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AGENDA
AUDIT PANEL

Date: WEDNESDAY, 19 NOVEMBER 2014 at 7.00 pm

Committee Room 2
Civic Suite
Lewisham Town Hall
London SE6 4RU

Enquiries to: Olga Cole
Telephone: 0208 314 8577 (direct line)

COUNCILLORS	**Independent Members**
Councillor Helen Klier (Chair)	Paul Dale
Councillor Chris Barnham	Richard King
Councillor Simon Hooks	Mike Robinson
Councillor Mark Ingleby	Vacancy
Councillor Jim Mallory	
Councillor Jonathan Slater	

Members are summoned to attend this meeting

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 11 November 2014

INVESTOR IN PEOPLE

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	**MINUTES**		
Key Decision			**Item No. 1**
Ward			
Contributors	**CHIEF EXECUTIVE**		
Class	**Part 1**	**Date: 19 November 2014**	

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 11September 2014 be confirmed and signed.

LONDON BOROUGH OF LEWISHAM

Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on THURSDAY 11 SEPTEMBER 2014 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7:00p.m.

Present

Councillor Klier (Chair), Councillor Slater (Vice Chair), Councillors Barnham, Ingleby and Mallory.

Apologies were received from Richard King and Mike Robinson.

Independent Member
Paul Dale

External Audit

Jamie Bewick	Manager Public Sector Assurance, Grant Thornton
Darren Wells	Director, Grant Thornton

Officers

David Austin	Head of Corporate Resources
Selwyn Thompson	Head of Financial Services
Terry Madgett	Principal Accountant
Julie Hetherington	Internal Audit Contract Manager

Action

Minute No.

1. MINUTES

1.1 Councillor Slater commented that he recalled a decision was made to invite the Head of IT to this meeting to explain to Panel Members why the Auditor's recommendations had not been completed. The Head of Corporate Resources said a new Head of IT had been appointed to the position and it would not have been practical to invite him to this meeting. He added that he would be present at the next Audit Panel meeting. Head of Corp. Res.

RESOLVED that the Minutes of the meeting of the Panel held on 24 June 2014, which was open to the press and public, be confirmed and signed as a true record of the proceedings.

2. DECLARATIONS OF INTERESTS

2.1 Paul Dale declared a non pecuniary interest for Item 5 as a private consultant.

3. EXTERNAL AUDIT REPORTS ON 2013/14 ACCOUNTS

3.1 The report was introduced by the Head of Financial Services and Jamie Bewick.

Action

Minute No.

Panel members were informed that it had been a challenging year for officers leading up to the close of the accounts process, largely because of the finance department's re-organisation and the introduction of the Oracle system. It was noted that there were some issues and discussion over valuations, and timings around valuations.

3.2 Members were told that there had been agreement between officers and external auditors as to what needed to be put in place going forward. The Head of Financial Services said the accounts were completed a week earlier than the previous year, and would be going to Council on 17 September 2014.

3.3 Darren Wells gave an overview of three reports within the accounts, which included the audit findings for Lewisham, the audit findings for Lewisham's Pension Fund and a report on value for money for Lewisham.

3.4 Councillor Slater said £18.8m was a large amount of money to make an error with. Jamie Bewick said this was because of late information provided by the District Valuer, and was less than 1% of the property plant and equipment budget, which related specifically to Prendergast school. The Head of Financial Services said he was aware that it was a large amount, but officers relied on the District Valuer to give correct valuations. On this occasion he came back with different sets of figures.

3.5 Following a question from Councillor Ingleby, it was confirmed that the new programme should support the audit function significantly better. Panel Members noted that over 80% of the valuation had been done this year, and this process would be used each year.

3.6 Councillor Mallory asked what the original valuation figure was before the amendment of £161m. Jamie Bewick stated that the year had not been normal as CIPFA qualified accounting rates were received later, and there had been a significant rise in the London property market. He added that it was £161m less than the current rate of £886m.

3.7 Councillor Barnham asked for an explanation of the difference between red and amber coded risks. Following the explanation from officers, he asked Darren Wells whether he was satisfied that the right steps had been taken by officers to address risks that have been highlighted. It was noted that this was the case. The Chair received confirmation that the discrepancy relating to Drumbeat school was because of human error.

Pension Fund

3.8 Darren Wells introduced the Pension Fund report. He said their audit did not identify any adjustments affecting the Fund's reported financial position. He added that a small number of adjustments had been proposed to improve the presentation of the financial statements. Panel members were told the quality of the financial statements were of a good standard, and working papers were provided to auditors at the start of the audit.

Action

Minute No.

3.9 The Chair asked what the Council's contribution to the Pension Fund was and was told £1m a year, which was in line with the actuary valuation. Panel members were informed that a Pension Board would be set up from 1 April 2015 in accordance with Statutory Regulations.

3.10 Darren Wells brought to the Panel's attention the importance of their approval of the Letter of Representation, which was tabled at the meeting. The Chair read and approved its contents.

3.11 Value for Money Report

Jamie Bewick introduced the report. Panel members noted that Grant Thornton carried out an initial risk assessment and planned to carry out work in the following areas to address the risks identified.

- review key financial performance indicators for 2013/14.
- review and comment on Lewisham's medium term financial projections.
- review Lewisham's performance against its savings targets and comments on its identification of savings 2014/15 and beyond.
- consider the work of the Lewisham Futures Board in seeking to ensure a sustainable future for the Council's services.
- consider the management of staffing reductions in the finance function.
- Comment on Lewisham's partnership working in seeking to maximise the benefits of the Better Care Fund.

3.12 Panel Members were told that based on the review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, Grant Thornton prosed to give the Council an unqualified VFM conclusion.

3.13 Councillor Mallory asked if Lewisham's VFM conclusion was similar to other London Boroughs. Jamie Bewick said that from what he knew of other London Boroughs the situation was not dissimilar.

3.14 Councillor Barnham expressed concern over the sickness record within the workforce. The Head of Corporate Resources said that Lewisham's rates were not high, and within the average. In response to a concern raised about the cost of temporary staff, the Head of Corporate Resources informed members that the figures had gone up because of the challenges of maintaining permanent staff for schools. He added that officers had worked very hard to keep the numbers down following Audit Panel concerns two years ago. Panel members were told that a report on employment strategy would be going to the Safer Stronger Communities Select Committee.

3.15 Councillor Ingleby stated that it had been brought to members attention that there had been some issues with Oracle, and the Council had not been settling its accounts because of a systems shut down. He added that small businesses cannot afford not to be paid on time. The Head of Financial Services said that this was a planned

shutdown to ensure a smooth transition from Oracle 11 to Oracle 12, and it took place over a 3 week period.

3.16 Councillor Slater said he had complaints from external consultants, and had noted that up to 300 invoices were outstanding. In response the Head of Financial Services said he was aware that there were a backlog of invoices to be paid, but before the shutdown payments were up to date. Councillor Slater said officers should be aware that backlog would now build up and they would need to address the problem effectively. The Head of Corporate Resources said the Council was now in a good position to improve payment purchases, and the systems were unavoidably down for less than 20 days. Councillor Slater said he did not think the situation was acceptable for small businesses.

3.17 The Chair raised concerns over the amber ratings given to the Council on Financial Control for savings projected for the following year, and for Improving Efficiency & Productivity, which related to Adult Social Care. The Chair said it was important to address these issues and asked the external auditors what other authorities were doing to address similar issues. Daren Wells said that some authorities were looking at the use of shared services, and shared services arrangements which would generally lead to savings. He added that although it would take a lot of effort to put this in place the LGA had reported £350m worth of savings achieved through shared services. The Chair asked if this could be looked into, and officers said they had considered this, and it would be investigated further.

RESOLVED that the External Auditors reports for the Council's Main Accounts and the Lewisham Pension Fund Accounts 2013/14 be noted.

4. EXTERNAL AUDITOR'S REPORT ON 2013/14 ACCOUNTS

The Principal Accountant introduced the officer report.

RESOLVED i. that the reports be noted.
ii. that the comments from the Panel for Council be finalised by the Chair.

5. INTERNAL AUDIT UPDATE

5.1 The Head of Corporate Resources introduced the report. Panel members noted that the Council's Internal Audit was going through a restructure following the end of the internal audit contract in June 2014. It was noted that arrangements were being put in place to ensure that the core audits, school audits and IT audits were completed on time. The Head of Corporate Resources highlighted the status of the completed audit plan and informed Panel Members that there had not been any significant outcomes different to those reported in the annual assurance report.

5.2 The Head of Corporate Resources informed Panel members that following discussion at the Control Board the internal audit plan year-end has now changed

Action

Minute No.

from March to June for 2014/15. The Head of Corporate Resources said that this would align with the annual reporting cycle that ends in June each year. Panel Members were told officers would not have to do this work during their most busy time, and arrangements have been agreed with the external auditors.

5.3 Panel members noted that the Council was currently in talks with Greenwich Council to assist with the Lewisham School's audits. It was noted that officers could now access the Croydon framework which is a partnership with the professional services firm Mazars, and the Islington framework with Price Waterhouse Coopers.

5.4 Councillor Mallory asked what extra resources had been provided to support officers following the close of Baker Tilly's contract. The Head of Corporate Resources said although some staff had the right to stay with the Council under Tupe, they requested not to exercise those rights. Councillor Mallory asked whether the proposed contract would cost more, and was told the service budget is slightly less than the previous contract. Councillor Mallory also asked if this meant that the Council was behind on its audit plan. The Head of Corporate Resources said that the 16 core financial audits including the key risks areas such as projects and contract management and IT, and schools, have been given priority and arrangements have been put in place to complete them for 2014/15.

5.5 Councillor Barnham asked when the restructuring would be completed and was told in three years the key staff for the new structure would have been recruited. Panel members were told that there would be three new Trainee Accountants who were being appointed, 1 each year. The Head of Corporate Resources said that officers would update the Audit Charter by March. Following a question from the Chair, the Head of Corporate Resources clarified the Internal Audit structure. The Chair thanked officers for the report, stating that panel members were now well informed about internal arrangements.

RESOLVED that the report be noted.

6. ANTI-FRAUD AND CORRUPTION UPDATE

6.1 The Head of Corporate Resources introduced the report, and said the Anti-Fraud and Corruption had been informed that the responsibility for the investigation of benefit fraud will move to the Single Fraud Investigation Service from 1 April 2015. He added that two of the team members would likely be transferred to the Department of Works and Pensions. He said officers have been working very hard to clear their current workload.

6.2 Councillor Ingleby congratulated officers for recovering properties connected with 15 cases, and potentially saving up to £270,000 of public funds. The Chair said she was impressed with the collection of 97% of council tax and commended officer for their hard work.

RESOLVED that the report be noted.

Meeting ended 8:45pm

Chair

Agenda Item 2

AUDIT PANEL			
Report Title	**DECLARATIONS OF INTEREST**		
Key Decision			**Item No. 2**
Ward			
Contributors	**Chief Executive**		
Class	**Part 1**	**Date: 19 November 2014**	

Members are asked to declare any personal interest they have in any item on the agenda.

1 Personal interests

There are three types of personal interest referred to in the Council's Member Code of Conduct :-

(1) Disclosable pecuniary interests
(2) Other registerable interests
(3) Non-registerable interests

2 Disclosable pecuniary interests are defined by regulation as:-

(a) Employment, trade, profession or vocation of a relevant person* for profit or gain

(b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).

(c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.

(d) Beneficial interests in land in the borough.

(e) Licence to occupy land in the borough for one month or more.

(f) Corporate tenancies – any tenancy, where to the member's knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a

partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.

(g) Beneficial interest in securities of a body where:-

(a) that body to the member's knowledge has a place of business or land in the borough; and

(b) either
(i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or

(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

(a) Membership or position of control or management in a body to which you were appointed or nominated by the Council

(b) Any body exercising functions of a public nature or directed to charitable purposes , or whose principal purposes include the influence of public opinion or policy, including any political party

(c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members' Interests (for example a matter concerning the closure of a school at which a Member's child attends).

(5) Declaration and Impact of interest on member's participation

(a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any

event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take not part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**

(b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.

(c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.

(d) If a non-registerable interest arises which affects the wellbeing of a member, their, family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.

(e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

(a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
(b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
(c) Statutory sick pay; if you are in receipt
(d) Allowances, payment or indemnity for members
(e) Ceremonial honours for members
(f) Setting Council Tax or precept (subject to arrears exception)

Grant Thornton

The Annual Audit Letter for London Borough of Lewisham

Agenda Item 3

Year ended 31 March 2014

October 2014

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Contents

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at London Borough of Lewisham ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 24 June 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)	We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 11 September 2014 to the Audit Panel. We identified a number of errors requiring amendment in your financial statements. However none of these amendments affected your overall budget position or council tax. Most of the amendments were concerned with your arrangements for accounting for property valuations. The issues included late valuations, differences between your accounts and the valuation reports and incorrect classifications of valuations in your accounts. Your initial valuations were as at 1 April 2013 and did not reflect the significant increases in London property prices over the year. Other amendments included the following: • omission of a Private Finance Initiative school from the balance sheet; • amounts incorrectly included as assets under construction; and • a number of internal inconsistencies in the statements. In the report we also commented on some aspects of internal control, including the need for regular and timely reconciliations between the payroll system and the ledger. We issued an unqualified opinion on your 2013/14 financial statements on 25 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. On the same date we also gave an unqualified opinion on the accounts of the Lewisham Pension Fund.

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which you prepared to support the production of Whole of Government Accounts. We reported that the pack was consistent with the audited financial statements.
Value for Money (VfM) conclusion	We issued an unqualified Value for Money conclusion for 2013/14 on 25 September 2014. You have a good track record of managing your finances, making efficiencies and meeting your financial targets. In 2013/14 you made a surplus of £1.8 million and were able to add to your reserves. Budget pressures are having an impact in 2014/15. As part of your budget setting you had to draw on £3 million of reserves to support the revenue position. Additionally your current forecasts indicate a potential overspend at directorate level of over £10 million, which is partly mitigated by budget contingencies. You estimate that £38 million of savings are needed to set a balanced budget for 2015/16. Through the work of the Lewisham Futures Board you have identified options to achieve most of the necessary savings. You understand the scale of the challenge and that savings of this magnitude will necessarily mean changes to the way you provide services. While proposals have been identified you recognise that there are risks to implementing the proposals in time to achieve the required outcomes. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.
Certification of grant claims and returns	We have certified your capital receipts pooling return with one amendment, which did not affect the amount payable into the pool. We are still in the process of reviewing the housing benefit grant claim for certification. Our work to date has identified a number of errors which require us to carry out extended testing.
Audit fee	Our fee for 2013/14 was £294,144, excluding VAT which was in line with our planned fee for the year and represented a reduction compared with the previous year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarises the recommendations made during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	Some valuation information was provided late by the District Valuer up to the date of producing the draft financial statements. This contributed to a number of errors in accounting for valuations **Recommendation**: Engage with the Council's valuers to improve the quality and the timeliness of the valuation process	High	This has been agreed with the Council's valuers and a tendering process to appoint a valuer is already underway. The detailed valuations will be as at 31st January 2015 and will be available by mid March 2015. Responsible officer: Richard Lambeth Due date: December 2014
2.	A number of issues were identified in accounting for revaluations leading to several classification errors in note 9b **Recommendation**: Review and improve the Council's arrangements for accounting for Property, Plant and Equipment valuations	High	The earlier receipt of the valuation data (as above) will enable a quality review to be carried out and the PPE accounting entries to be actioned earlier and with enhanced accuracy. Responsible officer: Richard Lambeth Due date: March 2015
3.	We identified that some expenditure was incorrectly treated as Assets under Construction. **Recommendation**: For 2014/15 ensure all expenditure treated as Assets under Construction is valid Capital spending and complies with accounting standard IAS 16.	Medium	A review of expenditure classified as Assets under Construction as at 1st April 2014 is being undertaken to ensure that it complies fully with IAS16. In addition, rigorous scrutiny of any proposed 2014/15 expenditure will be carried out to ensure that the correct accounting treatment is adopted. Responsible officer: Richard Lambeth Due date: April 2015

Appendix A: Key issues and recommendations (2)

This appendix summarises the recommendations made during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
4.	We found that while most aspects of payroll are reconciled monthly (eg tax deductions) there is no regular reconciliation in total, to confirm that payroll has been completely and accurately transferred from the payroll system to the ledger. **Recommendation**: Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger.	Medium	We have reviewed our processes in this area and will carry out and provide the reconciliations and audit trail as requested and agreed. Responsible officer: Richard Lambeth Due date: April 2015
5.	Management were not initially able to provide a working paper demonstrating that all bank accounts had been reconciled satisfactorily to the ledger, This consequently took longer to audit then in the prior year. **Recommendation**: To provide a full reconciliation and audit trail of bank accounts.	Medium	We have reviewed our processes in this area and will carry out and provide the reconciliations and audit trail as requested and agreed. Responsible officer: Richard Lambeth Due date: April 2015
6.	There were differences of £700k between the schools bank reconciliation and the Council's accounts. The discrepancies were subsequently explained and this confirmed that the accounts figures were correct. **Recommendation**: Verify school bank reconciliations and ensure they agree to financial statements.	Low	We will review schools bank reconciliations at year end and make sure that they agree to the financial statements. Responsible office: D Richards Due date: April 2015

Appendix A: Key issues and recommendations (3)

This appendix summarises the recommendations made during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
7.	We identified that there were differences between our calculated figures and the figures in the accounts on several PFI schemes. **Recommendation**: Investigate the differences highlighted between the expected PFI values and those reported in your financial statements.	Low	A review of the PFI accounting models is being carried out to identify any such differences. Responsible officer: Richard Lambeth Due date: December 2014

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and. confirm there were no fees for the provision of non audit services

Fees

	Per Audit plan £	Actual fees £
Audit Fee	255,044	255,044
NNDR		2,600
Grant certification fee	36,500	26,443
Total fees	**291,544**	**284,087**

Fees for other services

Service	Fees £
None	Nil

NNDR audit fees

There is additional fee of £2,600 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NNDR3 certifications for London Borough Councils and is subject to agreement by the Audit Commission

Reports issued

Report	Date issued
Audit Plan	June 2014
Audit Findings Report	September 2014
VfM – Financial Resilience Report	September 2014
Annual Audit Letter	October 2014
Certification report (to be issued)	December 2014

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AUDIT PANEL			
REPORT TITLE	Financial Forecasts 2014/15 (including Treasury mid-year review)		
KEY DECISION	No	**Item No.**	4
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources and Regeneration		
CLASS	Part 1	**Date**	19 November 2014

1 EXECUTIVE SUMMARY

1.1 This report sets out the financial forecasts for 2014/15 as at 30 September 2014. The key areas to note are as follows:

- An overspend of £10.6m against the directorates' net General Fund revenue budget is forecast. This compares to an overspend of £10.5m reported for the period to 31 July 2014.
- The revised budget for the Capital Programme for the year is £147m and the current forecast expenditure at the year end is £135m. As at 30 September 2014, some 26% of the forecast had been spent (£38.4m) which is below the figure expected on an even monthly profile, if the programme is to be delivered in full. The comparable figure at this point last year was 29% of the budget of £150.8m, with the final outturn being 96% of the revised budget.
- The Housing Revenue Account (HRA) is forecasting a surplus of £0.4m.
- The Dedicated Schools Grant (DSG) is forecast to spend to budget.
- As at 30 September 2014, council tax collection is 0.4% higher than last year in terms of the percentage of gross cash collected, but 0.4% lower than this year's profiled collection rate.
- Business rates collection is 2.8% lower than the same period last year and 1.9% lower than the monthly percentage profile required to achieve the overall target of 99% for the year.

2 PURPOSE

2.1 To set out the Council's financial forecasts for 2014/15.

3 RECOMMENDATION

The Audit Panel is asked to:

3.1 note the financial forecasts for the year ended 31 March 2015 and the action being taken by the Executive Directors to manage down the forecasted year-end overspend.

3.2 note the recommendations contained in the mid-year treasury strategy, attached at Appendix 1 which is asking the Mayor to:

3.2.1 note the report and the Council's MRP Policy

3.2.2 recommend for approval by full Council the following amendments to Treasury Management Strategy:

- Inclusion of Certificates of Deposits as a specified treasury instrument, and
- Increase in the limits of Treasury Bills from £20 million to £60 million.

4 POLICY CONTEXT

4.1 Reporting financial results in a clear and meaningful format contributes directly to the Council's tenth corporate priority which is 'inspiring efficiency, effectiveness and equity'.

5 OVERALL DIRECTORATE OUTTURN

5.1 The forecasts against the directorates' net general fund revenue budgets are shown in the Table 1 below. In summary, this is projecting a year-end overspend of £10.6m compared to a forecast overspend of £10.5m at the end of July 2014. At the same time last year, an overspend of £0.6m was forecast.

Table 1 – Overall Directorate position for 2014/15

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Sept 2014	Forecast over/ (under) spend July 2014
	£m	£m	£m	£m	£m
Children & Young People	74.3	(20.4)	53.9	9.0	8.6
Community Services	166.8	(57.2)	109.6	0.2	0.2
Customer Services	98.3	(62.5)	35.8	1.9	2.0
Resources & Regeneration	43.5	(11.9)	31.6	(0.5)	(0.3)
Directorate Totals	**382.9**	**(152.0)**	**230.9**	**10.6**	**10.5**
Corporate Items			37.2	0.0	0.0
Overall Total	**382.9**	**(152.0)**	**268.1**	**10.6**	**10.5**

(1) – gross figures exclude £268m Dedicated Schools' Grant expenditure and matching grant income

(2) – gross figures exclude approximately £225m matching income and expenditure for housing benefits. This figure is lower than last year due to the implementation of the Council Tax Reduction Scheme (CTRS), an effect of which is to replace benefits paid out with discounts at source

5.2 It should be noted that in setting the Council's budget for 2014, a sum of £3.9m was set aside and is being held corporately for managing 'risks and other budget pressures'. These are for such items which although difficult to quantify with absolute certainty, could prove significant should they materialise and be confirmed by the year end. The Executive Director for Resources and Regeneration advises that the overall net forecast overspend position of £10.6m could in part be alleviated by the entire use of this corporately held balance, thereby bringing the overall projection down to £6.7m.

5.3 At Mayor & Cabinet on 3 September 2014, officers received the Mayor's support for the introduction of a Corporate Expenditure Panel (CEP). The operation of the CEP will be overseen by the Chief Executive and the Executive Director for Resources and Regeneration and became operational from 23rd October 2014.

6 CHILDREN & YOUNG PEOPLE

6.1 The directorate is forecasting a year-end overspend of £9.0m. This has been set out in Table 2 and compares with £8.6m at the end of July. This time last year, an overspend of £1.2m was forecast and the year end result was an overspend of £4.1m.

Table 2 – Children & Young People Directorate

Service Area	Gross budgeted spend	Gross budgeted income – grants	Gross budgeted income - other	Net budget	Forecast over / (under) spend
	£m	£m	£m	£m	£m
Children's Social Care	45.9	(1.9)	(0.6)	43.4	3.0
No Recourse to Public Funds	0.7	(0.0)	(0.0)	0.7	6.2
Standards & Achievements	4.2	(0.2)	(2.2)	1.8	0.0
Education Infrastructure	1.4	(0.0)	(0.0)	1.4	(0.2)
Targeted Services and Joint Commissioning	13.2	(1.1)	(2.2)	9.9	0.6
Resources & Performance	8.9	(0.0)	(10.9)	(2.0)	(0.6)
Schools	0.0	(0.0)	(1.3)	(1.3)	0.0
Total	**74.3**	**(3.2)**	**(17.2)**	**53.9**	**9.0**

6.2 The most significant cost pressures for the directorate fall within the children's social care service area and amount to £9.2m. These are in the following three services areas.

6.2.1 *Clients with no recourse to public funds* continues to create a significant cost pressure and now stands at £6.2m. The forecast is based on the current payment levels and does not include any allowance for growth resulting from recent welfare reforms.

6.2.2 In 2013, the average number of cases accepted per month was 11. Since the pilot went live, the number of cases per month has been reduced to 0.6. To date, eight cases have been closed as a result of reassessment resulting in an annual saving of £0.2m.

6.2.3 The pilot team have identified 25 cases where 'access to employment and public funds allowed' status has been granted. The team will be working with claimants over the next three months to transition them to mainstream benefits. This could deliver savings of up to £0.6m per annum. There are a further 40 cases with no outstanding application with the Home Office. This could deliver savings of £0.9m. However, these are likely to be more complex cases requiring the completion of human rights assessments, possibly lengthy eviction proceedings and legal challenge. It should be noted that two temporary specialist project officers have been recruited to specifically focus on clearing these cases.

6.2.4 Due to the uncertainty of when these cases will cease only cautious approach has been taken on building the impact into the overspend and it has been reduced by £0.1m.

6.2.5 The placement budget for *looked after children (LAC)* is currently forecast to overspend by £2.0m. This includes adoption and special guardianship orders. The numbers of LAC at the end of September is 497, which is a net increase of 13 since April.

6.2.6 An increasing number of young people requiring support and national changes in housing benefit has created pressure on the *Children Leaving Care* budget. Also, delays in finding appropriate accommodation for some of the young people results in them remaining in expensive provision. The average caseload for the year so far is 73 against a budget assumption of 23. The budget is currently projected to overspend by £1.0m.

6.3 At the end of last year, the *School Transport* budget was overspent by £0.7m. A saving was also agreed of £0.5m which was to be achieved by increasing independent travel by students and reducing the unit costs of taxis. The current forecast is an overspend of £0.9m.

6.4 The last tendering around for taxi provision resulted in some reduced costs in line with the budget proposal however there has been some progress on the increased use of independent travel but the financial impact in the current year will be minimal.

6.5 While the underlying pressure remains and work on reducing the costs of travel assistance for 2015/16 continue to ensure the original saving proposal can be achieved. The plans that are in place are expected to deliver an annual saving of £1.0m.

6.6 There are other budget pressures within the Directorate particularly around legal fees as the family courts have once again begun seeking expert reports to support their decision making. This would create a budget pressure of £0.2m if it continues. Discussions are planned to takes place with the judges to address this issue and if the outcome of these discussions are successful will relieve the pressure.

6.7 The key unit costs and activity levels within children's social care are summarised in Table 3 below.

Table 3 – Average weekly unit costs

	Average weekly unit costs		Client numbers
	Sept 2013 (£)	Sept 2014 (£)	Sept 2014
Local authority fostering	385	379	200
Agency fostering	875	873	211
Residential homes	2,969	3,205	48*

* This includes 7 clients who are in residential schools

6.8 These weekly unit costs demonstrate the importance of the directorate's strategy for shifting the balance of provision towards fostering, as well as trying to bear down on costs. For example, every client moving from agency to local authority fostering

results in a saving of around £26k per annum and around £121k for every movement from a residential placement to agency fostering.

7 COMMUNITY SERVICES

7.1 The directorate is forecasting a year end overspend of £0.2m, the same as at the end of July. At the same time last year, an underspend of £1.7m was projected with the actual results last year being an underspend of £5.1m.

Table 4 – Community Services

Service Area	Gross budgeted expenditure	Gross budgeted income	Net budget	Forecast over/ (under) spend
	£m	£m	£m	£m
Adult Services Division	105.0	(26.2)	78.8	2.5
Cultural & Community Development	22.5	(7.8)	14.7	(1.0)
Public Health	15.0	(15.0)	0.0	(0.5)
Crime Reduction & Supporting People	21.7	(8.0)	13.7	(0.3)
Strategy, Improvements & Partnerships	2.6	(0.2)	2.4	(0.5)
Total	**166.8**	**(57.2)**	**109.6**	**0.2**

*The net budget for Community Services has seen an in-year increase of £1.6m due to the transfer of the line management responsibility for licensing, trading standards & environmental health services. There are no significant variances being reported for these budgets.

7.3 The *Adult Services* division is forecast to overspend by £2.5m. This assumes achievement later in the year of savings of £1.1m in addition to savings already achieved. At the end of the last financial year, adult services underspent by £2.1m. Since the last report the Directorate has decided to reduce, delay or freeze spend on a number of non-essential areas in other divisions while further work is done to reduce spend on adult social care. These managed underspends are referred to in the sections on services below.

7.4 There are a number of over and underspends forecast against individual services within adult social care. The key issues to note are as follows:

i. Social work staffing budgets are predicted to overspend by £0.5m. This is mostly due to the increased costs associated with Deprivation of Liberty Safeguards (DOLS) cases where activity has increased significantly in recent months following the recent Cheshire West court case. The full restructure of the social work service will now took effect in mid-September. For the first five months of the year, costs were higher than budgeted and this contributes to the overspend.

ii. The in-house day care service is forecast to underspend by £0.7m. This reflects the reduced use of the centres as more service users receive non-building based services.

iii. The largest overspends are on budgets for packages and placements where current forecasts are for an overspend of up to £3.3m. Part of this is attributable to demographic factors with increasing numbers of very frail elderly, older people

with dementia and younger physically disabled people. This pressure was estimated during the budget process at approximately £1m.

iv. A further part of the overspend matches the reduced use of in-house day care, where the realignment of budgets will reduce overspends in one area and underspends in the other.

v. Monitoring reports earlier in the year identified the cost pressure resulting from a lower than normal number of deaths over the winter. The pressure on older adults' budgets has continued over recent months with net increases in home care numbers increasing by 10-20 per month, much higher than normal at this time of year. There is evidence of increased activity from the hospital with more people being discharged who require intensive care packages. This has added to social care costs. Officers are working to analyse the cost increase in this area and will seek some additional funding from health. Local plans for use of winter pressures funding (paid by DH) have included £350k for care packages. This has reduced, but not eliminated, this cost pressure. The overspend on packages and placements also includes care provided to adults with no recourse to public funds.

7.5 The 2014/15 budget assumes savings of £7.2m for adult social care. As at the end of September 2014, savings of £4.2m had already been delivered. Delivery of a further £1.1m is expected in-year and is assumed in the figures in this report. Achievement of the remaining savings is not certain in this financial year. However, work is ongoing to progress these and to identify other areas where spend can be contained to offset any potential non-achievement.

7.6 A small underspend of £0.3m is forecast for *crime reduction and supporting people*, compared to an underspend of £1.4m in 2013/14(and a projected underspend of £0.2m at period 5). There is a projected underspend of £0.1m on staffing in the core Neighbourhood Community Safety Team and a projected underspend of £0.1m on the Crime Reduction budget for once off projects following the decision to freeze uncommitted budgets. Additionally, the supporting people budget is now projected to underspend by £0.1m representing early achievement of part of the 2015/16 savings target.

7.7 In 2013/14, there was an overspend within the *youth offending service* of £0.3m as a result of the changes to the financing of secure remand and youth detention, meaning that local authorities now bear the full financial risk associated with this provision. The current year has seen a change in the balance between young people placed in Secure Children's Homes/Training Centres and the less expensive Young Offenders Institutes. This switch has stemmed in part from a change in the way the authority assess the young person's vulnerability criteria. The overall number of placements has also been unusually low in the first part of the year compared with 2013/14, but this remains a volatile area of spend which is not entirely controllable in that costs are driven by the number of local young people ordered into secure remand by the courts, the severity of their offences and hence how long they are held pending the court process. There is currently a small overspend (£50k) projected which the service will seek to absorb within its overall budget.

7.8 From April 2013, responsibility for local public health functions transferred to local authorities. Resources to fund these new functions were transferred in the form of a specific grant of £20.2m in 2014/15. This includes £4.9m relating to drug & alcohol

funding that has been managed by the council locally, so only the balance of £15.3m is managed by public health.

7.9 There are currently commitments against this budget totalling £14.8m. At this stage, it is assumed that none of this will be committed on new activity, but that it will be used to support eligible base budget activity. This will result in an underspend of £0.5m.

7.10 The *cultural and community services division* is forecasting an underspend of £1.0m which represents no change against last month, this compares to an underspend of £0.4m last year. The *community sector grants* service is forecasting an underspend of £0.4m which relates primarily to a reduced contribution to the London Boroughs Grants Scheme and a planned underspend of £0.3m against the budget for the community sector investment fund. Other budgets within the service where management action has created projected underspends are: libraries (£0.1m), community centres (£0.04m) and the lifecycle and dilapidations budget within the leisure management (£0.3m). Additionally, once-off underspends totalling £0.2m are projected for the leisure management service representing two contract reimbursements relating to events in previous years.

7.11 There is a £0.1m overspend forecast on the Deptford Lounge budget due to low levels of income generated from third party room hire which continues to be significantly lower than both the budgeted figure and income levels assumed in the original projections for the Deptford Lounge complex. The Broadway Theatre budget is forecasted to overspend by £0.1m due to slippage against delivery of 2014/15 savings.

7.12 The *strategy, improvements and partnerships division* is projecting an underspend on staffing of £0.5m which predominantly relates to the directorate management team budget.

8 CUSTOMER SERVICES

8.1 The directorate is forecasting a year-end overspend of £1.9m. This compares to an overspend £2.0m reported as at the end of July. The projection for the same period last year was £1.5m.

Table 5 – Customer Services

Service Area	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/(under) spend
	£m	£m	£m	£m
Strategic Housing and Regulatory services	13.7	(10.9)	2.8	1.6
Environment	37.8	(18.4)	19.4	0.3
Public Services *	37.3	(31.8)	5.5	(0.2)
Strategy & Performance (inc. IMT)	9.5	(1.4)	8.1	0.2
Total	**98.3**	**(62.5)**	**35.8**	**1.9**

* excludes £225m of matching income and expenditure in respect of housing benefits

8.2 The strategic housing and regulatory services is forecasting an overspend of £1.6m, an increase of £0.1m on last month's projection.

8.3 The number of bed & breakfast tenancies as at end of September 2014 was 509. This compares to 171 at the same time last year and is an increase of 191 on the figure as at the end of 2013/14. At this level, the overspend is expected to be in the region of £2.1m. In addition to this, the increased numbers have also impacted on the collection of rent leading to an increase in the provision for bad debts by £0.2m, giving a projected overspend of £2.3m. There is a risk that if the numbers continue to increase at the rate they have been since the beginning of the year, the overspend could rise to approximately £4m by the year-end. Measures have been put in place to reduce demand by increasing focus on homelessness prevention and an increase in supply by giving priority to homelessness cases in other forms of temporary accommodation and the increase in hostel places expected by the year-end to mitigate this risk as far as possible. Additional resources have also been assigned to improving rent collection. This is expected to reduce the need for an increased bad debt provision although this hasn't materialised in time for this report.

8.4 Officers have been modelling the potential longer term effects of the higher numbers in B&B, new supply expected to come on-line over the next year and the anticipated impact of measures in place to manage demand. Current indications arising from this exercise suggest that the pressure will continue throughout 2015/16 although at a lower level of around £1.5m.

8.5 As a part of the Future Lewisham budget review, Strategic Housing submitted a proposal to transfer commercial assets and garages from the HRA to the General Fund in 2015/16 subject to legal confirmation that the proposal isn't in contravention of HRA regulations. The council has recently received advice that confirms that they have the powers to make that transfer. The net effect on the General Fund is an increased income of £0.7m. Whilst this means the income is lost to the HRA, the proposal reduces debt in the HRA, thus increasing borrowing capacity to meet the Mayor's social housing priorities.

8.6 The move from the HRA to the General Fund is in itself an accounting adjustment and can be made at any time. In view of the current financial position, it has been decided to seek the Mayor's approval to make the transfer in 2014/15 to partially offset the overspend on bed and breakfast. The net variation being reported as at the end of September is an overspend of £1.6m, but it should be noted that this is subject to formal mayoral approval of the proposed transfer which will take place in November 2014.

8.7 The supply measures mentioned above will impact on the private sector leasing (PSL) budget in the short term, where a higher turnover will increase the loss of income due to increased void rates. Increased turnover will also impact on repairs and maintenance costs. This will be met from balances held in reserves for this purpose.

8.8 There is a projected £0.3m overspend due to the delayed implementation of proposed savings in *housing needs* and *housing partnership and development.* This is to be met from the redirection of unspent grant funding following a review of commitments.

8.9 The *environment division* is forecasting an overspend of £0.3m. This relates in part to *bereavement services* where a combination of increased coroners court and mercury abatement costs combined with a small income shortfall have resulted in a projected overspend of £0.1m. *Street management* are also reporting an overspend of £0.1m relating to an income shortfall in the lumber service and an overspend on

staffing in street cleansing. The balance of the overspend relates to minor staffing overspends across the division.

8.10 The *public services division* is projecting to an underspend of £0.2m. This reflects a projected overachievement of parking fine income.

9. RESOURCES AND REGENERATION

9.1 The directorate is forecasting an underspend of £0.5m. This compares to a forecast underspend of £0.3m at the end of July. At this point last year an underspend of £0.1m was forecast and the result for last year was an underspend of £2.4m. The table below sets out this year's forecast by service division.

Table 6 – Resources & Regeneration

Service Area	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/(under) spend
	£m	£m	£m	£m
Audit & Risk	5.5	(2.6)	2.9	0.0
Corporate Policy & Governance	3.4	0	3.4	(0.3)
Finance	5.2	(1.2)	4.0	(0.3)
Executive Office	0.2	0	0.2	0.0
Personnel & Development	3.0	(0.3)	2.7	(0.1)
Legal Services	2.7	(0.4)	2.3	(0.0)
Strategy	2.5	(0.4)	2.1	(0.2)
Planning & Economic Development	3.4	(1.6)	1.8	(0.2)
Regeneration & Asset Management	17.6	(5.4)	12.2	0.6
Total	**43.5**	**(11.9)**	**31.6**	**(0.5)**

9.2 The *audit & risk division* is forecasting a nil variance on its budget although there are balancing over and underspends within the division. Insurance is showing a £0.1m overspend due to instability in the insurance market leading to additional costs for the council's liability insurance premium. As highlighted in previous years, a proportion of any additional costs will be attributable to the Housing Revenue Account (HRA) and schools. An estimated recharge has now been accounted for but this will need to be reviewed in the light of the final costs once know and year end transfers to and from provisions in line with the actuaries report. There is also £0.1m relating to the internal audit budget where staff reorganisation and contract end costs have created a budget pressure. These are offset by underspends in Health and Safety and the Anti Fraud & Corruption Team which has received once off grant.

9.3 The *corporate policy & governance division* is forecasting an underspend of £0.3m. This is mainly in respect of staffing costs where several posts are being held vacant, though it also includes a series of smaller underspends across various supplies and services budgets.

9.4 The *finance division* is forecast to underspend by £0.3m. The bulk of this relates to the contingency for the directorate that is held within this division.

9.5 The *personnel & development division* is forecast to underspend by £0.1m. This is mainly due to reduced spend on learning & development and workforce planning.

9.6 The *legal services division* is now forecasting a nil variance now that income for reimbursed costs in relation to Lewisham Hospital have been finalised.

9.7 The *strategy division* is forecasting an underspend of £0.2m. This is mainly due to delayed recruitment of apprentices.

9.8 The *planning division* is forecasting an underspend of £0.2m. This is due to forecast increased land charge income.

9.9 The *regeneration & asset management division* is forecasting an overspend of £0.6m. This is mainly due to staffing costs pending a reorganisation later in the year however there are other significant overspends including rates, repairs & maintenance and the letting of the Town Hall, however the increased overspend is mainly due to a reduction in income arising from permit fees and charges for overruns in relation to utility companies roadworks. All of these are offset by street lighting PFI budget headroom and other minor miscellaneous underspends.

10 CORPORATE PROVISIONS AND TREASURY MANAGEMENT

10.1 The Corporate financial provisions include working balances, Capital Expenditure charged to the Revenue Account (CERA), and interest on revenue balances. These provisions are not expected to overspend although with the impact of continued reductions in service budgets, there is ever greater pressure on working balances. Certainty on their outturn only becomes clear at the end of the financial year.

10.2 With continued concerns about the stability of the banking sector, the council's treasury management strategy continues to be focused on avoiding risk, wherever possible. The mid-year treasury strategy is attached at Appendix 1 to this report. This presents the current economic conditions in which the Council is operating in respect of its investments and borrowing. It then sets out the Council's treasury performance and Capital position as at 30th September 2014. It also provides updates on the arrangements in place and an assessment of the current Treasury Management strategy as required by the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice.

11 DEDICATED SCHOOLS' GRANT (DSG)

11.1 The DSG settlement of £268.6m is set out in Table 7. This compares with the figure of £267.7m stated in the Budget 2014 report to the full Council in February 2014. The extra funding relates to the high needs block and covers some of the growth that the Council bid for. There will be further adjustments to the level of the DSG during the year, particularly on the early years' numbers when the forecast are revised to actual numbers.

Table 7 – DSG Settlement for 2014/15

	Before Academy Recoupment	After Academy recoupment
	£m	£m
2014/15 Schools Block	201.4	182.5
2014/15 Early Years Block	17.0	17.0
2014/15 High Needs Block	43.4	42.3

2014/15 Total additions and deductions for non block funding	6.8	6.8
2014/15 total DSG allocation	**268.6**	**248.6**

11.2 The current forecast indicates the Special Education Needs matrix budget is overspent by £0.4m when compared to the allocations given to the schools in the spring. The SEN team are currently cleansing the data but it is expected that there will be a further increase in the children on the matrix in September which will increase the overspend which is likely to be £0.7m.

11.3 There is an on-going review of children in special schools and which bands of needs they fall within. This will create a financial consequence that is currently uncertain. The students with SEN that attend FE colleges will also become clearer later in the autumn term.

11.4 There was an overspend in SEN at the end of last year of £0.8m and the above will add to the overspend on the matrix, making a total overspend of £1.5m. The Schools Forum is being asked not to distribute the reserves they hold to help offset the above.

12. HOUSING REVENUE ACCOUNT

12.1 The Housing Revenue Account (HRA) is projecting a surplus of £0.4m. This represents no movement since July's report and relates to additional tenants rental income and additional tenants and leaseholder service charge totalling of £0.4m.

13. COLLECTION FUND

13.1 As at 30 September 2014, £54.3m of council tax had been collected, which is 51.1% of the total amount due for the year of £106.3m. This is 0.4% lower than the profiled collection rate of 51.5% if the overall target for the year of 96% is to be met. At the same time last year, the collection rate to date was 50.7%, some 0.4% lower than this year.

13.2 Business rates collection is at 62.8% which is a decrease of 2.8% compared to the same period last year and 1.9% lower than the profiled collection rate if the overall target rate for the year of 99% is to be achieved. Officers are investigating the cause of the drop to establish whether this is an isolated dip or if it is likely to have a longer term impact on collection.

14. CAPITAL EXPENDITURE

14.1 The capital expenditure to 30 September is £38.4m which is 26% of the revised budget. The following table gives a breakdown of the budget and forecast spend. The revised budget includes carry forward amounts from the previous year as agreed at Mayor & Cabinet in the summer.

Table 8 – Capital Programme

2014/15 Capital Programme	Revised Budget	2014/15 Forecast	Spend to 30 September 2014	Spend to 31 August 2014	Spend to Date (On Revenue Budget)
	£m	£m	£m	£m	%
Community Services	1.5	1.4	0.5	0.5	33
Resources & Regeneration	12.1	12.2	1.7	1.5	14
CYP	59.2	57.3	12.4	12.3	21
Customer Services	1.5	1.4	0.6	0.7	40
Housing (Gen Fund)	13.8	10.8	5.7	4.6	41
Total General Fund	**88.1**	**83.1**	**20.9**	**19.6**	**24**
HRA - Council	12.3	4.9	1.1	1.0	9
HRA - Lewisham Homes	47.0	47.0	16.4	12.4	35
Total HRA	**59.3**	**51.9**	**17.5**	**13.4**	**30**
Grand Total	**147.4**	**135.0**	**38.4**	**33.0**	**26**

14.2 The table below shows the current position on the major projects in the 2014/15 General Fund capital programme (i.e. those over £1m in 2014/15).

14.3 The main sources of financing the programme are grants, contributions, and capital receipts from the sale of property assets. So far this year £7.8m of usable receipts have been received comprising £2.3m in respect of previous year's Housing stock transfers, £4.4m (net) from Housing Right to Buy sales and £1.1m from other sales.

15 FINANCIAL IMPLICATIONS

15.1 This report concerns the financial forecasts for the 2014/15 financial year.

16 LEGAL IMPLICATIONS

16.1 The council must act prudently in relation to the stewardship of council taxpayers' funds. The council must set and maintain a balanced budget.

17 CRIME AND DISORDER ACT IMPLICATIONS

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

18 EQUALITIES IMPLICATIONS

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

19 ENVIRONMENTAL IMPLICATIONS

19.1 There are no environmental implications directly arising from this report.

20. CONCLUSION

20.1 The current projected year-end overspend for the year is £10.6m and this continues to be a major concern for the council. The directorate management teams will need to continue their efforts by pushing at a greater pace and more effectively to manage down this overspend over the coming months.

20.2 Since the start of the financial year and the first public report of the financial forecast position to Mayor & Cabinet in August 2014, the Executive Directors have continued to put in place a number of measures designed to alleviate the council's overall budget pressures to help bring spending back into line with budget. These measures include the strengthening of local controls on particular areas of expenditure in the short term. In addition to this and with regards to the most significant budget pressure which the council faces in 'no recourse to public funds' which is currently £6.2m, a corporate team has now been fully established. In summary, this team is responsible for assessing all new cases presenting to the council and its implementation is now beginning to show the signs of limiting the increase of the overall budget pressure in this area.

20.3 Notwithstanding the pressure on 'no recourse to public funds', there still remains a significant budget pressures in other areas across the council, totalling £4.4m overall. In the main, these include pressures for service areas such as looked after children, adult social care and temporary bed and breakfast accommodation. At the current level of £4.4m, these pressures alone would still represent the most significant level of reported budget pressures for the council of any financial year in recent years. This all suggests that the council is facing budget pressures of a different order than normal, but to be clear, officers have a firm responsibility to manage it.

20.4 The Executive Director for Resources and Regeneration will continue to work with directorate management teams across the council to effect the necessary actions to manage their service pressures and she also advises that directorate management teams will need to consider strengthening local controls on certain expenditure in the short term until monitoring reports show the necessary improvements. The introduction of the Corporate Expenditure Panel effective from 23 October 2014 is intended to help support the drive to reduce the Council's spending further.

21. BACKGROUND PAPERS AND APPENDICES

None

For further information on this report, please contact:

Selwyn Thompson, Head of Financial Services on 020 8314 6932

APPENDIX 1

AUDIT PANEL			
Report Title	**Treasury Management Mid-year Review Report 2014/15**		
Key Decision	No		Item No:
Ward	All		
Contributors	**Executive Director for Resources & Regeneration**		
Class	Part 1		Date: 19 November 2014

1. EXECUTIVE SUMMARY

1.1 The report presents the current economic conditions in which the Council is operating in respect of its investments and borrowing. It then sets out the Council's treasury performance and Capital position as at 30th September 2014. It also provides updates on the arrangements in place and an assessment of the current Treasury Management strategy as required by the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice. Finally, the report brings forward recommendations for updating the strategy to Mayor & Cabinet to recommend to Full Council.

1.2 The UK economy has performed strongly in 2014 and the outlook is optimistic for good growth, continuing low inflation, low interest rates and falling unemployment. However, this perspective is tempered by the following risks:

- Growth driven by consumer spending rather than manufacturing,
- Low productivity, wage growth and corporate tax levels,
- Weakening global growth, in particular in Europe and China, and
- Rising political instability impacting trade and investment.

1.3 In terms of performance, the capital expenditure estimate for 2014/15 has risen to £147m, up from £127m, mainly funded by additional grants secured. On current plans no difficulties are envisaged for the current or future years in complying with the Code's requirements for prudential borrowing. Council investments are managed within the agreed parameters and delivered a yield (on an annualised basis) for the six months to 30 September of 0.58%. For this risk profile this performance is in line with the benchmark for London Authorities.

1.4 Following the withdrawal of the Co-operative Bank from the Local Government market, the Council's banking contract has just been tendered and the new provider from the 1 November is Barclays Plc.

1.5 Managing the Council's investments within the current Treasury strategy to achieve the best possible returns for minimal risk is

constrained by the number of counterparties available offering the products agreed. The Council also needs to prepare for the limits on some current counterparties reducing as the government exits from being shareholder in the part-nationalised banks. For these reasons the report recommends that the Treasury strategy be amended to:

- Include the use of Certificates of Deposits as a specified treasury instrument, and
- Increase the limits for use of Treasury Bills from £20 million to £60 million.

2. STRUCTURE

2.1 The rest of this report is structured with the following sections:

- Purpose
- Recommendations
- Policy Context
- Background
- Economic Update
- Treasury Management Strategy Statement And Annual Investment Strategy Update
- The Council's Capital Position
- Investment Portfolio 2014/15
- Borrowing
- Debt Rescheduling
- New Banking Contract

3. PURPOSE OF THE REPORT

3.1 This mid-year review has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. It covers the following:

(i) An economic update for the first six months of 2014/15;

(ii) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

(iii) The Council's capital expenditure (prudential indicators) and Minimum Revenue Provision (MRP) Policy;

(iv) A review of the Council's investment portfolio for 2014/15;

(v) A review of the Council's borrowing strategy for 2014/15;

(vi) A review of any debt rescheduling undertaken during 2014/15; and

(vii) A review of compliance with Treasury and Prudential Limits for 2014/15.

4. RECOMMENDATIONS

4.1 Mayor is asked to:

Note the report and the Council's MRP Policy.

Recommend for approval by Full Council the following amendments to Treasury Management Strategy:

a. Inclusion of Certificates of Deposits as a specified treasury instrument, and

b. Increase in the limits of Treasury Bills from £20 million to £60 million.

5. POLICY CONTEXT

5.1 The contents of this report are consistent with the Council's policy framework. It supports the achievement of the Council's corporate priority to ensure efficiency, effectiveness and equity in the delivery of excellent services to meet the needs of the community.

6. BACKGROUND

6.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with any surplus monies being invested in low risk counterparties, to provide adequate liquidity before considering maximising investment return.

6.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. Essentially the longer term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, using longer term cash flow surpluses, and on occasion restructuring any debt previously drawn to meet Council objectives.

6.3 The primary requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Outturn Report covering activities during the previous year. (This report is the mid-year review report)
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Committee.

7. ECONOMIC UPDATE

UK economic performance to date and outlook

7.1 The Economic update is provided by our Treasury Advisors Capital Asset Services:

7.2 After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

7.3 This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.

7.4 There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward

trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review

7.5 Also encouraging has been the sharp fall in inflation – Consumer Price Inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

7.6 The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

USA

7.7 In September, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from $85bn to $15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised).

7.8 The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

Eurozone

7.9 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its

benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

7.10 Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

Capita Asset Services' Interest Rate Forecast

7.11 Table 1: The Council's treasury advisor, Capita Asset Services, has provided the following forecast.

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

7.12 Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

7.13 Our PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows:

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields

7.14 Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- UK strong economic growth is currently dependent on consumer spending and the unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future), has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns. This is a return of the same environment which led to the 2008 financial crisis.

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

8.1 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 26 February 2014.

8.2 The current situation within the financial markets has limited the number of counterparties available to the Council. The current counterparty list has a large number of banks but not all of them are actively seeking deposits. To diversify the portfolio and spread the risk, officers are proposing to:

a) increase the deposit limit for Treasury Bills from £20 m to £60 m (this will be kept under regular review)

b) include Certificates of Deposit (CDs) with a maximum duration of one year as a specified instrument.

8.3 Treasury bills are loans issued by the Government to fund short term liquidity. They are similar to gilts in nature but treasury bills have a term of less than one year, whereas gilts are issued for more than one year. The current deposit limit is £20 million. Treasury bills are a AAA/AA+ rated and issued by the Debt Management Office (DMO) via a weekly tender. They are government backed and low risk, identical to the DMO account. In agreeing this change, no additional portfolio risk will be taken and this will provide the Council with the flexibility to adjust its portfolio in a managed way as and when the government exists from the part nationalised banks.

8.4 Certificates of Deposit (CD's) are tradable loans issued by banks. CD's are generally issued with a maturity ranging from one month to a year. Unlike most investments that the Council currently uses, the Council would be able to sell out of a bank should it no longer meet the Council's risk profile or for cash flow purposes. Some banks do not offer fixed term investments in the usual manner but instead prefer to issue CDs and the Council would not want to restrict itself in these situations.

8.5 Credit ratings for banks issuing CDs is already incorporated in the current creditworthiness criteria provided by our advisers and is being used by the Council. The proposed use of CDs would be subject to compliance with the current credit rating criteria. CDs rank side by side with Fixed Deposits, in that they have the same priority in the event of a default. The proposed amended investment limits are attached in Appendix 1.

8.6 These changes would give officers additional capacity to invest available cash within the agreed risk parameters – counterparty risk and investment duration.

9. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

9.1 This section of the report is structured to update on:

a) The Council's capital expenditure plans;

b) How these plans are being financed;

c) The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

d) Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

9.2 This table shows the original estimates for capital expenditure and the changes since the capital programme was agreed by Council in the Budget.

Table2: Capital Expenditure by Service

2014/15 Capital Expenditure By Service	Original Estimate £m	Latest Expenditure (to end Aug 14)£m	Revised Estimate £m
Education	50	12	59
Highways and Regeneration	8	2	12
Housing General Fund	10	5	12
Other General Fund	1	1	5
Housing Revenue Account	58	13	59
Total Expenditure	**127**	**33**	**147**

Financing of the Capital Programme

9.3 The table below shows the expected financing of the capital programme. The borrowing required increases the underlying indebtedness of the Council as measured by the Capital Financing Requirement (CFR), although this is reduced by charges made to revenue for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3: Capital Expenditure Financing

2014/15 Capital Expenditure Financing	Original Estimate £m	Latest Expenditure (to end of Aug 14) £m	Revised Estimate £m
Total Expenditure	**127**	N/A	**147**
Financed by:			
Capital Grants	69	N/A	85
General Resources (Capital Receipts, Reserves and Revenue Contributions)	57	N/A	61
Total Financing Used	**126**	**N/A**	**146**
Borrowing Required	**1**	N/A	**1**

Minimum Revenue Provision (MRP) Policy

9.4 A proportion of the Council's capital expenditure is not immediately financed from its own resources. This results in a debt liability which must be charged to the Council Tax over a period of time. This repayment (the Minimum Revenue Provision - MRP) must be determined by the Council as being a prudent provision having regard to the CIPFA Prudential Code for Capital Finance.

9.5 The MRP is the amount the Council charges to the revenue account and does not correspond to the actual amount of debt repaid, which is determined by treasury management considerations. The Council applies a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned, with previous existing borrowing being repaid at 4% of the CFR.

Table 4: Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

2014/15 Prudential Indicators (as at the end of the year)	**Original Estimate £m**	**Forecast Outturn £m**
CFR – General Fund	384.5	399.6
CFR – HRA	83.6	83.6
Total Capital Financing Requirement	**468.1**	**483.2**
External Debt / Operational Boundary		
Borrowing	190.3	190.4
Other long term liabilities*	241.4	254.6
Total External Debt as at 31 March 15	**431.7**	**445.0**
New and Maturing Debt	0	0
Operational Boundary as at 31 March 15	**431.7**	**445.0**

** On balance sheet PFI schemes and finance leases etc.*

Limits to Borrowing Activity

9.6 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) is only undertaken for capital purposes. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has an approved policy for borrowing in advance of need which will be utilised if it is deemed to be prudent.

9.7 The Executive Director for Resources and Regeneration reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator. The table above shows the forecast position for the end of 2014/15 where the CFR is nearly £40m higher than the external debt.

9.8 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected

movements and is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 5: Limits to Borrowing

2014/15 Prudential Indicators (as at the end of the year)	Original Indicator £m	Forecast Indicator £m
Operational Boundary for External Debt	**431.7**	**445.0**
Provision for unexpected short term borrowing	46.0	46.0
Authorised Limit for External Debt	**477.7**	**491.0**

10. INVESTMENT PORTFOLIO 2014/15

10.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 4, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

10.2 The Council held £329.5m of investments as at 30 September 2014 (£283.6m at 31 March 2014) and the investment portfolio yield for the first six months of the year was 0.58%.

10.3 The Council is a member of a London treasury benchmarking group (organised by Capita Services) along with 11 other London authorities. An extraction of the June benchmarking report is shown in Appendix 2. This shows that the 0.57% return on investments in June is in-line with the model weighted average rate of return provided by the Council's treasury advisors and based on the overall risk the investments are exposed to (see Appendix 2).

10.4 A full list of investments held as at 30 September 2014 is shown below:

Table 6: Fixed Term Deposits

Counterparty	Duration	Principal £m	Rate	Interest £
Bank of Scotland Plc	364	5.000	0.98%	48,866
Lloyds Bank Plc	364	5.000	0.98%	48,866
Lloyds Bank Plc	186	5.000	0.70%	17,836
Barclays Bank Plc	94	5.000	0.48%	6,181
Bank of Nova Scotia	105	10.000	0.47%	13,521
HSBC Bank Plc	184	20.000	0.40%	40,329
Barclays Bank Plc	92	10.000	0.48%	12,099
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	183	15.000	0.52%	39,107
Bank of Nova Scotia	110	10.000	0.47%	14,164
Goldman Sachs International Bank	91	15.000	0.49%	18,325
National Australia Bank Ltd	183	10.000	0.58%	29,079
Lloyds Bank Plc	185	10.000	0.70%	35,479
Overseas Chinese Banking Corporation Ltd	185	10.000	0.62%	31,425
Nationwide BS	184	10.000	0.64%	32,263
Deutsche Bank AG	182	5.000	0.66%	16,205
Lloyds Bank Plc	365	10.000	0.95%	95,000
Lloyds Bank Plc	277	5.000	0.80%	30,356
Nationwide BS	185	5.000	0.63%	15,966
Bank of Scotland Plc	273	5.000	0.80%	29,918
Lloyds Bank Plc	368	5.000	0.95%	47,890
Bank of Scotland Plc	365	5.000	0.95%	47,500
Lloyds Bank Plc	364	5.000	0.95%	47,370
Overseas Chinese Banking Corporation Ltd	364	10.000	0.90%	89,753
Bank of Scotland Plc	365	5.000	0.95%	47,500

10.5 In addition to the fixed investments above, the Council holds certain funds in the money markets, call accounts, and treasury bills. A list of these investments held as at 30 September 2014 is shown below:

Money Market Funds

MMF Counterparty	Principal £m	Average Interest
Ignis	30.000	0.45%
Insight	19.536	0.41%
Federated (PR)	30.000	0.41%

Call and Notice Accounts

Counterparty	Principal £m	Interest Rate
Svenska Handelsbanken AB	20.000	0.40%
Santnder UK Plc (95 Day Notice)	10.000	0.60%
Deutsche Bank AG (95 Day Notice)	10.000	0.74%

Treasury Bills

Broker	Duration	Principal £m	Rate	Interest £
King & Shaxson	89	9.990	0.42%	10,460

10.6 The Executive Director for Resources and Regeneration confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

Investment Counterparty List

10.7 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function. This strict criteria will also be applied when looking at institutions that offer CDs.

11. BORROWING

11.1 The Council's latest forecast capital financing requirement (CFR) for 2014/15 is £483m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).

11.2 The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £190m and has utilised £26m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

11.3 It is anticipated that further borrowing may be undertaken during this financial year as the capital programme develops.

12. DEBT RESCHEDULING

12.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2014/15.

13. NEW BANKING CONTRACT

13.1 The Council's current banking contract with the Co-operative Bank formally comes to an end on 31st March 2015. Due to fundamental changes to the Co-operative Bank's financial strategy and its decision to withdraw from providing banking transmission services to local authorities, a mutual agreement was reached between both parties to terminate the contract early and without penalty to the Council.

13.2 The Council has recently completed a tendering exercise to seek the services of an alternative bank to start as soon as possible. The final stages of this process were completed in October 2014 and the assessment was made on weightings of 60% for price and 40% for quality. The banking contract was awarded to Barclays Bank Plc with an effective start date of 1st November 2014. The award is for a period of five years, with an option to extend for a further two years. It should be noted that the schools accounts are currently with the National Westminster/Royal Bank of Scotland Group. There are no immediate proposals to change this arrangement.

14. FINANCIAL IMPLICATIONS

14.1 There are no additional financial implications other than those mentioned in the body of the report.

15. LEGAL IMPLICATIONS

15.1 The Council's general power to borrow is set out in Section 1 of the Local Government Act 2003, subject to its affordable borrowing limits and the prudential borrowing regime set out under the Act. Authorities must determine and keep under review how much they can afford to borrow having regard to the CIPFA prudential Code of Capital Finance in Local Authorities. This requires the Council's borrowing and investment decisions to take into account the issues of affordability, prudence and sustainability, value for money stewardship of assets, service objectives and practicality.

16. ENVIRONMENTAL IMPLICATIONS

16.1 There are no specific environmental implications relating to this report.

17. HUMAN RESOURCES IMPLICATIONS

17.1 There are no specific human resources implications relating to this report.

18. CRIME AND DISORDER IMPLICATIONS

18.1 There are no specific crime and disorder implications relating to this report.

19. EQUALITIES IMPLICATIONS

19.1 The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

19.2 The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

For further information about this report, please contact:

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Richard Lambeth, Group Manager Capital and Accounting on 020 8314 3797, or

Adeola Odeneye Principal Accountant on 020 8314 6147

APPENDIX 1 - Extract from Credit worthiness Policy

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	1 year
UK Government Treasury blls	UK sovereign rating	**100%**	6 months
Money market funds	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits and **Certificates of Deposits** with banks and building societies	Yellow* Purple Blue** Orange Red Green*** No Colour	£30m £25m £75m £20m £15m £10m 0	Up to 1year Up to 1 year Up to 1 year Up to 1 year Up to 6 mths Up to 100 days Not for use
Call accounts and notice accounts	Yellow Purple Blue Orange Red Green No Colour	In line with the above	Liquid

**for UK Government debt, or its equivalent, constant net asset value money market funds and collateralised deposits where the collateral is UK Government debt*

***Part-nationalised banks*

**** The green limit was formerly for 3 months but the Financial Conduct Authority set (July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.*

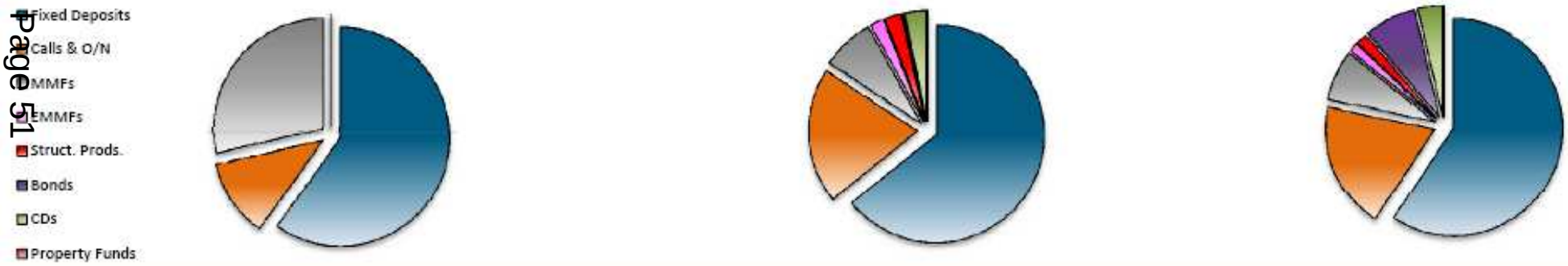
APPENDIX 2 - Extract of the Benchmarking Data with 11 other London Authorities June 2014

London Borough Of Lewisham

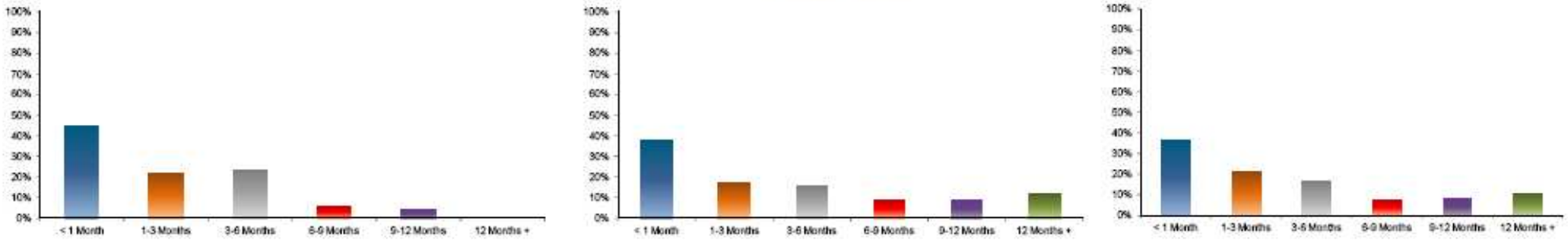
Summary Sheet

	London Borough Of Lewisham	Benchmarking Group2 (12)	London (18)
		Basic Portfolio Characteristics	
WARoR	0.57%	0.77%	0.78%
WAM	71	170	154
WATT	135	280	264
WA Credit Risk	3.2	3.1	2.9
Model WARoR	0.62%	0.74%	0.72%
Difference	-0.05%	0.03%	0.06%
Model Band	0.55% - 0.69%	0.67% - 0.80%	0.65% - 0.79%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles



APPENDIX 2 - Extract of the Benchmarking Data with 11 other London Authorities June 2014

London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group2 (12)		London (18)		Population Average (200)	
Basic Characteristics							
Principal	£343,011,000	£222,632,291		£224,033,948		£77,937,637	
WARoR	0.57%	0.77%		0.78%		0.66%	
WAM	71	170		154		93	
WATT	135	280		264		171	
WA Credit Risk	3.19	3.12		2.93		3.21	
Portfolio Breakdown							
Fixed Deposits	59.76%	64.17%	11	59.23%	17	49.13%	181
Calls & O/N	11.66%	20.07%	9	19.08%	15	34.00%	179
MMFs	28.57%	7.74%	9	7.35%	13	11.85%	112
EMMFs	0.00%	2.03%	3	1.35%	3	1.16%	12
Struct. Prods.	0.00%	2.49%	3	1.66%	3	0.42%	9
Bonds	0.00%	0.27%	1	7.67%	5	1.26%	13
CDs	0.00%	3.24%	3	3.66%	5	2.18%	28
Property Funds	0.00%	0.00%	0	0.00%	0	0.00%	0
Institution Breakdown							
Banks	68.51%	67.15%	12	60.97%	18	66.29%	195
Building Socs.	2.92%	5.95%	8	5.65%	11	8.05%	105
Government	0.00%	16.55%	7	24.13%	12	12.51%	87
MMFs	28.57%	7.74%	9	7.35%	13	11.85%	112
EMMFs	0.00%	2.03%	3	1.35%	3	1.16%	12
MLDBs	0.00%	0.00%	0	0.15%	1	0.01%	1
Other	0.00%	0.58%	1	0.40%	2	0.12%	7
Domestic/Foreign Exposure							
Domestic	42.27%	67.97%	12	75.06%	18	77.51%	197
Foreign	29.15%	22.26%	11	16.24%	13	9.48%	92
MMFs	28.57%	7.74%	9	7.35%	13	11.85%	112
EMMFs	0.00%	2.03%	3	1.35%	3	1.16%	12
Maturity Structure							
< 1 Month	44.61%	37.74%		36.27%		54.70%	
1-3 Months	21.87%	17.26%		21.01%		13.12%	
3-6 Months	23.32%	15.61%		16.39%		15.30%	
6-9 Months	5.83%	8.71%		7.45%		6.78%	
9-12 Months	4.37%	8.94%		8.56%		6.43%	
12 Months +	0.00%	11.75%		10.32%		3.69%	

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Capita Asset Services' Suggested Credit Methodology 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR.

Agenda Item 5

AUDIT PANEL			
Report Title	**Internal Audit update report**		
Key Decision	**No**		**Item No. 5**
Ward	**ALL**		
Contributors	**Head of Corporate Resources**		
Class	**Part 1**		**Date:19 November 2014**

1. Purpose of the report

1.1. This report presents members of the Audit Panel with a summary of progress with:

- Internal audit work against the audit plan, and
- Implementation of internal audit recommendations.

2. Recommendations

2.1. It is recommended that the Audit Panel note the content of this report.

3. Background

3.1. Internal Audit is going through a restructure since the internal audit contract ceased at the end June 2014. Arrangements are in place to ensure that the core audits, school audits and IT audits are completed.

3.2. At the time of writing this report, the in-house team consisted of the Head of Corporate Resources, Internal Audit Contract Manager and an Internal Audit - CIPFA Trainee.

4. Executive Summary

Section 5 - Internal audit progress update. The 2014/15 audit plan is now 30% underway with sixteen audits (mainly schools) completed and six in progress.

Section 6 - Limited, No Assurance and Consultancy reviews. One Limited assurance report was issued for a school.

Section 7 - High and Medium recommendations not agreed. Management have agreed all High and Medium recommendations made since the last meeting.

Section 8 - Progress on the implementation of recommendations. Six follow-up reviews were completed with 93% of recommendations implemented or in progress. Four recommendations were superseded, and 39% of open recommendations were overdue at the end of October.

Section 9 - Restructure of the internal audit service. The position remains as previously reported. Lewisham is looking to access resource via other Councils (Greenwich, Croydon, and Islington) while building it's own capacity of qualified auditors and CIPFA trainees.

Section 10 - Other business. Nothing further to report at this time.

Internal audit progress update

2014/15

4.1. This year's audit plan is underway to be completed by June 2015. For the latest details on this and how the internal audit service will be resourced for 2014/15 please see Section 9.

4.2. Since the last meeting, there were seven final reports issued. Please see the table below.

Dir.	Audit	Date of Final	Audit Opinion	Recs. Made		
				H	M	L
CYP	Troubled Families Programme Claim 7 (Oct 14)	30/10/14	N/A	-	-	-
SCH	Childeric Primary School	31/10/14	Satisfactory	-	2	5
SCH	New Woodlands (inc PRU) Primary	30/10/14	Satisfactory	-	10	7
SCH	Haseltine Primary	22/10/14	Satisfactory	-	6	4
SCH	Holy Trinity CE Primary	09/10/14	Substantial	-	3	2
SCH	Christ Church C of E School (now St Georges wef Sept 14)	24/09/14	Satisfactory	-	10	5
SCH	St Bartholomew's C of E School	07/08/14	Limited	1	14	6

4.3. The only changes to the 2014/15 audit plan since the last report were three additional pieces of work. They were:

- Rogue Landlord Grant 14/15 (CUS) – Internal Audit required to validate the conditions of the grant claim.
- Rangefield School – Procurement Audit – Governors requested a review of the review controls surrounding large spend.
- Troubled Families Programme Grant claim 7 (Oct 14) – Internal Audit required to validate the conditions of the grant claim.

4.4. The table below shows the status of the internal audit plan. Appendix 1, details the full 2014/15 internal audit plan.

Lead Dir.	Original Plan	Addtnl. Audits	Dropped Audits	Current Plan	Final Reports	Reports at Draft	ToR* Issued	Not Started
RRE	13	-	-	**13**	-	-	1	12
CUS	10	1	-	**11**	-	-	1	10
COM	9	-	-	**9**	-	-	-	9
CYP	6	3	-	**9**	3	-	1	5
Sub	**38**	**4**	**-**	**42**	**3**	**-**	**3**	**36**

Lead Dir.	Original Plan	Addtnl. Audits	Dropped Audits	Current Plan	Final Reports	Reports at Draft	ToR* Issued	Not Started
SCH	32	1	(1)	**32**	13	2	1	16
Total	**70**	**5**	**(1)**	**74**	**16**	**2**	**4**	**52**

*Terms of Reference . Also includes internal audit work that does not require a ToR (i.e. grant claims)

5. Limited , No Assurance and Consultancy reports

5.1. There was one 'Limited' report issued since the last meeting, see below. There were no consultancy reviews or 'No Assurance' reports issued.

- St Bartholomew's CE School 14/15 – (SCH) - Limited

5.2. The key areas for improvement noted, already acknowledged by the school, were governance, procurement and budget monitoring. The executive summary for this report that highlights the key areas for improvement is in Appendix 2.

6. High or Medium recommendations not agreed

6.1. Since the last Audit Panel meeting, management have agreed all 'Medium' and 'High' recommendations made.

7. Progress on the implementation of recommendations.

Follow-ups

7.1. Non-school reviews with High or Medium recommendations are followed-up within nine months of the final report. School audits with a negative assurance opinion (i.e. 'Limited' or 'No assurance') also receive a follow-up review.

7.2. There were six follow-up reviews completed since the last Audit Panel meeting (all non-schools). The summary status of the recommendations followed up is shown in the table below:

Implemented	In Progress	Superseded	Not Implemented	Total Recs
21	7	2	0	**30**
70%	**23%**	**7%**	**0%**	**100%**

7.3. Those recommendations found to be 'in progress' or 'not implemented' are held open or reopened. Management will continue to update the progress of implementation and internal audit report on this progress.

7.4. The level of implemented and in progress recommendations if felt to be satisfactory and represents an improvement on the previous quarter. Details of the reviews followed-up are in Appendix 5.

Superseded

7.5. Since the last Audit Panel meeting, four medium recommendations were 'superseded'. They came from the following audits:

- Capital Programme Monitoring 12/13 (RRE),
- Capital Programme Monitoring 13/14 (RRE),
- ISS Facility Service Ltd (RRE), and
- Review of Bank Reconciliations (RRE).

7.6. Details of these superseded recommendations along with the definitions of category are set out in Appendix 4.

Implementation of recommendations

7.7. The table below shows the status of high and medium recommendations made by Internal Audit as at the 31/10/14.

Lead Dir.	Previous No. of O/Due Recs.	Current No. of O/due Recs at 31/10/14	Current No. of Recs with 2+ changes		Previous No. of Open Recs at 31/08/14	No of Recs Re-opened since 31/08/14	New Recs since 31/08/14	Closed Recs since 31/08/14	Current Open Recs at 31/10/14
RRE	6	6	1		**23**	-	-	(11)	**12**
CUS	6	-	2		**22**	-	-	(6)	**16**
COM	-	1	-		**8**	-	-	(3)	**5**
CYP	12		-		**23**	-	-	(15)	**8**
Total N/S	**24**	**7**	**3**		**76**	**0**	**0**	**(35)**	**41**
SCH	11	11	-		**14**	-	43	(7)	**50**
Total All	**35**	**18**	**3**		**90**	**0**	**43**	**(42)**	**91**

7.8. The percentage of overdue recommendations to open recommendations is 39%. This is the same as the reported at the last meeting. Of this, the non-school percentage is only 17% which is an improvement on the last report, which showed it at 32%. However, it should be noted that no new recommendations have been made since the last meeting for non-school audits.

7.9. Details of those recommendations that are either overdue, have two or more implementation date changes or have been re-opened after the follow-up review are presented in Appendix 4.

7.10. The Audit Panel requested an update on the situation relating to IT. The newly appointed interim Head of Service change and Technology, will be attending this meeting to answer members questions. Appendix 6 shows the IT audit reports conducted in the last three years, along with their assurance opinions, number of High and Medium recommendations made, and number of recommendations still open. The main areas for control improvement raised were in respect of the IT strategy and system security and resilience.

8. Restructure of the Internal Audit Service

8.1. The position remains as previously reported. That is, the previous internal audit contract ended as at the 1 July 2014.

8.2. The interim solution for 2014/15 is a combination of arrangements. The Council is deploying the existing internal resource of the internal audit manager and audit trainee. The Council has contracted the London Borough of Greenwich to deliver the schools audit plan, and an independent IT consultant to deliver the IT audits in the plan. And, the Council is in the process of finalising the contracting of the main non-schools internal audit work through the London Borough of Croydon and London Borough of Islington frameworks with Mazaars and PwC respectively.

8.3. While the 2014/15 plan is being delivered the team will revisit the operational structure and build on the agreed model with qualified staff and trainees with some budget held for contracting specialist services as needed. This proposal is modular and similar to that currently being put in place by Lambeth so we have the option to support each other and cover peaks and troughs in demand.

8.4. The next requirement for the service will be the mid year review of the audit plan in November which in turn kicks off the annual assurance mapping process. Future updates will report on this as the audit plan for 15/16 is brought to the Panel for review and approval.

9. Other business

9.1. Nothing further to report at this time.

10. Legal Implications

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

11. Financial Implications

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

12. Equalities Implications

12.1. The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

12.2. The Council’s Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council’s obligations under the Equality Act 2010.

13. Crime and Disorder Implications

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

14. Environmental Implications

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

15. Background Papers

15.1. There are no background papers.

If there are any queries on this report, please contact David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

Lead Dir.	Name of Audit	Scope	Date Due / ToR Issued	Date Audit Finalised	Opinion
RRE	Procurement Card	Key financial controls (to be agreed)	29/10/14		
RRE	**Banking**	Key financial controls (to be agreed)	Q3		
RRE	**Treasury Management**	Key financial controls (to be agreed)	Q3		
RRE	**Pensions for LGPS and TPS**	Key financial controls (to be agreed)	Q3		
RRE	**Budget Monitoring**	Key financial controls (to be agreed)	Q3		
RRE	**Non-Current Assets**	Key financial controls (to be agreed)	Q3		
RRE	**Capital Expenditure**	Key financial controls (to be agreed)	Q3		
RRE	**Payroll**	Key financial controls (to be agreed)	Q3		
RRE	**Accounts Payable**	Key financial controls (to be agreed)	Q3		
RRE	**Main Accounting**	Key financial controls (to be agreed)	Q3		
RRE	Insurance – In house processes	To review the procedures for in-house claims handing process for efficient and effective.	TBC		
RRE	Procurement	Review the procurement process and monitoring of contracts, the governance and administration of the Commissioning and Procurement board. To include how the evaluation of business continuity plans at the award stage is conducted and approved. To include how the Public Services (Social Value) Act is enforced.	TBC		
RRE	Programme and Project Management	To review the programme management process to establish if they are fit for purpose. Also, look at PRG in COM, CYP, RRE to see if they comply with Council's management approach. To include a review of the processes relating to projects that have concerns.	TBC		

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

Lead Dir.	Name of Audit	Scope	Date Due / ToR Issued	Date Audit Finalised	Opinion
CUS	Rogue Landlord Grant	Grant review (Additional)	17/10/14		
CUS	**Housing Benefit / Council Tax Reduction Scheme (CTRS)**	Key financial controls (to be agreed)	Q3		
CUS	**Council Tax**	Key financial controls (to be agreed)	Q3		
CUS	**Accounts Receivable**	Key financial controls (to be agreed)	Q3		
CUS	**NNDR**	Key financial controls (to be agreed)	Q3		
CUS	IT Strategy (IT Audit)	Review the IT strategy.	TBC		
CUS	Decent Homes Contractors / Fire / H&S - Client management	To review the management of 'Decent Homes' expenditure, objectives and outcomes. To include the monitoring of recommendations from Fire Brigade and other agencies.	TBC		
CUS	Housing Grants / Council's Housing Assistance Policy	To review the controls surrounding the handy-person service and disabled facilities grants.	TBC		
CUS	Business Continuity Plans (IT Audit)	To review the council's continuity plans for: Telephony / IT Systems (including servers - corporate and local / 3rd party) to see if they are reviewed regularly, feasible and officers know where they are and what to do.	TBC		
CUS	Oracle12 Upgrade (IT Audit)	Post implementation review of the new Oracle upgrades system	TBC		
CUS	SharePoint 2010 (IT Audit)	Look at local security and usability.	TBC		

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

Lead Dir.	Name of Audit	Scope	Date Due / ToR Issued	Date Audit Finalised	Opinion
COM	**Payments to Care Providers for Older Adults**	Key financial controls (to be agreed)	Q3		
COM	**Client Contribution for Care Provision**	Key financial controls (to be agreed)	Q3		
COM	**Direct Payments**	Key financial controls (to be agreed)	Q3		
COM	South London and Maudsley (SLAM) - (Specialist Audit)	Review the governance and operational management in respect of LBL interest in relation to SLAM	TBC		
COM	Youth Offending Service (YOS)	To review the objective and outcomes of the service	TBC		
COM	Public Health Contracts	To review the management of Public Health Contracts for general process, decision making, scrutiny, length of contracts / renewal monitoring etc	TBC		
COM	Quality Assurance Training - Pathway (non-assurance)	To provide training / advice on the new pathway service	Q1/2		
COM	Pathway framework (Assurance)	To assess the controls surrounding pathway process after the training has been provided.	Q3 / Sep		
COM	Contract Management	Review the monitoring of contracts within the Community and CYP directorate.	TBC		

Lead Dir.	Name of Audit	Scope	Date Due / ToR Issued	Date Audit Finalised	Opinion
CYP	TFP - Claims submissions Check (non-assurance) claim 7	To review the criteria for the Troubled Families Programme for each claim. .	Oct 14	30/10/14	n/a

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

Lead Dir.	Name of Audit	Scope	Date Due / ToR Issued	Date Audit Finalised	Opinion
CYP	TFP - Claims submissions Check (non-assurance) claim 5	To review the criteria for the Troubled Families Programme for each claim. Expected 2-4 times a year.	May 14	15/05/14	n/a
CYP	Adoption Reform Grant 13-14	Review the validity of the claim (Additional)	Jun 14	01/07/14	n/a
CYP	Troubled Families Programme (TFP) Annual Review	To review of the new system for gathering information and submission.	05/09/14		
CYP	**Payments to Care Provider and Foster Carers for Looked After Children**	Key financial controls (to be agreed)	Q3		
CYP	No recourse to public funds (Pilot Scheme)	Review the framework / guidance / policy on no recourse to public funds	Q4		
CYP	Disclosure and Barring Service (DBS) PT 1	Review the framework of DBS in relation to schools / CYP. Review the DBS board and actions.	TBC		
CYP	Youth Service	Review the governance , procedures and processes, reporting and scheme of management	Q3		
CYP	Payments for 2 -4 year olds	Review the returns and payments to and from providers (private, voluntary and independent sectors). Potentially look at DBS compliance too.	TBC		

Lead Dir.	Name of Audit	Scope	Qrt / Mth	Date Audit Finalised	Opinion
SCH	Childeric Primary	Standard School Programme	Sep 14	31/10/14	Substantial
SCH	New Woodlands (inc Primary PRU)	Standard School Programme	Dec 14	30/10/14	Satisfactory
SCH	Haseltine Primary	Standard School Programme	Sep 14	22/10/14	Satisfactory

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

Lead Dir.	Name of Audit	Scope	Qrt / Mth	Date Audit Finalised	Opinion
SCH	Holy Trinity CE Primary	Standard School Programme	Sep 14	09/10/14	Substantial
SCH	Christ Church CE Primary (Now St George's)	Standard School Programme	Jul 14	24/09/14	Satisfactory
SCH	St Bartholomews CE Primary	Standard School Programme	Jul 14	15/09/14	Limited
SCH	St John Baptist CE Primary	Standard School Programme	Jun 14	27/06/14	Substantial
SCH	Sir Francis Drake Primary	Standard School Programme	Jun 14	25/06/14	Substantial
SCH	John Ball Primary	Standard School Programme	Jun 14	18/06/14	Substantial
SCH	Beecroft Garden Primary	Standard School Programme	May 14	12/06/14	Substantial
SCH	Baring Primary	Standard School Programme	Jun 14	11/06/14	Substantial
SCH	Downderry Primary	Standard School Programme	May 15	23/05/14	Substantial
SCH	St Winifreds Catholic Junior	Standard School Programme	Apr 14	21/05/14	Substantial
SCH	Ashmead Primary	Standard School Programme	Oct 14	At draft	
SCH	Grinling Gibbons Primary	Standard School Programme	Oct 14	At draft	
SCH	Chelwood Nursery	Standard School Programme	Feb 15		
SCH	All Saints Primary	Standard School Programme	Feb 15		
SCH	Brent Knoll – Special	Standard School Programme	Jul 14		
SCH	Brindishe Lee Primary	Standard School Programme	Nov 14		
SCH	Coopers Lane Primary	Standard School Programme	Oct 14		
SCH	Elfrida Primary	Standard School Programme	Feb 15		
SCH	Eliot Bank Primary	Standard School Programme	Jan 15		

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

Lead Dir.	Name of Audit	Scope	Qrt / Mth	Date Audit Finalised	Opinion
SCH	Gordonbrock Primary	Standard School Programme	Jan 15		
SCH	Greenvale - Special	Standard School Programme	Jan 15		
SCH	Kelvin Grove Primary	Standard School Programme	Dec 14		
SCH	Perrymount Primary	Standard School Programme	Jan 15		
SCH	St James Hatcham CE Primary	Standard School Programme	Nov 14		
SCH	St Margarets Lee CE Primary	Standard School Programme	Nov 14		
SCH	St SavioursRC Primary	Standard School Programme	Feb 14		
SCH	St William of YorkCE Primary	Standard School Programme	Dec 14		
SCH	St Winifreds Catholic Infants	Standard School Programme	Dec 14		

Appendix 3 - Status of recommendations

Executive Summary for St Bartholomew's C of E Primary School 2014/15

Internal Audit Assurance Opinion	▲ Limited	Direction of travel	↘

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. **See glossary for further details and definitions.**

Introduction

The background, agreed scope, and risks assessed for this internal audit are included in the Terms of Reference (ToR) which can be found on page 30.

The findings in this report are by exception. This means only those areas where further management action is recommended to improve internal control are mentioned.

Key Findings that Need Attention (* = identified as a key finding from previous audit)

- The Resources and Finance committee clerking processes, minute taking and document retention were not sufficiently to evidence that governors are fulfilling all their obligations.
- The annual audit of the school's voluntary fund account was not done.
- Not all governors, and staff with financial responsibility, had completed their register of interest's forms.
- * Purchase Orders (PO) were not always raised where required
- Some contracts were not available for inspection during the review.
- The correct number of quotes and tenders were not always obtained.
- A payment to a supplier was not checked against the PO prior to payment.
- Separation of duties in the purchasing process was not always evident.
- Assets were unable to be located during the review
- * The asset register did not have all the expected fields for an asset register.
- No formal debt recovery policy was in place.
- The generic administration log in was used to access the Financial Management System (FMS) and Pupil Data System.
- Monthly budget monitoring reports were not provided to budget holders
- The agreed budget was not originally input correctly into the FMS
- The virement procedures in the scheme of delegation were not followed

	Risk Headings	H	M	L
●	1 - Governance	-	3	2
●	2 - Purchasing and Contracts	-	4	1
●	3 - Assets	-	2	-
★	4 - Banking	-	-	1
●	5 - Income	-	2	-
★	6 - HR / Recruitment	-	-	1
★	7 - Payroll	-	-	-
▲	8 - Data Security	1	-	-
●	9 - Budget Monitoring	-	3	1
Total		1	14	6

Areas of where controls worked well

The controls in Payroll, HR and Banking worked well with either no or low recommendations made.

Changes to Scope

Baker Tilly, the council's former internal audit contractors issued the ToR. The Council's in-house internal audit team conducted the fieldwork (testing) and report.

At the request of the school's governing body, internal audit reviewed the reasons for an unplanned overspend at the end of 2013/14. Any recommendations made in relation to the over spend not already covered in the internal audit review, are detailed separately and not included in this executive summary.

Follow-up Review

Internal audit will conduct a formal internal audit follow up review within nine months of the final report.

Appendix 3 - Status of recommendations

Explanations for Assurance Opinion

Each internal audit assurance review gives an opinion on the controls in place based on the fieldwork conducted. See table below to explaining these opinions.

Assurance Opinion	Definition
★ Substantial	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
● Satisfactory	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
▲ Limited	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
■ No Assurance	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definition of Category of Recommendation

Internal audit rates each recommendation made High, Medium or Low. This rating indicates to management the importance of implementing the recommendation.

	Definition
High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.

Appendix 3 - Status of recommendations

Dir	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Reopened at F/up	Comment
RRE	Contract Management for Joint Street Lighting	26/06/13		1			
RRE	Project Management – Governance and Project Review Group (PRG)	16/07/14		5			
RRE	Maintenance of Assets and Premises	06/11/13			1	2	
CUS	Payments Centre	26/09/13				2	
COM	CCTV Contract Monitoring	04/08/14				2	
COM	Client Contributions for Res and Dom Care 13-14	22/05/14		1			
CYP	Management of PbR Contracts for Early Years Intervention	11/11/13				1	
SCH	Adamsrill Primary School	04/10/12		1			
SCH	Christ Church CE Primary	24/9/10		5			
SCH	New Woodlands School (PRU)	30/10/14		2			Follow up due Jun 15
SCH	St Bartholomew CE Primary	15/09/14	1	8			Follow up due Jun 15
SCH	Torridon Infants School	17/10/14		1			
SCH	Turnham School	30/06/13	5	4			
	Total		**6**	**29**	**3**	**24**	

Appendix 4 - Superseded Recommendations

Audit	Recommendation	Update from Management
Capital Programme Monitoring and Expenditure 2013/14	Further guidance and training should be provided to ensure that project managers and Senior Responsible Officers are fully engaged with the need and benefits of timely closure reports. An emphasis should be given to; The need for closure reports, Closure reports being signed off by the SRO prior to submission to the PRG for consideration, Closure reports where there are outstanding defects.	This recommendation has been superseded by the new Asset Management framework which is currently being developed and will be implemented over the coming months. The intention is to have this framework fully implemented by January 2015. One of the keys to the successful implementation of the new framework will be to provide training to the project managers and SROs, in order that they understand how the system works and how the information they submit will be used to compile accurate management information. This is information will be way of the revised closure reports.
Capital Programme Monitoring and Expenditure 2013/14	Ensure a Post-implementation review (PIR) is carried out locally, or that the Council participates in any national PIR of the pilot programme. Any lessons learned should be shared with and promoted to officers involved in other PbR contracts.	This recommendation has to some extent been superseded by the new Asset Management framework which was recently agreed and is in the process of being implemented over the course of the next couple of months and by no later than January 2015. A critical success factor for the new arrangement will be to provide adequate training to the project managers and SROs in order that they fully understand how the system works and how the information they submit (including closure reports) will be used to compile accurate management information.
ISS Facility Service Ltd - Cleaning Contract	Information Asset Owners (IAOs) should ensure they get periodic assurance from third party support organisations that effective controls have been established to comply with the Data Protection Act 1998 and other privacy requirements	At this point no further changes and or savings are being sought from the cleaning contract, therefore at this time there is no potential for operational risks to the service, if this changes it will be reported.
Review of Bank Reconciliations	The LiquidLogic connection should be amended to restrict access to only the IAS / ICS servers and applications.	The Oracle R12 implementation team are reviewing whether Cash Manager should be implemented as part of the review of the AIMS upgrade. This recommendation has therefore been superseded by events.

Appendix 5 – Status of recommendations at the follow up review.

Lead Dir	Audit	Opinion	Final Rpt Date	F/up Rpt Date	Implemented.		In Progress		Superseded		Not Implemented		Total No. of Recs
					H	M	H	M	H	M	H	M	
RRE	VAT	Substantial	15/11/13	02/10/14		1							**1**
RRE	Maintenance of Assets and Premises	Consultancy	06/11/13	30/09/14	11		2		2				**15**
CUS	Data Scanning and Storage	Limited	13/12/13	30/09/14	2								**2**
CUS	Housing Options	Limited	11/12/13	02/10/14		1		2					**3**
CYP	Management of PbR Contracts	Satisfactory	11/11/13	11/09/14		3		1					**4**
CYP	Estates Management Statutory Maintenance Contracts	Satisfactory	06/12/13	30/09/14		3		2					**5**
Total					**13**	**8**	**2**	**5**	**2**	**0**	**0**	**0**	**30**

Appendix 6 – IT Related Audits for the past three audit plan years

Audit Name	Final Report Date	Assurance Opinion	No. of High Recs	No. of Medium Recs	No. of Recs open
Cyber Security (11/12)	23/07/12	Limited	1	8	-
HR and Payroll (Resource Link) Application Implementation (11/12)	09/09/12	Limited (System Security) No Assurance (data conversion)	-	11	-
Information Governance Control Framework (11/12)	03/08/12	Satisfactory	-	3	-
Fixed Asset System Application Security (11/12)	15/03/13	Satisfactory	-	3	-
NNDR Application Implementation (11/12)	17/08/12	Satisfactory (System Security) Limited (data conversion)	-	4	-
Disaster Recovery for ICT Infrastructure (12/13)	19/04/13	Limited	1	6	4
Information Asset Register (12/13)	13/02/13	Satisfactory	-	4	-
ONEOracle Project Management (12/13)	19/04/13	Satisfactory	-	4	-
Third Party Access to IT Systems and Data (12/13)	04/03/13	Limited	-	13	-
IT Strategy (Memo only)	19/04/13	No Assurance (As nothing to audit)	n/a	n/a	n/a
ICT Managed Services Contract (13/14)	10/07/14	Substantial	-	-	-
Security of File Sharing Servers (13/14)	17/06/13	Limited	1	3	4
Web Payments Systems Resilience (13/14)	26/10/13	Satisfactory	-	1	-
HB and CTRB Benefit Cap IT Implementations (13/14)	31/03/14	Substantial	-	-	-
HB and CTRB parameters (pt. 1 and 2) (13/14)	22/07/14	Substantial	-	-	-
Pensions System Implementation (13/14)	12/11/12	Substantial	-	1	-

Agenda Item 6

AUDIT PANEL			
Report Title	**ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE**		
Key Decision	**NO**		**Item No. 6**
Ward	**ALL**		
Contributors	**Head of Corporate Resources** **A-FACT Group Manager**		
Class		**Date: 19 November 2014**	

1. Purpose of the Report

1.1. The purpose of this report is to present the Audit Panel with a review of the work of the Anti-Fraud and Corruption Team (A-FACT) in the last period (April to Sept 2014).

2. Recommendations

2.1. It is recommended that the Audit Panel note this report for information.

3. Special Investigations

3.1. Details of work and comparative figures for the same period in the prior year are shown below, along with the previous full year figures for reference.

Summary of Special Investigations work	2014/15	2013/14	Change		2013/14	2012/13	2011/12
	P6 YTD	P6 YTD	Number	%	FY	FY (CORRECTED FIGURES)	FY
b/f	30	41	-11	-27%	41	32	84
New	40	42	-2	-5%	79	103	61
Closed	28	50	-22	-44%	-91	-94	-115
c/f	42	33	9	27%	30	41	30
Of which							
E'ee cases	4	16	-12	-75%	27	35	53
- resulting in action	1	9	-8	-89%	16	21	20
Other cases	24	34	-10	-29%	64	59	62
- resulting in action	8	8	0	0%	22	13	10

3.2. The number of cases outstanding has risen due to a number of factors including a number of cases being dealt with by the team and awaiting updates on investigations where reports have been issued but recommended action is still to be concluded by the service area.

3.3. "Other Cases" include applications for support by those who have No Recourse to Public Funds as well as other non employee related fraud enquiries to assist other organisations or Boroughs with their investigations. Case concluded with action in the most recent period included:

- A case of destitution where we were able to prove that the person's circumstances were not as declared and payments ceased.
- The fraudulent use of a Blue disabled parking badge at the O2. The user who had no disability was prosecuted and received a 12 month conditional discharge and a £200 fine.

Employee Related cases

3.4. Whilst there are a number of employee cases ongoing there have not been any concluded cases of staff fraud in this period.

Analysis of employee fraud	2014/15	2013/14	Change		2012/13	2011/12
	P6 YTD	P6 YTD	Number	%	FY	FY
Dismissed/resigned & Convicted	0	0	0	0%	2	2
Convicted & recommended disc. Action	0	0	0	0%	1	
Resigned/Dismissed	1	3	-2	-67%	5	9
Other disciplinary (incl not employed)	0	2	-2	-100%	3	8
Monies repaid	0	0	0	0%	1	0
Management action	0	2	-2	0%	6	1
Identity issue cleared	0	2	-2	0%	3	0
Total	**1**	**9**	**-8**	**-89%**	**21**	**20**

3.5. Quarterly reports continue to be issued to each Executive Director with a summary of all cases being dealt with by Special Investigations in their Directorate. This ensures that the risk of fraud is considered in the context of the demands of the service, priorities are agreed, and progress on investigations communicated.

Lewisham Homes

3.6. A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement. This equates to just under one full time equivalent member of staff and a proportion of the police officer's time. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

Pre-employment Checks

3.7. A-FACT support Human Resources by undertaking part of the Council's recruitment checks. Each potential employee of the Council is required to complete a pre-employment check focusing on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward.

Summary of pre-employment checks	2014/15	2013/14	Change		2013/14	2012/13
	P6YTD	P6 YTD	Number	%	FY	FY
Checks completed	**151**	183	*-32*	*-17%*	274	246
Action taken	**18**	13	*5*	*38%*	20	16

3.9 Of the 18 cases concluded with action taken 13 were dealt with in the most recent period. These were seven with undeclared business interest, two with significant council tax arrears due to the Council and four where they were required to notify benefit that they were starting work. In all cases the applicants were eventually recruited.

4 Benefit Investigations

4.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous full years figures for reference.

Summary of benefit investigations work	2014/15	2013/14	Change		2012/13	2011/12
	P6 YTD	P6 YTD	Number	%	FY	FY
b/f	242	210	32	15%	349	381
New	58	174	-116	-67%	304	264
Closed	108	117	-9	-8%	443	-296
c/f	192	267	-75	-28%	210	349
Sanctions resulting	22	39	-17	-44%	78	84
Of which						
Admin penalty	0	3	-3	-100%	7	11
Caution	18	26	-8	-31%	54	52
Prosecution	4	10	-6	-60%	17	21
Overpayment £	230,223	303,038	-72,815	-24%	616,761	640,355

4.2 The two officers in the Benefit Investigation section are due to be transferred to the DWP in April 2015 and therefore continue to bring as many of the existing cases to a successful conclusion as possible.

4.3 It remains unclear what will happen to any cases outstanding as at 1st April 2015 but it is unlikely that it will be possible to transfer any complex cases. New cases are therefore only being taken on where there is a realistic chance of conclusion before the transfer.

5 Housing Investigations

5.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous full year figures for reference.

Summary of Housing Application Investigation	2014/15	2013/14	Change		2013/14	2012/13	2011/12
	P6 YTD	P6 YTD	Number	%	FY	FY	FY
b/f	39	76	-37	-49%	76	48	72
New	18	22	-4	-18%	67	105	66
Closed	-45	-71	26	37%	-107	-77	-90
c/f	12	27	-15	-56%	36	76	48

Summary of Housing Application Investigation	2014/15	2013/14	Change		2013/14	2012/13	2011/12
	P6 YTD	P6 YTD	Number	%	FY	FY	FY
Resulting in action	35	7	28	400%	50	25	18

5.1 There have been 20 successful cases closed in this period. These are all in relation to an ongoing project to check the Housing Register applications which are Band 2 applications for housing (These are considered in High Need of Housing). The majority of these applicants have been actively bidding for properties. So far 289 of the 453 applications for Band 2 priority have been checked with a total of 67 being identified as fraudulent. We are aiming to complete the verification of the remaining applications by the end of the year.

5.2 The Audit Commission have stated that there is significant value associated with recovering tenancies and preventing fraudulent applicants from being housed. They estimate that the average cost of temporary accommodation for a family for a year is £18,000. On this basis A-FACT have either recovered and prevented tenancies being wrongly allocated in 35 cases, representing £630,000 of public funds.

6 DCLG Housing Bid funding

6.1 Since January 2012 the DCLG have funded investigation work based within A-FACT to work with local housing partners to tackle fraud related to social housing. Work is being directed by Strategic Housing (Customer Services) and delivered by A-FACT working in Lewisham and with the South East London Housing Partnership (SELHP).

Summary of DCLG Housing Investigations work	2014/15	2013/14	Change		2012/13	2011/12
	P6	P6	Number	%	FY	FY
b/f	33	9	24	267%	19	0
New	147	42	105	250%	158	48
Closed	105	36	69	192%	-168	-29
c/f	75	15	60	400%	9	19
Tenancies recovered	**22**	**11**	**11**	**100%**	**26**	**9**
Breakdown by RSL						
L & Q	14	9	5	56%	12	7
Pinnacle	3	1	2	200%	8	2
Decant (Milford Towers)	0	0	0	0%	4	0
Lewisham Homes	1	1	0	0%	2	0
Hexagon	3	0	3	300%	0	0
Family Mosaic	1	0	1	100%	0	0

6.2 The rise in number of cases taken on and closed and rise in results in this period is a reflection of the good progress this initiative continues to make as it matures (now in third year) and our approach is refined. The extra funding from DCLG that has

enabled additional resource to be deployed and the support and engagement of more partners from the region via SEHLP.

6.3 In the first six months 22 properties have been recovered, including a four bedroom house and three houses with three bedrooms as well as smaller properties. Under the scheme with SELHP, Lewisham has nomination rights on all of these properties.

6.4 In one case it was established that the tenant had actually sublet the property from the very first day they had been allocated the tenancy. The tenant had also failed to declare that they owned a property when allocated the tenancy. They continued to sublet for 14 years and brought two more properties in this period. They also claimed housing benefit for eight of these years. From the evidence gathered they were making a profit of approx £600 per month on this social housing tenancy. Further action against this person is being considered.

6.5 On the basis of the Audit Commission figures for the value of social housing the recovery of these 22 tenancies equates to £396,000 of public funds.

7 Local Government Transparency Code 2014

7.1 The new Local Government Transparency Code issued on 3rd October 2014 introduces the requirement for all local authorities to publish data on it's anti-fraud arrangements on at least an annual basis.

7.2 The information that has to be published is

- Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to require information) (England) Regulations 2014 or similar powers,
- Total number of employees undertaking investigations and prosecutions of fraud
- Total number of professionally accredited counter fraud specialists
- Total amount spent by the authority on the investigation and prosecution of fraud
- Total number of cases investigated.

7.3 The Code also includes the recommendation that further information should be published including total number of cases of irregularity investigated and the monetary value of the fraud and irregularity identified.

7.4 This data that is required to be published will be included in the next report to Internal Control Board.

8 Publicity

8.1 There have not been any cases suitable for publication in the last period.

9 Fraud Awareness Training

9.1 No fraud awareness training has been delivered in this period however more training is planned for the autumn.

10 Metropolitan Police Secondee

10.1 Detective Constable Norris continues on secondment to A-FACT from the Metropolitan Police.

11 Legal Implications

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

12 Financial Implications

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

13 Equalities Implication

13.1 There are no specific equalities implications arising directly from this report.

14 Crime and Disorder Implications

14.1 There are no crime or disorder implications arising directly from this report

15 Environmental Implications

15.1 There are no specific environmental implications arising directly from this report.

16 Background Papers

16.1 There are no background papers reported.

If there are any queries on this report, please contact

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