local elections. The programme ensures that all Councillors have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. Training and development is available for councillors every year, inclusive of regular all member briefings; training sessions for all councillors or specific cohorts of councillors; and tailored learning for individuals provided on the basis of assessed needs. The Member Development Strategy supports the overall Organisational Development Strategy, which sets out a framework to ensure the organisation performs effectively, through its design, function, structure and processes.

The development needs of senior officers are the responsibility of the Head of Human Resources and the Monitoring Officer who are aware of their statutory duties and stay abreast any changes in relevant legislation. At the start of the financial year the Chief Executive, as the Head of Paid Service, defines objectives for each of the Executive Directors which are then cascaded to officers throughout the organisation through the objective setting arrangements set out in the People Management Framework.

Engaging the community and partners

The Council promotes e-Participation through its online engagement system, which provides a platform for citizens to respond to online consultations as well as set up and respond to e-Petitions. Last year more than 50 consultations took place online. In addition to this, in 2021/22 the Council conducted a major face-to-face, borough-wide survey of Lewisham residents. At ward-level, Local Assemblies are an opportunity for residents to work with their ward councillors to shape the future of their neighbourhood; and the Young Citizens Panel gives young people aged 11–18 the chance to feed into Council policy and spending decisions, including the use of the Young Mayor’s budget. Last year, the Mayor launched an Actively Anti-Racist Advisory Commission with and lead by Councillors, further underlining the Council’s commitment to tackle issues facing Lewisham’s BAME communities. In 2021/22 the Mayor’s Commission organised two workshops focused on ‘digital exclusion affecting BAME children and young people’.

The Council’s website includes a page on open data and transparency, which gives information on spending; wages of senior managers; Freedom of Information requests; the annual audit of accounts; the pay policy; and Council decisions.

The arrangements for statutory strategic partnership working are set out earlier in this statement. In addition, extensive partnership working arrangements are in place which support the delivery of the Council’s objectives. In 2021/22 the Member led Jobs and Business Taskforce continued it work to support and engage with local employers. As part of this, the Council undertook a count of BAME owned businesses in the borough (the first Council in the UK to undertake such an exercise). The Council has borough based arrangements in place with the local Clinical Commissioning Group to align with the work of the National Health Service and is working with the SEL CCG to develop the incoming ICS. The Council, through its wholly owned company Lewisham Homes, and working with local Registered Providers has extensive engagement with residents on housing matters. Responding to global events in Syria and Afghanistan and consistent with our Sanctuary Borough commitments, the Council has continued to work alongside the Lewisham Migration to meet the needs of the refugee and migrant community in the borough. In 2021/22, the Council, working alongside 11 other ‘anchor institutions’ Goldsmiths, University of London convened a series of meetings and consultations, to increase collaboration and better address the challenges facing Lewisham residents. The work product of this effort was the Civic University Agreement.

How do we know our arrangements are working?

Corporate Peer Challenge

During the year, the Council took part in a Corporate Peer Challenge. The challenge was undertaken by the Local Government Association and considered the following:

Core components:

1. Local priorities and outcomes
2. Organisational and place leadership
3. Governance and culture
4. Financial planning and management
5. Capacity for improvement

Additional area of focus

6. Leading and embedding a shift in workforce culture, engaging and motivating staff across the organisation to deliver corporate priorities at pace.

Key Messages

The key messages from the report were as follows:

> *"Lewisham has a strong sense of place. There is an ethos of inclusion, welcoming and community that runs as a thread through the council and the borough. There is a lot for staff and elected members at the council to be proud of and the resilience, innovation, and culture of the workforce during the response to the Covid-19 pandemic should be celebrated."*
>
> *"The Covid response is universally seen as a very positive response from the council, and it is important to capture the learning and build on the opportunities that this presents, for example partnerships with communities, community organisations and the good work for people who are sleeping rough. Community partners felt that in the response there was true cross council working and they were treated as trusted partners"*
>
> *"There is a strong understanding of the council's financial position across members and officers. The council has robust spending controls in place, however there is a historic culture in Lewisham of not meeting savings targets... We saw positive signs that this is changing under the new administration, but the council's leadership needs to consider if the current financial controls are stifling staff's ability to plan deliverable savings targets."*
>
> *"There is widespread recognition of the race equality work internally and externally in Lewisham which has built a coalition of those willing to work with the council on other strategy creation and delivery. This work has set a high bar for what happens next, and the council needs to remember that it is countering years of mistrust."*
>
> *"Scrutiny is deeply valued and supported in the organisation and there was strong evidence of impact … We identified some confusion about the role of different levels of scrutiny and relationships with officers. There was a question given the severity of the financial challenge of whether the organisation could afford to support the current scale of scrutiny and whether there was an opportunity to streamline while building on the strengths."*

The recommendations from the challenge were as follows:

1. Continue to capture learning from the Council's excellent Covid-19 response;
2. Develop a more formalised approach to partnership working outside statutory partners;
3. Look for opportunities for the council's energetic directly elected political leadership to take an even stronger leadership of place role;
4. Ensure that the council is focussing externally as much as internally;
5. Lewisham has great practice that should be shared outside of the borough;
6. Develop the Council's communications strategy and plan such that opportunities to build on and celebrate success;
7. Review the constitution to align it to the ambition of the Mayor and his administration;
8. Ensure that there is a strong leadership and management plan to provide mentorship/ coaching for those who are stepping into larger roles with broad portfolios;
9. Review the Council’s relationship with Lewisham Homes;
10. Post-election provides the opportunity to engage with 3-year budget planning and plan to transform the large service areas in the borough such as adults and children's services;
11. New projects or initiatives over a financial threshold across the organisation should follow a consistent programme management approach.

An action plan has been developed to address the recommendations, with each action being led by a member of the Executive Management Team.

Outside of the Corporate Peer Challenge, throughout the year, the Council regularly reviews the effectiveness of its governance framework, including its system of internal control. Activity undertaken includes:

- Consideration of governance issues by EMT – including financial management, risk registers, and internal audit reports.
- Preparation of a rolling plan of audit coverage to be achieved in the forthcoming year by the Head of Internal Audit, primarily based on an assessment of the Council’s risk profile, and review of the plan by EMT.
- Receipt of the Internal Audit Strategy by the Audit panel and approval of the annual audit plan.
- Preparation of the annual assurance report by the Head of Internal Audit, setting out their opinion on the Council’s overall control environment and approval of the report by the Audit Panel.
- Annual updates to the Public Accounts Select Committee on the work of the Audit Panel.
- Consideration by EMT of a full range of governance and performance issues throughout the year, including issues relating to the improvement of the Internal Audit Service and risk (ensuring management action is taken as necessary).
- Consideration of the following reports by the Standards Committee:
  - Review of Compliance with the Council’s Code of Corporate Governance;
  - Review of Whistle-blowing and Referrals Policy;
  - Review of Compliance with the Member Code of Conduct; and
  - Annual Complaints Report.
- Consideration of external inspection reports (for example; Ofsted for Children social care and education provision, Care Quality Commission for the provision on adult social care, and Her Majesty’s Inspectorate of Probation for Youth Offending Services) by Mayor and Cabinet, Audit Panel and relevant Select Committees.
- The Council has established an Assurance Board. The Board is Chaired by the Chief Executive and also attended by the Monitoring Officer, Section 151 Officer and Head of Internal Audit. It’s key terms of reference are to oversee, scrutinise and hold to account the discharge of the statutory duties of the Council with particular reference to the following areas:

  - Risk management and audit assurance. Managing intervention strategies when assurance is not satisfactory;

- Information governance and cyber security, including data protection and freedom of information;
- Whistleblowing and Corporate Complaints;
- Safeguarding responsibilities for Children and Adults; Corporate Parenting;
- Health and Safety, including Corporate Landlord obligations;
- Council involvement in companies;
- Councillor conduct update;
- Governance procedures and business processes for public and private meetings of the Council, including attendance records and Section 85 Local Government Act 1972
- Emergency Planning, Business Continuity and Disaster Recovery;
- Reputation management of the Council.

What are our governance priorities going forward?

Our priorities continue to include:

- Progressing delivery of the Mayor's policy programme, as set out in the Corporate Strategy to 2022 adopted by Council in 2018/19;
- Writing a new Corporate strategy which reflects the Mayor's policy programme for the period 2022-2026;
- Plan and prepare to implement further cuts and adjust the allocation of resources across Council services in light of the anticipated further budget reductions the Council faces;
- Continue the work begun in 2020/21 to progress the Chief Executive's priorities for improvement, as agreed by Council in February 2020, in the following areas:
  - Financial management;
  - Organisation culture and our people;
  - Our resident's experience;
  - Evidence based decision making;
  - Governance and attitudes to risk;
  - Project and people management;
  - Communications;
- Catching up on the delayed annual reviews of the schemes of delegation and financial regulations and procedures to align them with the new Directorate structures implemented 2020/21;
- Update the payroll and HR procedures to ensure resilience and capture the operational changes from the move to a new system (Oracle Cloud) in support of the People Management Framework introduced in 2020/21 and Organisation Development Strategy for 2021/22;
- Address the external and internal audit findings reported to the Audit Panel to maintain and, where necessary, improve the Council's financial controls and risk mitigations for the growing cyber security risk;
- Continue to address areas for improvement overseen by a discrete Improvement Board on the findings and recommendations of the Children Services review by Ofsted (August 2019) and follow up in 2020; and
- Continue the work with our local and regional health partners to best deliver the 'integrated health and social care agenda' for the benefit of the borough's citizens, and in responding to the impact of Covid 19.
- Improve compliance with the relatively minor but persistent control weaknesses in the operation of control account reconciliations, procedural documentation and evidencing control function.
- Develop the Council's risk approach to include its reporting, comprehensiveness and integration with wider decision-making.

In addition to the above, whist the immediate impact of Covid 19 on the Borough and the Council has eased, the longer term impact of the pandemic continues. Governance for formal meetings returned to pre-pandemic arrangements. The vast majority of formal meetings were broadcast live to allow the public to observe proceedings without attending in person.

Following the return to normalised working, the Council implemented flexible working arrangements, with staff working a mix of at home and in the office.

Signed on behalf of the Council

Tauseef Anwar	***Kim Wright***
Councillor Tauseef Anwar	Kim Wright
Speaker of the Council	Chief Executive
November 2022	November 2022

SECTION 8 – PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year ending 31 March 2022.

The Pension Fund's value increased over the year by £130m (8%), £1.617bn to £1.747bn. (the effects of the global market uncertainty from the war in Ukraine had starting to take effect by 31 March 2022 but may affect the value of the fund in 2022/23).

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The Fund is a contributory defined benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation (referred to henceforth as "the Regulations"):

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

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. The investment managers also have to consider the PIC's views on socially responsible investments. Details of the Socially Responsible Investment policy are contained in the Investment Strategy Statement and published online (see web address below).

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

The Pension Fund administration is managed by a small in-house team, which is also responsible for other areas of work such as redundancy payments, gratuities and teachers compensation.

A statement of the Fund's corporate governance, funding strategy and investment strategy can be found on the authority's Pension Fund website at the following address:

www.lewishampensions.org

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2022

The fund account shows the surplus or deficit on the fund for the year.

	2021/22 £000	2020/21 £000	See note
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME			
Contributions Receivable:			
- from Employers	**(46,855)**	**(35,439)**	5
- from Employees	**(10,929)**	**(10,822)**	5
Transfer Values In	**(8,096)**	**(3,605)**	
Other Income	**0**	**(347)**	
Sub-Total: Income	**(65,880)**	**(50,213)**	
Benefits Payable:			
- Pensions	**46,942**	**45,729**	6
- Lump Sums: Retirement allowances	**9,891**	**5,905**	6
- Lump Sums: Death grants	**1,310**	**1,983**	6
Payments to and on account of leavers:			
- Refunds of Contributions	**105**	**51**	
- Transfer Values Out	**14,788**	**5,351**	
Sub-Total: Expenses	**73,036**	**59,019**	
Sub-Total: Net (Additions)/ Withdrawals from dealings with members	**7,156**	**8,806**	
Management Expenses	**3,867**	**3,910**	7
Sub-Total: Net (Additions)/ Withdrawals including fund management expenses	**11,023**	**12,716**	
RETURNS ON INVESTMENTS			
Investment Income	**(18,777)**	**(18,254)**	9
Change in market value of investments (Realised & Unrealised)	**(122,628)**	**(259,794)**	14b
Taxes on Income	**9**	**191**	
Total Net Returns on Investments	**(141,396)**	**(277,857)**	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	**(130,373)**	**(265,141)**	
OPENING NET ASSETS OF THE FUND	**(1,617,349)**	**(1,352,208)**	
CLOSING NET ASSETS OF THE FUND	**(1,747,722)**	**(1,617,349)**	

NET ASSETS STATEMENT AS AT 31 MARCH 2022

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2022.

	31/03/22 £000	31/03/21 Re-stated £000	See note
INVESTMENT ASSETS			
Equities			
Equities	**107,822**	**95,341**	10 - 14
	107,822	**95,341**	
Managed Funds			
Property	**147,265**	**112,036**	10 - 14
Equities	**826,927**	**776,855**	10 - 14
Fixed Interest	**212,999**	**207,213**	10 - 14
Index Linked	**112,822**	**107,210**	10 - 14
Other Assets	**246,989**	**210,009**	10 - 14
	1,654,824	**1,508,664**	
Cash Held with Custodian	**92,992**	**105,524**	18
Derivative Contracts			
Assets	**0**	**0**	16
Liabilities	**0**	**0**	16
Other Investment Balances	**42**	**2,787**	17a
TOTAL INVESTMENTS	**1,747,858**	**1,616,975**	
Current Assets	**2,100**	**4,340**	17b
Current Liabilities	**(2,236)**	**(3,966)**	17b
TOTAL NET ASSETS	**1,747,722**	**1,617,349**	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2022. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

Note 1: Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2021/22 and its position at year and as at 31st March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.
The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits.
The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in an accompanying report to the accounts, which is disclosed in Note 19.
The Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the authority will continue in operational existence for the foreseeable future.

Note 2: Summary of Significant Accounting Policies

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 26 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee later in the year to comply with this deadline.

A summary of the significant accounting policies, valuation techniques, and the basis of preparation of the accounts are shown below:

(a) **Investments** - Investments in the Net Assets Statement are shown at Fair Value. 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 IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).
The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

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

(c) **Passive equity and bonds**: Passive equity and bonds dividend income earned from equity and bonds are reinvested and not repaid directly to the Fund as cash. Interest income is recognised in the Fund as it accrues.

(d) **Private Equity Investments:** The Private Equity Investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement.

(e) **Property**: The Property Funds do not have any direct investments in property, but use property Fund managers to invest in pooled property/unit trust funds. They are valued in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).

(f) **Pooled Investments:** Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or, if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income that is reinvested in the fund, net of applicable withholding tax.

(g) **Multi-Asset Credit Investments:** Multi-asset private credit investments are valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data.

(h) **Infrastructure Assets**: Infrastructure assets are valued to determine the Fair Value of fund assets, using the Net Asset Value (NAV) of each investment in accordance with market best practice.

(i) **Contributions** – These represent the total amounts receivable from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 01 April 2021 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

Pensionable Pay for the Post	Contribution Rates 2021/22	
	Main Section	50/50 Section
Up to £14,600	5.50%	2.75%
£14,601 to £22,800	5.80%	2.90%
£22,801 to £37,100	6.50%	3.25%
£37,101 to £46,900	6.80%	3.40%
£46,901 to £65,600	8.50%	4.25%
£65,601 to £93,000	9.90%	4.95%
£93,001 to £109,500	10.50%	5.25%
£109,501 to £164,200	11.40%	5.70%
More than £164,201	12.50%	6.25%

The employer's contribution is reviewed every three years and is determined by the Fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities.

This is assessed at each triennial actuarial revaluation. *The employer's contribution rate for the administering authority in 2021/22 is 22.5%, unchanged from 2019/20.*

(j) **Benefits** – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

(k) **Transfer Values** – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.

(l) **Taxation** – The Fund is a registered public service scheme under section (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 an expense as it arises.

(m) **VAT** – By virtue of Lewisham Council being the administrating authority, VAT input tax is recoverable on Fund activities. Any irrecoverable VAT is accounted for as an expense.

(n) **Actuarial** – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out by the actuaries was as at 31 March 2019. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	**March 2019 (%)**	**March 2016 (%)**
Discount Rate	3.5	4.0
Price Inflation (CPI*)	2.3	2.1
Pay Increases	3.0	2.9
Benefit Increase	2.3	2.1
CARE Revaluation	2.3	2.1
Expenses	0.7	0.6

* Consumer Price Index

With effect from 1 April 2017 to 31 March 2019, the actuarial review carried out for 31 March 2016 resulted in the Council's employer contribution rate being set at 22.5%.

The most recent triennial valuation as at the 31 March 2019 revealed that the Fund's assets, which at 31 March 2019 were valued at £1.387bn, were sufficient to meet 90% (78% in 2016) of the past service liabilities valued at £1.541bn (£1.328bn in 2016) accrued up to that date. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016).

(o) **Actuarial Present Value of Promised Retirement Benefits** – The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the Pension Fund financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 19).

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation; these longevity assumptions are consistent with the previous IAS26 disclosures for year ending 31 March 2021.

For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would increase liabilities by approximately 3-5%.

(p) **Investment Management and Administration** - Regulation 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council, as the administering authority, to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. Management fees of the Fund's investment managers are typically calculated as a set percentage of the market value of funds under management at regular intervals, although some agreements also allow for performance fees above a defined hurdle rate. All investment management expenses are accounted for on an accrual's basis. The Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

(q) **Foreign currency**: Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
- Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
- Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.

(r) **Commitments** - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the Net Asset Statement but is referred to in the notes to the accounts; please see note 21.

(s) **Financial Instruments**

(i) Financial Liabilities are recognised at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(ii) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset 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 value of the asset are recognised in the Fund account.
The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13

(t) **Additional Voluntary Contributions ("AVCs")**
Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main Fund, and in accordance with the Regulations, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 23.

Note 3: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.
There were no such critical judgements made during 2021/22.

Note 4: Assumptions Made About the Future and Other Major Sources of Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	The figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on Fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. However, the market disruption caused by the coronavirus outbreak will have mixed and uncertain impacts on all of those assumptions, possibly resulting in material changes to the disclosed present value of promised retirement benefits as at 31 March 2022. Further sensitivity analysis is included in note 19, below.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption is estimated to reduce the present value of the pension liability by £36.5m.
Property valuations	Valuation techniques are used to determine the carrying values of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used.	Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the percentage of volatility that can be applied to the Fund's Property assets in 2021/22, assuming all other variables such as foreign exchange rates and interest rates remain the same, is estimated to be 3.8%. This would be an increase or decrease in the value of property investments by £5.6m, on a fair value of £147m.

Pension Fund Liability

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

Note 5: Contributions Receivable

	2021/22 £000	2020/21 £000
Employer Contributions		
Administering Authority	**(39,866)**	**(28,556)**
Scheduled Bodies	**(6,436)**	**(6,191)**
Admitted Bodies	**(554)**	**(692)**
	(46,856)	**(35,439)**
Employee Contributions		
Administering Authority	**(8,606)**	**(8,566)**
Scheduled Bodies	**(2,141)**	**(2,062)**
Admitted Bodies	**(182)**	**(194)**
	(10,929)	**(10,822)**

Contributions receivable from employers are shown below:

	2021/22 £000	2020/21 £000
Employer Contributions		
Normal	**(45,063)**	**(34,672)**
Early Retirement Strain	**(1,623)**	**(357)**
Deficit Funding	**(170)**	**(410)**
	(46,856)	**(35,439)**

Note 6: Benefits Payable

<u>By Category</u>

	2021/22 £000	2020/21 £000
Pensions	**46,942**	**45,729**
Commutation and Lump Sum Retirement Benefits	**9,891**	**5,905**
Lump Sum Death Grants	**1,310**	**1,983**
	58,143	**53,617**

<u>By Authority</u>

	2021/22 £000	2020/21 £000
Administering Authority	**54,305**	**48,055**
Scheduled Bodies	**2,717**	**4,007**
Admitted Bodies	**1,121**	**1,555**
	58,143	**53,617**

Note 7: Management Expenses

The table below shows a breakdown of the management expenses incurred during the year.

	2021/22 £000	2020/21 £000
Administration Expenses	1,161	1,018
Oversight and Governance Expenses	420	509
Investment Management Expenses:		
- Transaction Costs	220	15
- Management Fees	1,954	2,332
- Performance Fees	0	0
- Custody Fees	112	36
	3,867	3,910

Note 8: External Audit Costs

	2021/22 £000	2020/21 £000
Additional Audit fees for 2020/21	24	0
External Audit Services for 2021/22	38	36
Total	62	36

The Pension Fund's external auditors are Grant Thornton.

Note 9: Investment Income

The table below shows a breakdown of the investment income for the year:

	2021/22 £000	2020/21 £000
Cash	27	(59)
Bonds	(483)	0
Equities	(483)	0
Pooled property investments,	(3,941)	(3,233)
Pooled investments, unit trust & other managed funds	(7,573)	(9,798)
Private Equity, venture capital & infrastructure income	(6,324)	(5,164)
	(18,777)	(18,254)

Note 10: Fund Assets

The table below outlines the fund managers, asset classes, and values of those assets held by the Fund as at 31 March 2022.

Fund Manager	Asset	Asset Value 31 March 2022 £000	Proportion of the Fund 31 March 2022 %	Asset Value 31 March 2021 £000
LCIV	Passive Equity	459,186	26.3%	0
UBS	Passive Equity and Bonds*	409,857	23.4%	531,236
Blackrock	Passive Equity and Bonds	368,683	21.1%	636,109
Schroders Property	Property	153,961	8.8%	112,036
J.P. Morgan	Infrastructure	109,205	6.7%	74,260
HarbourVest	Private Equity	99,019	5.7%	86,452
Pemberton	Multi-Asset Credit	40,632	2.3%	38,127
Partners Group	Multi-Asset Credit	32,087	1.8%	33,175
LCIV	Infrastructure	24,900	1.4%	0
LGIM	Property	9,910	0.6%	0
Various Managers	Cash and other Assets	40,418	2.3%	105,579
Lewisham	Net Current Assets/(Liabilities)	(136)	0.0%	375
Total Fund Assets		**1,747,722**	**100.0%**	**1,617,349**

*Note: as at 31 March 2022 there were no Bonds held with UBS, these had been transferred to Blackrock during the financial year.

Note 11: Investment Analysis

Individual Investment assets with a market value exceeding 5% of the total fund value as at 31 March 22 are as follows:

		£000	%
Passive Equity Progressive Paris Aligned Fund	LCIV	459,186	26.3%
UBS Asset Management Fund	UBS	268,067	15.3%
Aquila Life UK Equity Index	Blackrock	112,822	6.5%
UBS Asset Management Life UK Equity Tracker	UBS	107,821	6.2%
BlackRock Pensions Aquila over 15 years	Blackrock	105,556	6.0%
Blackrock Fixed Income A	Blackrock	102,308	5.8%

Individual Investment assets with a market value exceeding 5% of the total fund value as at 31 March 21 are as follows:

Asset	Manager	31 March 2021	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	240,024	14.8
Aquila Life US Equity Index Fund	Blackrock	214,030	13.2
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	126,901	7.8
UBS Asset Management Life UK Equity Tracker A Nav	UBS	95,341	5.9

Note 12: Reconciliation in Movement in Investments

An analysis of investment movements in 2021/22 (includes cash, debtors and creditors) is set out below:

	Restated Market Value as at 31/03/2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value as at 31/03/2022
	£000	£000	£000	£000	£000
Bonds	107,210	27,291	(28,150)	6,471	112,822
Equities	95,341	253,024	(243,782)	3,239	107,822
Pooled Investments	1,055,598	105,694	(114,813)	87,700	1,134,179
Pooled property Investments	112,036	13,098	(4,507)	26,638	147,265
Private equity/Infrastructure	138,480	49,072	(35,549)	733	152,736
	1,508,665	448,179	(426,801)	124,781	**1,654,824**
Derivative contracts:					
Forward currency contracts	0	124	(136)	11	0
	1,508,665	448,304	(426,937)	124,792	**1,654,824**
Other Investment balances:	3,118			(3,143)	(136)
Cash deposits	105,524			984	92,992
Amount receivable for sales of investments	10,800			0	0
Investment income due	42			0	42
Spot FX contracts	0			(5)	0
Amounts payable for purchases of Investments	(10,800)			0	0
	1,617,349			122,628	**1,747,722**

Re-stated	**Re-stated Market value as at 31 March 2020**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Change in Market Value during the year**	**Restated Market Value as at 31/03/2021**
	£000	**£000**	**£000**	**£000**	**£000**
Bonds	88,785	14,483	0	3,942	107,210
Equities	75,079	400	-7,157	27,019	95,341
Pooled Investments	937,436	32,868	-116,119	220,171	1,055,598
Pooled property Investments	106,328	8,552	-3,119	275	112,036
Private equity/Infrastructure	123,065	15,574	-20,404	1,486	119,721
	1,330,693	71,877	-146,799	252,893	**1,508,664**
Derivative contracts:					
Forward currency contracts	0	6	-3	-3	0
	1,330,693	71,883	-146,802	252,890	**1,508,664**
Other Investment balances:	0			0	3,149
Cash deposits	28,393			-832	105,494
	17,500			0	10,800
Investment income due	37			0	42
Spot FX contracts	0			1	0
	-17,504			-7	-10,800
	1,359,117			**252,052**	**1,617,349**

Note 13a: 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	Valuation Heirachy	Basis of Valuation	Observable and Unobservable inputs	Key sensitivities affecting the valuations provided
UK Equities	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Global Equities	Level 1	The published bid market price on the final day of the accounting period	Not required	Not required
Bonds and Index Linked	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Property	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published	NAV - based pricing set on a forward basis	Not required
Cash	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
UK Fixed Income Managed Funds	Level 2	Average of broker prices	Evaluated price of feeds	Not required
UK Venture Capital	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Overseas Venture Capital	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Private equity/ Overseas venture capital	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020)	-EBITDA Mulitiple -Revenue multiple - Discount for lack of marketability - Control premium	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts
Overseas Hedge Funds	Level 3	Valued by investing managers on a fair value basis each year using PRAG guidance	NAV - based pricing set on a forward basis	Valuations are affected by a change to the value of the financial instrument it is being hedged against

Note 13b: Sensitivity of Assets Valued at Level 3

The fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022	Value on Increase	Value on Decrease
	%	£000	£000	£000
Overseas Hedge Fund	5.8%	94,253	99,720	88,786
Overseas Venture Capital	5.8%	58,803	62,213	55,392
Total		**153,056**	**161,933**	**144,178**

Note 13c: Valuation of Financial Instruments carried at Fair Value

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

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

Level 2 – where 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 – where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include infrastructure, which the Fund holds assets in, unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The following table provides an analysis of the assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable:

Pension Fund Accounts

Market Value as at 31/03/2022	Quoted market price	Using observable inputs	With significant observable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss				
Bonds	0	112,823	0	112,823
Equities	0	107,822	0	107,822
Pooled investments	0	1,039,925	94,254	1,134,179
Pooled Property Investments	0	147,265	0	147,265
Private Equity	0	93,933	58,802	152,735
Derivative Assets	0	0	0	0
Cash deposits	92,992	0	0	92,992
Other investment assets	2,100	0	0	2,100
Investment income due	42			42
Financial liabilities at fair value through profit and loss				
Other investment liabilities	(2,236)	0	0	(2,236)
Net financial assets	**92,898**	**1,501,768**	**153,056**	**1,747,722**

Market Value as at 31/03/2021 - Re-stated	Quoted market price	Using observable inputs	With significant observable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss				
Bonds	0	107,210	0	107,210
Equities	19,271	95,341	0	114,612
Pooled investments	0	1,002,939	71,529	1,055,598
Pooled Property Investments	0	112,036	0	112,036
Private Equity	0	33,176	67,180	138,480
Derivative Assets	0	0	0	0
Cash deposits	105,524	0	0	105,524
Other investment assets	3,101	0	0	3,118
Investment income due	42	0	0	42
Amounts Receivable for Sales	10,800	0	0	10,800
Financial liabilities at fair value through profit and loss				
Payable for investment purchases	(10,800)	0	0	(10,800)
Net financial assets	**127,938**	**1,350,702**	**138,709**	**1,617,349**

Note 13d: Transfers between Levels 1 and 2

There has not been any transfers between Level 1 and Level 2 assets in 2021/22.

Note 13e: Reconciliation of Fair Value Measurements within Level 3

	Market Value as at 31/03/2021	Transfers in/out of level 3	Purchases	Sales	Unrealised gains (losses)	Realised gains (losses)	Market Value as at 31/03/2022
	£000	£000	£000	£000	£000	£000	£000
Overseas Hedge Fund	71,530	0	0	(1,266)	24,057	(67)	94,254
Overseas Venture Capital	67,179	0	8,668	(19,092)	(10,419)	12,466	58,802
Total	**138,709**	**0**	**8,668**	**(20,358)**	**13,638**	**12,399**	**153,056**

Note 14a: Classification of Financial Instruments

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified between accounting categories during the year ended 31 March 2022.

Restated Market Value as at 31/03/2021 Designated as fair value through profit and loss	Loans and receivables	Financial liabilities		Designated as fair value through profit and loss	Loans and receivables	Market Value as at 31/03/2022 Financial liabilities
£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
			Financial assets			
107,210			Bonds	112,822		
95,341			Equities	107,822		
1,055,597			Pooled investments	1,134,179		
112,036			Pooled property Investments	147,265		
138,480			Private equity/infrastructure	152,736		
0			Diversified Alternatives	0		
0			Property	0		
0			Derivative Assets	0		
0	105,524		Cash deposits	0	92,992	
3,118	42		Other investment balances	0	42	
0	10,800		Debtors	0	2,100	
1,511,783	**116,366**	**0**		**1,654,824**	**95,134**	**0**
			Financial liabilities			
0			Derivative liabilities	0		
		0	Other Investment balances		0	
		(10,800)	Creditors			(2,236)
0	**0**	**(10,800)**		**0**	**0**	**(2,236)**
1,511,783	**116,336**	**(10,800)**	**Total**	**1,654,824**	**95,134**	**(2,236)**
	1,617,349		**Grand Total**		**1,747,722**	

Note 14b: Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/22 £000	31/03/21 £000
Financial Assets		
Fair Value through Profit and Loss	124,781	260,635
Loans and receivables	985	
Assets at Amortised Cost		(834)
Financial Liabilities		
Fair value through profit and loss	11	
Liabilities at Amortised Cost	(3,149)	(7)
	122,628	259,794

Note 15: Nature and Extent of Risks Arising from Financial Instruments

The 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). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), interests in collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the Fund's risk management strategy rests with the Council's Pension Investment Committee (PIC). Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Fund's custodian is Northern Trust, who manage investments and report on them on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level strategic risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes made to the portfolio.

a) Market Risk

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and pooled investment funds, to all these market risks. The aim of the investment strategy is to manage and control exposure to market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of investments by asset class and establishing mandate guidelines with investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

i) Other Price Risk – Market

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

ii) Other Price Risk – Sensitivity analysis

The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.
Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund’s advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund’s assets in 2021/22, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	**Potential Market Movement +/- (% p.a.)**
Bonds	9.1
UK Equities	16.2
Overseas Equities	13.0
Fixed Income unit trusts	9.1
Equity unit trusts	16.2
Hedge funds	5.8
Pooled property Investments	3.8
Private equity/Infrastructure	5.8
Other Investments	2.8
Cash	2.8
Total	**7.9**

Applied to the period end asset mix, the potential impact on the Fund’s market value in the next financial year is as follows:

Asset type	Market Value as at 31/03/2022	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	92,992	2.8	95,605	90,379
Investment portfolio assets:				
Bonds	112,822	9.1	123,135	102,511
UK Equities	107,822	16.2	125,289	90,355
Overseas equities	96,964	13.0	109,569	84,358
Fixed Income unit trusts	212,999	9.1	225,353	193,616
Equity unit trusts	729,964	16.2	961,136	611,710
Hedge funds	94,253	5.8	99,720	88,786
Pooled property Investments	147,265	3.8	161,594	141,624
Private equity/Infrastructure funds	152,735	5.8	177,524	143,877
Other funds	-94	2.8	-97	-92
Total assets * **	**1,747,722**		**1,948,319**	**1,547,124**

* This figure includes derivatives and other investment balances.
** The % change and value change for Total Assets includes the impact of correlation across asset classes

The 2020/21 comparator table is as follows:

Asset Type	Re-stated Final Market Value as at 31 March 2021 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	105,524	1.8	107,423	103,624
Investment portfolio assets:				
Bonds	107,210	7.9	115,680	98,741
Equities	95,341	17.1	111,644	79,038
Overseas equities	409,426	14.7	469,612	349,240
Fixed Income unit trusts	207,214	7.9	223,583	190,843
Equity unit trusts	367,429	17.1	430,259	304,598
Hedge funds	71,529	4.2	74,533	68,525
Pooled property Investments	112,036	1.9	114,166	109,908
Private equity/Infrastructure funds	138,480	4.2	1462,159	114,800
Other funds	3,161	1.8	3,218	3,104
Total Assets * **	**1,617,349**		**1,812,277**	**1,422,421**

* This figure includes derivatives and other investment balances.

** The % change and value change for Total Assets includes the impact of correlation across asset classes

iii) Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

iv) Interest Rate Risk – Sensitivity Analysis
The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/– 1% change in interest rates.
The analysis demonstrates that a 1% increase in interest rates will reduce the fair value on fixed interest assets (obviously the interest received will not change), and vice versa.
Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Asset type	**Market Value as at 31/03/2022**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents			
Cash	92,992	0	0
Bonds			
UK public sector Index linked	112,822	(1,128)	1,128
Total change in assets available	**205,814**	**(1,128)**	**1,128**

Asset type (re-stated)	**Market Value as at 31/03/2021**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents			
Cash	105,524	0	0
Bonds			
UK public sector Index linked	107,210	(1,072)	1,072
Total change in assets available	**212,734**	**(1,072)**	**1,072**

v) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund was exposed to the following significant foreign currency levels at the 31 March 2022:

Euro €20.9m (€10.6m 20/21)

US Dollars $84.8m ($230.4m 20/21)

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Hong Kong Dollars and Norwegian Krone.

vi) Currency risk – sensitivity analysis.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. Overseas equities, fixed interest securities and cash in foreign currencies are exposed to currency risk. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2021/22 to be 7.3% *(7.7% in 2020/21).* This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 22 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Fixed Income	107,516	7.3	115,365	99,668
Overseas Equity Funds	96,964	7.3	104,042	89,885
Overseas Hedge Funds	94,253	7.3	101,134	87,373
Other Alternative Assets	97,0477	7.3	104,131	89,962
Total	**395,780**	**7.3**	**424,672**	**366,888**

Asset Type (Re-stated)	Asset Value at 31 March 21 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Fixed Income	105,701	7.7	113,840	97,562
Overseas Equity Funds	428,184	7.7	461,154	395,214
Overseas Hedge Funds	71,529	7.7	77,037	66,022
Other Alternative Assets	86,511	7.7	93,172	79,849
Total	**691,925**	**7.7**	**745,203**	**638,647**

b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk 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 is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties, including; brokers, custodian and investment managers, seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

	Rating	Balances at 31 March 2022	Balances at 31 March 2021
		£000	£000
Barclays	A +	1,386	3,877
Northern Trust	AA -	92,992	105,524
Total		**94,378**	**109,401**

c) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2022 these assets totalled approximately £112.8m comprising of bonds (see note 15.iv), with a further £93.0m held in cash by the custodian on behalf of the Fund and fund managers.

Note 16: Derivative Contracts

As at 31 March 2022 there were no pending foreign exchange purchases or sales. The net gain related to foreign exchange forward contracts was £11k in 2021/22 (net loss £6k in 2020/21).

Note 17a: Other Investment Balances

These comprise the following amounts:

	31/03/22 £000	31/03/21 £000
Debtors		
Equity Dividends / Income from Managed Funds	**23**	**1,494**
Interest and Other Income	**19**	**(10)**
Pending Trades	**0**	**12,085**
Creditors		
Interest and Other Expenditure	**0**	**(7)**
Pending Trades	**0**	**(10,793)**
Net	**42**	**2,769**

Note 17b: Net Current Assets

These comprise the following amounts:

Current Assets

	31/03/22 £000	31/03/21 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	57	341
Interest and Other Income	0	0
Other Current Assets	657	122
Cash in Hand	1,386	3,877
	2,100	4,340

Current Liabilities

	31/03/22 £000	31/03/21 £000
Fund Manager and Custody Fees	(498)	(357)
Consultancy/ Advisory Fees	(153)	(33)
Other Current Liabilities	(1,585)	(3,576)
	(2,236)	(3,966)

Note 18: Cash and Bank

Cash Held With Custodian

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2022 was £93.0m (£105.5m as at 31 March 2021). The table below shows how this was split between the Fund Managers.

Fund Manager	31-Mar-22 £'000	31-Mar-21 £'000
Cash Account (Formerly Invesco)	39,851	76,471
HarbourVest	20,122	9,267
JP Morgan	14,951	6,423
Partners Group	11,246	4,263
Schroders	3,904	8,720
Pemberton	2,352	0
Cash Account (Formerly Fauchier)	548	365
Securities Lending	15	14
UBS	1	1
BlackRock transition account	1	0
	92,991	105,524

Pension Fund Bank Account

The Lewisham cash in hand balance of £1.4m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2022. The Fund's accounts are held with Barclays Bank.

Note 19: Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2022. The figures have been prepared by Hymans Robertson LLP, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

	31-Mar-22	31-Mar-21
	£m	£m
Present value of promised retirement benefits	(1,995)	(2,369)
Fair Value of Scheme Assets	1,413	1,601
Net Liability	(582)	(768)

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Longevity Assumptions for year ended 31 March 2022	Males	Females
Current Pensioners	21.2	23.8
Future Pensioners	22.5	25.5

Financial assumptions

	31-Mar-22 (%)	31-Mar-21 (%)
Discount Rate	2.7	2.0
Salary Increases	3.9	3.6
Pension Increases	3.2	2.9

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for year ended 31 March 2022	Approximate increase to liabilities (%)	Approximate monetary amount (£000)
0.1% p.a. decrease in the Real Discount Rate	2	36,509
1 year increase in member life expectancy	4	79,811
0.1% p.a. increase in the Salary Increase Rate	0	2,234
0.1% p.a. increase in the Pension Increase Rate	2	34,016

Note 20: Events after the Reporting Period

The audited Pension Fund Statement of Accounts was authorised for issue by the Executive Director of Corporate Resources on 29 July 2022. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. There are no events after the balance sheet date to report for 2021/22.

Note 21: Contractual Commitments

The Pension Fund was committed to the following capital contributions as at the 31 March 2022:

Fund Manager	Fund	Contractual Commitment	Undrawn Capital
Harbourvest	Harbourvest Closed Ended Funds	£123,402,553	£36,873,150
Legal and General	LGIM Build to Rent	£45,000,000	£35,000,000
JP Morgan	JP Morgan Infrastructure	£105,000,000	Fully drawn
London CIV	LCIV Renewable Infrastructure	£90,000,000	£65,100,453
London CIV	LCIV private debt*	N/A	N/A
Pemberton	Pemberton European Mid-Market Debt Fund II	£40,000,000	£5,606,682
Partners Group	Partners Group MAC	£40,000,000	Fully drawn
Total		**£443,402,553**	**£142,580,285**

*Investment into the LCIV private debt fund was approved prior to March 2022, however the commitment was not formalised until June 2022.

Note 22: Related Party Transactions

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are recorded.

During the year the following declarations were made:

- The Chair of the Investment Committee Councillor Mark Ingleby declared an interest as a Councillor elected Director of Lewisham Homes, the Council's housing subsidiary, not in receipt of pension.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

No other trustees or Council chief officers with direct responsibility for Pension Fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2022.

The Council, the administering authority, had dealings with the Fund as follows:

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted (included in Administration Expenses in Note 7). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently Pension Fund cash balances are held by the Council from time to time and vice versa.

Key Management Personnel Remuneration

The key management personnel of the Fund are the Executive Director of Corporate Resources and the Director of Finance.
There were no costs apportioned to the Pension Fund in respect of the Executive Director of Corporate Resources post for 2020/21 and 2021/22.
Total remuneration payable to key management personnel from the Pension Fund is set out below:

	2021/22 £'000	**2020/21 £'000**
Short Term Benefits	10	21
Post-Employment Benefits	4	4
Total	14	25

Note 23: Additional Voluntary Contributions (AVC's)

Contributing members have the right to make AVCs to enhance their pension. There are currently 45 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The Fund has two AVC providers: Clerical Medical and Utmost (formerly Equitable Life). The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham Fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2021/22			2020/21		
	Utmost £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	**356**	**1,106**	**1,462**	**421**	**986**	**1,407**
Contributions and Transfers Received	0	181	**181**	0	286	**286**
Investment Return	16	64	**80**	29	156	**185**
Paid Out	(20)	(327)	**(347)**	(94)	(322)	**(416)**
Value at the End of the Year	**352**	**1,024**	**1,376**	**356**	**1,106**	**1,462**

Note 24a: Scheduled Bodies

The following are scheduled bodies to the Fund as at 31 March 2022, arranged in descending order by the value of their contributions in 2022/22:

Lewisham Homes Limited
Haberdashers' Aske's Hatcham College
Christ The King Sixth Form College
St Matthews Academy
Tidemill Academy
Childeric
Sedgehill School
St George's Academy

Note 24b: Admitted Bodies

The following are admitted bodies to the Fund as at 31 March 2022, arranged in descending order by the value of their contributions in 2021/22

Youth First Ltd
Phoenix
Inspace/ BS Phoenix
Skanska
Change Grow Live / CIS / Penrose
Lewisham Music
Quality Heating
GLL
City West Services
3 C's Support
Housing 21
Pre-School Learning Alliance
NSL Ltd (formerly known as National Car Parks Ltd)
Tower Services
Harrison Catering Crayford
Harrison Catering Hatcham
Harrison Catering Knights
M Group Services

Note 25: Membership

Membership of the 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 the scheme.
Organisations participating in the London Borough of Lewisham Pension Fund include:
Scheduled bodies, which are local authorities 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.

The following table summarises the membership numbers of the scheme:

	Active Members		Deferred Beneficiaries		Retired Members	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Administering Authority	5,522	5,745	9,867	10,593	7,824	7,629
Scheduled Bodies	1,021	1,083	1,210	1,323	435	389
Admitted Bodies	74	79	62	60	80	76
	6,617	**6,907**	**11,139**	**11,976**	**8,339**	**8,094**

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Dear Sirs

London Borough of Lewisham
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham and its subsidiary undertakings, Lewisham Homes Limited and Catford Regeneration Partnership Limited for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include Property, Plant and Equipment revaluations and the valuation of Pensions Liabilities. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council’s financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit Panel at its meeting on 6 December 2022.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Dear Sirs

London Borough of Lewisham Pension Fund
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Level 3 investments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Fund has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Repor. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-en]. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

   a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

   c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   b. additional information that you have requested from us for the purpose of your audit; and

   c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

   a. management;

   b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Audit Panel at its meeting on 6 December 2022.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

Appendix A
The Audit Findings for the London Borough of Lewisham and Lewisham Pension Fund – Year ended 31 March 2022
Action Plan – Audit of Financial Statements – Council

Year	Assessment	Issue and Risk	Recommendations	Management Action
2020/21	Medium	Our review of your fixed asset register identified 123 assets that have a Net Book Value of nil. You should undertake an exercise to verify that these assets still exist. If the Council are still using the assets they will need to determine whether the current depreciation policy is appropriate.	Management should undertake a review of all assets that have a nil Net Book Value. You will need to review whether these are assets are still in use and if so whether your depreciation policies are appropriate. This is unlikely to give rise to a material misstatement in depreciation.	The current accounting policy for depreciation of vehicles, plant and equipment is a range of 5 to 40 years. A review of all assets with a nil value has been undertaken with a working paper to support officers' assessments. If, following this work, this issue remains an audit concern the Council will review the accounting policies as part of the review required with changes to prudential borrowing guidance. There may also be additional issues as a result of the national review of infrastructure asset valuations. This will be covered within 2021/22 Statement of Accounts & Audit. **Audit Response: The team should implement processes to ensure all assets are appropriately tracked.**
2020/21	Low	Our review of the bank reconciliation for the image pay bank payment account identified several cheques that are over 6 months old which have not been stopped. These should be stopped and written back.	Management should review and stop all out dated cheques.	A process does exist to stop cheques where this is specifically requested. A regular review is required to ensure that all cheques over 6 months are stopped as part of business as usual. This is being undertaken every 3 months. At the last review in August 2022 the cash team confirmed there were no cheques outstanding over six months old. **Audit Response: There are still 6 cheques of total £1,027.18 dated back to 202 which are appearing in the bank reconciliation as unpresented cheques.**
2020/21	Medium	You had difficulties in providing us with evidence to support the accounting entries within Receipts in Advance and Creditors associated with your Section 106 agreements.	Management need to review all Section 106 agreements to ensure you are appropriately recording and tracking the receipt and expenditure associated with these agreements. Management need to fully reconcile the Section 106 recording system (Exacom) to the ledger on an agreement by agreement basis.	A comprehensive review has been undertaken; matching Exacom (the planning system used to record s106 transactions) entries to Oracle ledger receipts, project usage and associated conditions. This will continue throughout 2022/23 to provide additional accuracy. The ongoing process is also being reviewed to ensure the relevant information is recorded and tracked to allow accurate representation within the Statement of Accounts. **Audit Response: The S106 agreements have been correctly accounted for. However, the Exacom system is not fully reconciled to the general ledger.**

Appendix A
The Audit Findings for the London Borough of Lewisham and Lewisham Pension Fund – Year ended 31 March 2022
Action Plan – Audit of Financial Statements – Council

Year	Assessment	Issue and Risk	Recommendations	Management Action
2020/21	Medium	Our review of 20/21 starters identified that HR were not receiving signed contract from new employees	Management should obtain and retain signed and dated contracts of employment for all staff.	The Resourcing department requests signed contracts from new employees as part of the induction process. The current process does not allow for a retrospective review of returned contracts as the process is manual and so difficult to manage. A new recruitment platform is being developed which will include digital signage for employment contracts. This is due to be implemented in December -22. **Audit Response: 1/13 signed contracts was unable to be located.**
2020/21		Our sample cut off testing from bank statements in April and May 2020 identified 4 expenditure items totalling £175k that related to 2019/20 that had not been accrued. This error extrapolated to £1,811k Similarly, our sample testing of invoices received in April and May 2020 identified expenditure items totalling £346k that related to 2019/20 that had not been accrued. We extended our testing and did not find any more errors. This error extrapolated to £4,824k. Your cut off procedures need strengthening to ensure that expenditure is coded in the year which it related.	The Council had undertaken a more robust review of cut off arrangement in 2020/21. However, our testing identified 3 items that were paid in April / May that related to the 2020/21 year that had not been accrued for. One of these items was for £524k.	The Council's year-end guidance notes have been updated and highlight the importance of cut-off testing. Income and expenditure has been reviewed for April and May 2022 is in progress. Several items have been identified which were subsequently accrued / removed as a duplicate. **Audit Response: Testing identified 2 errors in 2021/22.**

Appendix A
The Audit Findings for the London Borough of Lewisham and Lewisham Pension Fund – Year ended 31 March 2022
Action Plan – Audit of Financial Statements – Council

Year	Assessment	Issue and Risk	Recommendations	Management Action
2021/22	Medium	Whilst preparing the financial statements officers identified that the balance on the Consolidated Income and Expenditure Statement did not equal the difference in reserves between 31 March 2021 and 31 March 2022. A correction journal of £2,286k was performed to ensure that the accounts balanced.	The Council should investigate how this initial imbalance arose.	TBC
2021/22	Medium	Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 2021/22 but had not been accrued for. The extrapolated error is £2,170k	Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates.	TBC
2021/22	Medium	The Council has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register.	The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.	TBC

Appendix A

The Audit Findings for the London Borough of Lewisham and Lewisham Pension Fund – Year ended 31 March 2022

Action Plan – Audit of Financial Statements – Council

Year	Assessment	Issue and Risk	Recommendations	Management Action
2021/22	Low	Within our testing of operating expenditure on repairs and maintenance charges on Council dwellings we identified that there is no formal documentation between the Council and Lewisham Homes to confirm the nightly call out capped charge rates.	Implement a formal agreement setting out nightly capped call out charges for repairs and maintenance jobs undertaken by Lewisham Homes.	TBC
2021/22	Low	The Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance in £2.7m.	The Council need to complete their work on reconciling the Exacom system with the ledger.	TBC

Recommendation	Impact	Management Comment	By whom
Financial Sustainability			
1. .In the continued efforts to improve savings performance against target the Council should explore ways to: • Encourage focused discussion by the PASC on specifically under delivering savings schemes in 2022/23. • Undertake public consultation on the savings programme. • Learn from successful delivered schemes via post implementation reviews. • Savings under-delivery historically has been attributed to the Communities ASC team and therefore finance officers should work directly with that team, in a targeted and collaborative manner, to focus on specific savings that can be generated from high unit cost services within this directorate that are not currently being addressed. • Focus on identifying recurring savings which can impact each of the four years of the MTFS.	Due to the track record of under-delivery of savings in recent years and expected under delivery in 2022/23 close and more frequent attention may be required to the progress of savings schemes in year so that action can be taken in a timely manner to respond to any under-delivering schemes. To maximise the success and achievability the Council could benefit from additional scrutiny and input to identifying savings in the initial savings of budget setting. Performing post-implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised. Although ASC is a demand led service with high costs being a product of increasing numbers of service users, specific services with Social Care where unit costs are also high could exacerbate the overspends observed in this service. Ensure that savings identified cover the full MTFS term maximises potential savings across the medium term and reduces the pressure to identify additional savings each year by focussing on identifying those which are recurring.	This recommendation is taken in the spirit of continuous improvement and management action will focus on consideration of doing more of the steps already in place. For example: • PASC will continue to carefully review the financial budget setting and monitoring reports with particular attention to progress with delivering savings. • As we do each year, we will continue to consult internally and with the Cabinet Member for Resources and Strategy on the best approach to engagement around Budget proposals, building on the current process of discussing and inviting all Members to contribute to including the option to run a larger public consultation on the savings proposed. • The Finance Business Partnering approach will continue to be developed with learning from recent successfully delivery service changes (captured as part of service plan reporting by each Director) and improved with the business intelligence and support using data insights and performance benchmarking to effectively target risk and opportunity. • Within the constraint of local government only receiving one year settlements at present, officers will continue to work on the potential for more transformational multi-year savings options learning from the work done in the larger social care services in recent years.	Executive Director for Corporate Resources
2. The Council should develop a Workforce Plan or Strategy covering all aspects of the future workforce required for the Council to fulfil its priorities and that the Council align	Ensuring the Budget, MTFS and Workforce Plan are complementary of one another will ensure that the future establishment is affordable and Council	In the context of local authority a single plan or strategy would not be appropriate, given the varied nature of services and the skills required. However, we can identify any common themes identified and build these into the overarching	Director of HR and OD

Recommendation	Impact	Management Comment	By whom
this framework to the existing 2022/23 budget, future budgets and MTFS to ensure they are complementary. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.	priorities are met within budget constraints.	People and OD strategy which sets out our vision for our people and identifies the areas we need to focus on to achieve our ambitions. Detailed workforce planning takes part in the annual service planning process supported by finance, HR and transformation business partners. The Councils service planning framework encapsulates the areas identified within the audit. We can also seek to strengthen the guidance for managers on service planning as well as the working relationships between the relevant business partners to ensure that these three areas are appropriately aligned. Principles in relation to structural design e.g. spans of control and hierarchy fall outside of service planning, and are covered within the Council's management of change (restructure) policy.	
3. Overall the Council's arrangements to secure financial sustainability are appropriate, the Council may wish to explore ways that it can make iterative improvements to demonstrate best practice financial arrangements. These could include developing actions that could be taken, at a high level, to respond should the 'worst case' scenario included in the MTFS occur and communicating this to Members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.	The Council made a small deficit in 2021/22 and the 2022/23 financial landscape is forecast to be challenging for the Council and Local Government as a result of Covid 19 challenges not matched by additional funding, rising inflation, pay increases and the cost of living crisis which could all potentially negatively impact the year-end financial position. As such it is important that the Council has robust arrangements in place to monitor finances closely and respond to issues as they emerge.	Officers bring the experience of having been consistently involved in making budget reductions each year since 2010 (gross £230m to date; including £92m reinvested to reshape service delivery and meet demand), working closely with partners in the Borough and across London, and effectively managing the Council's financial security and stability, including the use of reserves. Officers will continue to develop this experience to inform the assessment of the financial risk landscape and update the risk mitigations for these risks quarterly as part of the corporate risk management strategy. The risk register is reviewed by the Executive Management Team and PASC quarterly which will provide the opportunity for actions to be agreed as necessary and scrutinised to ensure lessons and improvements are acted on.	Executive Director for Corporate Resources

Recommendation	Impact	Management Comment	By whom
Governance			
4. The Council should continually review its risk management procedures to ensure they remain effective and fit for purpose. This could include: • Ensuring that there is a greater level of oversight of the strategic risks impacting the Council by M&C. • Updating the format of the strategic risk register. • Working collaboratively with Internal Audit to ensure that the 2022/23 audit plan is achievable within the time and resource available. • Tracking progress against the Quality Improvement Plan developed by Internal Audit.	The strategic risk register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risks being faced. To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in M&C meeting papers for transparency to the entire organisation. The internal audit plan is key in ensuring an appropriate number and coverage of assurance reviews are undertaken in year to be able to provide an effective opinion on the strength of the Council's controls. The Audit Panel plays a key role in holding Internal Audit to account for their performance.	The refreshed risk management strategy was approved by EMT in November 2022 and will be rolled out in the new year. It includes biannual reporting to the Mayor & Cabinet of the highest risks. Following the publication of the new Corporate Strategy in November 2022 we will refresh the risk register content in 2023 to link to objectives and align with formats in the new Risk Management Strategy. Members approved the 2022/23 Internal Audit plan in March 2022 which includes a resource analysis and flexible options on delivery to support the achievement of sufficient breadth and quality of coverage to deliver a robust audit opinion for 2022/23.	Head of Assurance
5. Overall the Council's governance arrangements are strong and operating consistently in line with Council policies. The Council may wish to explore ways that it can make iterative improvements to demonstrate best practice governance arrangements. These could include: • Updating financial monitoring reports to include details of actions being taken on overspending services throughout the year.	Strong governance is the backbone of any organisation and ensuring arrangements are as robust as possible maximises the Council's ability to make well informed decisions.	The Council welcomes the assurance that its governance arrangements continue to be strong and operate in line with policies. Recognising the challenge to continuously improve incremental changes will continue to be made. For example: • The financial monitoring reports which now flag the variances for key services with detail on service financial performance supported with activity details will be reviewed to include more clarity on next steps being taken. • The Council will continue to report on the financial position at least quarterly and keep open the option to report by exception to M&C outside of this cycle if necessary, as was done through the Covid pandemic.	Director of Finance Director of Finance

Recommendation	Impact	Management Comment	By whom
• Ensuring that presentation of financial performance to M&C is sufficiently regular. • Undertaking effectiveness reviews of their committees to ensure that they are performing effectively against their terms of reference. • Incorporating assessments of financial performance into the appraisals of budget holders. • Investigating ways of increasing feedback response to consultations exercises. • Ensuring that Members are sighted in the lessons learned from the Financial Software IT Critical Incident.		• The Audit Panel, by the nature of the internal audit standards, is under a specific expectation to review its performance and report on this annually. The second phase of the Constitution review being led by the Monitoring Officer will consider whether a similar approach might be appropriate for the Council's other Committees. • The staff appraisal forms currently have fields for identifying what is being done well and what could be improved based around key objectives. The guidance will be reviewed to assess the benefit of being more specific on financial management, to supplement the detailed expectations set out in the financial regulations and procedures. • Feedback on the Budget and monitoring of the risk registers is part of the quarterly PASC work schedule but, as set out else where we will continue to look to enhance the focus and value of these discussions to generate improvement and delivery more value.	Monitoring Officer Director of HR and OD Executive Director for Corporate Resources
6. The Council should explore ways to ensure the maximum benefit is achieved from the non-financial reporting of the Council's directorates. This could be achieved via increased oversight of the non-financial KPI performance of the Council's services and directorates by Members and introducing benchmarking into all directorate KPI reports. The Council would benefit from a Council wide benchmarking strategy as opposed to an ad-hoc approach.	Paying equal attention to financial and non-financial performance assists Members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position. Comparing performance to similar organisations provides important information to assess if certain services are outliers in terms of their financial and non-financial performance, thereby identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.	The Council is reviewing its performance reporting to support the new Corporate Strategy adopted by Full Council in November 2022. This will develop relevant non-financial indicators to assess progress on delivery of the corporate objectives. As recognised, Finance and Service teams have been developing more data insights. This work will continue to ensure it is aligned for financial and non-financial data and include benchmarking where there is consistent and reliable data available.	Executive Director for Corporate Resources

Recommendation	Impact	Management Comment	By whom
7. Overall the Council's arrangements for securing economy, effectiveness and efficiency are positive. The Council may wish to explore ways that it can make iterative improvements to demonstrate best practice in these arrangements. These could include: • Developing can action plan form the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or M&C. There may be scope to incorporate the finding into existing KPI reporting as those structures are already in place. • Ensuring that a data policy is finalised as soon as possible. • Exploring ways that equal attention could be paid to monitoring the performance of both its key subsidiaries. • Identifying how the existing governance arrangements can support delivery of the digital programme, once the 2023 Digital Strategy is developed and released.	Paying equal attention to financial and non-financial performance assists Members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position. Comparing performance to similar organisations provides important information to assess if certain services are outliers in terms of their financial and non-financial performance, thereby identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.	The Council welcomes the assurance that its arrangements for securing economy, effectiveness and efficiency remain positive. The Council did develop an action plan in response to the LGA peer review. Progress against these actions is currently being updated and will be reported on to Members. This is being coordinated by the Cabinet Member for Resources and Strategy. Digital and data strategy and policy improvements – both for services to the Borough and internally for officers' ways of working are being reviewed and improved, including the operation of the Council's leading shared service with the London Boroughs of Brent and Southwark. The reporting and monitoring of the Council's subsidiaries, which includes the main one of Lewisham Homes, will be reassessed as part of the strategic decision currently before M&C on the options for the future of the company with the potential for it to be insourced.	Chief Executive Executive Director for Corporate Resources Executive Director for Housing, Regeneration and Public Realm

Appendix G
Auditor's Annual Report (Value for Money) Recommendations for the London Borough of Lewisham – Year ended 31 March 2021

Ref	Category	Issue and Risk	Responsible Officer	Management Action
2	Financial Sustainability	Budget Monitoring reports should clearly articulate the underlying causes for the under delivery of savings plans. Actions taken to address under delivery or proposed alternative plans should also be detailed within the report.	Director of Finance	The budget monitoring process monitors the service's financial position to date and forecasts this forward for the rest of the year in comparison to the budget. If the services are under/overspending against the budget this is reported as part of the monthly monitoring report which goes to EMT. Within this report there is a section focussed specifically on savings progress and where services are struggling to deliver savings; finance and the services work collaboratively to find ways to mitigate/deliver them in alternative ways. Any undeliverable savings which cannot be mitigated are included within the reported financial position for each service area with an explanation of what is causing them to not be delivered. A further section in the report covers financial risks which are not within the reported position but may materialise over the forthcoming financial year. **Audit Response: Documentation of actions should be reported to Members**
5	Financial Sustainability	Management have undertaken some sensitivity analysis when setting the 2021/22 budget. Management acknowledges that sensitivity analysis and scenario planning in terms of 'worst case' and 'stress testing' is an area which will need additional work going forward, to model the financial impact of Covid in the longer-term and ensure that plans are in place to make appropriate operational decisions to maintain financial stability.	Director of Finance	The current MTFP process included pessimistic and optimistic cases which effectively stress tested the likely four-year timeframe in considering the budgetary framework and what level of cuts might / would be required. This will continue throughout the year through joint working between budget monitoring, risks and pressures identification, considering the longer term impact of these for future year budgets and therefore adjusting / refining the savings / cuts targets. **Audit Response: Recommendation extended to suggest Council to consider applying scenario planning to annual budget as well as MTFP**

Appendix G
Auditor's Annual Report (Value for Money) Recommendations for the London Borough of Lewisham – Year ended 31 March 2021

Ref	Category	Issue and Risk	Responsible Officer	Management Action
8	Financial Sustainability	Given the uncertainty of the pandemic and current economic environment a routine re-profiling of the capital programme would be required. This needs to be complemented by detailed reporting on a scheme by scheme basis with detailed explanations explaining slippage that will assist with holding delivery managers to account for meeting project timescales.	Director of Inclusive Regeneration	Revised project highlight summary reporting will provide clearer detail of the performance of capital projects against time, cost and quality. Slippage against profile will be reviewed on a quarterly basis by RCPDB. **Audit Response: To be followed up in 2022/23 to ensure actions have been taken**
12	Improving economy, efficiency, and effectiveness	The Council should take a corporate approach to identify benchmarking good practice and co-ordinate its use within the services to challenge performance.	Assistant Chief Executive	As part of the Support for Leadership restructure, the role of the corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & OD Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change. **Audit Response: Partially – see 2021/22 recommendations**
13	Improving economy, efficiency, and effectiveness	For Lewisham Homes Limited and Catford Regeneration Partnerships Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis.	Director of Housing and Director of Inclusive Regeneration respectively	This will be actioned. Progress against the CRPL business plan to be reported to Mayor & Cabinet on an annual basis and regularly reviewed by Regeneration and Capital Board. **Audit Response: Partially – see 2021/22 recommendations**