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AGENDA
AUDIT PANEL

Date: THURSDAY, 11 JULY 2019 at 7.00 pm

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

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

COUNCILLORS

Councillor Jim Mallory
Councillor Paul Maslin
Councillor Joan Millbank
Councillor Stephen Penfold
Councillor James Rathbone
Councillor Susan Wise

Independent Members

Carole Murray
Ian Pleace
Stephen Warren
1 Vacancy

Members are summoned to attend this meeting

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

Janet Senior
Acting Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 3 July 2019

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	**ELECTION OF CHAIR AND VICE CHAIR**		
Key Decision			**Item No. 1**
Ward			
Contributors	**CHIEF EXECUTIVE**		
Class	**Part 1**	**Date: 11 July 2019**	

Recommendation

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2019/20

Agenda Item 2

AUDIT PANEL			
Report Title	**MINUTES**		
Key Decision			**Item No. 2**
Ward			
Contributors	**CHIEF EXECUTIVE**		
Class	**Part 1**	**Date: 11 July 2019**	

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 26 March 2019 be confirmed and signed.

MINUTES OF THE AUDIT PANEL

Tuesday, 26 March 2019 at 7.00 pm

PRESENT: Councillors Alan Hall, Louise Krupski, Paul Maslin, Joan Millbank, James Rathbone, Carole Murray and Stephen Warren

ALSO PRESENT: Councillors Brown and Bonavia

Apologies for absence were received from Councillor Mark Ingleby and Ian Pleace

33. Minutes

Catford Regeneration Partnership Limited (CRPL) Update

Panel Members noted that a non Executive Member would be appointed to the Board. The Chair asked when this proposal would go to Council, and was told in June.

RESOLVED that the minutes of the open meeting held on Tuesday 11 December 2018 be agreed as a correct record.

34. Declarations of Interests

The Chair declared a non pecuniary interest in item 6 as he was a Member of the Appointment Panel for the former Chief Executive, Ian Thomas.

35. Update on Oracle -

The Head of Financial Services introduced the report. The Head of Programme Manager, Financial Services gave the presentation.

He highlighted the following:

- Officers were planning to go live with the second phase of the programme in April with schools, and May for the Council. If key deliverable dates are not met, officers would report back to Audit Panel.
- Services in phase two payroll parallel runs, service transition into support, and business change.
- It has now moved to the end of the process, which was the most critical point and there were a number of risks and issues that officers needed to address.
- The transition period was approaching, and the organisation would need to be trained as this was a huge change.
- As part of the new ways of working employees would be able to access their personal data via any device in the same way they access on-line banking.

Carole Murray asked if the first parallel run had been completed, and was told it had. She asked whether they had any problems and was told there were a number of key challenges which have been addressed. It was noted that the objective was to get 90% of data aligned, and officers had got it to 93%, which was above what was projected. The Programme Manager said it was crucial that employees get paid on time. The Head of Financial Services said officers would be able to look at how the Council was managing its risks. Panel Members requested that the update to the next meeting included savings that had been made as a result of Oracle Cloud.

Action >>>>>> Head of Financial Services

36. Update on 2018/19 Closing of Accounts and External Audits

Paul Grady, Engagement Lead, Grant Thornton informed Panel Members that the green coloured areas had been completed, amber coloured progressing, and red yet to be done. He said Grant Thornton would be coming to the Council next week to pick up on work that needed to be done.

The Chair asked about the anticipated finished date, and was told end of July. The Head of Financial Services said officers had been engaged with Grant Thornton and had positive discussions. He was hopeful about meeting the deadline. Officers were thanked for the report.

RESOLVED that the report be noted.

37. Grant Thornton Housing Benefit Certification Letter 2017/18

Paul Jacklin, Senior Audit Manager, Grant Thornton introduced the report.

Panel Members noted that errors identified were consistent with issues found in previous years. It was noted that there were nothing to surprise external auditors. They had looked at the Council's response to financial challenges, Brexit and political uncertainties. Panel Members noted the errors found, and were informed that as a result of this the claim was amended and qualified and Grant Thornton had reported their findings to the DWP. It was noted that the DWP might require the Council to undertake further work or provide assurances on the errors identified.

RESOLVED that the report be noted.

38. London Borough of Lewisham Value for Money Report 2017/18

Paul Grady introduced the report. He informed Panel Members that there was nothing new in respect of matters reported before. External Auditors had positive responses from Senior Management on issues that were raised during the Audit and both parties were now working together to address them.

Paul Grady said the appointment and departure of the former Chief Executive in 2018 was a new issue and a recommendation raised for Members to reflect upon the outcome to inform future appointments.

Paul Grady reminded Panel Members that three key issues were identified:

- Budget Management
- Savings Plan
- Transformation Arrangements

As previously reported no significant issues were identified with the first two. He added that the review of transformation arrangements had now been completed with the conclusion that there were governance weaknesses in respect of the transformation programme in 2017/18. For this reason the VFM opinion was qualified in this respect and high level recommendations raised to support the Council's improvement plans.

Panel Members noted that the recommendations had been agreed with Management, and Management had responded positively. This would be the final report for issue of the audit letter.

Stephen Warren said he welcomed Management's response, as this gave an indication of acceptance, because these were audit recommendations on a strategic level. He requested that a regular update be done for Panel Members showing specific actions and timetable, so they can monitor the progress closely.

The Chief Financial Officer told Panel Members that he had tried to do this with the recommendations but it was difficult, given their deliberately high level nature, but he would keep this under review and bring regular updates to Audit Panel. Mr Warren said Panel Members would need something they could monitor that went beyond the narrative, for example with milestones and accountability. The Chief Financial Officer said this would be done.

Action >>>>>>> Chief Financial Officer

Carole Murray asked how Management would address the resourcing issues for more assurance to review Transformation Governance, and was told in the immediate future they would be addressed by temporary and permanent staff. Ms Murray mentioned that some local authorities had done this and after two years seemed to still have temporary staff. The Chief Financial Officer noted there seemed to be a shortage of experienced qualified Audit staff in the public sector.

Panel Members noted that interim arrangements were still in place and Management would try to make it work, if not possible they would go back to Members for additional resources. The Chief Financial Officer stated that some risks had to be taken because of continued savings.

Councillor Maslin asked what was going to be done to address the mistake made in connection with the former Chief Executive. He asked how the process would be different. The Chair said as far as he was aware the report that went to Council for the recruitment of the former Chief Executive is the same as what had gone out

for the recruitment of a new Chief Executive. He said it would be good to hear from the External Auditors about their findings.

Paul Grady said Grant Thornton did not do a review on the process in detail. He said the arrangements were lawful and not inappropriate, but given the outcome the situation had been expensive, with some element of turmoil and management resources used. He said the Council could have done without this, and Council Members needed to reflect on what could have been done differently.

The Chair said the only difference he could see in the current report to Council was the exclusion of the recommendation to look at the possibility of a black Chief Executive. He said the report was a direct lift from the last one. He asked whether officers were aware of LGA and SOLACE guidance, and was told by the Executive Director for Customer Services that this query would be fed back to the Head of Human Resources for a response.

Action >>>>>> Chief Financial Officer

Paul Grady stated that the recommendation from Grant Thornton was for Council Members to address, not officers. Councillor Maslin said he was aware that this was a sensitive issue but it would need to be addressed. Councillor Millbank said she was sure it was being addressed.

There was a detailed discussion on the issue of the appointment of the former Chief Executive.

The Chair asked about Transformation and the expected overspend in the Children and Young People budget. He also asked how officers would be addressing the IT overspend of £1.2m. The Chief Financial Officer explained the Financial process and decisions that had to be taken to ensure that Management was able to provide services and also work towards savings while managing the risks to what the Council was trying to achieve.

Panel Members noted that although most local authorities were going through similar difficulties with 90% reporting children services overspends in 2017/18, Lewisham officers were doing their best to ensure they try to keep to their savings objectives.

Councillor Krupski said the Council should be realistic, as the reality was that these measures would take time to become effective. She said she was confident that the structures that had been put in place to address the budget issues would work. Councillor Krupski said Children and Young People Directorate officers had reported to the Public Accounts Select Committee (PAC), and PAC would continue to monitor progress to ensure budget deficits are addressed effectively.

RESOLVED that:

i. the VFM report and Opinion be noted.
ii. Officers response to the VFM recommendations be noted.
iii. the Pending audit certificate, subject to the auditors completing their consideration of objections related to the accounts for the year ended 31

March 2017 be noted.

39. Annual Audit Letter 2017/18

This report was discussed as part of the Value for Money report.

RESOLVED that the report be noted.

40. Terms of Reference of the Audit Panel

The Chair said it was good practice for the Panel to review its terms of reference every now and then to ensure they were fulfilling their responsibilities. He thanked the Audit Manager for the report.

The Chief Financial Officer said he cross referenced the Council's Audit Panel Terms of Reference (TOR) with the CIPFA's recommended TOR and came to the conclusion that the combination of the Council's Audit Panel and the Public Accounts Select Committee Terms of References met that of the CIPFA recommended model, especially when considered alongside the Council's compliance with Public Sector Internal Audit Standards.

Mr Warren said he liked the short TOR, and asked why the Panel did not produce an annual report. He was told that the Chair does one on behalf of the Panel and this would be circulated to Independent Panel Members as all Council Members gets a copy.

Action >>>>>> Chief Financial Officer

The Chair thanked officers for the report and commented that the Panel should try to review its TOR every two to three years.

RESOLVED that the report be noted.

41. External Finance Review - As reported to PASC in December and Mayor and Cabinet in February 2019

Audit Panel noted that the response to the referral would be going to Mayor and Cabinet on 24 April 2019. The Chair requested that this response be circulated to Audit Panel Members.

Action >>>>>> Committee Clerk

42. Internal Audit Update and Plan

The Chief Financial Officer introduced the report. The report covered progress against internal audit plans, both corporate and schools, progress of implementation of internal audit recommendations and an indicative draft internal audit plan for 2019-20.

Audit Panel Members noted that the Internal Control Board (ICB) had concerns about the number of reports that were outstanding in the year, and officers would need to address this. Panel Members said it would be helpful if they could see the minutes from the ICB.

Action >>>>>> Chief Financial Officer

Panel Members asked if the schools reports go to the Directors, and suggested that PAs should be asked to circulate them to their Directors. The Panel were assured that the relevant Directors were issued with internal audit reports for their areas. Panel Members asked if schools had responded to their recommendations, and were told the Audit software has action tracking but unfortunately it was not yet user friendly. As soon as this had been addressed it would be removed from the Children and Young People Directorate and monitored by the Audit team.

Carole Murray said she was concerned to see that 50% of the Audit Plan had not started by 7 March. She asked whether the Council planned to stay with Mazars as their Provider. The Audit Manager said they were having difficulties retaining trained staff, as there appeared to be resourcing challenges to secure Auditors in the public sector. Ms Murray asked whether officers would have enough work completed to do a proper opinion and was told that they were confident as the report stood.

RESOLVED that the report be noted.

Meeting ended 8:45pm Chair……..

AUDIT PANEL			
Report Title	**DECLARATIONS OF INTEREST**		
Key Decision			**Item No. 3**
Ward			
Contributors	**Chief Executive**		
Class	**Part 1**	**Date: 11 July 2019**	

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)

Lewisham Borough Council Oracle Programme

Audit Panel Programme Up-date

July 2019

Agenda

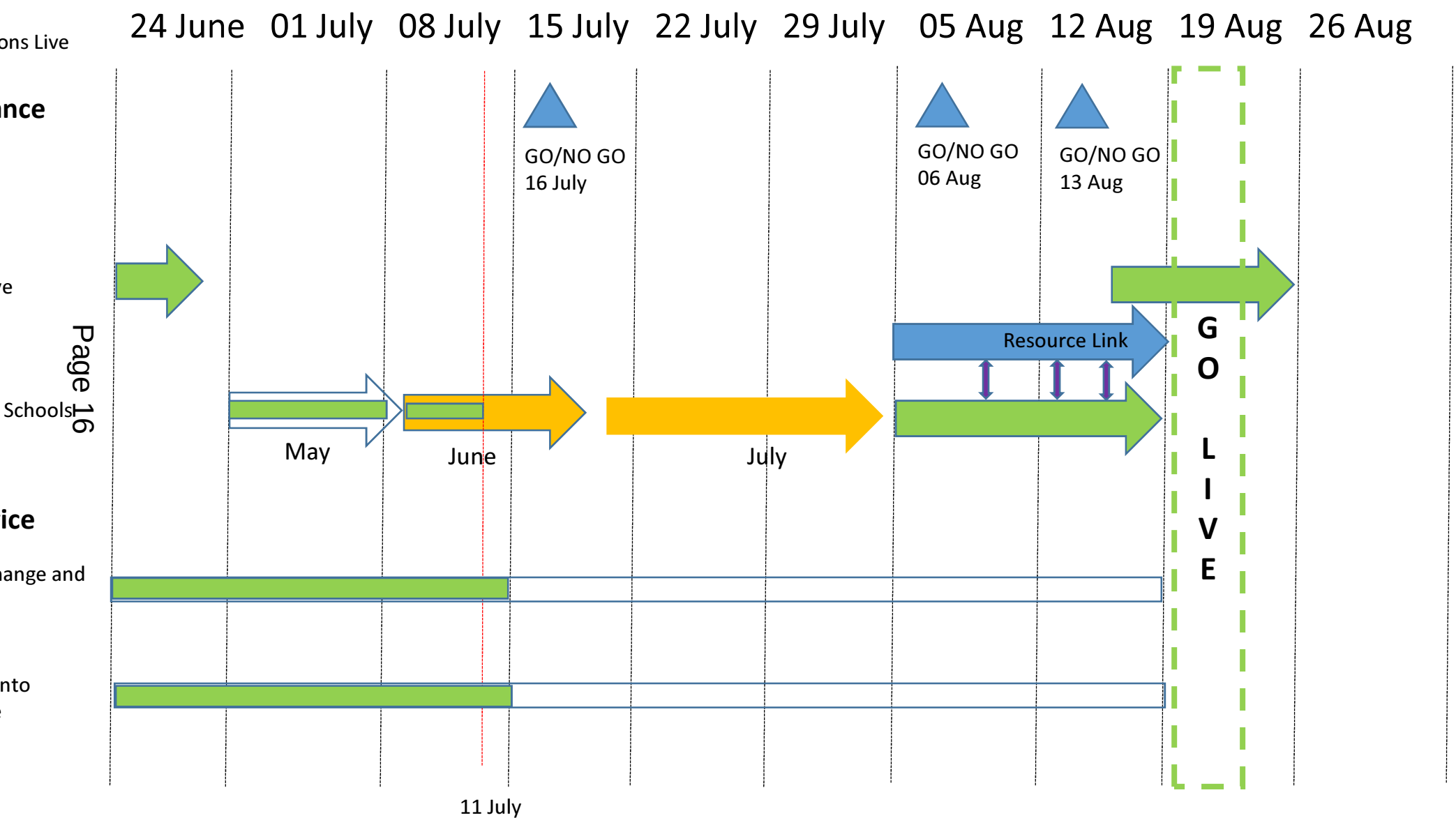
- Summary
- High Level Plan
- Key Milestone Dates
- Key activates
- Go Live Risks

Summary

The London Borough of Lewisham has embarked on a journey to up-grade it's legacy back-office services and move to Oracle Cloud, incorporating Finance, HR, Payroll and Self Service for Managers and Employees. The first phase of the programme went live in May 2018 with HR Core, Finance and Procurement modules. The second phase of the Programme to implement HR Absence, Payroll and Self Service was originally forecast to go live in May of this year, which was dependant on activities to align the legacy and new Oracle Cloud Payroll systems. Due to the complexities encountered in dual data entry, up-skilling resources and having to align the two systems these activities have impacted on the time line.

The intention is to go live in August this year with the dependency of ensuring that the Payroll Parallel run's align. In turn, the Programme has kicked off engagement with the organisation to provide the necessary communication and training in preparation for the move to Oracle Self Service for all London Borough of Lewisham personnel.

igh Level Cut-over Plan – Forecast vs. Actual



Key Milestone Dates

Milestone	Target Date	Status
Payroll - Central and Schools – May	09 July	Green
Payroll - Central and Schools – June	16 July	Amber / Green
Go / No Go meeting	16 July	Amber / Green
Payroll – Central and Schools July	31 July	Amber / Green
Go / No Go meeting	06 August	Amber / Green
Go/No Go meeting	13 August	Amber / Green
Payroll - Central and Schools Parallel Runs – August	13 August	Amber / Green
Go Live	19August	Amber / Green

y Activities

Payroll

- Live with Pensions Payroll in Oracle
- Revised and re-structured the team
- Brought in additional payroll resources to assist with back log of work
- Provided additional training and user manuals for BAU personnel
- Tight timeline to complete May, June and July PPR's with little contingency

Self Service:

- We have an agreed approach as to how LBL personnel will access this service
- Evolved 7 week Comms Plan
- Engagement with the organisation is fully underway (DMT sessions)
- Training Business Champions has been completed
- Training Managers and Employees in on-going
- In the process of up-dating intranet site with new content ahead of go live
- Training manuals and training videos are available on the intranet

Transition into Hyper Care:

- We have an agreed approach plan for Hyper Care Support
- Aligning the Programme Team and Business Champions to there roles and responsibilities
- Looking to bring in an interim Transition Manager to support the programme through Hyper Care and into BAU support

Go Live Risks - Absence, Payroll and Self Service

	Area	Scenario	Current Risk	Description of risk	Likelihood	Impact	Policy and Process
	Technical	Time it is taking to load the data and resolve data load errors during reconciliation far exceeds current expectation, which has impacted on work schedule. Furthermore, there is a shortage of Payroll BAU resources to assist with data entry resulting in further delays and taking into consideration that both Programme and BAU resources are currently working overtime and are exhausted.	• Parallel Runs are not being met • Programme will fall further behind • GO Live date for this new service will be extended out even further than anticipated	1. Recruit additional Payroll resources to assist with back log 2. Review revised Payroll Plan on a daily basis, informing stakeholders as to progress / slippage	4	4	Programme Owned
	Technical	Phase 1 Close out and transition into Hyper care Support in still outstanding	• The Programme will have to support Phase 1 modules during Hyper Care Impact: No available resources to support this service	1. Programme to accept the risk of no support of Phase 1 modules during Hyper Care 2. Seek funding and look to System Integrator to provide support service	4	4	Programme Owned

Go Live Risks - Absence, Payroll and Self Service

	Area	Scenario	Current Risk	Description of risk	Likelihood	Impact	Policy and Process
	Technical	Network Infrastructure (Shared Services) • Two major incidents in the past month (sftp)	• Impacting BACS transfer and notification emails on PaaS service / confirming success /failure of interfaces • No resilience or BCP		4	3	Shared Services / Programme
	Data security	Lewisham staff given the wrong role	Lewisham user receives wrong role in the system and can see sensitive data (and carry out transactions) unrelated to their role	N. As now roles and data access are authorised by the data owner. There is no auto provisioning of roles for any employees so the risk remains the same	n/a	n/a	
	Data Security	Third parties accessing the system e.g. schools	The same data loss risks as for Lewisham employees, however the third party owns the risk not us	n.	n/a	n/a	

AUDIT PANEL			
REPORT TITLE	Pre-Audit Statement of Accounts 2018/19 and Annual Governance Statement		
KEY DECISION	No	**Item No.**	5
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources		
CLASS	Part 1	**Date**	11th July 2019

1 SUMMARY AND PURPOSE

1.1 To review and comment on the pre-audit Statement of Accounts for 2018/19 and the draft Annual Governance Statement.

2 EXECUTIVE SUMMARY

2.1 The Council is not required by law to obtain elected Members' approval of its pre-audit accounts. However, given the importance of the document, and its complexity, officers are of the view that it is appropriate to present them to the Audit Panel.

2.2 Accordingly, the pre-audit Statement of Accounts for 2018/19 was circulated to Members of the Audit Panel on 11th June 2019, via the following embedded link. https://lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/statement-of-accounts and as attached at Appendix 1. The pre-audit Pension Fund accounts are also included as part of Appendix 1. Please note, the draft Annual Governance Statement (AGS) is to follow.

2.3 The summary of net expenditure against budgets for 2018/19 was reported to Mayor & Cabinet on 26th June 2019.

3 RECOMMENDATION

3.1 To note this report and the appended documents.

4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

4.1 The pre-audit accounts have been prepared by officers and were submitted to the external auditors Grant Thornton on 31st May 2019, in accordance with the official (statutory) deadline. The pre-audit Pension Fund accounts were presented to the Pensions Investment Committee on 27th June 2019.

4.2 Within the Statement of Accounts there are four statements which are defined as "core financial statements", which essentially means that they are fundamental to

understanding the accounts. A short commentary on each of these is set out below.

Comprehensive Income and Expenditure Statement (CIES)

4.3 The CIES sets out the total expenditure by the authority in the 2018/19 financial year, some £1.1bn. The format of the CIES is consistent with the Council's management accounts, being based on the existing directorate structure.

Movement in Reserves Statement (MiRS)

4.4 This shows the movement in the year in the different reserves held by the Council, analysed into 'usable' which can be used to fund expenditure and 'unusable' which are technical and cannot be used to fund expenditure. This summarises the available resources that can be used to fund future expenditure and to manage financial risks.

Balance Sheet

4.5 The balance sheet reports the 'total equity' of the Council, and shows that it is around £1.65bn as at 31st March 2019 compared with £1.75bn as at 31st March 2018.

Cash Flow Statement

4.6 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2018/19 financial year. This statement is more valuable to understanding the financial health of private companies rather than local authorities, since most local authority funding comes either from government grants or from local property taxation.

Other Statements

4.7 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are very important to understanding key aspects of local authority services and financing.

- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and

- The Collection Fund which presents a summary of the collection of Council Tax and Non-Domestic Rates (NDR).

4.8 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding of the financial position of the authority:

- Note 1 to the core financial statements – the Expenditure and Funding Analysis demonstrates how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted

accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates

- Note 9 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.

- Notes 14 and 16 to the core financial statements, which disclose the debtors to and creditors of the Council as at 31st March 2019

4.9 The format of the accounts is essentially prescribed by statute and associated regulations. As a result, the document is long and detailed. Members may have questions that they wish to pose to officers on points of detail. Appropriately qualified officers will attend the meeting on 11th July 2019 to respond to these questions and issued raised. However, given the level of detail contained in the Statement of Accounts it is possible that some questions of detail may not be capable of being fully answered at the meeting. If Members have such questions, they are asked to submit them to terence.madgett@lewisham.gov.uk, ideally at least 24 hours before the meeting.

4.10 In considering the 2018/19 accounts, it was concluded that for the third year running full consolidated group accounts were required on the grounds of materiality. The group accounts are an amalgamation of the Council's own 'single entity' accounts with those of our subsidiaries – Lewisham Homes & Catford Regeneration Partnership Ltd.

5 FINANCIAL IMPLICATIONS

5.1 The accounts are a financial document and present a picture of the Council's activities in 2018/19 and its assets and liabilities as at 31st March 2019. However, there are no financial implications directly arising from the Panel considering the pre-audit accounts.

6 LEGAL IMPLICATIONS

6.1 Under the Accounts and Audit Regulations 2015 (the Regulations), local authorities are not required to obtain elected Members' approval of their pre-audit accounts. However, the Regulations do require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final audited accounts, having considered the auditor's report thereon.

6.2 The Regulations also require that the draft accounts are approved for issue by 31st May, following the year end by the Responsible Finance Officer under s151 of the 1972 Act. In Lewisham, that responsible officer is the Acting Chief Finance Officer.

6.3 Public Inspection of the draft accounts is also a requirement of the Regulations. This runs from 1st June to 12th July 2019, and is publicised on the Council's website. There are currently four separate public inspection enquiries to the accounts.

7 OTHER IMPLICATIONS

7.1 There are no direct equalities, environmental or crime and disorder implications arising from this report.

APPENDICES

Appendix 1 – Pre-Audit Statement of Accounts 2018/19 (incl. Pension Fund)

BACKGROUND PAPERS
Financial Results 2018/19 (Mayor & Cabinet meeting 26th June 2019)

For further information on this report please contact:

Selwyn Thompson, Director of Financial Services, on 020 8314 6932
Paul Calnan, Group Finance Manager – Core Accounting, on 020 8314 6167
Terry Madgett, Principal Accountant – Core Accounting on 020 8314 7650

LONDON BOROUGH OF LEWISHAM

2018/ 2019 PRE-AUDIT STATEMENT OF ACCOUNTS

CONTENTS

INDEX OF SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

NARRATIVE STATEMENT BY THE EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION

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

1. COUNCIL STRUCTURE AND PERFORMANCE

a) Corporate structure and governance

Lewisham Council is made up of one Mayor, elected by the whole borough, and 54 ward councillors, three elected by each of the 18 wards within the borough. The Mayor is Labour and there are 54 Labour councillors. Details of the way that the Council governs itself are given in the Annual Governance Statement in section 9 of these accounts.

b) Management structure

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

- Chief Executive
- Executive Director Children and Young People
- Executive Director Community Services
- Executive Director Customer Services
- Executive Director Resources and Regeneration

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

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

c) Service delivery

Including teachers, Lewisham employs approximately 5,700 full time equivalent staff to deliver services. The workforce generally reflects the diversity of Lewisham's population and a full staffing profile can be found on the Council's website.

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

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

More detail concerning these companies is shown in the Group Accounts in section 8 of this document.

d) The Council's vision

Lewisham's vision is: 'Together, we will make Lewisham the best place in London to live, work and learn'. Our vision was developed following consultation with Lewisham residents, public sector agencies, local business, voluntary and community sector organisations. This vision is not just for the Council, it has been adopted by the Lewisham Strategic Partnership and continues to be a bold aspiration that stretches and motivates the Council and its partners to set priorities and deliver services that will achieve the vision.

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

e) Corporate priorities in achieving the vision

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

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

f) Performance management

Following on from the new corporate strategy, as part of our commitment to openness and accountability, we will publish a new performance report on our website. This new report will enable residents and services users to monitor how we are performing against our new priorities. It is a fundamental part of all managers' responsibilities to:

- review the performance of their services
- drive improvements
- achieve the outcomes our residents need.

All services and all staff have clear responsibilities in the delivery of our priorities; all of our teams have aligned their plans with the commitments in the corporate strategy, and the ongoing delivery of this strategy will be embedded into all of our service planning and monitoring mechanisms from now on.

2. FINANCIAL PERFORMANCE

a) 2018/19 Revenue Budget Setting and Funding

The Council set a net budget requirement of £241.3m for 2018/19 at its meeting on 21 February 2018. This was an increase of £8.6m or 3.7% on the previous year's net budget requirement of £232.7m. The main sources of income were Revenue Support Grant (RSG), Business Rates and Council Tax. With central RSG diminishing, Council Tax funds a higher proportion of the budget than it did last year, with bills increasing by 3.99%. A year on year comparison of revenue budget funding is shown in the following table.

2018/19 Revenue Budget Funding

	2018/19 £m	2017/18 £m
Revenue Support Grant	**36.9**	**46.1**
Business Rates	**91.6**	**88.9**
Council Tax	**103.1**	**91.1**
Social Care Precept	**1.0**	**2.7**
Surplus on Collection Fund	**8.7**	**3.9**
Budget Requirement	**241.3**	**232.7**

b) Council Tax

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

For 2018/19 the Council increased the general rate of Council Tax by 2.99% and agreed to levy the 1% Adult Social Care precept resulting in an overall increase of 3.99%. The actual Council Tax charge is determined by dividing the net amount to be met from Council Tax by the tax base, which for Lewisham is 86,457 equivalent Band D properties for 2018/19 (81,088 for 2017/18).

The comparison of Council Tax Band D levels from 2017/18 to 2018/19 for Lewisham is shown in the following table, together with the Greater London Authority precept.

Band D Council Tax by Tax Raising Body

	2018/19 £	2017/18 £	Variation £	Variation %
Lewisham Council	**1,203.87**	1,157.68	46.19	3.99
Greater London Authority	**294.23**	280.02	14.21	5.07
Council Tax for Band D	**1,498.10**	1,437.70	60.40	4.20

c) 2018/19 Revenue Budget Outturn

The Council's 2018/19 revenue outturn position is shown in the following table. Further detail can be found in the Expenditure and Funding Analysis in section 3 of this document.

Directorate	Gross budgeted expenditure	Gross budgeted income	Net budget	Outturn Variance	Outturn Variance
	£m	£m	£m	£m	%
Children & Young People	474.1	(419.5)	54.6	9.7	17.8%
Community Services	173.7	(82.8)	90.9	(2.7)	-3.0%
Customer Services	312.8	(270.4)	42.4	3.5	8.3%
Resources & Regeneration	76.6	(51.1)	25.5	(0.9)	-3.5%
Directorate totals	**1,037.2**	**(823.8)**	**213.4**	**9.6**	**4.5%**
Corporate items	40.4	(12.5)	27.9	0.0	0.0%
Net Revenue Budget	**1,077.6**	**(836.3)**	**241.3**	**9.6**	**4.0%**

During 2018/19, the overspend against the directorates' net controllable budgets was £9.4m. Detailed reasons for budget variances are being reported to the Mayor and Cabinet on 26 June 2019. For the second successive year, the main element of the overspend has been expenditure on children's social care. Officers are continually seeking to identify ways to manage down overspending budgets, but this has not been sufficient to balance the budget in this financial year.

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

As the new financial year begins, with a new set of challenges in terms of the delivery of revenue budget cuts, the council will continue in its resolve to apply sound financial controls. It is clear that the short and medium-term outlook will remain difficult and challenging. However, the Acting Chief Finance Officer, as the council's section 151 officer, will continue to work with directorate management teams to effect the necessary continued actions to manage their services and intervene early where necessary to avoid a budgetary situation becoming unmanageable. Value for Money recommendations from 2017/18 around budget planning and management will also be implemented.

Budget overspends

The main element of the overspend was the £9.6m overspend in the Children and Young People (CYP) directorate. This comes after an agreed injection of £6m to the Children's Social Care base budget approved by Mayor & Cabinet.

The most significant cost pressures for the CYP directorate fell within the Children's Social Care division, amounting to £6.9m. The main element of the overspend was in the residential care placements budget. This is the most expensive form of care and as at March 2019 there were 45 placements at an average cost of £3,940 per week. Smaller overspends were incurred in both local authority and agency fostering budgets.

The Targeted Services and Joint Commissioning budget within CYP overspent by £2.8m. This was mainly caused by an overspend in the transport budget for pupils with special educational needs. The overspend remains similar to the 2017/18 outturn, with work being done to reduce demand and costs yet to realise any benefit.

An underspend of £2.8m was achieved by the Community Services directorate. Within adult social care, budgets have been supplemented by increases in the Improved Better Care Fund (a grant received directly from central government) and by a 1% precept on council tax. Most of the additional funding has been used to fund increases in home care and residential/nursing budgets to reflect, respectively, increases in London Living Wage and National Living Wage. Another factor contributing to the overall underspend was budgets for fees and charges being fully achieved, a significant improvement on 2017/18 following an exercise to bring financial assessments and charges up to date.

Customer Services directorate overspent by £3.5m, with the main overspend coming in the environment division. There were overspends on vehicle costs for refuse services, which are not expected to occur at the same level in future years following the purchase of a number new vehicles. However, there are still nine hired in vehicles in use, contributing to the 18/19 overspend. There is also a shortfall of income projected for trade refuse and in addition, recycling staff costs have exceeded budget.

Dedicated Schools Grant

The final budget distribution of the Dedicated Schools Grant (DSG) for 2018/19 was a net of £260m (net of academy recoupment). The cumulative revenue balances for schools at year-end, including external funds, amounted to £29.2m. However, it should be noted that there were 14 schools with

licenced deficit budgets at the year end, totalling £3.7m. There are also nine schools with local authority loans with a total balance of £3m. Of these, seven are secondary schools and two are primary schools. All schools with deficits have a budget recovery plan and work will continue this year to ensure that plans are delivered and the future position is sustainable.

d) Balances and Reserves

After transfers to and from reserves the General Fund balance has been increased to £20.0m. This is an adequate level of cover and represents approximately 8.3% of Lewisham's Net Budget Requirement. The Council also has a number of earmarked reserves for specific on-going initiatives and these are shown in Note 9 to the Core Financial Statements.

The Housing Revenue Account (HRA) spent to budget after transfers to reserves as at 31 March 2019. It continues to build reserves up on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs. After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £113.6m (£108.7m as at 31 March 2018). These reserves include the Major Repairs Reserve and are for specific on-going projects as outlined in the notes to the HRA in Section 4 of the Accounts.

e) 2018/19 Capital Budget Outturn

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

	2018/19 Final Outturn £m	2018/19 Original Budget Report £m	2018/19 Revised Budget Report £m	2017/18 Final Outturn £m
CAPITAL PROGRAMME EXPENDITURE				
General Fund	43.5	63.2	52.1	54.9
Housing Revenue Account	27.6	72.7	35.2	32.1
Total Spent	71.1	135.9	87.3	87.0
CAPITAL PROGRAMME FINANCING				
Borrowing	12.4	17.7		14.9
Capital Grants	16.2	28.7		18.5
Capital Receipts	5.0	2.5		18.8
Use of reserves and revenue financing	37.5	87.0		34.8
Total Financed	71.1	135.9	87.3	87.0

During the year, the budge was revised to reflect the forecast development of the programme. The percentage spent compared to the revised programme budget was 82**%** (17/18 86%). Where programme slippage has occurred, the scheme budgets have been carried forward to 2019/20.

Actual Expenditure on Major Projects of over £1m

Major Projects of over £1m	**2018/19 Expenditure £m**
General Fund	
Lewisham Homes – Property Acquisition	**11.0**
Highways & Bridges (incl. TFL programme)	**7.3**
Schools minor works	**3.7**
Beckenham Place Park	**3.3**
School Places Programme	**2.8**
Housing Revenue Account	
Decent Homes Programme	**22.9**

3. LOOKING AHEAD

a) Revenue Budget Outlook

Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity and growth in demand for services. This has driven significant changes to services that in turn bring additional risks and uncertainties.

The Council set a net budget requirement of £243.0m for 2019/20 at its meeting on 27 February 2019, which is £1.7m higher than the equivalent figure for 2018/19. The Council has made reductions of £9.3m to its budget, removed a one-off £5.0m budget from 2018/19 for provisions, added £14.9m to provide for significant spending pressures and £8.6m to make up for one-off reserves used in 2018/19. An amount of £7.5m is being taken from reserves to fund the budget, but action is also being taken to ensure that expenditure is affordable in future years. Reserves may be used at the start of the financial year to underpin selected service budgets, pending actions being taken to bring these budgets back in line on an ongoing basis.

The Medium Term Financial Strategy (MTFS) was reported to Mayor & Cabinet in July 2018. This set out that an estimated £53m of cuts required from 2019/20 to 2022/23. This position has now been revised following the cuts proposals submitted to Mayor and Cabinet in November 2018, the provisional local government finance settlement announced in December 2018 and the annual review of the statutory calculation for the Collection Fund. The revised profile for cuts required is now broadly:

- £9.3m to be implemented in 2019/20;
- £7.5m gap remaining for 2019/20 to be met from New Homes Bonus and
- general reserves;
- £8.9m cuts pre-approved for 2020/21

The expected additional cuts required are circa £11.8m by 2020/21 (after applying the previously approved cuts of £8.9m).

Looking further ahead, the Government is due to complete a Comprehensive Spending Review and has consulted on two potential changes that will contribute to shaping the future of Local Government Finance:

- A Fair Funding Review of local authorities' relative needs and resources which sought views on the approach to measuring the relative needs and resources of local authorities. This will determine new baseline funding allocations for all local authorities in England in 2020-21.

- Business Rates Retention Reform – Views were sought on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system, whereby local authorities will retain 75% of business rates.

In 2019/20, officers will update the MTFS and look to extend the planning horizon to 2023/24 to include the impact of moving to the 75% retention of business rates. However, forecasting this remains difficult pending the detail of the Comprehensive Spending Review and Fair Funding Review mentioned above.

b) Capital Budget Outlook

The Council set its capital programme budget at its meeting on 27 February 2019. This outlined the Council's programme of £344.7m for the years 2019/20 to 2021/22. The most significant parts of the programme are school expansion to provide additional pupil places, major regeneration schemes, including Catford town centre, improvement and restoration of Beckenham Place Park, plus acquiring additional housing stock under the Housing Matters programme, to be delivered by the Council's ALMO, Lewisham Homes Limited.

The amount to be invested in 2019/20 is shown in the table below.

2019/20 Capital Programme	**2019/20 Budget £m**
General Fund	
Schools – Pupil Places Programme & other capital works	**12.4**
Regeneration schemes	**13.5**
Lewisham Homes – Property acquisition	**6.0**
Beckenham Place Park	**2.5**
Town Centres & High Street improvements	**2.1**
Highways, footways and bridges	**3.5**
Asset Management programme	**2.5**
Other schemes	**4.5**
	47.0
Housing Revenue Account	
Decent Homes Programme	**57.1**
Housing Matters Programme	**38.1**
	95.2
Total Capital Programme	**142.2**

c) Corporate Risks

The Council has an embedded process to manage risks and assist the achievement of its objectives. The Risk Management Strategy 2017-2020 was approved by EMT in July 2017 and updated and noted by Audit Panel in March 2018. It is compliant with the statutory requirements as defined in the Accounts & Audit Regulations 2015 and is summarised as part of the Annual Governance Statement in section 9 of this document.

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

- Ensure the health, safety & security of service users, citizens and staff
- Safeguard vulnerable children and adults to help prevent injury and damage
- Help to achieve corporate priorities
- Integrate risk management into the culture of the Authority
- Identify, evaluate and manage risk in accordance with good practice

- Ensure legal and regulatory compliance as a minimum standard
- Anticipate and respond to changing social, environmental and legislative requirements
- Raise awareness of the need for risk management in all service areas
- Mitigate risks
- Enhance corporate governance of risk
- Optimise opportunities
- Reduce the cost of risk
- Safeguarding Council assets

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

4. PENSION FUND VALUATION

The actuarial valuation of the Council's pension scheme liabilities and pension reserve shown on the Balance Sheet has increased by £101.7m during the year, mainly as a result of changes to the financial assumptions used by the pension fund Actuary (Hymans-Robertson). The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation.

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

5. THE COUNCIL'S STATEMENT OF ACCOUNTS

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

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

Section 1 – The Core Financial Statements

Section 1a – Comprehensive Income and Expenditure Statement (CIES)

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

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

Section 1c - Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Section 1d - Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

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

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

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

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

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

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

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

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

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

Responsibility of the Executive Director for Resources and Regeneration

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

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

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the CIPFA Local Authority Code of Practice.

I certify that I have also:

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

The Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2019.

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

David Austin CPFA
Acting Chief Finance Officer (S151)
31 May 2019

Independent Auditor's Reports to the Members of London Borough of Lewisham

To Follow

SECTION 1 - CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31 MARCH 2019

2017/18				2018/19			
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	SERVICE	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	Note
251,594	(310,848)	(59,254)	Children & Young People Directorate	410,280	(311,719)	98,561	
171,781	(92,334)	79,447	Community Services Directorate	178,040	(85,688)	92,352	
330,008	(271,004)	59,004	Customer Services Directorate	322,796	(261,401)	61,395	
59,280	(46,343)	12,937	Resources & Regeneration Directorate	63,676	(46,941)	16,735	
105,107	(100,748)	4,359	HRA	112,663	(97,283)	15,380	
7,305	(5,553)	1,752	Corporate Services	8,827	(894)	7,933	
925,075	(826,830)	98,245	**Cost of Services**	1,096,282	(803,926)	292,356	1
			Other Operating Expenditure				
0	(8,182)	(8,182)	(Gain) / Loss on the disposal of non-current assets	0	(14,748)	(14,748)	
1,638	0	1,638	Levies	1,691	0	1,691	7
1,927	0	1,927	Contribution of housing capital receipts to Government Pool	1,926	0	1,926	19
3,565	(8,182)	(4,617)		3,617	(14,748)	(11,131)	
			Financing and Investment Income and Expenditure				
34,169	0	34,169	Interest payable and similar charges	33,526	0	33,526	
33,282	0	33,282	Loan Restructuring	0	0	0	
0	(3,050)	(3,050)	Interest and Investment Income	0	(4,150)	(4,150)	
49,554	(32,512)	17,042	Net interest on the net defined benefit liability	52,006	(34,434)	17,572	37
117,005	(35,562)	81,443		85,532	(38,584)	46,948	
			Taxation and non-specific Grant Income				
0	(97,726)	(97,726)	Income from Council Tax	0	(112,811)	(112,811)	
0	(58,390)	(58,390)	General Government Grants	0	(73,868)	(73,868)	
0	(18,474)	(18,474)	Recognised Capital Grants and Contributions	0	(9,859)	(9,859)	
0	(92,188)	(92,188)	Non-Domestic Rates income and expenditure	0	(62,674)	(62,674)	
0	(266,778)	(266,778)		0	(259,212)	(259,212)	
		(91,707)	**Deficit/(Surplus) on provision of services**			68,961	1
		(154,972)	Surplus on revaluation of non-current assets			(40,842)	21
		(38,950)	Remeasurement of the net defined benefit liability			67,885	20, 37
		(193,922)	**Other Comprehensive Income and Expenditure**			27,043	
		(285,629)	**Total Comprehensive Income and Expenditure**			96,004	

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2019

YEAR ENDING 31 MARCH 2019	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub-Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 01 April 2018 Brought Forward	**13,000**	**160,123**	**173,123**	**70,209**	**38,471**	**48,350**	**17,299**	**347,452**	**1,400,609**	**1,748,061**	
Movement in Reserves during 2018/19											
Surplus or (Deficit) on the provision of services	(54,715)	0	**(54,715)**	(14,246)	0	0	0	**(68,961)**	0	**(68,961)**	
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	0	**0**	(27,043)	**(27,043)**	
Total Comprehensive Income and Expenditure	**(54,715)**	**0**	**(54,715)**	**(14,246)**	**0**	**0**	**0**	**(68,961)**	**(27,043)**	**(96,004)**	
Adjustments between accounting basis and funding basis under regulations	50,292	0	**50,292**	20,745	(1,552)	13,751	(301)	**82,935**	(82,935)	**0**	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**(4,423)**	**0**	**(4,423)**	**6,499**	**(1,552)**	**13,751**	**(301)**	**13,974**	**(109,978)**	**(96,004)**	
Transfers to / (from) Earmarked Reserves	11,423	(11,423)	**0**	0	0	0	0	**0**	0	**0**	9, HRA 14, HRA 15
Increase / (Decrease) in 2018/19	**7,000**	**(11,423)**	**(4,423)**	**6,499**	**(1,552)**	**13,751**	**(301)**	**13,974**	**(109,978)**	**(96,004)**	
Balance at 31 March 2019 Carried Forward	**20,000**	**148,700**	**168,700**	**76,708**	**36,919**	**62,101**	**16,998**	**361,426**	**1,290,631**	**1,652,057**	
Note		9		HRA 15	HRA 14	19			20, 21, 22 Coll Fd 3		

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2018

YEAR ENDING 31 MARCH 2018	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub-Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 31 March 2017 Brought Forward	**13,000**	**149,577**	**162,577**	**57,123**	**39,907**	**55,495**	**14,132**	**329,234**	**1,133,198**	**1,462,432**	
Movement in Reserves during 2017/18											
Surplus or (Deficit) on the provision of services	96,354	0	**96,354**	(4,647)	0	0	0	**91,707**	0	**91,707**	
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	0	**0**	193,922	**193,922**	
Total Comprehensive Income and Expenditure	**96,354**	**0**	**96,354**	**(4,647)**	**0**	**0**	**0**	**91,707**	**193,922**	**285,629**	
Adjustments between accounting basis and funding basis under regulations	(85,808)	0	**(85,808)**	17,733	(1,436)	(7,145)	3,167	**(73,489)**	73,489	**0**	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**10,546**	**0**	**10,546**	**13,086**	**(1,436)**	**(7,145)**	**3,167**	**18,218**	**267,411**	**285,629**	
Transfers to / (from) Earmarked Reserves	(10,546)	10,546	**0**	0	0	0	0	**0**	0	**0**	9, HRA 14, HRA 15
Increase / (Decrease) in 2017/18	**0**	**10,546**	**10,546**	**13,086**	**(1,436)**	**(7,145)**	**3,167**	**18,218**	**267,411**	**285,629**	
Balance at 31 March 2018 Carried Forward	**13,000**	**160,123**	**173,123**	**70,209**	**38,471**	**48,350**	**17,299**	**347,452**	**1,400,609**	**1,748,061**	
Note		9		HRA 15	HRA 14	19			20, 21, 22 Coll Fd 3		

Core Financial Statements

BALANCE SHEET AS AT 31 MARCH 2019

31/03/2018 £000		31/03/2019 £000	Note
	Property, Plant & Equipment		
1,255,843	Council Dwellings	1,272,284	10b, HRA 1a, 9
1,011,061	Other Land and Buildings	976,471	10b
25,170	Vehicles, Plant, Furniture and Equipment	26,869	10b
117,424	Infrastructure	116,064	10b
4,975	Community Assets	5,510	10b
94,623	Surplus Assets not Held for Sale	89,829	10b
23,690	Assets under Construction	31,094	10b
2,532,786		2,518,121	
257	Heritage Assets	257	41
0	Investment Property	0	11
2,076	Long Term Investments	2,030	
44,948	Long Term Debtors	56,442	14a
2,580,067	**Total Long Term Assets**	2,576,850	
310,648	Short Term Investments	341,046	12
0	Assets Held for Sale	0	
152	Inventories	165	
45,541	Debtors	54,844	14b
104,213	Cash and Cash Equivalents	84,377	15
3,941	Prepayments	4,178	
464,495	**Current Assets**	484,610	
9,493	Bank Overdraft	8,887	15
42,468	Short Term Borrowing	27,446	12
3,378	Provisions (Less than 1 year)	3,918	18
78,193	Creditors	85,442	16
90,493	Receipts in Advance	104,215	17
7,945	PFI Liabilities due within one year	7,504	34d
231,970	**Current Liabilities**	237,412	
2,812,592	**Total Assets less Current Liabilities**	2,824,048	
189,421	Long Term Borrowing	202,015	12
5,393	Provisions (More than 1 year)	5,756	18
228,124	Deferred PFI Liabilities	220,492	34d
1,858	Capital Grants Receipts in Advance	2,252	
639,735	Liability related to defined benefit pension scheme	741,476	20, 37
1,064,531	**Long Term Liabilities**	1,171,991	
1,748,061	**NET ASSETS**	1,652,057	
	Usable Reserves		
13,000	General Fund Balance	20,000	
160,123	Earmarked Revenue Reserves	148,700	9
70,209	Housing Revenue Account	76,708	HRA 15
38,471	Major Repairs Reserve	36,919	HRA 14
48,350	Usable Capital Receipts Reserve	62,101	19
17,299	Capital Grants Unapplied	16,998	
347,452		361,426	
	Unusable Reserves		
1,025,482	Revaluation Reserve	1,044,450	21
1,052,696	Capital Adjustment Account	1,031,660	22
93	Deferred Capital Receipts	93	
(36,418)	Financial Instruments Adjustment Account	(36,124)	
(639,735)	Pensions Reserve	(741,476)	20, 37
5,547	Collection Fund Adjustment Account	(1,374)	Coll Fd 3
(7,056)	Short Term Compensated Absences Account	(6,598)	
1,400,609		1,290,631	
1,748,061	**TOTAL RESERVES**	1,652,057	

CASH FLOW STATEMENT FOR THE YEAR ENDING 31 MARCH 2019

2017/18 £000s		2018/19 £000s	Note
91,707	Net surplus or (deficit) on the provision of services	**(68,961)**	
(50,276)	Adjustment to surplus or deficit on the provision of services for non-cash movements	**127,430**	42
(33,185)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(31,388)**	43
8,246	**Net Cash flows from Operating Activities**	**27,081**	
(38,838)	Net Cash flows from Investing Activities	**(29,092)**	45
36,796	Net Cash flows from Financing Activities	**(17,219)**	46
6,204	**Net Increase or (decrease) in Cash and Cash Equivalents**	**(19,230)**	
88,516	**Cash and Cash Equivalents at the beginning of the reporting period**	**94,720**	15
94,720	**Cash and Cash Equivalents at the end of the reporting period**	**75,490**	15

SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the SERCOP 2018/19, both published by CIPFA, and based on IFRS and statutory guidance under Section 12 of the Local Government Act 2003 (see Glossary for definitions). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis (in other words, on the expectation that the Council will continue to operate in its current form for the foreseeable future).

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

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

3. ACCRUALS OF INCOME AND EXPENDITURE

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

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from Council Tax, Non-Domestic Rates and rents is accounted for in the year it is due.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Expenditure on supplies is accounted for when they are used. When there is a significant gap between the date on which supplies are received and the date of their use, and the value is material, they are carried as inventories on the Balance Sheet.
- Expenditure on services received (including those provided by employees) is accounted for when the services are received rather than when payments are made.

Where income and expenditure have been recognised in the accounts, but cash has not been received or paid, a debtor or creditor for the amount is recorded in the Balance Sheet. Where it is likely that debts may not be settled, a charge is made to revenue for the income that might not be collected and the debtor is impaired.

4. EXCEPTIONAL ITEMS

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

5. FOREIGN CURRENCY TRANSLATION

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

6. VALUE ADDED TAX (VAT)

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

7. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

8. OVERHEADS AND SUPPORT SERVICES

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

9. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential of the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or else the future economic benefits or service potential must be returned to the transferor. Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as receipts in advance. When conditions are satisfied, they are credited to the relevant service line (attributable revenue grants

and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.
Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement (MiRS). Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

10. LEASES

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

a) The Council as Lessee

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

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

b) The Council as Lessor

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

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

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

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

11. INVENTORIES (STOCK)

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

12. LONG TERM CONTRACTS

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

13. EMPLOYEE BENEFITS

a) Benefits Payable during Employment

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

b) Termination and Discretionary Benefits

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

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

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

c) Post-Employment Benefits

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

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

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

(i) Teachers' Pension Scheme and the NHS Pension Scheme

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

(ii) London Pension Fund Scheme

This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets can be identified to individual Councils. The CIES is charged with a levy from the LPFA to meet the employer's contributions and the costs of administration.

(iii) Local Government Pension Scheme

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

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

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

- <u>Service Costs comprising</u>
  The current service cost which is the increase in liabilities as a result of years of service earned this year. These are allocated in the CIES to the services for which the employees worked.
  The past service cost which is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited to the relevant Service Directorate in the Surplus or Deficit on the Provision of Services in the CIES.
- <u>Net interest on the net defined benefit liability</u>
  This is the change in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate to the net defined benefit liability at the beginning of the period, accounting for any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- <u>Re-measurement comprising</u>
  The return on plan assets excluding amounts included in net interest.
  The actuarial gains and losses arising from changes in demographic and financial assumptions since the last actuarial valuation.
  Other changes not accounted for elsewhere.

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

14. INTERESTS IN COMPANIES

The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited. It also has a minority interest (significantly lower than 50%) in a number of other companies. The transactions between the Council and all of these companies are included in the Council's accounts. An annual review of the necessity of preparing Group Accounts is undertaken, and for 2018/19 it has again been concluded that the activities of Group's entities are sufficiently material to warrant the production of Group Accounts. See also Section 6 – Group Accounts, and Note 25 - Investment in Companies.

15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES

a) Provisions

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

b) Impairment Allowances

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

16. RESERVES

The Council has set aside specific amounts as reserves to cover future expenditure for contingencies or policy purposes, which fall outside the definition of provisions, and are shown in Note 8 of Section 3. The reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then credited back to the General Fund Balance in the MiRS so that there is no net charge against Council Tax. Statutory reserves are kept to manage the accounting processes for non-current assets, financial

instruments, and retirement and employee benefits and are not available for the Council to use to finance services.

17. CONTINGENT LIABILITIES AND ASSETS

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

18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

19. FINANCIAL INSTRUMENTS

a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by its effective rate of interest. This rate exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council's borrowings, the amount on the Balance Sheet is the outstanding principal repayable (plus accrued interest), and the interest charged to the CIES is the amount payable for the year for the loan. Where market loans are defined as Lender Option Borrower Option (LOBO's), these are accounted for as short term loans if they have options occurring within the next financial year.

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

b) Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

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

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

b (i) Financial assets measured at amortised cost

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

c) Expected Credit Loss Model

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

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

20. CASH AND CASH EQUIVALENTS

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

21. INTANGIBLE NON CURRENT ASSETS

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

22. NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

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

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it adds value, increases its ability to deliver future economic benefits or

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

b) Measurement and Valuation

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

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

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the CIES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for as follows:

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

Surplus Assets not Held for Sale are assets that are not being used to supply goods and services and do not meet the criteria of assets held for sale. The adoption of IFRS 13 requires that these assets are measured at fair value and not existing use value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service;

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

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

d) Impairment

Non-current assets held on the Balance Sheet are reviewed at year-end to assess whether they may be impaired. Where an impairment exists, the recoverable amount of the asset is estimated and if material, an impairment loss is recognised for the shortfall and is accounted for as follows:-

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

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

e) Depreciation

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

- council dwellings – 40 years
- other land & buildings (including hostels) – 40 years
- vehicles, plant & equipment – range of 5 to 20 years
- infrastructure – range of 10 to 40 years (but the majority being 25 years)

The Council's policy is to charge depreciation on the assets value at 01 April each year. It is charged from the year following the date of purchase or completion of construction, and is not adjusted for disposals or additions of assets during the year. Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

f) Disposals of Non-Current Assets

When an asset is disposed of or decommissioned, the carrying amount in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any receipts from disposals are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for asset disposals are classified as capital receipts. A proportion of receipts from housing disposals (as per the relevant regulations) are payable to the Government. The retained receipts are required to be credited to the Usable Capital Receipts Reserve, and can only be used to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the MiRS. The written-off value of disposals is not a charge against Council Tax. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

g) Deferred Capital Receipts

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

23. HERITAGE ASSETS

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

24. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

These are agreements to receive services where the responsibility for making available the assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The original recognition of these assets at fair value is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Where schemes include a capital contribution, the liability is written down accordingly. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as other non-current assets owned by the Council. The amounts payable to the PFI operators each year are analysed into the following five elements:

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

25. ACCOUNTING FOR SCHOOLS

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

SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31 MARCH 2019

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

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	62,032	36,529	98,561
Community Services Directorate	87,318	5,034	92,352
Customer Services Directorate	46,992	14,403	61,395
Resources & Regeneration Directorate	7,185	9,550	16,735
HRA	(9,438)	24,818	15,380
Corporate Services	28,782	(20,849)	7,933
Cost of Services	**222,871**	**69,485**	**292,356**
Other Income and Expenditure	(223,395)	0	(223,395)
(Surplus) or Deficit	**(524)**	**69,485**	**68,961**

Opening General Fund and HRA Balance at 01 April 2018	(281,803)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(524)
Closing General Fund and HRA Balance at 31 March 2019	**(282,327)**

Analysed between General Fund and HRA Balances

	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2018	(173,123)	(108,680)	**(281,803)**
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	4,423	(4,947)	**(524)**
Closing General Fund and HRA Balance at 31 March 2019	**(168,700)**	**(113,627)**	**(282,327)**

EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31 MARCH 2018

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	57,538	(116,792)	(59,254)
Community Services Directorate	74,594	4,853	79,447
Customer Services Directorate	55,170	3,834	59,004
Resources & Regeneration Directorate	4,314	8,623	12,937
HRA	(13,865)	18,224	4,359
Corporate Services	(9,995)	11,747	1,752
Cost of Services	**167,756**	**(69,511)**	**98,245**
Other Income and Expenditure	(189,952)	0	(189,952)
(Surplus) or Deficit	**(22,196)**	**(69,511)**	**(91,707)**

Opening General Fund and HRA Balance at 01 April 2017	(259,607)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(22,196)
Closing General Fund and HRA Balance at 31 March 2018	**(281,803)**

Analysed between General Fund and HRA Balances			
	General Fund	**HRA**	**Total**
Opening General Fund and HRA Balance at 01 April 2017	(162,577)	(97,030)	**(259,607)**
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(10,546)	(11,650)	**(22,196)**
Closing General Fund and HRA Balance at 31 March 2018	**(173,123)**	**(108,680)**	**(281,803)**

Notes to the EFA

(i) Adjustments between Funding and Accounting Basis

	2018/19			
Adjustments from General Fund to arrive at the CIES amounts	**Adjustment for Capital Purposes £'000**	**Net change for the Pensions Adjustments £'000**	**Other Differences £'000**	**Total Adjustments £'000**
SERVICE				
Children & Young People Directorate	24,997	12,007	(475)	**36,529**
Community Services Directorate	2,816	2,199	19	**5,034**
Customer Services Directorate	4,937	2,552	6,914	**14,403**
Resources & Regeneration Directorate	7,871	1,674	5	**9,550**
HRA	10,925	13,893	0	**24,818**
Corporate Services	(22,020)	1,531	(360)	**(20,849)**
Cost of Services	**29,526**	**33,856**	**6,103**	**69,485**
Other Income and Expenditure	0	0	0	**0**
Difference between General Fund surplus or deficit and CIES surplus or deficit	**29,526**	**33,856**	**6,103**	**69,485**

	2017/18			
Adjustments from General Fund to arrive at the CIES amounts	**Adjustment for Capital Purposes £'000**	**Net change for the Pensions Adjustments £'000**	**Other Differences £'000**	**Total Adjustments £'000**
SERVICE				
Children & Young People Directorate	(128,863)	12,798	(727)	**(116,792)**
Community Services Directorate	2,855	1,998	0	**4,853**
Customer Services Directorate	3,709	2,555	(2,430)	**3,834**
Resources & Regeneration Directorate	7,088	1,521	14	**8,623**
HRA	15,335	3,011	(122)	**18,224**
Corporate Services	(33,490)	12,538	32,699	**11,747**
Cost of Services	**(133,366)**	**34,421**	**29,434**	**(69,511)**
Other Income and Expenditure	0	0	0	**0**
Difference between General Fund surplus or deficit and CIES surplus or deficit	**(133,366)**	**34,421**	**29,434**	**(69,511)**

(ii) Segmental Income and Expenditure

	2018/19
	£'000
Revenues from external customers	(219,636)
Revenues from transactions with other operating segments of the authority	0
Interest revenue	(4,150)
Interest expense	17,572
Depreciation and amortisation	71,525
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	(14,748)
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

	2017/18
	£'000
Revenues from external customers	(236,465)
Revenues from transactions with other operating segments of the authority	0
Interest revenue	(3,050)
Interest expense	34,169
Depreciation and amortisation	(98,431)
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	(8,182)
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2018/19 ACCOUNTS

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

- Leases: IFRS 16 will require lessees to recognise most leases on their balance sheet – this is a significant change from current practice. Lessees will have a single accounting model for all leases, with two exemptions (low value assets and short term leases). Lessor accounting will be substantially unchanged. The new standard will come into effect in financial year 2020/21; therefore there is no impact on the 2018/19 Accounts. In 2018/19, as regards the Council as lessee, an initial assessment indicates that the current annual charge to the CIES of £1.5m will increase slightly to £1.6m, and the Existing Use Value of the leases would add approximately £16.3m to the balance sheet.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

a. There is uncertainty about future levels of funding for local government. However, the Council has concluded that it is unlikely that the assets of the Council will be impaired as a result of the actions required to achieve the necessary savings, including closing facilities and reducing services.

b. A number of judgements have been made under IFRS concerning the classification of and the accounting for Non-Current Assets, Investment Properties, Leases, PFI and other major contracts, Capital and Revenue Grants and other miscellaneous items. The adoption of IFRS 13 Fair Value Measurement back in 2015/16 led to an assessment of the Council's Investment Properties and their reclassification to Property, Plant & Equipment. In summary, there are no material changes to these judgements for the 2018/19 Accounts compared to those for last year.

c. An accounting judgement has been made for each school as to whether their land and buildings should be included within the Council's Balance Sheet:-

- Included are 40 Community Primary Schools, 5 Community Secondary Schools, 3 Community Special Schools, 2 Foundation Schools and 2 Nursery Schools (52 schools).
- Excluded are 22 Voluntary-aided Schools, 2 Foundation Schools, 7 Academies and 3 Other Schools (34 schools).
- Also excluded are assets acquired via PFI contracts where they relate to the excluded schools given above, although the PFI liability remains with the Council.

d. A judgement has been made by the Council that it is proper practice to prepare Group Accounts for 2018/19, on grounds of materiality. For further information, see Section 2 – Accounting Policies (para. 14 – Interests in Companies); also Section 6 – Group Accounts; and Note 25 – Investment in Companies.

e. The Council has previously agreed that it will indemnify all the pension costs of Lewisham Homes Limited staff. The Council's judgement is that this indemnity is most accurately represented by accounting for the liability under IAS 19, rather than as an accrual, provision, reserve or contingent liability. The Council's 2018/19 Single Entity Accounts therefore include the full costs of the Lewisham Homes Limited IAS 19 liability and are consistent with the Council's 2017/18 Accounts and Lewisham Homes Limited Accounts for both years.

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

These Accounts contain a number of estimated figures that are based on assumptions made about the future or that are otherwise uncertain, and take into account historical experience, current trends and other relevant factors. Because of this, the actual outcomes could be materially different from the assumptions and estimates made. The areas in the Council's Accounts at 31 March 2019 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

a) Property, Plant and Equipment

Non-Current Assets are depreciated over their useful lives which are partially dependent on assumed levels of repairs and maintenance that will be achieved. However the current economic climate makes it uncertain that the Council will be able to sustain its current level. If the useful life of assets is reduced, the depreciation will increase and the carrying amount of the assets will decrease. The annual depreciation charge for buildings could increase by approximately £1m for every year that useful lives are reduced. For further information on Non-Current Assets, see Note 10.

b) Insurance Provisions

The insurance provision is made up of contributions to cover liabilities arising over a number of years. It is split between less than and greater than one year, estimating what proportion of the monies held relate to each of the years, what has been paid in each of those years and what remains outstanding. An annual review is commissioned from insurance advisors to inform this split. The balance on the provision < 1 year at 31 March 2019 is £2.7m, and so an increase over the forthcoming year of 10% in the total number of claims or in the average settlement could add £0.27m to the provision needed.

c) Non-Domestic Rates - Appeals

Since the introduction of the Business Rates Retention Scheme from 1st April 2013, Councils are liable for successful appeals against NDR charged to businesses in 2018/19 and earlier financial years in their proportionate share. Therefore, a provision has been raised for the estimate of the amount that businesses have been overcharged up to 31 March 2019, using the Valuation Office (VOA) ratings list of appeals and the analysis of successful appeals to date. The balance on this provision at 31 March 2019 is £1.5m.

d) Arrears of Significant Debtors

The Council had debtors balances of Council Tax, Non Domestic Rates, Housing Rents and sundry others of £140.1m as at 31 March 2019. All of the significant balances have been reviewed and impairment allowances for doubtful debts have been set at appropriate levels, with an overall impairment allowance of £86.8m. Although the current economic climate, including the Government's welfare benefits reform initiative, has been taken into account, it is not certain that these allowances will be sufficient, as the judgements made are mainly based on historical trends. If collection rates were to deteriorate, an increase of 10% in the amount of the impairment allowance would require an additional sum of £8.7m to be set aside.

e) Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net Pensions liability of changes in individual assumptions can be measured and are outlined in the Defined Benefits note to these Accounts (Note 36). (See also Note 37 – Contingent Liabilities – 'McCloud Judgement'.)

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

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

6. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration at the end of May 2019. There are no events after the balance sheet date to report, since the figures in the financial statements and notes at 31 March 2019 already reflect the known financial position of the authority at that date.

7. OTHER OPERATING EXPENDITURE - LEVIES

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

	2018/19 £000	2017/18 £000
London Pension Fund Authority	**1,286**	1,241
Lee Valley Regional Park Authority	**209**	213
Environment Agency	**196**	184
Total Levies Paid	**1,691**	**1,638**

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

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

Notes to the Core Financial Statements

2018/19	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	30,710	3,146				(33,856)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(294)					294
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	6,921					(6,921)
Holiday Pay (transferred to the Accumulated Absences Account)	(458)					458
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	39,064	40,427	(1,091)			(78,400)
Total Adjustments to Revenue Resources	**75,943**	**43,573**	**(1,091)**	**0**	**0**	**(118,425)**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,564)	(19,874)		21,438		0
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,926			(1,926)		0
Statutory provision for the repayment of debt (transfer from the CAA)	(10,966)	(2,954)				13,920
Revenue Expenditure Funded from Capital under Statute	2,200					(2,200)
Capital expenditure funded from revenue balances (transfer to the CAA)	(7,251)					7,251
Total Adjustments between Revenue and Capital Resources	**(15,655)**	**(22,828)**	**0**	**19,512**	**0**	**18,971**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(5,761)		5,761
Use of the Major Repairs Reserve to finance capital expenditure			(461)			461
Application of capital grants to finance capital expenditure	(9,996)				(301)	10,297
Total Adjustments to Capital Resources	**(9,996)**	**0**	**(461)**	**(5,761)**	**(301)**	**16,519**
Total Adjustments	**50,292**	**20,745**	**(1,552)**	**13,751**	**(301)**	**(82,935)**

Notes to the Core Financial Statements

2017/18	Usable Reserves					
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	31,410	3,011				(34,421)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	32,699	(122)				(32,577)
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	(2,451)					2,451
Holiday Pay (transferred to the Accumulated Absences Account)	(692)					692
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	(121,042)	29,267	(951)			92,726
Total Adjustments to Revenue Resources	**(60,076)**	**32,156**	**(951)**	**0**	**0**	**28,871**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,986)	(11,608)		13,596		(2)
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,927			(1,927)		0
Posting of HRA resources from revenue to the Major Repairs Reserve						0
Statutory provision for the repayment of debt (transfer from the CAA)	(10,580)	(2,662)				13,242
Revenue Expenditure Funded from Capital under Statute	10,925					(10,925)
Capital expenditure funded from revenue balances (transfer to the CAA)	(6,428)	(153)				6,581
Total Adjustments between Revenue and Capital Resources	**(6,142)**	**(14,423)**	**0**	**11,669**	**0**	**8,896**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(18,814)		18,814
Use of the Major Repairs Reserve to finance capital expenditure			(485)			485
Application of capital grants to finance capital expenditure	(19,590)				3,167	16,423
Total Adjustments to Capital Resources	**(19,590)**	**0**	**(485)**	**(18,814)**	**3,167**	**35,722**
Total Adjustments	**(85,808)**	**17,733**	**(1,436)**	**(7,145)**	**3,167**	**73,489**

9. EARMARKED RESERVES

The Council has a number of earmarked reserves on its Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up to provide resources for future spending plans. This note shows the amounts used to meet General Fund expenditure in 2018/19 and amounts set aside in the year to finance future expenditure plans. The use of HRA earmarked reserves is shown in the notes to the HRA in Section 4.

Name of Reserve	Balance 31/03/18 £000	2018/19 Transfers Out £000	2018/19 Transfers In £000	Balance 31/03/19 £000	
Specific Revenue Earmarked	69,152	(31,864)	19,539	**56,827**	(a)
PFI and BSF Schemes	26,064	(416)	1,337	**26,985**	(b)
New Homes Bonus Reserve	24,410	(10,879)	6,677	**20,208**	(c)
Insurance	16,424	(979)	0	**15,445**	(d)
Capital Programme Expenditure	877	(12,719)	11,842	**0**	(e)
	136,927	**(56,857)**	**39,395**	**119,465**	
Schools Reserves and External Funds	23,196	(23,880)	29,919	**29,235**	(f)
	23,196	**(23,880)**	**29,919**	**29,235**	
Total	**160,123**	**(80,737)**	**69,314**	**148,700**	

a) Specific Earmarked Reserves

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

b) PFI and BSF Schemes Reserves

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

c) New Homes Bonus Reserve

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

d) Insurance Reserve

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

e) Capital Programme Expenditure Reserve

This reserve will be used to finance capital programme expenditure in future years. The balance is currently nil due to this reserve having to be used to fund capital spend being written off to revenue.

f) Schools Reserves and Schools External Funds

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

10. NON CURRENT ASSETS

a) Non-Current Assets Revaluations

Assets are valued at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value, to ensure that the Council's assets are valued in accordance with RICS and CIPFA guidance. The valuations this year were undertaken and signed off by the valuers Wilkes, Head and Eve LLP. Where revaluations have occurred in 2018/19, their exact effective date was 28 February 2019 for council dwellings and 31 January 2019 for other assets.

	Council Dwellings £000	Other Land & Buildings £000	Surplus Assets £000	Total £000
Valued at Historic Cost	**0**	**1,818**	**8,624**	**10,442**
Valued at Current Value				
2018-19	1,271,153	891,077	73,635	**2,235,865**
2017-18	1,071	54,967	5,757	**61,795**
2016-17	125	28,319	0	**28,444**
2015-16	0	57	1,869	**1,926**
2014-15	0	0	0	**0**
Total Net Book Value	**1,272,349**	**976,238**	**89,885**	**2,338,472**

b) Movements in Non-Current Assets

The movements in non-current assets during 2018/19 were as follows:

Notes to the Core Financial Statements

2018/19	Council Dwellings £000	Other Land & Bldgs £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 01 April 2018	**1,256,670**	**1,014,477**	**53,264**	**180,370**	**5,029**	**94,821**	**23,690**	**2,628,321**
Additions	36	113	6,069	5,952	214	1,944	8,605	**22,933**
Revaluations (recognised in Revaluation Reserve)	26,651	(6,395)	0	0	0	(64)	0	**20,192**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(2,367)	(17,678)	0	0	0	(684)	0	**(20,729)**
Impairments (recognised in Revaluation Reserve)	(11)	0	0	0	0	(9,788)	0	**(9,799)**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(23)	(347)	0	0	0	(10,346)	0	**(10,716)**
Disposals	(6,907)	0	(1,937)	0	0	0	0	**(8,844)**
Transfers	(1,488)	(12,296)	0	72	344	14,568	(1,200)	**0**
Gross Book Value c/fwd at 31 March 2019	1,272,561	977,874	57,396	186,394	5,587	90,451	31,095	**2,621,358**
Depreciation b/fwd at 01 April 2018	(827)	(3,416)	(28,094)	(62,946)	(54)	(198)	0	**(95,535)**
Depreciation for year	(21,993)	(15,396)	(4,341)	(7,375)	(23)	(1,027)	0	**(50,155)**
Depreciation written back on:								
Transfers	26	189	0	0	0	(215)	0	**0**
Revaluations (recognised in Revaluation Reserve)	21,703	8,046	0	0	0	701	0	**30,450**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	879	8,941	0	0	0	173	0	**9,993**
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0	0	0	0	**0**
Assets Sold	0	0	1,795	0	0	0	0	**1,795**
Depreciation c/fwd at 31 March 2019	(212)	(1,636)	(30,640)	(70,321)	(77)	(566)	0	**(103,452)**
Net Book Value at 31 March 2019	**1,272,349**	**976,238**	**26,756**	**116,073**	**5,510**	**89,885**	**31,095**	**2,517,906**

Notes to the Core Financial Statements

The movements in non-current assets during 2017/18 were as follows:

2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 01 April 2017	**1,229,227**	**775,614**	**53,750**	**170,686**	**5,013**	**77,693**	**23,115**	**2,335,098**
Additions	1,734	1,836	1,901	9,264	16	7,939	10,908	**33,598**
Revaluations (recognised in Revaluation Reserve)	46,151	84,706	0	0	0	(1,554)	0	**129,303**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(52)	147,847	0	0	0	(3,215)	0	**144,580**
Impairments (recognised in Revaluation Reserve)	0	(2,991)	0	0	0	(311)	0	**(3,302)**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	(1,371)	0	0	0	(1,508)	0	**(2,879)**
Disposals	(5,410)	(278)	(2,387)	0	0	0	0	**(8,075)**
Transfers	(14,979)	9,114	0	421	0	15,777	(10,333)	**0**
Gross Book Value c/fwd at 31 March 2018	**1,256,670**	**1,014,477**	**53,264**	**180,370**	**5,029**	**94,821**	**23,690**	**2,628,321**
Depreciation b/fwd at 01 April 2017	**(159)**	**(942)**	**(25,885)**	**(55,793)**	**(31)**	**(800)**	**0**	**(83,610)**
Depreciation for year	(22,059)	(14,797)	(4,584)	(7,153)	(23)	(604)	0	**(49,220)**
Depreciation written back on:								
Transfers	7	0	0	0	0	(7)	0	**0**
Revaluations (recognised in Revaluation Reserve)	20,367	8,061	0	0	0	542	0	**28,970**
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,017	4,262	0	0	0	447	0	**5,726**
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	**0**
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0	0	224	0	**224**
Assets Sold	0	0	2,375	0	0	0	0	**2,375**
Depreciation c/fwd at 31 March 2018	**(827)**	**(3,416)**	**(28,094)**	**(62,946)**	**(54)**	**(198)**	**0**	**(95,535)**
Net Book Value at 31 March 2018	**1,255,843**	**1,011,061**	**25,170**	**117,424**	**4,975**	**94,623**	**23,690**	**2,532,786**

11. INVESTMENT PROPERTIES

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

12. FINANCIAL INSTRUMENTS

The Code of Practice requires the accounts to be compliant with IFRS but some of these requirements are not consistent with primary legislation. Where this occurs, the CIES complies with IFRS, with the MiRS containing the reversals required to ensure that the closing balances comply with Statute. The figures shown in the table do not all appear as investments on the face of the balance sheet due to the reclassification of some short term investments as Cash Equivalents under IFRS. Where values are zero, the relevant lines have been excluded from the table.

a) Financial Instruments Balances

	Long-Term		Current		
	31/03/19 £000	31/03/18 £000	31/03/19 £000	31/03/18 £000	
Financial Liabilities (Principal)	**202,015**	189,421	**25,203**	40,000	1
Accrued Interest	**-**	-	**2,243**	2,431	1
Total Borrowings	**202,015**	**189,421**	**27,446**	**42,431**	
PFI and Finance Lease liabilities	**220,696**	228,224	**7,504**	7,945	
Total Other Liabilities	**220,696**	**228,224**	**7,504**	**7,945**	
Financial Liabilities at contract amount	**-**	-	**68,984**	58,186	2
Total Creditors	**-**	**-**	**68,984**	**58,186**	

	Long-Term		Current		
	31/03/19 £000	31/03/18 £000	31/03/19 £000	31/03/18 £000	
Loans and Receivables (Principal)	**-**	-	**415,449**	404,688	1
Accrued Interest	**-**	-	**1,087**	680	1
Total Investments	**-**	**-**	**416,536**	**405,368**	
Loans and Receivables	**56,442**	44,948	**-**	-	2
Financial Assets at contract amounts	**-**	-	**33,108**	27,525	2
Total Debtors	**56,442**	**44,948**	**33,108**	**27,525**	

1) Under accounting requirements the carrying value of financial instruments is shown in the balance sheet (including the principal amount borrowed or lent and adjustments for accrued interest where relevant). Accrued interest is included in current assets / liabilities where it is due within one year.

2) These are carried at cost as this is a fair approximation of their value. The breakdown of these figures are shown in the appropriate Debtors and Creditors Notes and exclude statutory amounts.

Other Required Declarations

Following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting, there have been no reclassifications of financial instruments in the year or in regards to the previous year.

There were no unusual movements during the year or the previous year.
The Council provided no financial guarantees in the year and has none outstanding from previous years.
The Council has made no loans to voluntary organisations at less than market rates (soft loans), nor has it received any such loans.
No de-recognition is expected to impact where the Council has transferred financial assets to a third party.
The Council did not hold and did not obtain any collateral for third party debts or other credit enhancements in the year or the previous year.
No allowance for credit losses were made during the year or the previous year.
No defaults or breaches relating to the Council's financial instruments were incurred during the year or the previous year.

b) Financial Instruments Gains / (Losses)

The gains and losses recognised in the CIES in relation to financial instruments are as follows (there were no revaluations on financial instruments in 2018/19 or 2017/18, or assets classified as Available for Sale):

	2018/19			2017/18
	Liabilities - Amortised Cost £000	Assets - Loans and Receivables £000	Totals £000	Totals £000
Interest Expense	8,375	-	8,375	8,810
Total Expense in Surplus or Deficit on Provision of Services	**8,375**	**-**	**8,375**	**8,810**
Interest Income	-	(3,452)	(3,452)	(2,142)
Total Income in Surplus or Deficit on Provision of Services	**-**	**(3,452)**	**(3,452)**	**(2,142)**
Net (Gain) / Loss for the Year	**8,375**	**(3,452)**	**4,923**	**6,668**

c) Fair Values of Assets and Liabilities

Financial liabilities and assets represented by amortised cost and long term debtors and creditors are carried on the balance sheet at amortised cost (in long term assets / liabilities with accrued interest in current assets / liabilities). Their fair value can be assessed by calculating the net present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- Borrowing rates from the PWLB have been applied to PWLB loans, termed the New Loan and Premature Repayment Rates;
- For non-PWLB loans, PWLB discount rates as above have been used as a reasonable proxy for market rates;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

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

The following tables show the carrying amount of assets and liabilities on the balance sheet compared to the fair value amounts (undisclosed on the balance sheet). The fair value of Public Works Loan Board (PWLB) loans of £132m at the New Loan Rate compares the terms of existing PWLB commitments with the new borrowing rates available from the PWLB, given that the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets (the Certainty rate).

A supplementary measure of the fair value of PWLB commitments is to compare the terms of these loans with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB Premature Repayment Rate. If the authority were to seek to repay the loans to the PWLB, the PWLB would raise a penalty charge for early redemption, based on the repayment interest rates, for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £156m.

	Premature Repayment Rate		New Loan Rate		Premature Repayment Rate		New Loan Rate	
	31/03/19		31/03/19		31/03/18		31/03/18	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	98,039	155,970	98,039	132,267	89,945	143,512	89,945	121,980
Non-PWLB Debt *	131,422	213,197	131,422	172,181	141,907	220,451	141,907	179,443
Total Debt / Liabilities	229,461	369,167	229,461	304,448	231,852	363,963	231,852	301,423
Money Market Investments	423,498	423,574	423,498	423,574	411,550	411,702	411,550	411,702
Long Term Debtors	56,442	56,442	56,442	56,442	44,948	44,948	44,948	44,948
Total Assets	479,940	480,016	479,940	480,016	456,498	456,650	456,498	456,650

*The fair value for non-PWLB debt at the premature repayment rate is provided for illustrative purposes only.

13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Key Risks

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

b) Overall Procedures for Managing Risk

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

- formally adopt the requirements of the CIPFA Treasury Management Code of Practice;
- adopt a Treasury Policy Statement and include treasury management clauses within its financial regulations/standing orders/constitution;
- approve annually in advance prudential and treasury indicators for the following three years which includes limiting the Council's overall borrowing, managing interest rate exposure, and managing the maturity structure of debt.

- approve an investment strategy for the forthcoming year setting out its criteria for investing and selecting investment counterparties in compliance with Government guidance.

These procedures are required to be reported and approved at Council before the start of the year to which they relate. These items are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year. The annual treasury management strategy which incorporates the prudential indicators was last approved by Council in February 2019 and is available on the Council website. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These are a requirement of the Code of Practice and are reviewed periodically.

c) Credit Risk

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

The Council's maximum exposure to credit risk in respect of its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to an individual institution. It is rare for such entities to be unable to meet their commitments and a risk of irrecoverable losses applies to all of the Council's deposits; however at the 31 March 2019 there was no evidence that this was likely to happen.

d) Amounts Arising from Expected Credit Losses

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

The Council's investment assets are held with highly rated counterparties with very low historical rates of default, and are mainly simple deposit products held for durations of less than a year to collect contractual cash flows. Using the 12 month ECL model, at 31 March 2019 the Council's investment assets with a value of £422.4m had a calculated ECL of £0.068m; the Council has deemed this immaterial for adjusting the carrying values of those assets.

e) Liquidity Risk

The Council manages its liquidity position through the procedures above as well as using a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice, which ensures that cash is available when needed. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the PWLB and money markets for access to longer term funds. All sums invested are either due to be paid in less than one year or can be easily realised.

f) Refinancing and Maturity Risk

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

g) Market Risk – Interest Rate Risk

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

14. DEBTORS

a) Long Term Debtors

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

	31/03/19 £000	31/03/18 £000	
Lewisham Homes Limited - Loan	**37,000**	**26,000**	(a)
Catford Regeneration Partnership Limited (CRPL) - Loan	**12,861**	**12,034**	(b)
Street Lighting PFI Sinking Fund	**2,950**	**3,245**	(c)
Lewisham Gateway Development - Loan	**2,000**	**2,000**	(d)
Land Charges Debts	**277**	**278**	
Mortgages	**117**	**155**	
Other Long Term Debtors	**1,237**	**1,236**	(e)
Total Long Term Debtors	**56,442**	**32,566**	

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

b) Catford Regeneration Partnership Limited Loan
A loan of £12m was advanced to CRPL in 2010/11, followed by further loans of £0.25m in 2015/16 and £1m in 2016/17. (See Section 6 – Group Accounts.)

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

d) Lewisham Gateway Development

A loan of £2m was advanced to the consortium which is undertaking the Lewisham Gateway development.

e) Other Long Term Debtors

Other long term debtors includes a social investment business loan to Wide Horizons for £0.7m in 2017/18. This totals £1.3m shared between Lewisham and Greenwich.

b) Current Debtors

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

	31/03/19 £000	31/03/18 £000
Government and Other Public Bodies:		
HM Revenue & Customs - VAT	**6,002**	**4,240**
Central Government bodies	**3,927**	**4,720**
Other Local Authorities	**3,638**	**962**
NHS bodies	**1,177**	**16**
Other Public bodies	**2,138**	**80**
Council Tax Payers	**35,655**	**32,307**
NDR Payers	**2,115**	**984**
Council Tax Court Costs	**9,117**	**8,290**
Housing Benefit Overpayments	**25,911**	**25,776**
Housing Rents (inc PSL, B & B, Hostels, Commercial)	**9,539**	**8,576**
Leaseholders Services Charges	**5,819**	**6,153**
Parking	**399**	**270**
LBL Pension Fund	**1,458**	**1,315**
General Debtors due for Supplies and Services	**34,715**	**27,316**
Total Current Debtors	**141,610**	**121,005**
Impairment Allowances	**(86,766)**	**(75,464)**
Total Net Current Debtors	**54,844**	**45,541**

c) Impairment Allowances

	Balance at 31/03/18 £000	Movement in 2018/19 £000	Balance at 31/03/19 £000
Council Tax Payers	(29,859)	(2,814)	**(32,673)**
Council Tax Court Costs	(7,501)	(795)	**(8,296)**
NDR Payers	(547)	(482)	**(1,029)**
Housing Benefit Overpayments	(18,914)	(1,185)	**(20,099)**
Housing Rents (inc PSL, B & B, Hostels, Commercial)	(4,014)	(519)	**(4,533)**
Leaseholders Services Charges	(2,002)	106	**(1,896)**
General Debtors due for Supplies and Services	(12,627)	(5,613)	**(18,240)**
Total Impairment Allowances	**(75,464)**	**(11,302)**	**(86,766)**

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

15. CASH AND CASH EQUIVALENTS

	Balance 31/03/18 £000	Movement in 2018/19 £000	Balance 31/03/19 £000
Cash Equivalents			
Short Term Deposits	0	0	**0**
Cash			
Money Market Funds	100,901	(18,450)	**82,451**
Call Accounts with Banks	0	0	**0**
	100,901	**(18,450)**	**82,451**
Other Cash and Bank Balances			
Main Bank Accounts	0	0	**0**
Other Cash and Bank Accounts	3,312	(1,386)	**1,926**
	3,312	**(1,386)**	**1,926**
Total Cash and Cash Equivalents	**104,213**	**(19,836)**	**84,377**
Bank Accounts Overdrawn			
Main Bank Accounts	(9,761)	1,787	**(7,974)**
Schools Bank Accounts	268	(1,181)	**(913)**
	(9,493)	**606**	**(8,887)**
Net Cash and Cash Equivalents	**94,720**	**(19,230)**	**75,490**

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

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

c) The schools bank accounts are an integral part of the Council's overall cash management arrangements, and are therefore included under Net Cash and Cash Equivalents. They consist of individual accounts for each school, and an overall treasury account which is used to invest the net balance in conjunction with the Council's other balances. The balances on these accounts were £20.8m (2017/18 £24.7m) and overdrawn £21.7m (2017/18 overdrawn £24.4m) respectively.

16. CREDITORS

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

	31/03/19 £000	31/03/18 £000
Government and other public bodies:		
HM Revenue & Customs	**5,365**	5,619
Central Government bodies	**19,455**	13,670
Other Local Authorities	**10,815**	7,118
NHS bodies	**1,865**	3,722
Other Public bodies	**462**	403
	37,962	**30,532**
Short Term Compensated Absences	**6,598**	7,056
General Creditors (amounts owed for supplies and services)	**40,882**	40,605
Total Creditors	**85,442**	**78,193**

17. REVENUE RECEIPTS IN ADVANCE

	31/03/19 £000	31/03/18 £000
Capital Contributions Unapplied	**48,989**	40,423
PFI Schemes	**23,324**	23,142
Revenue Grants and Contributions	**8,328**	5,681
Council Tax	**8,125**	7,929
NDR	**6,462**	3,470
Rents in Advance	**5,207**	5,165
Other Receipts in Advance	**3,780**	4,683
Total Receipts in Advance	**104,215**	**90,493**

18. PROVISIONS

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

	Balance 31/03/18 £000	2018/19 Transfers Out £000	2018/19 Transfers In £000	Balance 31/03/19 £000
Current (less than 1 year)				
Insurance Provision	2,532	(3,114)	3,294	**2,712**
Other Provisions	846	(508)	868	**1,206**
	3,378	**(3,622)**	**4,162**	**3,918**
Non Current (Over 1 year)				
Insurance Provision	4,428	0	357	**4,785**
Other Provisions	965	0	6	**971**
	5,393	**0**	**363**	**5,756**
Total - Provisions	**8,771**	**(3,622)**	**4,525**	**9,674**

Insurance Provisions

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

19. USABLE CAPITAL RECEIPTS

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

	2018/19 £000	2017/18 £000
Balance brought forward at start of year	**48,350**	**55,495**
Amounts Received	**21,438**	**13,596**
Poolable to Central Government	**(1,926)**	**(1,927)**
Amounts applied to finance new capital investment	**(5,761)**	**(18,814)**
Total increase/(decrease) in capital receipts in year	**13,751**	**(7,145)**
Balance carried forward at end of year	**62,101**	**48,350**

20. PENSION RESERVE

The Pensions Reserve reflects the timing differences which arise from the accounting treatment for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing

years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements ensure that funding will have been set aside by the Council by the time the benefits are due to be paid.

	2018/19 £000	2017/18 £000
Balance brought forward at start of year	**(639,735)**	**(644,264)**
Actuarial gains or losses on pensions assets and liabilities	**(146,606)**	38,950
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	**10,890**	(67,129)
Employer's pensions contributions and direct payments to pensioners payable in the year	**33,975**	32,708
Balance carried forward at end of year	**(741,476)**	**(639,735)**

21. REVALUATION RESERVE

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

	2018/19 £000	2017/18 £000
Balance brought forward at start of year	**1,025,482**	**890,273**
Revaluation of Assets	**50,641**	158,273
Impairment Losses	**(9,799)**	(3,302)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**40,842**	**154,971**
Difference between fair value and historic cost depreciation	**(18,256)**	(17,086)
Accumulated gains on assets sold or scrapped	**(3,619)**	(2,676)
Amount written off to the Capital Adjustment Account	**(21,875)**	**(19,762)**
Balance carried forward at end of year	**1,044,449**	**1,025,482**

22. CAPITAL ADJUSTMENT ACCOUNT

This reflects the timing differences arising from the accounting treatment for the use of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling entries from the Revaluation Reserve to convert fair value figures to a historical cost basis). It is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

	2018/19 £000	2017/18 £000
Balance brought forward at start of year	**1,052,696**	**895,587**
Reversal of capital expenditure items debited or credited to the CIES		
Charges for depreciation and impairment of non-current assets	**(71,525)**	98,431
Revenue expenditure funded from capital under statute	**(2,200)**	(10,925)
Non-current assets written off on disposal - gain/loss to the CIES	**(3,322)**	(3,029)
	(77,047)	**84,477**
Adjusting amounts written out of the Revaluation Reserve	**18,267**	17,086
Net amount written out of the cost of non-current assets consumed in the year	**(58,780)**	**101,563**
Capital Financing applied in the year:		
Use of Capital Receipts to finance new capital expenditure	**5,815**	18,814
Use of Major Repairs Reserve to finance new capital expenditure	**461**	485
Capital grants and contributions credited to the CIES	**10,298**	16,423
Statutory Provision for the financing of capital investment	**5,848**	5,534
Repayment of Principal on PFI schemes	**8,072**	7,708
Capital expenditure charged to General Fund and HRA	**7,251**	6,582
	37,745	**55,546**
Balance carried forward at end of year	**1,031,661**	**1,052,696**

23. EXPENDITURE AND INCOME ANALYSED BY NATURE

	2018/19 £000	2017/18 £000
Employee expenses - LBL	**271,133**	266,309
Employee expenses - Schools Non-LBL	**57,638**	58,363
Other Expenditure	**697,629**	698,834
Revaluation, Depreciation, Amortisation and Impairment	**69,881**	(98,431)
Interest payments	**33,526**	34,169
Loan Restructuring	**0**	33,282
Precepts and levies	**1,691**	1,638
Payments to Housing Capital Receipts Pool	**1,926**	1,927
Gain or loss on disposal of non-current assets	**0**	0
Net interest on the net defined benefit liability	**17,572**	17,042
Total Expenditure	**1,150,996**	**1,013,133**
Government grants and contributions	**(658,157)**	(648,754)
Fees, Charges and Other service income	**(219,636)**	(236,465)
Interest and Investment income	**(4,150)**	(3,050)
Income from council tax, non-domestic rates, district rate income	**(175,485)**	(189,915)
Recognised Capital Grants and Contributions	**(9,859)**	(18,474)
Gain or loss on disposal of non-current assets	**(14,748)**	(8,182)
Other Income	**0**	0
Total Income	**(1,082,035)**	**(1,104,840)**
(Surplus) or Deficit on the Provision of Services	**68,961**	**(91,707)**

24. AGENCY SERVICES AND POOLED BUDGETS

The Council did not carry out any agency services, construction work or any other work for any other Local Authorities, public bodies or entities in 2018/19 (nor 2017/18).

In 2018/19 the Council operated a pooled budget as defined by the terms of a Section 75 Agreement (National Health Service Act 2006. The pooled budget is hosted by Lewisham Borough Council ("LBL") on behalf of LBL and NHS Lewisham CCG being the two partners to the agreement.

	2018/19 £000	2017/18 £000
Funding provided to the pooled budget:		
Lewisham Borough Council	**(12,466)**	**(9,583)**
NHS Lewisham CCG	**(20,915)**	**(20,525)**
	(33,381)	**(30,108)**
Expenditure met from the pooled budget:		
Lewisham Borough Council	**21,241**	**18,194**
NHS Lewisham CCG	**12,140**	**11,914**
	33,381	**30,108**
Net surplus arising in year	**0**	0
LBL share being 9.6% of the net surplus in year	***0***	*0*

Note:
(i) The LBL share of any in-year net surplus would be 9.6%. This was nil in 2018/19 (and 2017/18) due to there not being a surplus.

25. INVESTMENT IN COMPANIES

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

The Council is sole owner of two companies:

i) Lewisham Homes Limited
ii) Catford Regeneration Partnership Limited

Further detail on these companies is given in the Group Accounts section of these statements.

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

i) Lewisham Schools for the Future LEP Limited and Lewisham Schools for the Future SPV Limited
The Council has a stake of 10% in Lewisham Schools for the Future LEP Limited which is the Local Education Partnership company also comprising Costain Engineering & Construction Limited, Babcock Project Investments Limited and Building Schools for the Future Limited as well. It was established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish the secondary schools within the Borough. No payments were made to this company in 18/19.

The Council also has a 10% stake in four Special Purpose Vehicles which were set up in relation to the schools which were built within this BSF Programme. Amounts paid to these companies in 2018/19 are shown in brackets and are included in the Resources & Regeneration line of the CIES.

The companies concerned are Lewisham Schools For The Future SPV Limited (18/19 £8.7m, 17/18 £9.0m), Lewisham Schools For The Future SPV2 Limited (18/19 £2.7m, 17/18 £3.1m), Lewisham Schools For The Future SPV3 Limited (18/19 £3.9m, 17/18 £4.4m) and Lewisham Schools For The Future SPV4 Limited (18/19 £7.5m, 17/189 £8.3m). The Head of Financial Services is the Council's Director on all of these companies' boards. The corporate structure is standard to BSF schemes.

ii) South-East London Combined Heat and Power Limited (SELCHP)
The Council has a minority share of less than 1% in South-East London Combined Heat and Power Limited (SELCHP) which is a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy services. Payments of £5.3m were made in 2018/19 to the company (£4.6m in 2017/18) and are included in the Customer Services line of the CIES.

iii) Newable Limited
The Council has a minority share in Newable Limited (formerly Greater London Enterprise Limited) which is a company limited by guarantee and provides property management & consultancy services. No payments were made by the Council in 2018/19 or 2017/18.

iv) Lewisham Grainger Holdings LLP
During 2018/19 the Council formed a Limited Liability Partnership with Grainger Developments Ltd. The partnership will build housing for rent in Besson Street, New Cross. No payments were made to the company by the Council in 2018/19.

26. MEMBERS' ALLOWANCES

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

	2018/19 £000	2017/18 £000
Allowances (incl. NI)	938	939
Other Expenses	85	86
Total Expenditure in Year	1,023	1,025

27. OFFICERS' REMUNERATION

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

	Non-Schools		Schools		Totals	
Remuneration Band	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
£50,000 to £54,999	84	68	192	162	276	230
£55,000 to £59,999	31	26	98	86	129	112
£60,000 to £64,999	23	18	45	55	68	73
£65,000 to £69,999	16	14	29	26	45	40
£70,000 to £74,999	12	10	20	28	32	38
£75,000 to £79,999	5	3	20	18	25	21
£80,000 to £84,999	4	2	15	8	19	10
£85,000 to £89,999	2	2	5	8	7	10
£90,000 to £94,999	1	0	5	7	6	7
£95,000 to £99,999	0	8	4	2	4	10
£100,000 to £104,999	6	4	3	2	9	6
£105,000 to £109,999	0	1	0	3	0	4
£110,000 to £114,999	2	0	2	0	4	0
£115,000 to £119,999	0	2	0	1	0	3
£120,000 to £124,999	0	0	2	2	2	2
£125,000 to £129,999	1	0	0	0	1	0
£130,000 to £134,999	0	0	0	0	0	0
£135,000 to £139,999	0	0	0	0	0	0
£140,000 to £144,999	0	3	0	0	0	3
£145,000 to £145,999	3	0	0	0	3	0
£150,000 to £154,999	0	1	0	0	0	1
£155,000 to £159,999	1	0	0	0	1	0
£180,000 to £185,999	1	0	0	0	1	0
Total	192	162	440	408	632	570

Note - These figures include the senior employees disclosed separately in note b) below.

b) Disclosure of Senior Employees' Remuneration

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

Financial Year 2018/19	Salary (inc fees and allowances)	Employer's Pension Contributions	Total (inc. Pension Contributions)
	£	£	£
Senior Employees			
Chief Executive - Mr Ian Thomas (a)	132,285	26,296	158,581
Executive Director for Resources and Regeneration - Ms J Senior (b)	157,135	35,355	192,490
Executive Director for Children and Young People	146,841	33,039	179,880
Executive Director for Community Services	146,841	33,039	179,880
Executive Director for Customer Services	146,841	33,039	179,880
Director of Children's Social Care and Health (c)	89,546	19,751	109,297
Director of Public Health (d)	129,206	18,579	147,785
Head of Law and Monitoring Officer (Part time)	67,192	15,118	82,310
Totals	1,015,887	214,216	1,230,103

(a) Chief Executive started in May 2018 and was paid to 31 January 2019. Exit payment of £185,000 is included in Note 27c below
(b) Executive Director for Resources and Regeneration - salary includes an allowance for acting as Chief Executive prior to arrival of and following departure of the previous postholder
(c) Director of Children's Social Care and Health - post was vacant from July to September 2018. Salary is the total of both postolders in place during the year
(d) Director of Public Health - left 15th March 2019. Employer's pension contributions are NHS

Financial Year 2017/18	Salary (inc fees and allowances)	Employer's Pension Contributions	Total (inc. Pension Contributions)
	£	£	£
Senior Employees			
Executive Director for Children and Young People	143,961	32,391	176,352
Executive Director for Resources and Regeneration - Ms J Senior (a)	155,083	34,894	189,977
Executive Director for Community Services	143,961	32,391	176,352
Executive Director for Customer Services	143,961	32,391	176,352
Chief Executive (Part time) (b)	116,552	0	116,552
Director of Children's Social Care and Health	117,060	26,339	143,399
Director of Public Health	123,240	16,683	139,923
Head of Law and Monitoring Officer (Part time)	65,819	14,809	80,628
Totals	1,009,637	189,898	1,199,535

(a) Salary includes an allowance for acting as Chief Executive following the resignation of the previous postholder

c) Termination Benefits - Exit Packages Agreed in Year

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

Cost Band (inc Pension Fund Contributions)	Total Number of Exit Packages		Total Cost of Exit Packages	
	2018/19 No.	2017/18 No.	2018/19 £000	2017/18 £000
£0 to £20,000	38	78	265	609
£20,001 to £40,000	14	14	379	380
£40,001 to £60,000	1	3	50	135
£60,001 to £80,000	0	2	0	130
£80,001 to £100,000	0	2	0	180
£100,001 and over	1	0	185	0

28. EXTERNAL AUDIT COSTS

	2018/19 £000	2017/18 £000
External Audit Services	149	193
Certification of Grant Claims and Returns	37	41
Other services provided by the appointed auditor	0	11
	186	245

The Council's External Auditors are Grant Thornton.

29. DEDICATED SCHOOLS' GRANT

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

	2018/19			2017/18		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
Final DSG before academy recoupment			289,744			289,626
Academy figure recouped			(26,183)			(29,441)
Total DSG after academy recoupment			263,561			260,185
Brought forward from previous year			0			0
Carry forward to next year agreed in advance			0			0
Agreed initial budgeted distribution	89,455	174,106	263,561	71,632	188,553	260,185
In year adjustments	(181)	(3,615)	(3,796)	(801)		(801)
Final Budget Distribution	89,274	170,491	259,765	70,831	188,553	259,384
Actual Central Expenditure	89,274		89,274	70,831		70,831
Actual ISB deployed to schools		170,491	170,491		188,553	188,553
Carry Forward	0	0	0	0	0	0

30. GRANT INCOME

The following grants were credited to services during the year:

	2018/19 £000	2017/18 £000
Dedicated Schools Grant	(258,972)	(259,656)
Housing Benefit Grant	(205,073)	(217,325)
Housing Subsidy/ Decent Homes Backlog Grant	(10,353)	(10,353)
BSF/ Grouped Schools PFI Unitary Charge Grant	(26,730)	(26,290)
Public Health Grant	(24,325)	(24,967)
Pupil Premium Grant	(14,172)	(15,125)
Social Care Grant	(13,302)	(7,759)
Other Grants	(31,362)	(28,778)

31. RELATED PARTY TRANSACTIONS

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

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

(b) Subsidiaries, Associated Companies and Joint Ventures
The companies that are related to the Council are detailed in Note 25 to the Core Financial Statements.

(c) Elected Members (Councillors) and Chief Officers
Councillors have direct control over the Council's financial and operating policies, and their total cost is shown in Note 26. They are required to declare all related party transactions which they have with any organisation in which they have a controlling interest. This information is recorded on the Council's Register of Members and Chief Officers' Declarations of Interests and is open to public inspection at the Civic Suite at Lewisham Civic Suite during office hours. The information is also published on the Council's website. The Council is compliant with the Localism Act 2012. The material instances (over £100,000) where a Councillor has declared a related party transaction are as follows (amounts in brackets show how much the Council paid the organisations named in 2018/19):

- Councillor Tom Copley is an assembly member of the GLA (£1.293m)
- Councillor Liz Johnston-Franklin is a non-executive director of Youth First (£3.455m)
- Councillor Mark Ingleby is a director of Lewisham Homes (£33.160m)
- Councillor Jim Mallory is a trustee of the Deptford Challenge Trust (£0.372m)
- Councillor Hilary Moore is a governor of Lewisham Southwark College (£0.774m)
- Councillor Brenda Dacres is a board member of The Albany Trust (£0.113m)

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

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2018/19 £000	2017/18 £000
Opening Capital Financing Requirement	**252,021**	**242,638**
Capital Investment		
Property, Plant and Equipment	**25,829**	46,297
Revenue Expenditure Funded from Capital under Statute	**2,200**	10,925
	28,029	**57,222**
Resources Used for Financing		
Capital Receipts	**(4,986)**	(18,814)
Government Grants and Other Contributions	**(10,308)**	(18,479)
Sums set aside from Revenue:	**(11,317)**	(5,012)
	(26,611)	**(42,305)**
Increase in the underlying need to borrowing	**1,418**	**14,917**
Debt Redeemed - Minimum Revenue Provision	**(5,417)**	(5,534)
Increase/ (decrease) in Capital Financing Requirement	**(3,999)**	**9,383**
Closing Capital Financing Requirement	**248,022**	**252,021**

33. LEASES

a) Council as a Lessee

i) Finance Leases

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

ii) Operating Leases

The Council leases out a number of commercial properties for Investment purposes. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/19 £000	31/03/18 £000
Not later than one year	**1,602**	**1,427**
Later than one year and not later than five years	**3,131**	**3,017**
Later than five years	**16,391**	**18,824**
	21,124	**23,268**

b) Council as a Lessor

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

ii) Operating Leases
The Council leases out a number of commercial properties for Investment purposes. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/19 £000	31/03/18 £000
Not later than one year	**3,441**	1,842
Later than one year and not later than five years	**7,152**	3,206
Later than five years	**5,129**	1,258
	15,722	**6,306**

34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

a) Summary of PFI Schemes

PFI Scheme	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting
Start of Contract	2007	2007	2007	2009	2011	2012	2012	2011
End of Contract	2027	2039	2036	2035	2037	2037	2038	2036
Total Estimated Cost	**£287m**	**£77m**	**£227m**	**£241m**	**£86m**	**£118m**	**£224m**	**£95m**
Total PFI Credits	£207m	£30m	£674m					£54m
Net PFI Cost	**£80m**	**£47m**	**£222m**					**£41m**

b) Payments made under PFI contracts

	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
2018/19									
Service Charges	8,366	480	3,571	3,719	873	1,056	1,729	798	20,592
Interest	4,138	1,633	3,229	3,958	1,759	2,603	5,158	2,359	24,837
Liability Repayment	2,954	243	769	1,212	393	683	1,232	585	8,071
Unitary Charge	**15,458**	**2,356**	**7,569**	**8,889**	**3,025**	**4,342**	**8,119**	**3,742**	**53,500**
2017/18									
Service Charges	8,156	456	3,402	3,204	860	933	1,702	779	19,492
Interest	4,369	1,604	3,313	4,178	1,788	2,660	5,232	2,392	25,536
Liability Repayment	2,662	231	737	1,392	348	698	1,101	538	7,707
Unitary Charge	**15,187**	**2,291**	**7,452**	**8,774**	**2,996**	**4,291**	**8,035**	**3,709**	**52,735**

c) Movement in PFI Assets in year

The assets which are used to provide the services under these PFI contracts are recognised within the Council's Balance Sheet. The movements in value over the year are detailed in the following table.

	2018/19		2017/18	
	£000	£000	£000	£000
Gross Book Value b/fwd		407,587		336,938
Additions		0		355
Revaluations (recognised in Revaluation Reserve)	16,926		48,076	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1	16,927	22,945	71,021
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	(355)	(355)
Disposals		(221)		(372)
Transfers		0		0
Assets reclassified (to)/ from Held for Sale		0		0
Gross Book Value c/fwd		424,293		407,587
Depreciation b/fwd		(4,303)		(2,675)
Depreciation for year		(7,561)		(7,215)
Depreciation written back on:				
Transfers		0		0
Revaluations (recognised in Revaluation Reserve)	5,772		4,215	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,085	6,857	1,372	5,587
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0		0	
Assets sold		0		0
Depreciation c/fwd		(5,007)		(4,303)
Net Book Value at End of Year		**419,285**		**403,283**

d) PFI Liabilities

The unitary payments made to the contractors have been calculated to pay them the fair value of the services they provide, the capital expenditure they have incurred and interest they will pay whilst the capital expenditure remains to be reimbursed. The Council's total outstanding liability to the contractors is shown in the following table.

	Current Liabilities (Due within 1 Year)		**Deferred (Future) Liabilities**	
	2018/19 £000	**2017/18 £000**	**2018/19 £000**	**2017/18 £000**
Balance outstanding at start of year	**7,945**	**7,580**	**228,224**	**236,196**
Balance outstanding at end of year	**7,504**	**7,945**	**220,492**	**228,124**

e) Payments due under PFI contracts in future years

The Council makes an agreed payment each year which is linked to inflation and can be reduced if the contractor fails to meet availability and performance standards. The following table shows the estimated payments due to be paid (as part of a unitary charge) for each PFI. The price base is in nominal terms assuming a 1.9% RPI increase per annum compounded until the end of the contract. The amounts are broken down into the different elements of the payments reflecting how they will be accounted for.

Note: Amounts shown for Brockley HRA PFI relate only to the unitary charge for tenanted properties.

	In 2019/20	2 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Brockley HRA						
Service charges	8,567	37,402	30,497			**76,467**
Interest	7,894	11,924	5,460			**25,279**
Repayment of liability	2,858	13,855	16,094			**32,807**
Planned lifecycle replacement	540	2,482	1,793			**4,815**
Downham Lifestyles						
Service charges	240	1,023	1,429	1,617	1,829	**6,137**
Interest	3,208	6,407	8,057	7,466	6,339	**31,477**
Repayment of liability	131	719	1,583	2,397	4,499	**9,328**
Planned lifecycle replacement	252	1,076	1,517	1,726	1,953	**6,524**
Grouped Schools						
Service charges	2,795	11,993	17,011	19,578	9,175	**60,551**
Interest	6,368	11,702	12,279	8,448	1,449	**40,246**
Repayment of liability	800	3,728	7,755	13,448	7,844	**33,576**
Planned lifecycle replacement	935	4,416	5,009	3,875	1,854	**16,088**
BSF 1						
Service charges	2,655	11,447	16,343	18,962	4,141	**53,548**
Interest	7,782	14,108	13,711	7,374	-203	**42,773**
Repayment of liability	1,227	6,715	12,168	19,629	3,385	**43,124**
Planned lifecycle replacement	1,289	4,840	6,917	6,605	907	**20,558**
BSF 2						
Service charges	790	3,362	4,697	5,315	4,032	**18,195**
Interest	3,465	6,388	6,825	4,807	1,385	**22,870**
Repayment of liability	372	1,688	3,212	5,350	5,509	**16,132**
Planned lifecycle replacement	184	1,073	1,635	1,808	1,487	**6,187**
BSF 3						
Service charges	995	4,363	6,876	8,690	6,583	**27,508**
Interest	5,162	9,619	10,101	7,035	2,909	**34,826**
Repayment of liability	723	3,512	5,355	7,163	7,510	**24,263**
Planned lifecycle replacement	113	571	1,487	2,473	1,786	**6,430**
BSF 4						
Service charges	2,012	7,651	11,762	14,443	13,824	**49,693**
Interest	10,132	19,334	20,795	15,332	6,274	**71,867**
Repayment of liability	756	5,729	9,442	13,698	15,796	**45,422**
Planned lifecycle replacement	460	978	2,265	3,472	3,828	**11,003**
Streetlighting						
Service charges	818	3,482	4,865	5,504	2,844	**17,513**
Interest	4,681	8,821	9,529	6,892	1,892	**31,814**
Repayment of liability	636	3,145	5,711	8,630	5,427	**23,549**
Planned lifecycle replacement	0	0	0	0	0	**0**
Totals	**78,844**	**223,552**	**262,179**	**221,738**	**124,256**	**910,569**

35. LONG TERM CONTRACTS

Contract Name	Contractor	Start/ End Date	Total Contract Value
School Meals Catering Contract	Chartwells	May-15/ Apr-20	£40m
Parks and Grounds Maintenance	Glendale Managed Services	Mar-10/ Feb-20	£3.5m
Leisure Centre Management	Fusion Lifestyles	Oct-11/ Oct-26	£12.7m
Downham Life (Leisure Management)	Lintern Leisure Management	Mar-07/ Mar-39	£77.9m
Parking Contract	NSL	Aug-13/ Jul-19	£11.1m
Highway Maintenance Contract	FM Conway	Apr-14/ Mar-21	£7.5m
Data Centre Provision	Logicalis	Apr-11/ Mar-21	£4.0m
Refuse Recycling Agreement*	SELCHP	May-1991/ ongoing	Approx. £5.0m p.a.

* See also Note 25(b)(ii)

36. DEFINED CONTRIBUTION PENSION SCHEMES

The Teachers and the National Health Service Pension Schemes are technically defined benefit schemes. However, their assets and liabilities cannot reliably be identified at individual employer level and therefore for the purposes of the Council's accounts they are accounted for as defined contribution schemes.

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is run by the Department for Education (DfE). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DfE use a notional fund to set a national employers contribution rate based on a percentage of members' pensionable pay – in 2018/19 this rate was 16.48% (16.48% in 2017/18). In 2018/19, the Council paid £14.0m to the DfE in respect of teachers' pension costs (£12.9m in 2017/18).

Public Health staff employed by the Council are members of the NHS Pension Scheme, which is run by the Department of Health (DoH). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DoH use a notional fund to set a national employers contribution rate based on a percentage of members pensionable pay – this rate was 14.4% for 2018/19 (14.4% in 2017/18). In 2018/19 the Council paid £0.073m to the DoH in respect of employees' pension costs (£0.079m in 2017/18).

37. DEFINED BENEFIT PENSION SCHEMES

a) Participation in Pension Schemes

The Council offers retirement benefits as part of the terms and conditions of staff employment. Although these benefits will not actually be payable until employees retire, the Council is committed to making these payments, and they are required to be disclosed at the time that employees earn their future entitlement. The Council makes contributions on behalf of its employees to the Local Government Pension Scheme (LGPS) and the London Pensions Fund Authority (LPFA). These are defined benefit final salary schemes, meaning that both the Council and the employees pay contributions into a fund, calculated at a level which is intended to balance the pensions liabilities with investment assets.

b) Assessment of the Assets and Liabilities of the Pension Schemes

These are assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary

levels etc. They have been prepared by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on IAS19 assumptions and calculations for the year and the latest triennial valuations as at 31 March 2016. It should be noted the Council has guaranteed any pension liability that may arise for its wholly owned subsidiary, Lewisham Homes Limited and as such the figures shown in the balance sheet incorporate the figures for Lewisham Homes Limited.

c) Transactions relating to Retirement Benefits

In accordance with IAS19, the Council recognises the cost of retirement benefits relating to these schemes in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the required charge to the Council Tax is based on the cash paid in the year so the real cost of retirement benefits is reversed out of the General Fund via the MiRS. The following transactions were made during the year in the CIES and the General Fund Balance via the MiRS:

Comprehensive Income and Expenditure Statement	**2018/19 £000**	**2017/18 £000**
Cost of Service		
Current Service Cost	**50,561**	**49,734**
Past Service Cost (inc.settlements and curtailments)	**(302)**	**456**
	50,259	**50,190**
Financing and Investment Income and Expenditure		
Net Interest on the Net Defined Benefit Liability		
Interest Income on Scheme Assets	**(34,434)**	**(32,615)**
Interest Cost on Defined Benefit Obligation (Liabilities)	**52,006**	**49,554**
	17,572	**16,939**
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	**67,831**	**67,129**
Remeasurements of the Net Defined Benefit Liability		
Return on Assets excluding amounts included in Net Interest	**(78,721)**	**(816)**
Actuarial Losses from changes in Demographic Assumptions	**(2,338)**	**0**
Actuarial Losses from changes in Financial Assumptions	**149,933**	**(35,883)**
Other Gains and Losses	**(989)**	**(2,251)**
Total Remeasurements recognised in CIES	**67,885**	**(38,950)**
Total Post Employment Benefits Charged to the CIES	**135,716**	**28,179**

Movement in Reserves Statement	**2018/19 £000**	**2017/18 £000**
Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services	**(67,831)**	**(67,129)**
Employers' Contributions Payable to the Scheme	**33,975**	**32,708**
Return on Assets excluding amounts included in Net Interest	**78,721**	**816**
Actuarial Gains and Losses	**(146,606)**	**38,134**
Net Movement in Pensions Reserve	**(101,741)**	**4,529**

d) Pensions Assets and Liabilities Recognised in the Balance Sheet

	31/03/19 £000	31/03/18 £000
Fair Value of Plan Assets	**1,393,716**	1,293,992
Present Value of Defined Benefit Liability (Obligation)	**(2,068,870)**	(1,864,574)
	(675,154)	**(570,582)**
Present Value of Unfunded Liabilities	**(66,322)**	(69,153)
Pensions Reserve - Year End Balance	**(741,476)**	**(639,735)**

e) Reconciliation of the Movements in the Fair Value of Scheme Assets

	31/03/19 £000	31/03/18 £000
Opening Fair Value of Scheme Assets	**1,293,992**	**1,273,563**
Interest Income on Scheme Assets	34,538	32,615
Administration	(104)	(103)
Remeasurement Gains / Losses		
Return on Assets excluding amounts included in Net Interest	78,721	816
Employer Contributions	29,358	28,109
Contributions in respect of Unfunded Benefits	4,617	4,599
Contributions from Scheme Participants	8,887	8,409
Benefits Paid	(51,445)	(49,417)
Unfunded Benefits Paid	(4,617)	(4,599)
Other Gains and Losses	(231)	0
Closing Fair Value of Scheme Assets	**1,393,716**	**1,293,992**

f) Reconciliation of the Movements in the Present Value of Scheme Liabilities

	31/03/19 £000	31/03/18 £000
Opening Present Value of Scheme Liabilities (Obligations)	**(1,933,727)**	**(1,917,827)**
Current Service Cost	(50,561)	(49,631)
Interest Cost on Defined Benefit Obligation (Liabilities)	(52,006)	(49,554)
Contributions from Scheme Participants	(8,887)	(8,409)
Remeasurement Gains / Losses		
Benefits Paid	51,445	49,417
Unfunded Benefits Paid	4,617	4,599
Actuarial Losses from changes in Demographic Assumptions	2,338	0
Actuarial Losses from changes in Financial Assumptions	(149,933)	35,883
Other Gains and Losses	989	2,251
Past Service Costs / Curtailments / Settlements	533	(456)
Closing Present Value of Scheme Liabilities (Obligations)	**(2,135,192)**	**(1,933,727)**

g) Pension Scheme Assets

	31/03/19			31/03/18		
LGPS (LBL and LH)	**Active Market £000**	**Not in Active Markets £000**	**Total £000**	**Active Market £000**	**Not in Active Markets £000**	**Total £000**
Equities	0	0	0	0	0	0
Debt Securities	177,708	0	177,708	115,056	0	115,056
Real Estate	0	116,067	116,067	0	96,429	96,429
Investment Funds / Unit Trusts	730,130	137,859	867,990	802,824	70,846	873,670
Private Equity	0	38,903	38,903	0	27,278	27,278
Cash and Cash Equivalents	0	110,318	110,318	0	101,709	101,709
Total LGPS Assets	**907,838**	**403,147**	**1,310,985**	**917,880**	**296,262**	**1,214,142**

	31/03/19			31/03/18		
	Active Market £000	**Not in Active Markets £000**	**Total £000**	**Active Market £000**	**Not in Active Markets £000**	**Total £000**
LPFA						
Equities	35,953	9,056	45,009	39,746	9,080	48,826
LDI Cashflow matching	0	0	0	0	0	0
Target Return Portfolio	14,104	7,958	22,062	9,737	8,158	17,895
Infrastructure	0	4,985	4,985	0	3,493	3,493
Fixed income	0	0	0	0	0	0
Properties	0	7,779	7,779	0	5,746	5,746
Cash	2,655	241	2,896	3,890	0	3,890
Total LPFA Assets	**52,712**	**30,019**	**82,731**	**53,373**	**26,477**	**79,850**

h) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme		LPFA	
	2018/19	**2017/18**	**2018/19**	**2017/18**
Rate of Inflation – CPI	2.5%	2.4%	2.5%	2.4%
Salary Increase Rate	3.2%	3.1%	4.0%	3.9%
Pensions Increases	2.5%	2.4%	2.5%	2.4%
Rate for discounting scheme liabilities	2.4%	2.7%	2.3%	2.5%
Mortality assumptions				
Longevity at 65 for current pensioners - Men	22.2	22.2yrs	20	21.0yrs
Longevity at 65 for current pensioners - Women	24.6	24.6yrs	23	24.0yrs
Longevity at 65 for future pensioners - Men	24	24.0yrs	21.8	23.4yrs
Longevity at 65 for future pensioners - Women	26.5	26.5yrs	24.9	26.3yrs

i) Sensitivity Analysis

Change in Assumption at 31st March 2019	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
LGPS - LB Lewisham		
0.5% Decrease in Real Discount Rate	10%	183,098
1 Year Increase in Member Life Expectancy	4%	73,239
0.5% Increase in the Salary Increase Rate	1%	17,002
0.5% Increase in the Pension Increase Rate	9%	163,682
LGPS - Lewisham Homes		
0.5% Decrease in Real Discount Rate	12%	18,894
1 Year Increase in Member Life Expectancy	0%	157,450
0.5% Increase in the Salary Increase Rate	2%	2,586
0.5% Increase in the Pension Increase Rate	10%	15,993
LPFA		
0.5% Decrease in Real Discount Rate	n/a	224
1 Year Increase in Member Life Expectancy	n/a	229
0.5% Increase in the Salary Increase Rate	n/a	221
0.5% Increase in the Pension Increase Rate	n/a	224

These are based on reasonably possible changes to the assumptions occurring at the end of the year and assumes for each change that the assumption changes while all the other assumptions remain constant.

j) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve an increased funding level over the next 3 years. Funding levels are monitored on an annual basis and the next triennial valuation is due at 31 March 2019. The Council anticipates paying £26.5m in contributions to the scheme in 2019/20.

The scheme will need to assess and take account of the national changes to the Local Government Pension Scheme and other main public service schemes under the Public Pensions Services Act 2013. These took effect from 1st April 2014 and provided for regulations to be made within a common framework to establish new career average earnings provisions to pay pensions and other benefits.

38. CONTINGENT LIABILITIES

A contingent liability is an item of expenditure that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council had the following contingent liabilities:

- As indicated in the Narrative Statement, there are 14 schools with licensed deficit budgets at the year-end, totalling £3.7m. There are also 9 schools with local authority loans with a total balance of £3.0m. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits / loans, some or all of this total of £6.7m may ultimately fall to be met from the Council's General Fund, either in 2019/20 or a later year.

- The NHS has a current application for charitable status. If accepted this would require a backdated payment of around £9.2m by the Council and an ongoing annual loss of business rates of £0.127m.

- 'McCloud Judgement': a legal ruling has been made regarding age discrimination arising from pension scheme transition arrangements. The Government Actuary Department is preparing an assessment of the potential impact on the liability of local authority pension schemes, but the increased liability is likely to be in the region of ½% to 1% of total liabilities. However, the Government Actuary Department may appeal against the judgement.

39. CONTINGENT ASSETS

A contingent asset is an item of income that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council has no contingent assets.

40. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances. The total amount held as at 31 March 2019 was £0.2m (£0.2m as at 31 March 2018).

41. HERITAGE ASSETS

These assets comprise Lewisham Clock Tower and the Civic Regalia. Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31 March 2019 is £0.26m (£0.26m as at 31 March 2018).

The Council has two other "categories" of heritage asset which have not been included on the Balance Sheet. 28 assets, mainly works of art with a total insurance value of approximately £45,000, have individual insurance values which are immaterial. Another 28 assets, mainly paintings and sculptures, have not been included on the balance sheet because the cost of obtaining valuations is not felt to be economic to the benefits of the users of the accounts.

42. CASH FLOW STATEMENT - ADJUSTMENT TO SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

	2018/19 £000	2017/18 £000
Depreciation, Impairment and Downward Valuations	71,525	(98,431)
Increase/ (decrease) in creditors	21,621	8,056
(Increase)/ decrease in debtors	(7,672)	(224)
(Increase)/ decrease in inventories (stock)	(13)	29
Movement in pension liability	33,856	34,421
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	6,929	5,705
Other non-cash items charged to the net surplus or deficit on the provision of services	1,184	168
Total Adjustment to net surplus or deficit on the provision of services for non-cash movements	127,430	(50,276)

43. CASH FLOW STATEMENT - ADJUSTMENT FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

	2018/19 £000	2017/18 £000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	46	0
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(21,438)	(13,594)
Any other items for which the cash effects are investing or financing cash flows.	(9,996)	(19,591)
Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(31,388)	(33,185)

44. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2018/19 £000	2017/18 £000
Interest Received	3,063	3,156
Interest Paid	(33,902)	(33,231)
Net Interest Paid	(30,839)	(30,075)

45. CASH FLOW STATEMENT - INVESTING ACTIVITY

	2018/19 £000	2017/18 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(24,349)	(35,240)
Purchase of short and long term investments	(1,096,556)	(1,178,554)
Other payments for Investing Activities	(4,435)	(9,264)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	21,438	13,596
Proceeds from short-term and long-term investments	1,066,839	1,148,557
Other Receipts from Investing Activities	7,971	22,067
Net Cash Flows from Investing Activities	(29,092)	(38,838)

46. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2018/19 £000	2017/18 £000
Cash receipts of short and long term borrowing	8,000	38,548
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(8,073)	(7,707)
Repayment of Short-Term and Long-Term Borrowing	(10,240)	0
Other payments for financing activities	(6,906)	5,955
Net Cash Flows from Financing Activities	(17,219)	36,796

SECTION 4 - HOUSING REVENUE ACCOUNT

This account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all income and expenditure relating to the Council's responsibilities as landlord of dwellings and associated property.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

	2018/19 £000	2017/18 £000	Note
INCOME			
Gross Rent - Dwellings	**(69,232)**	**(70,320)**	1
Gross Rent - Other Housing Properties	**(3,448)**	**(3,409)**	1
Charges for Services and Facilities	**(11,936)**	**(11,133)**	1
Housing Subsidy and Government Grants	**(10,353)**	**(10,353)**	2
Contribution towards Expenditure	**(2,094)**	**(5,293)**	4
Total Income	**(97,063)**	**(100,508)**	
EXPENDITURE			
Supervision and Management - General Expenses	**36,927**	**35,583**	5
Supervision and Management - Special Expenses	**5,224**	**5,333**	5
Repairs and Maintenance	**42,670**	**39,196**	6
Rent, Rates and Other Charges	**762**	**663**	8
Rent Rebate Subsidy Shortfall	**0**	**18**	3
Contribution to Doubtful Debts Provision	**601**	**984**	9
Depreciation - Dwellings	**21,993**	**22,059**	10
Depreciation - Other Housing Assets	**794**	**761**	10
Impairment of Non Current Assets	**3,278**	**73**	
Debt Management Expenses	**20**	**24**	
Total Expenditure	**112,269**	**104,694**	
Net Cost of Services included in the Council's Income and Expenditure Account	**15,206**	**4,186**	
HRA Services share of Corporate and Democratic Core Costs	**173**	**173**	
Net Cost of HRA Services	**15,379**	**4,359**	
HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement			
(Gain) / Loss on Sale of HRA Non Current Assets	**(13,651)**	**(6,338)**	
Interest Payable and Similar Charges	**6,173**	**6,903**	11
Interest and Investment Income	**(1,078)**	**(638)**	
Net Pension Interest Cost	**374**	**361**	12
(Surplus) / Deficit for the Year on HRA Services	**7,197**	**4,647**	

HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

	2018/19 £000	2017/18 £000
Balance on the HRA at the End of the Previous Year	**70,208**	**57,122**
Movement in Year		
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	**(7,197)**	**(4,647)**
Adjustments between Accounting Basis and Funding Basis under Statute	**12,605**	**16,782**
Net Increase or (Decrease) before Transfers (To) / From Reserves	**5,408**	**12,135** *
Transfers (To) / From Reserves	**1,091**	**951**
Increase or (Decrease) in Year on the HRA	**6,499**	**13,086**
Balance on the HRA at the End of the Year	**76,707**	**70,208**

* Note - MRA only, others are not technically defined as transfers to from reserves, they are movements in the HRA Balance.

An analysis of the amounts included within the figures for “Adjustments between Accounting Basis and Funding Basis under Statute” can be found within Note 8 to the Core Financial Statements.

Details of the movement in the Housing Revenue Account Reserves and Balances can be found in Note 15 to the Housing Revenue Account.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. GROSS RENT OF DWELLINGS

This is the total rent collectable for the year after allowance is made for empty property. At 31 March 2019, 0.34% of lettable property was empty (0.32% at 31 March 2018). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £95.72 In 2018/19 and £96.69per week In 2017/18.

Service charges have been disaggregated from rents and are now shown under charges for services and facilities.

(a) Housing stock

The Council was responsible for managing 13,957 dwellings as at 31 March 2019 (14,158 as at 31 March 2018).

There have been no stock transfers undertaken in 2018/19.

The stock was made up as follows:

	31/03/19	31/03/18
Stock Numbers at year end		
Houses and Bungalows	2,324	2,377
Flats and Maisonettes	11,633	11,781
Stock at End of Year	13,957	14,158

	2018/19	2017/18
Change in Stock Numbers during the year		
Stock at 1 April	14,158	14,256
Less Sales, Demolitions, etc.	(203)	(147)
Add Re-purchases, Conversions etc.	2	49
Stock at End of Year	13,957	14,158

b) Rent Arrears

	2018/19 £000	2017/18 £000
Rent Arrears due from Current Tenants	3,595	3,408
Rent Arrears due from Former Tenants	1,863	1,549
Total Arrears	5,458	4,957
Total Arrears as % of Gross Rent of Dwellings Due	6.3%	5.7%

The arrears shown in this note exclude water charges, heating charges and all other charges collected as part of tenants' rent. Housing rent represents 91% of the total collectable from tenants.

c) Rent – Other Housing Property

	2018/19 £000	2017/18 £000
Aerial Sites	260	205
Garages	125	128
Reception Hostels	2,573	2,626
Commercial Property	432	393
Ground Rents	58	57
Total Other Rents and Charges	**3,448**	**3,409**

d) Charges for Services and Facilities to Tenants and Leaseholders.

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal and disposal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £8.58 in 2018/19 (£8.27 in 2017/18).

	2018/19 £000	2017/18 £000
Heating Charges	659	583
Leasehold Service Charges	5,155	4,549
Tenants Service Charges	6,122	6,001
Total Charges for Services and Facilities	**11,936**	**11,133**

2. GOVERNMENT HOUSING GRANTS AND SUBSIDY

From 01 April 2012 HRA accounts were prepared under the Government's HRA self-financing regime. Under this system no further housing subsidy transactions are made between government and stock owning Councils. This is in recognition that all rent collected will be retained by the Council and not contributed into the national rent pool.

As the Council has a housing PFI scheme, it will continue to receive the PFI credit until completion of the contract in 2027. This represents an annual payment of £10.353m.

	2018/19 £000	2017/18 £000
Charges for Capital	0	0
PFI Credit	10,353	10,353
Decent Homes Grant	0	0
Total Grants and Subsidy	**10,353**	**10,353**

3. REBATES

Assistance with rents is available under the Housing benefits scheme for those on low income. The scheme is administered by the Council and approximately 46% of tenants received help in 2018/19 (50% in 2017/18). Rent rebates are chargeable to, and the corresponding subsidy is credited to the General Fund.

Subsidy on rent rebates is capped and if the Council's rent exceeds the Government's limit for subsidy, the cost is charged to the HRA. The shortfall on subsidy due to overpayments is charged to the General Fund, as are the administration costs.

Housing Revenue Account

The costs, income and rebates over limitation charged back to the HRA are shown below:

	2018/19 £000	2017/18 £000
Rent Rebates Given (GF)	37,707	39,840
Subsidy Received on Rebates (GF)	(37,707)	(39,840)
Net cost to the HRA	0	0

4. CONTRIBUTIONS TOWARDS EXPENDITURE

	2018/19 £000	2017/18 £000
Court Costs	121	95
Recharges of repairs	1,173	4,539
Recharge to Capital Receipts	515	455
Hostels: Heat, Light and Water Charges	113	102
Other miscellaneous income	172	102
Total Other Income	2,094	5,293

5. SUPERVISION AND MANAGEMENT

General expenses

This includes the provision of services to all tenants including rent collection and accounting, rent arrears recovery, tenancy application and lettings, finance and administration, policy and management functions.

Special expenses

This includes the provision of services applicable to particular tenants including central heating, metered energy supplies, maintenance of grounds, communal lighting, lifts and ancillary services.

6. REPAIRS AND MAINTENANCE

This includes day-to-day repairs to Council housing stock and cyclical external decoration. Void properties prior to re-letting and certain tenants' properties are eligible for internal decoration. Repairs & Maintenance expenditure was as follows:

	2018/19 £000	2017/18 £000
Revenue R&M works	18,792	15,425
R&M works charged to MRR	23,878	23,771
Total Repairs and Maintenance	42,670	39,196

7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE

A contribution of £0.601m (2017/18 £0.984m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

	2018/19 £000	2017/18 £000
Housing Tenants	4,444	3,939
Leaseholders	1,985	2,077
Commercial Properties, Miscellaneous Debts	641	534
Total Impairment Allowance	7,070	6,550

8. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)

Under the current HRA self-financing system, which began on 01 April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31 March 2019 was £57.5m.

9. NON CURRENT ASSET VALUATION

A full valuation of the housing stock is commissioned every five years with a market adjustment being applied in the year's in-between. The difference between the value of dwellings in their existing use as social housing and the vacant possession value reflects the economic cost to the council of providing housing at less than open market rents.

	31/03/19 £000	31/03/18 £000
Operational Assets:		
Dwellings (Existing Use Value - Social Housing)	1,278,885	1,255,843
Other Land and Buildings	16,014	15,580
Infrastructure	101	105
Vehicles, Plant and Equipment	7,308	7,386
	1,302,308	1,278,914
Investment Properties	0	0
Surplus Assets	27,286	32,386
Total Housing Assets	1,329,594	1,311,300
Full Valuation of Council Dwellings	5,115,540	5,023,372

10. DEPRECIATION

The total charge for the depreciation of housing assets is as follows:

	2018/19 £000	2017/18 £000
Operational Assets		
Dwellings	21,993	22,059
Other Land and Buildings	274	253
Infrastructure	5	4
Vehicles, Plant and Equipment	515	504
Total Depreciation	22,787	22,820

11. INTEREST PAYABLE AND SIMILAR CHARGES

This line includes the charge of £4.1m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2018/19 (£4.7m in 2017/18. It no longer includes any costs for the net cost of amortised loan redemption premiums and discounts as the final payment was made in 2017/18 (£0.122 in 2017/18).

12. PENSIONS COSTS – IAS 19

In accordance with IAS 19, Lewisham recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the cost to the HRA is based on the amounts payable in the year, so the accrued cost of retirement benefits is reversed out of the HRA.

13. HOUSING CAPITAL EXPENDITURE

Any expenditure on the Capital Programme which cannot be capitalised as a component or did not add value to an existing asset has been charged to revenue. These amounts have been mainly funded from the Major Repairs Reserve, which can be used for both revenue and capital expenditure.

	2018/19 £000	2018/19 £000
Expenditure:		
Dwellings	3,705	8,397
Revenue Expenditure Funded from Capital under Statute	0	0
	3,705	8,397
Financed by:		
Capital Receipts	3,244	7,912
Major Repairs Reserve	461	485
Total Capital Expenditure Financed	3,705	8,397

14. MAJOR REPAIRS RESERVE

The movements on the major repairs reserve are as follows:

	2018/19 £000	2017/18 £000
Balance brought forward at start of year	38,471	39,907
Transferred in (depreciation dwellings)	22,787	22,820
Financing of capital expenditure on housing assets	(461)	(485)
Financing Major Revenue Repairs	(23,878)	(23,771)
Contributions from Revenue (Capital)		
Balance carried forward at end of year	36,919	38,471

15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

The movements in housing revenue account reserves and balances are as follows:

	Balance at 31/03/18 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/19 £000
Property and Stock Related Reserves	4,882	**166**	**0**	**5,048**
Staff Related Reserves	750	**0**	**0**	**750**
Other Earmarked Reserves	64,576	**6,333**	**0**	**70,909**
Total Reserves and Balances	**70,208**	**6,499**	**0**	**76,707**

SECTION 5 - THE COLLECTION FUND

Lewisham Council is a designated 'Billing' Authority and is required by statute to maintain a separate Collection Fund. The transactions are on an accruals basis and include income from Council Tax and Non-Domestic Rates (NDR) and distributions to the Council's General Fund and the Greater London Authority (GLA) in respect of both Council Tax & NDR, and to the Government in respect of NDR only.

The costs of collecting these taxes are charged to the General Fund, but an allowance towards the cost of collecting NDR is credited to the General Fund from the NDR receipts.

The Council's share of the year end balances of the Collection Fund is included in the Council's Balance Sheet and its share of the transactions is included in the Council's Cash Flow Statement.

COLLECTION FUND REVENUE ACCOUNT

	2018/19			2017/18			
	Council Tax	NDR	Total	Council Tax	NDR	Total	
	£000	£000	£000	£000	£000	£000	Note
INCOME							
Income from Council Tax (net)	135,251		135,251	129,500		129,500	4
Income from Non-Domestic Rates (net)		65,354	65,354		66,046	66,046	5
Income from Non-Domestic Rates (net) - BRS		1,445	1,445		1,742	1,742	5
TOTAL INCOME	135,251	66,799	202,050	129,500	67,788	197,288	
EXPENDITURE							
Precepts and Demands upon Fund (C. Tax)							
- London Borough of Lewisham	104,083		104,083	93,874		93,874	
- Greater London Authority	25,438		25,438	22,706		22,706	
Precepts and Demands upon Fund (NDR)							
- London Borough of Lewisham		41,141	41,141		20,285	20,285	
- Greater London Authority		22,087	22,087		25,667	25,667	
- Central Government		(2,629)	(2,629)		21,665	21,665	
- Cost of Collection Allowance		305	305		332	332	
Business Rate Supplement (BRS)							
- Paid to Greater London Authority		1,384	1,384		1,914	1,914	
- Administrative Costs		6	6		8	8	
Bad and Doubtful Debts							
- Net adj to Impairment Allowance	3,802		3,802	3,728		3,728	6a
- Net adj to Impairment Allowance		(215)	(215)		(517)	(517)	6b
- Amounts Written Off	318		318	816		816	
- Amounts Written Off		759	759		884	884	
Contributions from previous year							
- London Borough of Lewisham	8,728		8,728	3,853		3,853	
- Greater London Authority	2,111		2,111	964		964	
Provision for Appeals							
- Net contribution		(509)	(509)		(1,058)	(1,058)	
TOTAL EXPENDITURE	144,480	62,329	206,809	125,941	69,180	195,121	
Deficit / (Surplus) for the year	9,229	(4,470)	4,759	(3,559)	1,392	(2,167)	3
Deficit / (Surplus) at start of year	(9,572)	7,212	(2,360)	(6,013)	5,820	(193)	3
Deficit / (Surplus) at end of year	(343)	2,742	2,399	(9,572)	7,212	(2,360)	

NOTES TO THE COLLECTION FUND

1. THE COUNCIL TAX BASE AND THE "BAND D" EQUIVALENT

The annual budget process requires that each Council determines its own 'Band D' tax charge by dividing its own budget requirement by the respective tax base for the financial year. The 'Band D' tax calculated forms the basis of the charge for all properties. Properties fall into one of eight valuation bands based on market values at 01 April 1991. Those that fall in other valuation bands pay a proportion of the 'Band D' tax charge according to its banding and the band proportion.

The tax base used in setting the Council Tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a "Band D" equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for 2018/19 assumed a collection rate of 96.0% (96.0% for 2017/18).

The table below sets out the original tax base calculation for 2018/19 and has been prepared in accordance with The Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme (CTRS) with effect from 01 April 2013.

		2018/19			2018/19		2017/18	
		No.of Properties						
Council Tax Band	Property Value	Actual Number	Adjusted Number	Band D Ratio	Band D Equivalents as per Ratio	Council Tax Charge	Band D Equivalents as per Ratio	Council Tax Charge
	£000	(1)	(2)		No.	£	No.	£
A	up to 40	7,789	4,876	6/9	3,250.5	**998.74**	2,830.2	**£958.47**
B	40 - 52	34,000	24,555	7/9	19,098.0	**1,165.19**	17,359.6	**£1,118.21**
C	52 - 68	44,357	35,287	8/9	31,366.5	**1,331.65**	29,138.1	**£1,277.95**
D	68 - 88	25,955	22,206	1	22,205.5	**1,498.10**	21,256.1	**£1,437.70**
E	88 - 120	7,463	6,626	11/9	8,099.0	**1,831.01**	7,887.1	**£1,757.19**
F	120 - 160	2,722	2,534	13/9	3,660.7	**2,163.92**	3,639.0	**£2,076.68**
G	160 - 320	1,300	1,233	15/9	2,055.8	**2,496.84**	2,036.7	**£2,396.16**
H	over 320	171	162	18/9	323.0	**2,996.20**	319.5	**£2,875.41**
Totals		**123,757**	**97,479**		**90,059.0**		**84,466.3**	
Add: Contributions in lieu					0.0		0.0	
Total Band D Equivalents					**90,059.0**		**84,466.3**	
Estimated Collection Rate					96.0%		96.0%	
NET COUNCIL TAX BASE					**86,456.6**		**81,087.6**	

(1) Total number of dwellings as per Valuation Officer's List
(2) Total number of dwellings after allowing for Discounts, Exemptions and Other Adjustments

2. COLLECTION FUND SURPLUS OR DEFICIT

Every January, a forecast of the estimated Collection Fund balance at the end of the financial year is made. This estimated surplus or deficit is then distributed to or recovered from the Council and the GLA in the following year in proportion to their respective annual demands made on the Fund. Any difference between the estimated and actual year-end balance on the Fund is taken into account as part of the forecast to be made of the Fund's balance during the following financial year.

3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

	Restated (Surplus)/ Deficit			(Surplus)/ Deficit	
	Balance at 31/03/17 £000	Movement in 2017/18 £000	Balance at 31/03/18 £000	Movement in 2018/19 £000	Balance at 31/03/19 £000
Council Tax					
London Borough of Lewisham	(4,754)	(2,954)	(7,708)	**7,422**	**(286)**
Greater London Authority	(1,260)	(605)	(1,865)	**1,808**	**(57)**
	(6,013)	**(3,559)**	**(9,573)**	**9,230**	**(343)**
Non-Domestic Rates					
London Borough of Lewisham	1,747	418	2,165	**(504)**	**1,661**
Greater London Authority	1,164	278	1,442	**(453)**	**989**
Central Government	2,909	696	3,605	**(3,513)**	**92**
	5,820	**1,392**	**7,212**	**(4,470)**	**2,742**
Collection Fund Balances	**(193)**	**(2,167)**	**(2,361)**	**4,760**	**2,399**

Collection Fund Adjustment Account

The Council's share of the Collection Fund balance is managed by the Collection Fund Adjustment Account which shows the differences arising from the recognition of Council Tax income in the CIES as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

4. COUNCIL TAX INCOME

	2018/19		2017/18
	£000	£000	£000
Gross Council Tax Income Due		**173,279**	**164,523**
Less: Adjustments to charge	**1,647**		2,276
Exemptions	**(5,573)**		(5,290)
Disabled Relief	**(112)**		(99)
Discounts	**(16,013)**		(15,012)
Adjustment for Council Tax Reduction Scheme	**(17,977)**		(16,898)
		(38,028)	**(35,023)**
Total Due from Council Tax payers		**135,251**	**129,500**

5. NON-DOMESTIC RATES

The Council is responsible for collecting the Non-Domestic Rates (NDR) (often referred to as Business Rates) which are payable within its area. The amount payable is based upon the rateable value of commercial properties multiplied by the NDR multiplier, which is set annually by the Government. The amount due is paid as precepts to London Borough of Lewisham's General Fund (64%), Greater London Authority (36%) and Central Government (0%).

	2018/19		2017/18
	£000	£000	£000
Gross NDR Collectable (after voids and exemptions)		**83,882**	**84,538**
Reductions and Relief:			
Mandatory Relief	**(14,658)**		
Discretionary Relief	**(2,425)**		
		(17,083)	**(16,750)**
Total Receivable from Business Rates		**66,799**	**67,788**

	2018/19 £m	2017/18 £m
Non-Domestic Rateable Value	**180.8**	181.4

	2018/19 pence	2017/18 pence
Non-Domestic Rate Multiplier	**49.3**	47.9
Non-Domestic Rate Multiplier (Small Business)	**48.0**	46.6

6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

	31/03/19 £000	31/03/18 £000
Council Tax Arrears	**44,696**	**40,203**
Impairment Allowance	**(40,959)**	**(37,157)**
As a Percentage of Arrears	**91.6%**	**92.4%**

	2018/19		2017/18	
	Amount	Percentage	Amount	Percentage
Age of Arrears	£000	%	£000	%
Year of Accounts	**8,278**	**19**	8,018	20
Under 2 Years old	**5,832**	**13**	4,533	11
Under 3 Years old	**4,077**	**9**	3,855	10
Under 5 Years old	**6,772**	**15**	6,661	16
Over 5 Years old	**19,737**	**44**	17,136	43
Total	**44,696**	**100**	**40,203**	**100**

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

Collection Fund

b) Non-Domestic Rates

	31/03/2019 £000	31/03/18 £000
NDR Arrears	**3,424**	**3,272**
Impairment Allowance	**(1,607)**	**(1,822)**
As a Percentage of Arrears	**46.9%**	**55.7%**

	2018/19		2017/18	
Age of Arrears	**Amount £000**	**Percentage %**	**Amount £000**	**Percentage %**
Year of Accounts	**1,588**	**46**	1,250	38
Under 2 Years old	**569**	**17**	634	19
Under 3 Years old	**372**	**11**	312	10
Under 5 Years old	**334**	**10**	378	12
Over 5 Years old	**561**	**16**	698	21
Total	**3,424**	**100**	**3,272**	**100**

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

SECTION 6 – GROUP ACCOUNTS

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and its wholly owned local authority trading companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited have been consolidated.

The group accounts are presented in addition to the Council's "single entity" financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash flow Statement

These statements (the purposes of which are explained on pages 3 and 4), together with those explanatory notes that are considered necessary in addition to those accompanying the "single entity" accounts and accounting policies are set out in the following pages.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDING 31 MARCH 2019

2017/18				2018/19		
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	SERVICE	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
251,594	(310,848)	(59,254)	Children & Young People	410,280	(311,719)	98,561
171,781	(92,334)	79,447	Community Services	178,040	(85,688)	92,352
346,305	(289,579)	56,726	Customer Services	343,734	(282,937)	60,797
60,011	(47,598)	12,413	Resources & Regeneration	65,056	(47,923)	17,133
105,107	(100,748)	4,359	HRA	112,663	(97,283)	15,380
7,305	(5,553)	1,752	Corporate Services	8,827	(894)	7,933
942,103	(846,660)	95,443	**Cost of Services**	1,118,600	(826,444)	292,156
			Other Operating Expenditure			
0	(8,182)	(8,182)	(Gain) / Loss on the disposal of non-current assets	0	(14,748)	(14,748)
1,638	0	1,638	Levies	1,691	0	1,691
1,927	0	1,927	Contribution of housing capital receipts to Government Pool	1,926	0	1,926
3,565	(8,182)	(4,617)		3,617	(14,748)	(11,131)
			Financing and Investment Income and Expenditure			
33,332	0	33,332	Interest payable and similar charges	32,414	0	32,414
33,282	0	33,282	Loan Restructuring	0	0	0
837	(2,981)	(2,144)	Interest and Investment Income	1,112	(4,236)	(3,124)
49,554	(32,512)	17,042	Net interest on the net defined benefit liability	52,006	(34,434)	17,572
117,005	(35,493)	81,512		85,532	(38,670)	46,862
			Taxation and non-specific Grant Income			
0	(97,726)	(97,726)	Income from Council Tax	0	(112,811)	(112,811)
0	(58,390)	(58,390)	General Government Grants	0	(73,868)	(73,868)
0	(18,474)	(18,474)	Recognised Capital Grants and Contributions	0	(9,859)	(9,859)
0	(92,188)	(92,188)	Non-Domestic Rates income and expenditure	0	(62,674)	(62,674)
56	0	56	Corporation Tax Payable	115	0	115
56	(266,778)	(266,722)		115	(259,212)	(259,097)
		(94,384)	**Deficit/(Surplus) on provision of services**			68,790
		(154,020)	Surplus or deficit on revaluation of non-current assets			(41,048)
		(38,950)	Remeasurement of the net defined benefit liability			67,885
		(192,970)	**Other Comprehensive Income and Expenditure**			26,837
		(287,354)	**Total Comprehensive Income and Expenditure**			95,627

GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2019

YEAR ENDING 31 MARCH 2019	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2018 Brought Forward	**13,000**	**161,305**	**79,050**	**38,471**	**48,350**	**17,299**	**357,475**	**1,401,512**	**1,758,987**
Movement in Reserves during 2018/19									
Surplus or (Deficit) on the provision of services	(54,715)	(398)	(13,677)	0	0	0	**(68,790)**	0	**(68,790)**
Other Comprehensive Income and Expenditure	0	206	0	0	0	0	**206**	(27,043)	**(26,837)**
Total Comprehensive Income and Expenditure	**(54,715)**	**(192)**	**(13,677)**	**0**	**0**	**0**	**(68,584)**	**(27,043)**	**(95,627)**
Adjustments between accounting basis and funding basis under regulations	50,292	(88)	19,738	13,751	(1,552)	(301)	**81,840**	(81,840)	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**(4,423)**	**(280)**	**6,061**	**13,751**	**(1,552)**	**(301)**	**13,256**	**(108,883)**	**(95,627)**
Transfers to / from Earmarked Reserves	11,423	(11,423)	0	0	0	0	**0**	0	**0**
Increase / (Decrease) in 2018/19	**7,000**	**(11,703)**	**6,061**	**13,751**	**(1,552)**	**(301)**	**13,256**	**(108,883)**	**(95,627)**
Balance at 31 March 2019 Carried Forward	**20,000**	**149,602**	**85,111**	**52,222**	**46,798**	**16,998**	**370,731**	**1,292,629**	**1,663,360**

GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2018

YEAR ENDING 31 MARCH 2018	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2017 Brought Forward	**13,000**	**150,491**	**63,686**	**39,907**	**55,495**	**14,132**	**336,711**	**1,134,922**	**1,471,633**
Movement in Reserves during 2017/18									
Surplus or (Deficit) on the provision of services	96,354	630	(2,369)	0	0	0	94,615	0	**94,615**
Other Comprehensive Income and Expenditure	0	(1,058)	(820)	0	0	0	(1,878)	193,922	**192,044**
Total Comprehensive Income and Expenditure	**96,354**	**(428)**	**(3,189)**	**0**	**0**	**0**	**92,737**	**193,922**	**286,659**
Adjustments between accounting basis and funding basis under regulations	(85,808)	696	18,553	(1,436)	(7,145)	3,167	(71,973)	72,668	**695**
Net Increase / Decrease before Transfers to Earmarked Reserves	**10,546**	**268**	**15,364**	**(1,436)**	**(7,145)**	**3,167**	**20,764**	**266,590**	**287,354**
Transfers to / from Earmarked Reserves	(10,546)	10,546	0	0	0	0	0	0	**0**
Increase / (Decrease) in 2017/18	**0**	**10,814**	**15,364**	**(1,436)**	**(7,145)**	**3,167**	**20,764**	**266,590**	**287,354**
Balance at 31 March 2018 Carried Forward	**13,000**	**161,305**	**79,050**	**38,471**	**48,350**	**17,299**	**357,475**	**1,401,512**	**1,758,987**

GROUP BALANCE SHEET AS AT 31 MARCH 2019

31/03/2018 £000		31/03/2019 £000
	Property, Plant & Equipment	
1,285,145	Council dwellings	1,315,169
1,011,061	Other land and buildings	976,471
26,787	Vehicles, plant, furniture and equipment	28,012
117,424	Infrastructure	116,064
4,975	Community	5,510
94,623	Surplus Assets not held for Sale	89,829
26,726	Assets under Construction	31,094
2,566,741		2,562,149
257	Heritage Assets	257
14,672	Investment Property	15,767
2,076	Long term investments	2,030
6,684	Long term debtors	6,581
2,590,430	**Total Long Term Assets**	2,586,784
310,648	Short Term Investments	341,046
189	Inventories	207
46,551	Debtors	54,403
107,569	Cash and Cash Equivalents	91,992
3,941	Prepayments	4,178
468,898	**Current Assets**	491,826
9,516	Bank Overdraft	8,887
42,468	Short term borrowing	27,483
3,936	Provisions	3,177
81,052	Creditors	90,728
90,493	Receipts in advance	104,215
7,945	PFI Liabilities due within one year	7,504
235,410	**Current Liabilities**	241,994
2,823,918	**Total Assets less Current Liabilities**	2,836,616
189,421	Long term borrowing	202,015
5,793	Provisions	7,021
228,124	Deferred PFI Liabilities	220,492
1,858	Capital Grants Receipts in Advance	2,252
639,735	Liability related to defined benefit pension scheme	741,476
1,064,931	**Long Term Liabilities**	1,173,256
1,758,987	**NET ASSETS**	1,663,360
	Usable Reserves	
13,000	General Fund Balance	20,000
160,123	Earmarked Revenue Reserves	148,700
8,841	Lewisham Homes Reserves	8,403
1,182	Catford Regeneration Partnership Reserves	902
70,209	Housing Revenue Account	76,708
38,471	Major Repairs Reserve	36,919
48,350	Usable Capital Receipts Reserve	62,101
17,299	Capital Grants Unapplied	16,998
357,475		370,731
	Unusable Reserves	
1,026,385	Revaluation Reserve	1,046,448
1,052,696	Capital Adjustment Account	1,031,660
93	Deferred capital receipts	93
(36,418)	Financial Instruments Adjustment Account	(36,124)
(639,735)	Pensions Reserve	(741,476)
5,547	Collection Fund Adjustment Account	(1,374)
(7,056)	Short Term Compensated Absences Account	(6,598)
1,401,512		1,292,629
1,758,987	**TOTAL RESERVES**	1,663,360

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDING 31 MARCH 2019

2017/18 £000s		2018/19 £000s
94,615	Net surplus or (deficit) on the provision of services	**(68,065)**
(48,774)	Adjustment to surplus or deficit on the provision of services for noncash movements	**131,795**
(33,185)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(31,388)**
12,656	**Net Cash flows from operating activities**	**32,342**
(54,033)	Net Cash flows from Investing Activities	**(41,761)**
48,871	Net Cash flows from Financing Activities	**(5,869)**
7,494	**Net increase or (decrease) in cash and cash equivalents**	**(15,288)**
90,559	**Cash and cash equivalents at the beginning of the reporting period**	**98,393**
98,053	**Cash and cash equivalents at the end of the reporting period**	**83,105**

Notes to the Group Accounts

1. **General**
   The Group Accounts should be read in conjunction with the Lewisham Council single entity accounts on pages 3 to 90. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

2. **Group Boundary**
   The Council has an interest in a number of entities, the most significant of which are the wholly owned subsidiaries Lewisham Homes Limited and Catford Regeneration Partnership Limited which are consolidated into these accounts. The table below provides information on the nature of company business and associated risks:

Company	Business	Risks
Lewisham Homes Limited	An arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.	If Lewisham Homes Limited was in any way unable to deliver a satisfactory housing management service, the Council would have to provide such a service itself
Catford Regeneration Partnership Limited (CRPL)	The company owns the Catford Shopping Centre and aims to drive forward a regeneration programme for the town centre and the surrounding area.	As a property investment company, CRPL is exposed to risk in market movements in terms of the capital value of properties and in the level of income that can be generated through rental charges

3. **Accounting Policies**
   In preparing the Group Accounts the Council has aligned the accounting policies of its companies with those of the Council and made consolidation adjustments where necessary. It has consolidated the companies' financial statements with those of the Council on a line by line basis and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiaries.

4. **Investment Properties**
   Whilst the Council has no investment properties, CRPL owns Catford shopping centre and several surrounding properties. As these properties were solely being used to generate income at 31 March 2019, under the code of practice they are classed as investment properties.

   The fair value of the properties owned by CRPL as at 31 March 2019 was £14.672m.

5. **Pensions**
   Lewisham Homes Limited is a scheduled body in the London Borough of Lewisham Pension Fund. The Council has indemnified Lewisham Homes Limited against any liability that may arise on its notional share of the Pension Fund's assets and obligations.

SECTION 7 – GLOSSARY OF TERMS USED IN THE ACCOUNTS

ACCRUALS	These are amounts included in the accounts to cover income and expenditure attributable to the financial year, but for which payment had not been received or made as at 31 March.
ACTUARY	An independent professional who advises on the financial position of the Pension Fund and carries out a full valuation every three years.
CAPITAL EXPENDITURE	This is expenditure on the acquisition or enhancement of assets which significantly prolongs their useful lives or increases their market value. This is considered to be of benefit to the Council over a period of more than one year, e.g. land and buildings.
CAPITAL ADJUSTMENT ACCOUNT	This represents the capital resources which have been set aside to meet past capital expenditure.
CAPITAL RECEIPTS	Income received from the sale of land, buildings and plant.
COLLECTION FUND	A separate statutory account into which Council Tax and Non-Domestic Rates (NDR) are paid in order to account for payments due to the Council's General Fund and Preceptors (currently the Greater London Authority for Council Tax and NDR, and Central Government for NDR).
CONTINGENT LIABILITY	A possible liability to incur future expenditure at the balance sheet date dependent upon the outcome of uncertain events.
CREDITORS	This is an amount of money owed by the Council for goods, works or services received.
DEBTORS	This is an amount of money owed to the Council by individuals and organisations.
DEPRECIATION	This is the loss in value of an asset due to age, wear and tear, deterioration or obsolescence. An annual charge in respect of this is made to service revenue accounts over the life of most assets to reflect the usage in the year.
EARMARKED RESERVES	These are amounts set aside for specific purposes to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.
FAIR VALUE	This is defined as the amount for which an asset could be exchanged or liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.
GENERAL FUND	This is the account which comprises the revenue costs of providing services, which are met by General Government Grants and the Council's demand on the Collection Fund.
INFRASTRUCTURE	These are non-current assets which do not have a market value and primarily exist to facilitate transportation and communication (e.g. roads, street lighting). They are usually valued at historic cost.

LEASES	A Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The definition of a lease includes hire purchase contracts. Lease classification is made at the inception of the lease. A Finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An Operating lease is a lease other than a finance lease.
MEMORANDUM ACCOUNT	These Accounts are not part of the Council's formal statutory Accounts and are included in the Statement for added information.
MINIMUM REVENUE PROVISION (MRP)	The prudent amount which must be charged to the Council's revenue account each year for the principal repayment of debt.
NON-DOMESTIC RATES (NDR)	Also known as Business Rates, these are set by the Government and collected by the Council. The income due is paid as precepts to the Council's General Fund, the Greater London Authority and Central Government.
PRIVATE FINANCE INITIATIVE (PFI)	This is a scheme whereby contracts for specified services are let to private sector suppliers by the Council which may include capital investment as well as the provision of the service. Payments are made to the supplier in return, which are reduced if performance targets are not met.
PRECEPTS	These are demands made upon the Collection Fund by the Council's General Fund and the Greater London Authority in accordance with their budget requirements. A share of the NDR precept is also paid to Central Government.
PROVISIONS	This is an amount which is set-aside for a specific liability or loss, which is likely to be incurred, but where the exact amount and date on which they will arise is uncertain.
REVALUATION RESERVE	This represents the gains on the revaluation of non-current assets which have not yet been realised through sales.
REVENUE SUPPORT GRANT (RSG)	This is the main general grant which is paid to the Council by Central Government to fund local services.
REVENUE EXPENDITURE	Day-to-day expenditure incurred in the running of Council services, e.g. salaries, wages, supplies and services.
SPECIAL PURPOSE VEHICLE	This is a legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives.
SUPPORT SERVICES	These are activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front-line services.

COMMON ACRONYMS USED IN THE ACCOUNTS

CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
COP	Code of Practice on Local Authority Accounts in the United Kingdom
DSG	Dedicated Schools Grant
DfE	Department for Education
HRA	Housing Revenue Account
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LEP	Local Education Partnership
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
LSP	Local Strategic Partnership
MiRS	Movement in Reserves Statement
MRP	Minimum Revenue Provision
NDR	Non-Domestic Rates
PFI	Private Finance Initiative
RICS	Royal Institution of Chartered Surveyors
SeRCOP	Service Reporting Code of Practice
SPV	Special Purpose Vehicle
SSAP	Statement of Standard Accounting Practice
TfL	Transport for London
TPS	Teachers' Pensions Scheme
VAT	Value Added Tax

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2018/19.

The Pension Fund's value increased over the year by £82m (6.3%), a year which saw the Fund complete its rebalancing strategy by divesting from equities and investing in alternative asset classes in line with the Fund's Investment and Funding Strategies.

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation (referred to henceforth as 'the Regulations'):

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

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. The investment managers also have to consider the PIC's views on socially responsible investments. Details of the Socially Responsible Investment policy are contained in the Investment Strategy Statement and published online (see web address below).

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

The Pension Fund administration is managed by a small in-house team, which is also responsible for other areas of work such as redundancy payments, gratuities and teachers compensation.

A statement of the Fund's corporate governance, funding strategy and investment strategy can be found on the authority's pensions website, at the following address:

www.lewishampensions.org

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 19 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee later in the year to comply with this deadline.

A summary of the significant accounting policies and the basis of preparation of the accounts are shown below:

(a) Fund Assets at 31 March 2019 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2019.

Fund Manager	Asset	Asset Value 31 March 2019 £000	Proportion of the Fund 31 March 2019 %	Asset Value 31 March 2018 £000
Blackrock	Passive Equity and Bonds	526,667	38.0	484,194
UBS	Passive Equity and Bonds	446,038	32.2	478,594
Schroders Property	Property	112,281	8.1	108,397
J.P. Morgan	Infrastructure	80,580	5.8	0
Invesco	Diversified Growth/Targeted Returns	76,231	5.5	77,240
HarbourVest	Private Equity	51,321	3.7	40,905
Partners Group	Multi-Asset Credit	40,307	2.9	0
Pemberton	Multi-Asset Credit	22,937	1.7	27,717
M&G	Credit	656	0.0	851
Various Managers	Cash and Net Current Assets	28,678	2.1	86,188
Lewisham	Cash and Net Current	(438)	0.0	(560)
Total Fund Assets		**1,385,258**	**100.0**	**1,303,526**

(b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.

(c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2018/19 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or

official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

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

(e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.

(f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2019 is the actual fair value using the latest available valuation on or after 31 December 2018, plus an estimated valuation for the period up to 31 March 2019.

(g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).

The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the property funds are independently valued on a rolling basis at least annually.

(h) Financing Fund - The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund is close to maturity with debt instruments being repaid; at this stage of its life fund valuations are based on the manager's own internal valuation model which makes use of discounted cash flows. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2019 is the actual fair value using the latest available valuation on or after 31 December 2018, plus an estimated valuation for the period up to 31 March 2019.

(i) Diversified Growth/Targeted Returns Fund – The pension fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.

(j) Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods.

(k) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice.

(l) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2018 the employee contribution bands (revised annually in line with inflation) are as follows:

Pensionable Pay for the Post	Contribution Rates 2018/19	
	Main Section	50/50 Section
Up to £14,100	5.50%	2.75%
£14,101 to £22,000	5.80%	2.90%
£22,001 to £35,700	6.50%	3.25%
£35,701 to £45,200	6.80%	3.40%
£45,201 to £63,100	8.50%	4.25%
£63,101 to £89,400	9.90%	4.95%
£89,401 to £105,200	10.50%	5.25%
£105,201 to £157,800	11.40%	5.70%
More than £157,801	12.50%	6.25%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2018/19 is 22.5% and for 2019/20 it will remain unchanged.

(m) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

(n) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.

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

(p) VAT – By virtue of Lewisham Council being the administrating authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.

(q) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2016.

Some of the triennial valuation financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	March 2016 (%)	March 2013 (%)
Discount Rate	4.0	4.6
Price Inflation (CPI*)	2.1	2.5
Pay Increases	2.9	4.3
Pension Increase:		
Pension in excess of GMP**	2.1	2.5
Post - 88 GMP	2.1	2.5
Pre - 88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.1	2.5
Expenses	0.6	0.7

* Consumer Price Index

** Guaranteed Minimum Pension

With effect from the 1 April 2017, the actuarial review carried out for 31 March 2016 resulted in the Council's contribution rate being set at 22.5%.

The next actuarial valuation of the Fund is underway and will be carried out as at 31 March 2019, with new employer contribution rates taking effect from 1 April 2020 for the 2020/21 financial year. The results of this valuation will be published in autumn 2019.

The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,041 million, were sufficient to meet 78% (71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).

(r) Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £2,084m as at 31 March 2019 (£1,871m as at 31 March 2018).

(s) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value of funds under management as at the end of those quarters. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts via a manual adjustment to accurately reflect the management expense.

(t) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
- Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
- Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.

(u) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.

(v) Financial Instruments –
(i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
(ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:

- Assets at amortised cost – assets that have fixed or determinable payments but are not quoted in an active market; and
- Fair value through profit or loss – assets that are held for trading.

(w) Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised.

- Private Equity valuations – the value of the Fund's private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for estimated distributions and capital calls up to 31 March. Other mandates including the diversified growth, infrastructure and multi-asset credit funds also adopt their own valuation policies when other quoted or comparable inputs are unavailable.

(x) Additional Voluntary Contributions ("AVCs")

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

Pension Fund

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

The fund account shows the surplus or deficit on the fund for the year.

	2018/19 £000	2017/18 £000	See note
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME			
Contributions Receivable:			
- from Employers	**(31,990)**	(30,417)	1
- from Employees	**(9,712)**	(9,211)	1
- Reimbursement for Early Retirement	**(133)**	(609)	
Transfer Values In	**(4,453)**	(6,136)	
Other Income	**(68)**	(30)	
Sub-Total: Income	**(46,356)**	**(46,403)**	
Benefits Payable:			
- Pensions	**42,220**	40,420	2
- Lump Sums: Retirement allowances	**8,261**	6,779	2
- Lump Sums: Death grants	**843**	1,039	2
Payments to and on account of leavers:			
- Refunds of Contributions	**118**	140	
- Transfer Values Out	**4,133**	4,438	
Sub-Total: Expenses	**55,575**	**52,816**	
Sub-Total: Net (Additions)/ Withdrawals from dealings with members	**9,219**	**6,413**	
Management Expenses	**2,830**	1,929	3
Sub-Total: Net (Additions)/ Withdrawals including fund management expenses	**12,049**	**8,342**	
RETURNS ON INVESTMENTS			
Investment Income	**(6,168)**	(6,594)	4
Change in market value of investments (Realised & Unrealised)	**(88,005)**	(30,897)	5a
Taxes on Income	**392**	192	
Total Net Returns on Investments	**(93,781)**	**(37,299)**	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	**(81,732)**	**(28,957)**	
OPENING NET ASSETS OF THE FUND	**(1,303,526)**	**(1,274,569)**	
CLOSING NET ASSETS OF THE FUND	**(1,385,258)**	**(1,303,526)**	

Pension Fund

NET ASSETS STATEMENT AS AT 31 MARCH 2019

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2019.

	31/03/19 £000	31/03/18 £000	See note
INVESTMENT ASSETS			
Equities			
United Kingdom	**13,747**	11,487	5
Global	**0**	0	5
	13,747	**11,487**	
Managed Funds			
Property	**112,285**	108,401	5
Equities	**695,931**	710,103	5
Fixed Interest	**183,854**	210,101	5
Index Linked	**92,934**	42,600	5
Other Assets	**258,282**	135,223	5
	1,343,286	**1,206,428**	
Cash Held with Custodian	**28,593**	86,154	9
Derivative Contracts			
Assets	**0**	1,069	7
Liabilities	**0**	(1,069)	7
Other Investment Balances			
Debtors - Investment Transactions	**70**	3,101	8
Creditors - Investment Transactions	**0**	(3,085)	8
TOTAL INVESTMENTS	**1,385,696**	**1,304,085**	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	**276**	287	8
Creditors	**(1,763)**	(1,689)	8
Cash in Hand	**1,049**	843	9
TOTAL NET ASSETS	**1,385,258**	**1,303,526**	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2019. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

	2018/19 £000	2017/18 £000
Employer Contributions		
Administering Authority	**(25,790)**	(24,771)
Scheduled Bodies	**(5,518)**	(4,913)
Admitted Bodies	**(682)**	(733)
	(31,990)	**(30,417)**
Employee Contributions		
Administering Authority	**(7,719)**	(7,281)
Scheduled Bodies	**(1,765)**	(1,687)
Admitted Bodies	**(228)**	(243)
	(9,712)	**(9,211)**

2. BENEFITS PAID

By Category	2018/19 £000	2017/18 £000
Pensions	**42,220**	40,420
Commutation and Lump Sum Retirement Benefits	**8,261**	6,779
Lump Sum Death Grants	**843**	1,039
	51,324	**48,238**

By Authority	2018/19 £000	2017/18 £000
Administering Authority	**46,924**	44,572
Scheduled Bodies	**3,005**	2,748
Admitted Bodies	**1,395**	918
	51,324	**48,238**

3. MANAGEMENT EXPENSES

	2018/19 £000	2017/18 £000
Administration Expenses	**626**	696
Oversight and Governance Expenses	**235**	257
Investment Management Expenses:		
- Transaction Costs	**24**	12
- Management Fees	**1,911**	917
- Performance Fees	**0**	0
- Custody Fees	**34**	47
	2,830	**1,929**

The increase in management fees reflects the change in Fund structure and the transition of assets into more actively managed alternative asset classes from passive equity mandates, undertaken during the year.

Pension Fund

4. INVESTMENT INCOME

	2018/19 £000	2017/18 £000
Cash	**(258)**	(90)
Equities	**0**	(216)
Fixed Interest	**0**	(430)
Index Linked	**0**	(88)
Managed Funds (incl Property)	**(5,079)**	(5,416)
Securities Lending	**(1)**	(5)
Other	**(831)**	(349)
	(6,169)	**(6,594)**

5 INVESTMENT ANALYSIS

Individual Investment assets with a market value exceeding 5% of the total fund value are:

Asset	Manager	31 March 2019	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	199,997	14.4
Aquila Life US Equity Index Fund	Blackrock	164,509	11.9
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	96,565	7.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	81,108	5.9
IIF UK I LP	JP Morgan	80,580	5.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	76,231	5.5

Pension Fund

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

UK Equities			
Harbourvest GE PE Shares	Harbourvest	13,809	100.0
Property			
Schroder Unit TST UK Real Estate	Schroders	16,262	14.3
IPIF Feeder Unit Trust Fund	Schroders	13,116	11.5
Real Income Fund	Schroders	11,774	10.4
Hermes Property Unit	Schroders	11,117	9.8
Blackrock UK FD	Schroders	10,265	9.0
Metro Ppty Unit Trust	Schroders	9,737	8.6
Mayfair Cap Ppty (MCPUT)	Schroders	9,037	8.0
Multi-Let INDL Property Unit Trust	Schroders	7,926	7.0
Legal and General Managed Property Fund	Schroders	6,803	6.0
Managed Equities			
UBS Asset Management Life World Equity Tracker	UBS	199,997	29.0
Aquila Life US Equity Index Fund	Blackrock	164,509	23.8
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	95,565	13.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	81,108	11.8
Aquila Life European Equity Index Fund	Blackrock	40,832	5.9
BlackRock AM (IE) ISHS Emerging Markets Index	Blackrock	35,995	5.2
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	47,839	26.0
Blackrock AM (IE) UK Credit	Blackrock	47,100	25.6
UBS GBL Asset Life UK Over 15 Year Gilt	UBS	44,859	24.4
UBS Asset Mgmnt STG Corp	UBS	44,332	24.1
Index Linked			
Aquila Life Over 5 yrs Index Fund	Blackrock	48,803	52.3
UBS Asset Mgmnt Life Over 5 Year Index Linked Gilt Tracker	UBS	44,589	47.7
Alternatives			
JP Morgan IIF UK I LP	JP Morgan	80,580	31.2
Invesco Fund Managers Perpetual Targeted Returns	Invesco	76,231	29.5
Partners Group Comp MAC 2017 IV	Partners Group	40,307	15.6
Pemberton Euro Debt Investments Jersey II	Pemberton	22,937	8.9
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	17,119	6.6

Pension Fund

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS

INVESTMENT MOVEMENTS 2018/19	Value at 31 March 2018 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2019 £000
UK Equities	**11,487**	0	0	0	2,260	**13,747**
Global Equities	**0**	0	0	0	0	**0**
Managed Equities	**710,103**	8,087	(83,101)	(2,777)	63,619	**695,931**
Property	**108,401**	9,207	(8,231)	0	2,908	**112,285**
Fixed Interest Securities	**210,101**	15,875	(5,013)	1,867	(38,976)	**183,854**
Index Linked Securities	**42,600**	2,100	(3,900)	910	51,224	**92,934**
Other Assets*	**135,223**	142,214	(26,634)	(13)	7,492	**258,282**
Derivatives	**0**	0	0	0	0	**0**
	1,217,915	**177,483**	**(126,879)**	**(13)**	**88,527**	**1,357,033**
Cash Deposits	**86,154**				(513)	**28,593**
Other Investment Balances	**16**				(9)	**70**
Total Investments	**1,304,085**				**88,005**	**1,385,696**

* Includes Infrastructure, Multi-Asset Credit, Private Equity and Diversified Growth funds.

The Pension Fund's fixed interest and index linked bond investments are held with UBS and Blackrock in the form of pooled funds. The asset denoted 'Index Linked Securities' above is comprised wholly of UK Government index linked gilts. The 'Fixed Interest Securities' comprise various government and corporate bonds.

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £37.5m, multi-asset credit/private debt with a value of £22.9m, and infrastructure with a value of £80.6m.

The total value of unquoted securities held by the fund as at 31 March 2019 was £1,022m, this includes equities, bonds, private equity, diversified growth, infrastructure and multi-asset credit funds.

The total value of quoted securities held by the fund as at 31 March 2019 was £218m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £887m and unit trusts valued at £197m, of which £114m relates to pooled property investments. The Fund also holds assets with value £63m as a Limited Partner in the compartments of multi asset credit limited partnerships, and £81m in a perpetual life infrastructure fund.

Pension Fund

As at 31 March 2018:

INVESTMENT MOVEMENTS 2017/18	Value at 31 March 2017 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2018 £000
UK Equities	**11,777**	0	0	0	(290)	**11,487**
Global Equities	**13,805**	4	(13,411)	8	(406)	**0**
Managed Equities	**830,606**	243,467	(385,544)	0	21,574	**710,103**
Property	**98,174**	9,723	(5,488)	(8)	6,000	**108,401**
Fixed Interest Securities	**206,232**	6,451	(4,409)	279	1,548	**210,101**
Index Linked Securities	**41,599**	1,600	(910)	73	238	**42,600**
Other *	**32,862**	111,208	(11,362)	(74)	2,589	**135,223**
Derivatives	**0**	0	0	0	0	**0**
Sub-total	**1,235,055**	**372,453**	**(421,124)**	**278**	**31,253**	**1,217,915**
Cash Deposits	**36,517**				(365)	**86,154**
Other Investment Balances	**(336)**				9	**16**
Total Investments	**1,271,236**				30,897	**1,304,085**

* Includes Multi-Asset Credit, Private Equity and Diversified Growth funds.

5A. FINANCIAL INSTRUMENTS

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified during the accounting period. All assets are held at fair value, therefore there is no difference between fair value and carrying value.

Pension Fund

	31-Mar-19			31-Mar-18		
	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	13,747			11,487		
Managed Funds:						
Property	112,285			108,401		
Managed Equity	695,931			710,103		
Fixed Interest	183,854			210,101		
Index Linked	92,934			42,600		
Other Alternative Assets	258,282			135,223		
Derivative contracts	0			1,069		
Cash deposits		28,593			86,154	
Pending Trades		0			361	
Dividends & Income		70			2,740	
Contributions Due		189			189	
Cash Balances		1,049			843	
Other Current Assets		87			98	
Total Financial Assets	**1,357,033**	**29,988**	**0**	**1,218,984**	**90,385**	**0**
Financial Liabilities						
Derivative Contracts			0			(1,069)
Pending Trades			0			(3,085)
Unpaid benefits			0			0
Other Current Liabilities			(1,763)			(1,689)
Total Financial Liabilities	**0**	**0**	**(1,763)**	**0**	**0**	**(5,843)**
Net Financial Assets	**1,357,033**	**29,988**	**(1,763)**	**1,218,984**	**90,385**	**(5,843)**

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/19 £000	31/03/18 £000
Financial Assets		
Fair Value through Profit and Loss	**88,005**	**30,897**
Assets at Amortised Cost	**0**	**0**
Financial Liabilities		
Fair Value through Profit and Loss	**0**	**0**
	88,005	**30,897**

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities (e.g. quoted equities, quoted fixed securities, quoted index linked securities and unit trusts).

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value).

Level 3 - consists of assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Values as at 31 March 2019	**Quoted Market Price Level 1 £000**	**Using Observable Inputs Level 2 £000**	**With Significant Unobservable Inputs Level 3 £000**	**Total at 31/03/19 £000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	13,747	1,224,479	118,807	**1,357,033**
Financial Assets at Amortised Cost	29,988	0	0	**29,988**
	43,735	**1,224,479**	**118,807**	**1,387,021**
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	**0**
Financial Liabilities at Amortised Cost	(1,763)	0	0	**(1,763)**
	(1,763)	**0**	**0**	**(1,763)**
Net Financial Assets	**41,972**	**1,224,479**	**118,807**	**1,385,258**

Values as at 31 March 2018	**Quoted Market Price Level 1 £000**	**Using Observable Inputs Level 2 £000**	**With Significant Unobservable Inputs Level 3 £000**	**Total at 31/03/18 £000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	11,487	1,176,161	30,267	**1,217,915**
Loans and Receivables	90,384	0	0	**90,384**
	101,872	**1,176,161**	**30,267**	**1,308,300**
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	**0**
Financial Liabilities at Amortised Cost	(4,774)	0	0	**(4,774)**
	(4,774)	**0**	**0**	**(4,774)**
Net Financial Assets	**97,098**	**1,176,161**	**30,267**	**1,303,526**

5B. FINANCIAL RISK MANAGEMENT

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), interests in collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its

operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the Fund's risk management strategy rests with the Council's Pension Investment Committee (PIC). Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.
The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. In 2018/19 the Fund completed its onboarding with the Partners Group Multi Asset Credit 2017 (IV) GBP fund, investing its commitment of £40m in full, and also reduced equity holdings by an additional 6% of the Fund's total value, committing the sales proceeds to a $105m investment in J.P. Morgan's Infrastructure Investment Fund. These actions were in line with the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

The Fund's custodian is Northern Trust, who manage investments and report on them on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level strategic risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes made to the portfolio.

i) Market Risk

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control exposure to market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

a) Other Price Risk – Market

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

b) Other Price Risk – Sensitivity analysis

The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	**9.4**
Global Equities	**10.3**
Bonds and Index Linked	**9.3**
Alternatives	**4.2**
Property	**1.9**
Cash	**0.5**

Applied to the period end asset mix, the potential impact on the Fund's market value in the next financial year is as follows:

Asset Type	**Final Market Value as at 31 March 2019 £000**	**Percentage Change**	**Value on Increase £000**	**Value on Decrease £000**
UK Equities	380,911	9.4	416,838	344,984
Global Equities	328,767	10.3	362,583	294,951
Bonds and Index Linked	276,789	9.3	302,630	250,948
Other Assets	258,282	4.2	269,158	247,406
Property	112,285	1.9	114,382	110,188
Cash	28,592	0.5	28,735	28,449
Total Assets*	**1,385,626**	**6.5**	**1,475,392**	**1,295,860**

* This figure excludes derivatives and other investment balances.

** The % change and value change for Total Assets includes the impact of correlation across asset classes

c) Interest Rate Risk is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2019 with the previous year in brackets:

Euro	€15.9m	(€16.9m)
US Dollars	$190.6m	($88.4m)

The remaining exposures arise from much smaller investments relating to other currencies.

e) Currency risk – sensitivity analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from

entering into an equal and opposite contract at the reporting date. As at 31 March 2019 there were no pending foreign exchange purchases or sales. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2019/20 to be 9.1%. This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 19 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	328,767	9.1	358,691	298,843
Overseas Fixed Income	91,352	9.1	99,667	83,037
Other Alternatives	141,051	9.1	153,889	128,213
Total	**561,170**	**9.1**	**612,248**	**510,092**

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust. Northern Trust assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%. However, more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time. The Fund's exposure through the SL programme is now reduced as the Fund is now passively managed and SL activity has greatly reduced.

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2019 these assets totalled approximately £986m, comprising of bonds and equities, with a further £28.6m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year accounting adjustments have been made to these accounts. The membership numbers in note 17 have been restated for 2017/18 due to an error in member allocation between the administering authority and scheduled bodies; the total number of members in 2017/18 remains unchanged from that previously reported.

7. DERIVATIVE CONTRACTS

As at 31 March 2019 there were no pending foreign exchange purchases or sales. The net gains and losses in the table below relate to foreign exchange forward contracts.

	2018/19 £000	2017/18 £000
Foreign Exchange Gains	21	2
Foreign Exchange Losses	0	(4)
Total Unrealised Gains / (Losses)	21	(2)

8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions

Debtors

	31/03/19 £000	31/03/18 £000
Equity Dividends / Income from Managed Funds	38	0
Interest and Other Income	32	2,740
Pending Trades	0	361
	70	3,101

Creditors

	31/03/19 £000	31/03/18 £000
Pending Trades	0	(3,085)
	0	(3,085)

Non-Investment Transactions

Debtors

	31/03/19 £000	31/03/18 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	**189**	189
Interest and Other Income	**0**	0
LB Lewisham	**64**	64
Tax Refunds	**23**	34
	276	**287**

Creditors

	31/03/19 £000	31/03/18 £000
Fund Manager and Custody Fees	**(274)**	(283)
Consultancy/ Advisory Fees	**(8)**	(56)
LB Lewisham	**(1,481)**	(1,350)
	(1,763)	**(1,689)**

9. CASH AND BANK

Cash Held With Custodian
The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2019 was £28.6m (£86.2m as at 31 March 2018). Approximately £10.2m of this was from HarbourVest, £8.5m from Pemberton, £5.7m with Schroders and £4.1 was being held on behalf of the other managers.

Pension Fund Bank Account
The Lewisham cash in hand balance of £1,049m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2019.

10. POST YEAR END EVENTS

There are no post year events to report. However, the results of the 2019 triennial valuation are expected in the autumn and the Fund's strategy will be revisited and reviewed in light of the results of that valuation. This review will take account of the updated view on the performance required from the Fund and therefore the level of risk to be adopted.

The Council is in the process of having the Fund's equity funds analysed for their carbon footprint, and it is expected that the Fund will transition a proportion of these assets into low-carbon equivalents where possible.

The Council also plans to undertake a retender of its actuarial and investment advisory services later in 2019 using the National LGPS frameworks.

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2019:

Fund Manager	Fund	Amount ('000)	Translated (£'000)
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P	$190	146
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P	$833	639
HarbourVest	HarbourVest Partners X AIF L.P.	$19,343	14,845
HarbourVest	HarbourVest Partners XI AIF L.P.	$25,000	19,186
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	€ 9,000	6,907
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P	€ 700	603
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P	£180	155
Pemberton	European Debt Investments Jersey II LP	£18,748	18,748
	Total		**61,229**

12. RELATED PARTY TRANSACTIONS

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are recorded.

During the year the following declarations were made:

- Councillors Chris Best and John Muldoon declared their interests as members of Lewisham's Pension Fund.
- The Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2019.

The Council, the administering body, had dealings with the Fund as follows:

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £652k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.

- The salary of the Executive Director for Resources and Regeneration for 2018/19 was £192,492, which includes employer's pension contributions of £35,356. This total also includes an allowance for acting as Chief Executive following the departure of the previous post holders.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 49 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2018/19			2017/18		
	Equitable Life £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	**434**	**876**	**1,310**	**461**	**848**	**1,309**
Contributions and Transfers Received	3	172	175	4	173	177
Investment Return	13	93	106	17	10	27
Paid Out	(22)	(177)	(199)	(48)	(155)	(203)
Value at the End of the Year	**428**	**964**	**1,392**	**434**	**876**	**1,310**

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2019, arranged in descending order by the value of their contributions in 2018/19:

Lewisham Homes Limited
Haberdashers' Aske's Knights Academy
Christ The King Sixth Form College
Tidemill Academy
St Matthews Academy
Childeric

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2019, arranged in descending order by the value of their contributions in 2018/19:

Youth First LTD
Phoenix
Phoenix Agency Services
Chartwells Compass
Lewisham Music
Skanska
One Housing
3 C's Support
NSL (formerly known as National Car Parks Ltd)
Change Grow Live
Nviro
Fusions Leisure Management
Quality Heating
Pre-School Learning Alliance
Housing 21
Wide Horizons
Tower Services
Chequers Contract Services – Lee Manor

16. STOCK LENDING

The Statement of Investment Principles and Investment Strategy Statement permit the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent.

The economic benefits of ownership are retained when securities are on loan. The Fund has its full entitlements at all times to any income due, or rights on its securities on the anticipated date of the entitlement so that no economic benefits are foregone as a result of securities lending activity.

Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

As at the 31 March 2019 the value of aggregate stock on loan was £0m (£0m as at 31 March 2018); the Fund does not currently hold any segregated assets for participation in the securities lending programme.

Collateral

The collateral held as security on loans cannot be sold or re-pledged in the absence of default by the borrower. The Fund did not enter into any stock lending transactions during the financial year, and the value of collateral held as at 31 March 2019 was £0m (£0m as at 31 March 2018).

17. MEMBERSHIP

	Active Members			Deferred Beneficiaries			Retired Members		
	2018/19	2017/18 (RESTATED)	2017/18	2018/19	2017/18 (RESTATED)	2017/18	2018/19	2017/18 (RESTATED)	2017/18
Administering Authority	5,656	5,761	5,513	10,295	9,892	9,531	7,360	7,248	7,184
Scheduled Bodies	951	933	1,181	1,051	931	1,292	298	275	339
Admitted Bodies	119	127	127	123	127	127	111	99	99
	6,726	**6,821**	**6,821**	**11,469**	**10,950**	**10,950**	**7,769**	**7,622**	**7,622**

The membership totals for 2017/18 in relation to the administering authority and scheduled bodies have been restated due to a reporting error in which certain members categorised under the administering authority were inadvertently reported under scheduled bodies.

18. AUTHORISATION

These accounts were approved by Council on XXXXXX.

Annual Governance Statement

To Follow

AUDIT PANEL			
REPORT TITLE	Accounts 2018/19 – Grant Thornton's Draft Audit Finding Reports		
KEY DECISION	No	**Item No.**	6
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources		
CLASS	Part 1	**Date**	11th July 2019

1. PURPOSE

1.1 The purpose of this covering report is to present to the Audit Panel the draft audit finding reports from Grant Thornton on their findings during the external audit of the Council's Main Accounts and Pension Fund Accounts for 2018/19.

1.2 The Grant Thornton report on its Value for Money conclusion on the Council's arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness is included within the Main Accounts report.

2. RECOMMENDATION

2.1 It is recommended that the Audit Panel consider and note the attached reports which are as at 5th July 2019 and to note the verbal update to be provided by Council's external auditors, Grant Thornton at the meeting.

APPENDICES

1 – Grant Thornton – Draft Audit Findings for the London Borough of Lewisham and the Value for Money conclusion – Year ended 31 March 2019. **ATTACHED**

2 - Grant Thornton – The Audit Findings for the London Borough of Lewisham Pension Fund - Year ended 31 March 2019. **ATTACHED**

Grant Thornton

The Audit Findings for the London Borough of Lewisham

Year ended 31 March 2019

Report as at 5 July 2019

Contents

Appendices

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Lewisham Council ('You' or 'the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and your financial statements: • give a true and fair view of the financial position of the group and Council and your income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We received your draft financial statements on the 31 May 2019 in accordance with the statutory target date. The draft financial statements did not include the Annual Governance Statement, which has still not been provided for audit as at the date of this report (5 July 2019). Our audit work has been undertaken on site from June and remains in progress. Our findings to date are summarised on the following pages. Achieving the 31 July target for publishing audited financial statements remains a significant challenge for most local authorities. Achieving this for an organisation of your size and complexity, with a relatively lean finance team and some unplanned sickness absence issues, is particularly difficult. The challenge has been further compounded this year as you have also transitioned your financial ledger onto Oracle Cloud. Management and officers have worked hard to try to mitigate these factors but, as at the date of this report, significant challenges remain. We have continued to experience delays in the provision of essential supporting information to enable the audit to progress. In addition, uncertainty over legal action in respect of pension scheme obligations – a national issue affecting all local authorities in the country – has also added delays to the closedown process. Your internal audit function is not yet in a position to issue the Head of Internal Audit opinion for the year in question. As a result of these delays, it is unlikely that we will be in a position to conclude our audit by the 31 July 2019. We have not, at this stage, identified any adjustments to the financial statements that have resulted in any amendments to your General Fund position. We have, however, identified more amendments to your financial statements than in previous years, which had not been identified and corrected by management's review of the accounts prior to their submission for audit. We would recommend a strengthening of this process to identify and correct such misstatements and enhance the quality of the financial statements submitted for audit in future years. Audit adjustments identified to date are detailed in Appendix C. We have worked with finance officers to maximise the amount of substantive testing we are able to bring forward from the peak June and July period to earlier in the year. We completed more early work than in previous years. However, we were not provided with all the information we requested for our interim visit, and therefore were unable to complete a full interim audit. Our understanding is that this was in part due to the organisational challenge at the time of implementing the new financial ledger system. We reported the outstanding items to the Audit Panel in March 2019. The majority of the outstanding interim areas were not subsequently provided until June and July. Some items remain outstanding. Whilst the draft accounts were submitted on time, there was a noticeable reduction in the quality and accuracy of the notes to the accounts. There have also been problems with the quality and availability of essential supporting evidence and information. Working papers were not always presented for audit on time and contained errors in some cases. There have been delays in the provision of supporting evidence and responses to queries, and delays in the provision of items required for testing. Various notes to the accounts have required amendment. Obtaining information from the wider organisation has been difficult and external audit requests have not always been prioritised. Your finance team has been extremely supportive in seeking to overcome these issues, and have sought to expedite and resolve audit queries with the wider organisation, working in partnership with us. However, when information is requested from other departments, we encounter significant delays. The larger than expected number of errors in the accounts introduces further delay, which is compounded by the fact that the revised elements of the accounts, on correction, need to be resubmitted for audit and re-audited. We have worked closely in partnership with your finance team and leadership to seek to recover as many of the delays as possible in the completion of the audit. However, overall, it is an unavoidable fact that the later it is before accurate accounts and supporting working papers and reconciled transaction listings are delivered for audit, the later it is before the audit can be completed. Equally, the more errors that are identified which require re-work and re-submission, the longer the overall process takes and the more costly it becomes.

Headlines

Financial Statements *….continued*

We have been in constant daily communication with the finance team and management over the long-list of items requiring attention, and have been RAG rating their importance throughout the audit. The log contains a complete list of queries and requests for information that management are continuing to work through. We have also periodically shared updates with the Director of Finance. It is important to ensure the wider organisation is seamlessly integrated into the final accounts process and able to prioritise the audit within a strategic framework of managed priorities. We are happy to provide on-going training with the wider organisation to support your strategic considerations. The key to delivering financial closedown within the tight timescales lies not only within the finance team but also in the ability of the wider organisation to play an integrated role in responding to audit requirements within deadlines, whilst still delivering other corporate priorities. It is also essential this is done within a corporate structural framework that delivers the financial statements without compromising quality, efficiency and the availability of personnel and evidence.

The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for your pension scheme. Discussion has been ongoing across the local government sector regarding the potential impact of the ruling on the financial statements of local government bodies. This has impacted all councils. You received detailed analysis from your actuary to enable you to determine the potential financial impact of the ruling on your pension liability on 5 July 2019.

The main issues impacting on the delay of the audit are listed below. In addition to the list below there are a further 26 items where we are awaiting responses to queries or audit evidence for samples selected. There will potentially be further follow up questions once we obtain responses to these current queries.

- We were not provided with a reconciliation between your General Ledger and the Asset Register on Oracle Cloud. You were unable to reconcile these two systems and are undertaking a workaround exercise. This analysis was provided for us to provided for us to review on 5 July 2019. This has delayed our testing on Property, Plant and Equipment (fixed assets) in your balance sheet.
- Your valuers had not revalued your council dwellings and other land and buildings at 31 March 2019. Valuations had been dated 28 February for dwellings and 31 January for other assets. A subsequent valuation as at 31 March 2019 was requested. The details of this valuation were not provided for audit until 4 July.
- We are also awaiting an assessment from you to evidence that the current value of the assets that have not been revalued in the year are not materially different from the fair value of the assets as presented in the financial statements
- We have not been provided with expenditure and payroll reports in respect of Lewisham schools that are not on the Council's payroll system. We reported this as an issue in our progress report to the March Audit Panel.
- We have not been provided with listings to support Non Domestic Rate mandatory reliefs. This has delayed our sample selection in these areas.
- We have not been provided with the Annual Governance Statement.
- There have been delays in the provision of adequate audit documentation supporting income and expenditure items.
- We have not received a Valuation Office Agency statement supporting the rateable value of businesses in the borough at 31 March 2019.

Headlines

Financial Statements

…continued

As a result of the above we are yet to finalise our work in the majority of the areas in your financial statements.

It should be noted the early date of your Audit Panel increases the volume of work which would still be in progress, even without the above factors, in line with the planned audit timetable. We also understand that your internal audit function is not yet in a position to issue their 'Head of Internal Audit' opinion.

Subject to us being provided with the outstanding information and all outstanding audit queries being resolved, we anticipate issuing an unqualified audit opinion.

Our work is also subject to the following closing procedures which necessarily take place at the end of the audit:

- Completion of residual audit work in respect of recently provided evidence and supporting information
- Final senior management and quality reviews and clearance of any queries that may arise from this final process
- Agreement of your management representation letter including the letters relating to compliance with laws and governance
- Consideration of subsequent events
- Review of the final set of approved financial statements
- Review of the final approved Annual Governance Statement
- Completion of work in respect of your Whole of Government Accounts return.

Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

We have made recommendations to assist with improving the financial statements preparation and audit in Appendix A. We are still awaiting responses to our recommendations from the previous year audit, and these are documented in Appendix B.

Summary

The audit remains in progress. The key factors which have compounded the challenge for this year's financial closedown are as follows:

- The implementation of a new financial ledger system in year
- Reconciliation of the financial ledger with the fixed asset register, and need to reflect material changes in values between the valuation date and the balance sheet date
- The ongoing uncertainty over pension liabilities arising from the McCloud judgement and the guaranteed minimum revenue provision (GMP)
- A lean finance team which, whilst highly supportive and co-operative with the audit, has limited spare capacity and significant organisational demands placed upon them, with limited contingency in the event of unplanned sickness or other absence
- Challenges in obtaining supporting information form the wider organisation
- Deferment of the Head of Internal Audit opinion until September 2019
- The ongoing challenge of financial closedown within an organisation of Lewisham's size and complexity

Headlines continue

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We are in the process of completing our risk based review of your value for money arrangements. As at the date of our report our work is nearing completion. However, you have been informed of an Ofsted inspection taking place in July and we will need to be able to assess the outcome of this inspection before finalising our work on your arrangements for to secure economy, efficiency and effectiveness in your use of resources.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not to date exercised any of our additional statutory powers or duties. In the 2016/17 audit, we received two objections from electors in respect of your LOBO loans and PFI schemes. We are still completing our response to these objections. As such, we have not yet certified the closure of the 2016/17 audit. In 2018/19, we received information relating to a procurement issue which management is currently investigating. We will not be able to certify the conclusion of the 2016/17, 2017/18 and 2018/19 audits until we have certified the closure of the prior year audits, and management has concluded its investigation of the above matter raised in 2018/19.

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls.
- An evaluation of the components of the group based on a measure of materiality, considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for the London Borough of Lewisham and a targeted, analytical approach was required for Lewisham Homes Limited and Catford Regeneration Partnership Limited components.
- An evaluation of your internal controls environment including your IT systems and controls.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

Conclusion

We are continuing our audit of your financial statements and, subject to the satisfactory completion of outstanding work, including those items highlighted on pages 3 to 5, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E.

Our approach to materiality

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

Our assessment of the value of materiality was updated from our Audit Plan to reflect your draft financial statements.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	19,575,000	19,000,000
Performance materiality	13,700,000	13,300,000
Trivial matters	978,750	1,000,000

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including London Borough of Lewisham Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for you.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have completed the following work in relation to this risk: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals ; • tested unusual journals recorded during the year for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We are currently finalising our work in the following areas: • review of large and unusual journal entries for the last few periods of the year and year end journals for testing back to supporting documentation • senior management quality reviews Subject to the satisfactory completion of outstanding work, above, and the work outlined on pages 3 to 5, we have not identified any material issues from our work to date.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of land and buildings** You revalue your land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.3 billion) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2019. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have completed the following work in relation to this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • confirmed the basis on which the valuations were carried out with your valuer; and • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We are still to complete the following work: • Testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into your asset register and financial statements; and • evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that the current value of these assets is not materially different to current value. We identified that you had obtained valuations for your Council Dwellings as at 28 February 2019 and all your other property plant and equipment as at 31 January 2019. We requested an assessment of valuation movements between the date of the valuations and the balance sheet date be undertaken, and your valuers subsequently updated their valuation. The details of this valuation were provided for audit at 4 July 2019. Management also informed us that they were unable to reconcile the general ledger system to the fixed assets module on Oracle Cloud, and are undertaking a workaround exercise, starting with the prior year audited balances and adjusting for additions, disposals, depreciation and revaluations from the ledger and valuers reports. This analysis has not yet been provided for us to review. This has delayed our testing on Property, Plant and Equipment (fixed assets) in your balance sheet. Going forward, you will need to fully reconcile your general ledger with your fixed asset register and provide this reconciliation with your working papers at the start of the audit. As a result of the above, we are not, as at the date of this report, in a position to confirm the material accuracy of your property, plant and equipment and related accounting entries in the financial statements.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** Your pension fund net liability, as reflected in your balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£640 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have completed the following work in relation to this risk: • updated our understanding of the processes and controls put in place by management to ensure that your pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation; • assessed the accuracy and completeness of the information provided by you to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the report from your actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. You have contacted your actuary and requested a valuation of the potential impact of McCloud and the Guaranteed Minimum Provision (GMP) on your financial statements and pensions liability. You received a response from the actuary on 5 July 2019 (the date this report was finalised), and need to assess the report and consider the impact on your accounts. We will then audit the updated position. Subject to the satisfactory completion of outstanding work, above, and the work outlined on pages 3 to 5, we have notto date identified any other material issues from our work.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	**Incomplete or inaccurate financial information transferred to the new general ledger**	**Auditor commentary** We have undertaken the following work in relation to this risk: • reviewed your arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred; and • mapped the closing balances from the redundant general ledger (Oracle) to the opening balance position in the new ledger (Oracle Cloud) to assess accuracy and completeness of the financial information. We are satisfied that the data transfer of balances from Oracle to Oracle Cloud was materially accurate and complete. We are still awaiting responses from management to complete our information technology (IT) environment review. This includes documenting, evaluating and testing the IT controls operating within the new general ledger system. There are potentially similar issues to those raised in the previous years, which are disclosed in Appendix B. Subject to the satisfactory completion of outstanding work, above, and the work outlined on pages 3 to 5, we have not to date identified any other material issues from our work.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
1	**Potential impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for fire fighter pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits such as the Local Government Pension Scheme.	Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies. You requested an estimate from your actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities and an increase in service costs for the 2018/19 year. Management's view is that the impact of the ruling is not material, and will be considered for future years' actuarial valuations.	We will review the analysis performed by the actuary, and consider whether the approach that has been taken to arrive at this estimate is reasonable. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we will need to satisfy ourselves that there is not a risk of material error as a result of this issue, and acknowledge the significant uncertainties both relating to the outcome of the appeal process at this point in time, and relating to the estimation of the impact on the Council's liability. We have included this as an uncertainty within Appendix C.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing – **Draft financial statements balance £1,272m**	You own 13,957 dwellings and are required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. You have engaged Wilks Head and Eve to complete the valuation of these properties.	• We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements was based on 28 February 2019. You engaged your valuers to update the value to a year end balance of 31 March 2019. We are yet to be provided with the revised revaluation report, but you have informed us that there is a significant difference. You have told us you will update your financial statements for the revaluation as at 31 March 2019. We are awaiting your final revaluation report. Once we receive your report we will need to consider the potential movement between the valuation date and the end of the financial year, using indices provided by Gerald Eve as our auditor's expert, and assess whether we are satisfied that your revised valuation as at 31 March 2019 is fairly stated.	 **Amber**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings **Draft financial statements balance £976m**	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Other specialist land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 91% of total assets were revalued during 2018/19. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2019 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued initially identified no material change to the properties value. This assessment appears to be materially incorrect.	• We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements was based on 31 January 2019. You engaged your valuers to update the value to a year end balance of 31 March 2019. We are yet to be provided with the revised revaluation report, but you have informed us that there is a significant difference. You have told us you will update your financial statements for the revaluation as at 31 March 2019. We are awaiting your final revaluation report. Once we receive your report we will need to consider the potential movement between the valuation date and the end of the financial year, using indices provided by Gerald Eve as our auditor's expert, and assess whether we are satisfied that your revised valuation as at 31 March 2019 is fairly stated.. We are also awaiting an assessment from you to evidence that the current value of the assets that have not been revalued in the year are not materially different from the fair value of the assets as presented in the financial statements	● **Amber**

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £741m	The Council's total net pension liability at 31 March 2019 is £741m (PY £640m), comprising the London Borough of Lewisham and the London Pensions Fund Authority defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of your assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £148m net actuarial loss during 2018/19.	• We have no material concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as our auditors' expert, to assess your actuary, and assumptions made by your actuary. See below for consideration of key assumptions in your pension fund valuation:	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% to 2.5%	●
Pension increase rate	2.5%	2.4% to 2.5%	●
Salary growth	3.2%	Scheme specific range in line with other actuaries	●
Life expectancy – Males currently aged 45 / 65	45: 24 years 65: 22.2 years	23.7 to 24.4 years 21.5 to 22.8 years	● ●
Life expectancy – Females currently aged 45 / 65	45:26.5 years 65: 24.6 years	26.2 to 26.9 years 24.1 to 25.1 years	●

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that your share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate.

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Other accruals and estimates	You continue to apply estimates and judgements in a number of areas, including: • accruals of income and expenditure; • recognition of school assets; and • the preparation of group accounts.	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances in our work to date. Our finding are subject to the satisfactory completion of our work and the matters set out on pages 3 to 5.	● **Green**

Assessment

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

Significant findings - Going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process Management’s assessment is that there is no reason to consider the Council is at risk of not being a going concern.	You have sufficient cash, investment and reserve balances to deliver your services for 12 months from the date of your audited financial statements.
Work performed We have: • held regular discussions with officers throughout the year; and • reviewed your financial statements and financial forward planning.	Your financial forecasts show that you have sufficient assets available to meet your liabilities for the foreseeable future. We have considered these forecasts, and your past performance against your budgets, and have no material concerns over your planning process.

Concluding comments

We intend to issue an opinion that is not modified in respect of Going Concern.

No events of conditions have been identified in the course of our audit that cast doubt on your ability to continue as a going concern.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures. We are awaiting formal written confirmation from you in respect of this.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant (above triviality) incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We are awaiting formal written confirmation from you in respect of this.
4	**Written representations**	A letter of representation will be requested from you, which will be included in the Audit Panel papers.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to banking and investment institutions that you had deposits or loans with. This permission was granted and the requests were sent. All of the requests have been received and all were returned with positive confirmation.
6	**Disclosures**	Our review found a few omissions in the financial statements particularly around financial instruments and amending the financial statements to take account of new International Reporting Standards IFRS9 and IFRS15. Management are yet to respond to our queries or update your financial statements.
7	**Audit evidence and explanations/significant difficulties**	We have had challenges with obtaining all the requested information within a timely manner which has impacted on the ability to progress the audit in the timescales originally envisaged.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We are awaiting the Annual Governance Statement in order to complete our work in this area.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We are awaiting the Annual Governance Statement in order to complete our work in this area. We do not at this stage anticipate applying any of our statutory powers or duties.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As you exceed the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with your audited financial statements. We plan to complete this work following the completion of the audit of your financial statements.
4	**Certification of the closure of the audit**	In the 2016/17 audit, we received two objections from electors in respect of your LOBO loans and PFI schemes. We are still completing our response to these objections. As such, we have not yet certified the closure of the 2016/17 audit. In 2018/19, we received information relating to a procurement issue which management is currently investigating. We will not be able to certify the conclusion of the 2016/17, 2017/18 and 2018/19 audits until we have certified the closure of the prior year audits, and management has concluded its investigation of the above matter raised in 2018/19.

Value for Money

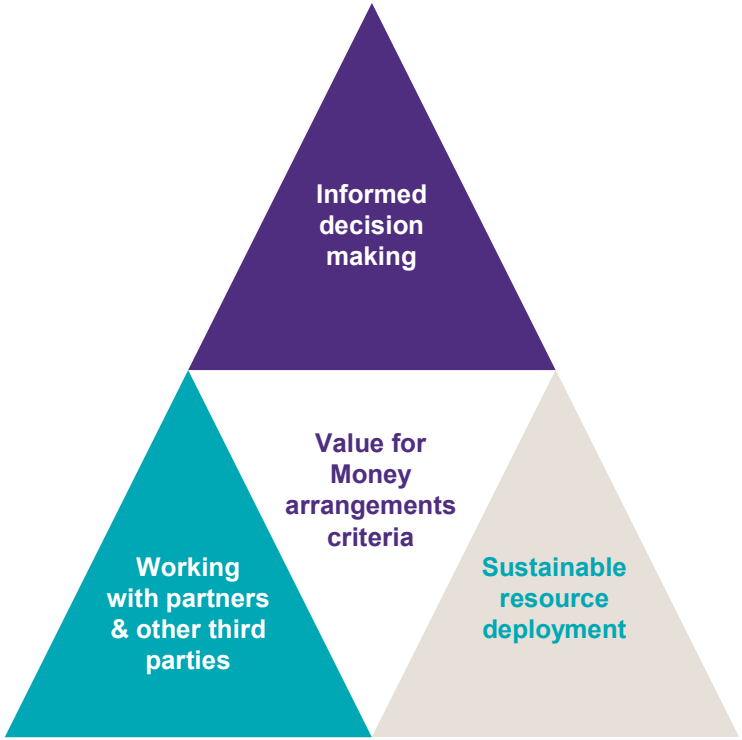
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- Your outturn position against general fund revenue budgets for 2018/19
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your transformation programmes
- The appropriateness of your arrangements for addressing the potential implications resulting from Brexit.

We have set out more detail on the risks we identified, the results to date of the work we performed, and the conclusions we anticipate drawing from this work the following pages.

Overall conclusion

We are in the process of completing our risk based review of your value for money arrangements. As at the date of our report our work is nearing completion. However, you have been informed of an Ofsted inspection taking place in July and we will need to be able to assess the outcome of this inspection before finalising our work on your arrangements for to secure economy, efficiency and effectiveness in your use of resources.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Key findings – financial outturn and budget management

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as per our Audit Plan	Findings and conclusion
Budget Management You are currently projecting a £11.4m overspend on the 2018/19 budget. This anticipated overspend is significant and should the position worsen then this will increase the pressure into 2019/20. In response to this risk we will: • Assess your understanding of, and responses to, the pressures and causal factors contributing to the 2018/19 overspend. • Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position. • Review your plans to respond to pressures within the Children and Young People Directorate • Consider your approach towards the use of reserves.	**Summary findings** • Your 2018/19 outturn position delivered an overall overspend of £9.4m against the directorates' net general fund revenue budget. This is after the application of £6m to support the children's social care base budget. • You continue to have overspends within Children's and Young People and required an injection of an additional £6m to the children's social care base budget mid-year in October 2018. This suggests some continued scope for improvement in the accuracy of the assumptions underpinning the original budgets. Work is continuing in this area to manage demand and mitigate future overspends. • You have strengthened arrangements over reporting of delivery of your savings programme. Your financial reporting should be enhanced by providing more narrative explaining the key factors for savings that have not been delivered. • There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on your financial health. • A number of initiatives are in place to enhance your arrangements, particularly with respect to income generation and managing pressures. These are in the early stages of development and their effectiveness in the long term is yet to be tested. **2018/19 Financial Performance** You continue to face a challenging financial position with reduced government funding. Your local population continues to increase by approximately 3,000 residents per year. This growth combined with the demographic change being experienced nationally for people to live longer lives, with severe disabilities, is creating pressure on health and social care services. You continue to face increased demands and costs of Children's Social Care, and increases in assessments and high costs for placements. You set a balanced budget going into 2018/19 and in respect of the General Fund assumed a net revenue expenditure budget of £241.281m. This is made up of provisional Settlement Funding from government of £128.470m (revenue support grant and business rates) and forecast Council Tax receipts including an increase in Council Tax of 3.99% (a 1% increase for the social care precept providing additional funding of £1m, ring fenced for Adult Social Care spend, and a 2.99% increase in the core element). You also assumed a surplus from growth in the Council Tax base as well as distribution of previous year Collection Fund surpluses. Your budget also included increased inflation costs of £4.3m, increased budget pressures and risks of £6.5m and an increased bad debt provision of £5m. To offset some of these costs you proposed utilising the New Homes Bonus (£5.0m) and general reserves of £3.570m. The Lewisham Future Programme Board was established to determine and progress cross-cutting and thematic reviews to deliver the savings required. You have made savings of £160.6m to meet your revenue budget requirements since May 2010 and you proposed savings of £5.6m in 2018/19. You recognise that there are now no easy efficiencies remaining and you are into identifying greater transformation in culture, ways of working and the infrastructure to support proposed savings. Savings of this nature will take longer to implement, and the outcomes are often more uncertain, and (from the financial perspective) require an element of upfront investment to achieve them. You have considered the areas in which you want to invest. These are consistent with your Lewisham 2020 priorities set by members and include • the digital transformation work to assist with more flexible ways of working; • the refurbishment of Laurence House to rationalise the corporate estate; and • updates to your key systems to improve efficiencies and control

Key findings

Significant risk as per our Audit Plan	Findings and conclusions
Continuation of risk from previous page.	Your financial outturn position shows a £9.4m overspend on the directorates' net general fund revenue budget, with the most significant overspends in Children and Young People (£9.6m) and Customer Services (£3.5m). These were offset by underspends elsewhere, including £2.8m in the Community Services directorate and £0.9m in Resources and Regeneration. Despite the overspends, the General Fund balance at year end increased to £20.0m from £13.0m, due mainly to a transfer from earmarked reserves of £11.4m. This level represents approximately 8.3% of your Net Budget Requirement. However, your ratio of General Fund reserve to Gross Service Expenditure at 1.9% remains relatively low. There remains the risk that this level of General Fund Reserves may not be sufficient to cope with the additional pressure of a significant unexpected incident. Your outturn position is summarised below.

Directorate	Gross budgeted spend	Gross budgeted income	Net budget 2018/19	Outturn March 2019
	£m	£m	£m	£m
Children & Young People (1)	71.3	(16.6)	54.7	9.6
Community Services	172.2	(81.3)	90.9	(2.8)
Customer Services (2)	99.7	(57.3)	42.4	3.5
Resources & Regeneration	76.7	(51.2)	25.5	(0.9)
Directorate Totals	**419.9**	**(206.4)**	**213.4**	**9.4**
Corporate Budgets	27.9	0.0	27.9	0.0
Net Revenue Budget	**447.8**	**(206.4)**	**241.3**	**9.4**

The Children and Young People's directorate was overspent by £9.6m. The position was consistently reported throughout the year but includes an injection of an additional £6m to the children's social care base budget approved by Mayor and Cabinet on 10th October 2018. This suggests some continued scope for improvement in the accuracy of the assumptions underpinning the original budgets. The main budget pressures in children's social care are in two areas:

- Placement of children looked after: the number of children looked after has increased in Lewisham and across the country, but your rate of looked after children remains higher (statistically) than your neighbouring boroughs. You also have high numbers in residential placements and these are extremely high cost.
- Staffing budget (social workers, managers and business support): This budget has been historically overspent with a mismatch between budgets and staffing establishment which has hampered monitoring. In the previous year additional social workers were taken on to reduce caseloads to acceptable levels, especially in Referral and Assessment.

You have developed a greater understanding of the key cost drivers across the Children and Young People's directorate. The key initiatives that you are working on to try and address your cost pressures are set out overleaf:

Key findings

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	• Improving the placement process and commissioning of residential care, leaving care accommodation and semi-independent accommodation and fostering for children looked after. • Refreshing your Children's Social Care Placements Sufficiency Strategy. • Clarifying the Children and Social Care staffing establishment, ensuring it is properly costed and establishing a staffing budget and fixed establishment which can be effectively monitored. • Restructuring the Children's Social Care budget, with a recoding exercise introducing effective budget monitoring at all levels with a budget which reflects activity and for which individual budget holders can be held to account. • Developing a medium term financial strategy for children's social care reflecting patterns of demand but also a trajectory to the best in class pattern of placements and service activity, in line with your overall Medium Term Financial Strategy. The overspend in Community Services is in part due to the Tidemill site security costs, which ended the year with a cost of £1.29m. It had been anticipated that these costs could be capitalised, but the nature of these costs are not permissible for capitalisation purposes and so were charged to revenue. The other main driver in the directorate is an overspend of £1.6m on refuse services and a shortfall of income projected for trade refuse of £0.3m. The Dedicated Schools Grant (DSG) for 2018/19 had a final net balance of £260m. Further grants are given to schools and routed through the local authority including the pupil premium (£14m), Primary PE and Sports Grant (£1.3m), Post 16 funding (£5.6m), the universal free school meals grant (£3.8m) and the teachers' pay grant (£1m), making total spend of £285.7m. There is an on-going review of the High Needs Block (HNB) budget in the DSG. You are unusual in being able to manage to balance the HNB, compared to other boroughs carrying significant overspends. However, it is becoming more challenging for you to balance this position. The Housing Revenue Account budgeted for a surplus of £4m which was to be transferred to reserves at the year end as part of the 30 year HRA business plan. You have delivered an additional £2.5m surplus due mainly to net increases in rental and service charge income and a reduction in the number of void properties. Your financial position is reported to members through the quarterly Public Accounts Select Committee meetings detailing your positions as at May, September and December 2018 and January 2019, and monthly to the Executive Management Team. The overspend as at May was anticipated at £14.8m, and July at £17.4m, but decreased to £10.7m as at the end of September due to the £6m application to support the Children's Social Care budget. It then fell slightly to £9.9m as at January 2019, ending the financial year with a £9.4m overspend. You identified a savings programme of £5.6m going into 2018/19. £3.6m of the programme was reported as being delivered at the year end with £2m (representing 36% of the programme) determined not to have been delivered, albeit you are still anticipating that some of these savings will be delivered in the future. £1m of the anticipated savings that were not achieved related to a review of your balance sheet and accounting policies which would potentially result in one off adjustments which are not in themselves real long term recurrent savings. You have strengthened the governance processes around the monitoring of the delivery of your savings programme throughout the year. Explanations are provided within reports to Members when delivery has slipped or has failed, but these explanations would benefit from further narrative that really hone in on the causal drivers that resulted in the anticipated savings not being achieved. In addition, the reports should be strengthened by reporting on the plans and actions to bring delivery back on track and any lessons that have been learnt that you are applying to future savings programmes.

Key findings

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	During the year Members raised their concerns about the scale and direction of travel in respect of the Adult Social Care budget and the impact this has on your decisions on future savings. You have undertaken more work to understand the main pressures on the budget and you have been undertaking a review to find more innovative ways of working with other boroughs to improve efficiency and deliver better outcomes for residents. The main pressures affecting the service are increases in unit costs typically adding £3m a year to the budget and demographic changes, especially transition of young people with special educational needs and disabilities (SEND) into the adult social care budget. Lewisham has the 4th highest Autism level in the UK and this is contributing to demand pressures, with the estimated total number of adults with a learning disability aged 18 to 64 in Lewisham estimated at 1,120 projected to rise to 1,190 in 2020. Hospital admission and readmission rates for older people are higher in Lewisham than the overall rate for England, continue to increase, and are currently around 320 per month. To help manage these pressures you have adopted the Local Government association (LGA) framework to achieve efficiencies in adult social care by further refinement to the following: • your approach to assessment, which is community and asset based, taking into account what a person can do for themselves including the network of support that can be accessed from within the community; • making use of prevention and short term targeted support to reduce delays and prevent the need for longer term care; • improving partnership working across health, mental health, social care, housing and with care providers to reduce duplication, be responsive to the needs of your residents at an earlier stage; • commissioning and developing a robust market place that can respond to a range of needs with services that are of a high standard and are cost effective. You are reshaping some of your provision in order to provide a more personalised offer that supports people to remain within the community wherever possible; • working on a whole system approach to transition with a focus on improvements and good practice; and • applying resources proportionately and ensuring accurate charging. There is good oversight in place to compliment the asset based approach to assessment and panels in place monitoring expenditure for care provision. In addition to your focus on demand management and cost reduction you have identified the need to develop a clear income generation strategy to ensure that vital levels of service delivery are able to be maintained throughout the period of funding reductions. The new income strategy was approved by the Mayor and Cabinet in February 2019 and services are now aiming to align their work to achieve the objectives set out in the strategy. To facilitate income generation, a programme of culture change to move you to a more commercial mindset is required to help embed the strategy. The success of this programme will be key to ensuring that there is sufficient buy in and engagement across all your workforce so that income generation is viewed as being key to supporting protection of front line services. The organisational development team have begun to review the opportunities, training programmes and communications that will be essential to help address the cultural shift required. The EFQM business model has been proposed as the mechanism to support the embedding of the change culture and ensuring the required processes in the income generation strategy begin to function as required. In addition, a full programme has been developed to ensure that all fee charging services have established cost modelling and up to date charging levels. This work is still being rolled out more widely across the Council.

Key findings – savings and medium term financial planning

Significant risk as per our Audit Plan	Findings and conclusion
Savings and medium term financial planning You have set a balanced budget for 2018/19 which includes a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year, and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m of income, and identified planned further savings of £4.86m. To put your finances on a sustainable footing, the Medium Term Financial Strategy identifies the need for £30m of ongoing cuts in the two years to 2020/21 - £17m in 2019/20 and £13m in 2020/21. This is on top of the need to address the persistent in-year overspend in Directorate budgets. In response to this risk we will: • Consider your arrangements to identify and deliver savings and efficiencies to support a sustainable medium term financial position. • Consider the feasibility of planned savings and the assessed risk of achievement • Review the arrangements for identifying and monitoring risk, and taking appropriate action in the event of non-realisation of planned savings • Assess how well the MTFS reflects planned timescales for the delivery of savings from your transformation programme, and how well aligned the MTFS is with the planned financial benefits anticipated by the transformation programme.	**Summary findings** • For 2019/20 you have set a balanced budget (with the planned use of reserves) and have a savings plan of over £9m. This is ambitious: the savings requirement is significantly greater than last year's, which was not achieved. • The medium term financial risk is significant and increasing. You will need to make savings of around £60m between 2020/21 and 2023/24 – a significant requirement which highlights the need to continue to identify, monitor and deliver savings. Savings required in 2019/20 and 2020/21 are higher than in previous years, when lower levels of savings were not delivered. • You are awaiting the results of the Government comprehensive spending review (CSR) and fair funding reviews. As a result, your Medium Term Financial Strategy (MTFS) is more uncertain than previous years. You will need to continue to update your MTFS to include any additional funding information together with the impact on your proposed plans. • There are longer term pressures from demand led services that continue to manifest in 2019/20, particularly in Children and Young People's directorate. • You have £20m of general fund reserves to cushion you against the on-going financial challenges that you face over the medium term. However, these represent only 1.8% of your annual spend, and should be used to invest in future transformation, rather than offsetting budgetary overspends on a non-recurrent basis. • The latest financial monitoring report for 2019/20 is forecasting a deficit of £4.6m, with a majority of the overspends again due to the Children and Young People and Customer services directorates. The overspends are in areas similar to 2018/19. This indicates weaknesses in the budget setting arrangements and may indicate further improvements over the accuracy of activity assumptions are required. **2019/120 Budget Setting** You set a balanced budget for 2019/120 in February 2019. In respect of the General Fund, the assumed net revenue expenditure budget is £243.012m. This is financed by provisional Settlement Funding from government of £121.175m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 4.99%, a surplus from growth in the Council Tax base and on collection of Council Tax in previous years from the Collection Fund, and additional income from Business Rates including a share of the growth from the London Business Rates Pool. The budget is based on the following assumptions: • £9.27m of revenue budget cuts are achieved. Note: you only achieved £3.6m in 2018/19, so there remains risk in this assumption; • £6.5m of contingency included in the budget for risks and pressures in 2019/20; • £5.0m use of the New Homes Bonus reserve for revenue purposes for one year with the position to be reviewed for 2020/21; • One-off reserves are used to fund the current budget cuts shortfall of £2.461m for 2019/20 to balance the budget; and • A 4.99% increase in Band D Council Tax for Lewisham's services for 2019/20; including the 2.99% increase in the core Council Tax as announced in the Local Government Finance Settlement and 2% increase for the Social Care precept.

Key findings

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	The direction of travel for local government finance continues with the Government's intention to phase out the Revenue Support Grant. Ahead of the Government's Comprehensive Spending Review this summer, the London Business Rates Pilot Pool operates for another year, and will still include all London Boroughs and the Greater London Authority (GLA). Under the 100% London pilot scheme for 2018/19, there was no central share and rates collected were shared 63% and 37% between Lewisham and the GLA respectively. The main advantage for being part of the pool is that the pool gets to keep 75% of any growth it generates, which is then distributed across all members of the pool. In 2019/20, you expect to receive approximately £3m of growth from the pool. For each of the past five years you have implemented savings and used reserves, New Homes Bonus and earmarked reserves to set a balanced budget. The Lewisham Future Programme (LFP) was the primary methodology to undertake fundamental reviews of services, identify savings and drive organisational change in order to meet the required reductions in spending needed to set balanced budgets. The LFP was stopped in 2018/19 to enable a review of progress, to ensure alignment to the new administration's priorities and to facilitate a rigorous 'back to basics approach', focusing on the Directorates' accountability for delivering services to budget. The Acting Chief Executive conducted internal reviews of all services against their business plans to assess performance and progress with 'invest to save' initiatives. Officer STAR chamber sessions were then held and Executive Directors and Heads of Service were asked to set out the full range of cuts that could potentially be made (including any investment required) for 2019/20 and 2020/21, setting out the risks and possible mitigations, up to their boundaries with statutory responsibilities. These officer proposals were then subject to Member scrutiny before being taken to Mayor and Cabinet in November 2018. Schemes are reasonably well developed, and have been subject to challenge processes. You will need to continue to monitor savings plans closely on a scheme by scheme basis with a renewed focus on addressing the route causes of savings not being delivered, and applying lessons learned across schemes. **Medium Term Financial Strategy** Together with the comprehensive spending Review the Government is committed to undertaking a Fair Funding Review which would include a full review of the Needs Distribution system and possibly some 'normalisation' of council tax. Your current funding levels are based on needs assessments undertaken in 2013, increased annually by the Retail Price index, which are now outdated. This makes your estimates of funding more challenging as you are still unsure over your funding settlement for 2020-21. This results in a Medium Term Financial Strategy that is more uncertain than in recent years. You will need to ensure that you continue to update your Medium Term Financial Strategy throughout the year as decisions on future funding become clearer. The Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 sets out your medium term financial plan for the next four years. Your MTFS forecasts a further reduction in your main funding from £121.2m to £108.7m between 2019/20 and 2023/24. This is based on an assumption that your Revenue Support Grant will reduce by a further 20% between 2019/20 to 2023/24. Alongside this, the Adult Social Care precept ends in 2019/20 so there is an assumption that this will be nil going forward. At the same time as these reductions spending projections - including pay and prices inflation, provision for budget pressures related to an increasing population and changing demographic needs, and changing responsibilities for local government - mean additional spending of at least £47m will be required to meet those needs over the life of the strategy.

Key findings

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	In preparing your latest Medium Term Financial Strategy you have assumed: • Pay increases of 2% per annum • Inflation 2.5% per annum • Council tax increases at 1.99% per annum • Average fees and charges will increase by inflation • Increase of concessionary fares £0.5m each year • No new homes bonus • Government funding including NNDR continues to decrease

Your Current MTFS covers the four year period from 2020/21 to 2023/24. You have modelled best, worst and most likely case scenarios for this period. Comparing these saving scenarios to the ones in the July 2018 MTFS, you can see the impact the overspends in 2018/19 and the failure to meet savings targets have had in increasing the pressure over the next three year period. Under the above and other assumptions the range of estimates of future savings requirements (£m) is shown below:

July 2018 MTFS	2019/20	2020/21	2021/22	2022/23	2023/24	Total	2020/21 to 2022/23		
Optimistic	14.75	8.10	10.24	5.22		38.31	23.56		
Main	16.82	12.42	14.55	9.76		53.55	36.73		
Pessimistic	19.05	18.43	18.85	13.38		69.71	50.66		
Current MTFS	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**	**2020/21 to 2022/23**	**Increase in savings required**	
Optimistic	14.75	16.34	11.34	9.57	6.07	58.07	37.25	13.69	58%
Main	16.82	20.67	16.56	12.66	9.85	76.56	49.89	13.16	36%
Pessimistic	19.05	23.69	18.51	15.24	11.50	87.99	57.44	6.78	13%

Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2020/21 to 2023/24 as £20.7m, £16.6m, £12.6m and £9.8m, in each year, respectively. This is a total of £60m over the four years to 2023/24. This is a substantial budget gap for you, especially as savings agreed to date have totalled £183m and the financial monitoring in 2018/19 identified difficulty and delay in implementing agreed savings as a contributory cause to the reported overspend position.

The optimistic case scenario has been modelled to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 203/24 reduces to approximately 43m. This is based on lower predicted cuts to baseline funding and higher increases in the Council Tax base. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2023/24 increases to £69m under this scenario.

Key findings

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	To address the future budget gap, officers have started work on identifying possible savings proposals to meet the 2020/21 budget gap forecast in this MTFS. Star Chamber review sessions have taken place with the Acting Chief Finance Officer and the Service Directors, with the aim of scrutinising the budget and determining possible areas for further savings. Detailed proposals for those savings identified to be progressed will then be completed over the summer for scrutiny by Members in the autumn. In addition, officers with the support of Cabinet are running sessions for all members on the Council's financial arrangements, budget pressures, and savings gap in July 2019. The intention is to ensure: • that a full set of proposals to meet the budget gap are presented to members; and • Members have had input to and are equipped and confident to scrutinise these savings proposals ahead of them being put to Mayor and Cabinet for decision The first financial forecast for 2019/20 up to May 2019 is forecasting a deficit of £4.6m, with the majority of overspends being in the Children and Young People directorate (£3m) and Customer Services (£3.7m), slightly offset by underspends in community services. The Children and Young People directorate overspend is due to a continuation of the pressures identified in 2018/19 supporting SEND Transport, Early Help (Troubled Families) and the Youth Service. The most significant pressures in the current financial year relate to transport for SEN pupils (£1.9m) and Early Help (£1.1m). The overspends in Customer services continue to be largely in the Environment division relating to vehicle costs for refuse services as there are still nine hired vehicles in use, which is expected to create an overspend position for this year of £0.6. There is also a shortfall of income projected for trade refuse of £0.3m, which is in line with the income shortfall in 2018/19. IT and digital services are currently forecast to overspend by £1.2m due to anticipated additional costs of the Shared ICT Service (£1m), which includes a settlement for Microsoft licensing. Overspends are following a similar pattern to the previous years which indicates that either there are weaknesses in the budget setting arrangements as the assumptions that led to prior year overspends have not been taken into account fully in setting 2019/20 budgets, or the actions that management are taking to address overspends are not having the required impact in bringing down costs. More savings are proposed in 2019/20 than have been in place previously. This is a significant risk, as you have not managed to deliver the lower level of savings proposed in 2018/19. In addition, there are longer term pressures from demand-led services that are continuing to manifest and proving challenging to control. During the year you commissioned an External Finance Review which concluded in October 2018. The conclusion of the report identifies the following five areas as the most important issues which need to be actioned to ensure effective financial control: • establishing a realistic budget for children services; • seeing through the overhaul of departmental and corporate information systems; • ensuring that savings included in the budget plans are realistic, both in terms of quantity and timescales; • assessing whether there are cultural issues regarding staff accountability which affects performance; and • adopting a three year rolling plan with growth, savings, and use of reserves assessed. You have an action plan that you completed and are in the process of implementing.

Key findings

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	**Reserves and financial position**

Despite the financial pressures that you have faced and your investments in supporting the borough, once useable earmarked reserves are added to your £20m of general fund reserves, your overall reserves position is relatively healthy, compared to many London Boroughs. As at 31 March 2019, you had total general fund reserves and earmarked reserves excluding schools reserves of £139.4m, compared to £149.9m as at 31 March 2018. Although your reserves have fallen, the average for London boroughs is £106.5m and you have the 9th highest reserves balance in London. The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19:

London Borough of Lewisham - financial position: key performance measures			
Measure	London Borough of Lewisham	Average for London Boroughs	Ranking relative to other London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2019 (£m)	139.465	106.462	9/ 32
Total general fund and earmarked general fund reserves as at 31 March 2019 (£m)	168.700	118.126	8 / 32
General Fund and non-schools earmarked as a percentage of non service revenue expenditure (%)	48%	42%	8 / 32

This analysis highlights that as at 31 March 2019 your reserves level placed you in the top quartile of the 32 London Borough. However, your total general fund and non-schools earmarked general fund reserves as at 31 March 2019 of £139.465m is £10.5m less than last year. The London average has increased by £9.4m. The key ratio of general fund and non schools earmarked reserves as a proportion of non service revenue expenditure of 48% has decreased considerably from 2017/18 where you were ranked first in London with a 153% ratio; you are now just above the average. Although you remain in a relatively healthy position, your position has declined in 2018/19 compared to the average London borough, and your direction of travel in terms of reducing reserves balances is out of step with the average increase otherwise seen in London as financial uncertainty continues to manifest.

As it currently stands, your reserves level provides you with a measure of support in respect of the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward to prevent any further decline in your balances. Importantly, your reserves should be used to invest and pump-prime transformation and efficiencies, and not used to supplement day to day expenditure within your revenue budget.

Key findings – transformation and governance

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as per our Audit Plan	Findings and conclusion
Transformation and governance You are currently re-engineering your governance arrangements to strengthen programme governance across your transformation schemes. This followed the identification of significant weaknesses in the previous arrangements, which you have acted to address. You are also reviewing and assessing the progress and potential benefits realisation across all current transformational schemes. In response to this risk we will: • Review your overarching programme management arrangements • Assess the extent to which planned transformation outcomes are reflected within the MTFS • Follow up the recommendations raised within our prior year value for money work.	**Summary findings** • You paused elements of the transformation programme as originally constituted and re-designed your overarching governance arrangements. • You have continued with elements of the programme that you felt were essential to be delivered and the associated projects have been subject to your revised governance arrangements. • You have implemented an overarching board with new arrangements designed to enable your Executive Management Team to have a greater oversight of the programme, facilitating greater challenge and support of programme Boards and enabling business plans to be subject to more robust scrutiny. • Your revised structures will help to ensure interdependencies across projects are identified. • You still need to implement an overarching strategy that clearly describes how your key transformational projects are designed and interlinked. • You will need to demonstrate the costs and future benefits of individual projects and how these are accurately reflected in your Medium Term Financial Strategy. • Arrangements are improved in their design but are at the early stages of implementation. Their application in practice, and your ability to ensure sufficient and appropriate skill sets are utilised, will be the true test of your effectiveness in delivering transformational change. In our previous year Value for Money report we qualified our conclusion on the basis of the weaknesses in the transformation governance arrangements; specifically that: • the arrangements in place did not address or support the needs of a transformation programme of this scale and complexity; • arrangements fell short due to a combination of inappropriate governance and insufficient skills and experience at the detailed level; • governance was unclear, or not operating effectively, and the skills deployed and in place within the programme and individual projects were not suitable for a programme of this size; • at an operational level, individuals within the programme raising issues of concern were not always listened to. Governance concerns expressed at an operational level were not escalated upwards sufficiently. Oversight boards and committees did not always recognise the problems that were arising or, if they did, did not always fully appreciate the significance of these issues and ensure they were escalated and mitigated You have responded positively to our report and had already started to put in place measures to mitigate these factors. You took the decision to pause elements of the programme and to re-design the governance processes of the programme. A Change and Improvement Board has been established which has oversight of the entire transformational programme and reports into each Executive Management Team meeting. The Executive Management Team have reviewed the Terms of Reference of the Change and Improvement Board and discussed programmes of strategic importance. Reporting into the Change and improvement Board are the operational change boards which are cross cutting which are no longer directorate based and have input across support functions which has helped to identify areas of cross cutting which was lacking in the previous arrangements.

Key findings – transformation and governance

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	All projects have been assessed and gateway arrangements have been implemented. All projects were rated as either: • Green – In delivery. • Amber – Subject to approval of business cases • Red – Currently not proceeding with plan. EMT are reviewing business cases as part of the programme, requesting further details of funding and identifying cross-cutting issues. EMT have also requested that projects coming to the Board need to be broader than just IT projects, such as Children's change and improvement work needs. There is early evidence that there is greater senior management oversight of the delivery of transformational programmes. The Change and Improvement Board receives updates of individual projects which includes the current activity, planned activity for the next month and achievements against milestones. Any identified issues and risks are highlighted in the reports together with the potential impact if risks/issues are not mitigated. An overall risk rating is given to each specific programme. Management have highlighted that the summary reports are a work in progress, and need more granular information. IT Enabled Change and support services are implementing a portfolio management programme that Works with Programmes and Projects to address concerns highlighted in last years Value for Money conclusion report such as: • Improving the successful delivery of business change initiatives. • Ensuring an organisations strategy and performance requirements are realised via the portfolio, programmes and projects and operational business services. • Helping to determine and achieve strategic goals, manages outcomes and benefits. • Providing an opportunity for a greater structure and strategic management. • Preventing threats to achieve a business required outcome The Digital Change Programme has been presented to EMT with detailed discussions on how to manage change across the organisation. You have decided that a Digital Change Programme update would be reported to EMT on a 6 weekly basis so you can assess the progress of implementation of the more complex programmes. Evidence has been provided to demonstrate that there are detailed discussions on a project by project basis and projects are risk rated. The Change and improvement Board has also requested projects work thematically, grouping projects and programmes by theme rather than by directorate, which would assist with cross cutting issue. Themes include organisational culture change and service improvement. We have viewed minutes of the Liquidlogic and Contocc improvement Programme Board and the CSC Improvement Board which is attended by Members of EMT. The minutes demonstrate that projects are being actively tracked and costs monitored, with concerns raised at the meetings. The minutes demonstrate that actions that are allocated to individuals and followed up at the start of the subsequent meetings. The CSC Board action tracker identifies and references issues with a clear action, responsibility and implementation date to take forward. The actions are risk rated in terms of delivery. There are 26 issues on the tracker, of which nine are complete, nine are on track and eight are late.

Key findings – transformation and governance

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	Whilst you have prioritised implementing new governance arrangements and ensuring current programmes have been assessed through the new gateway mechanisms, you still need to develop your overarching strategy that clearly describes to your stakeholders how your key transformational projects are designed, interlinked and implemented to drive future service delivery. The strategy will then need to be fully costed with anticipated future benefits analysed and closely aligned to your Medium Term Financial Plan. Management are fully aware of the need to complete this process, but have prioritised revising the governance arrangements in the first instance. Arrangements are improved in their design but are at the early stages of implementation. Their application in practice, and your ability to ensure sufficient and appropriate skill sets are utilised, will be the true test of your effectiveness in delivering transformational change.

Key findings – Brexit arrangements

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as per our Audit Plan	Findings and conclusion
Brexit arrangements With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for. In response to this risk we will: • Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of your assets.	**Summary findings** • With the delay to the departure of the UK leaving the European Union the risk has not occurred within the year. • You have established arrangements to identify and mitigate risks associated with Brexit. • You will need to continue to update your key risk assessments and action plans to take account of the extended Brexit deadline.
	You have established an officer Brexit Coordination Group during November 2018. The Group was tasked with planning for Brexit by: • Undertaking risk assessments for services most vulnerable to the impact of Brexit. • Developing an action plan to address relevant issues and convers. • Reporting regularly to Executive Management Team and Mayor and Cabinet briefing. • Reporting emerging risks and business continuity issues to central government. The Brexit coordination Group currently meets fortnightly and members represent each of the council's four directorates (Children and Young People, Customer Services, Community Services and Resources and Regeneration). The Group has representation from key services such as children's social care and adult social care as well as the Chair of the Local Resilience Forum, Emergency Planning, Human Resources, Legal, Finance and Communications. The coordination Group meetings are chaired by the Director of Corporate Policy and Governance who has a direct report line to the Executive Management Team who meet weekly. Prior to the 29 March 2019, the Group was meeting on a weekly cycle and the Chair was acting as the Single Point of Contact for the council as part of the regional preparation arrangements organised by London Councils and the Local Authorities Panel. Lead officers were submitting a weekly Impact Assessment Tracker to London Councils which set out any emerging risks to Business Continuity and provided weekly data for key service areas. Key issues and concerns were passed onto the Ministry of Housing, Communities and Local Government by London Councils on behalf of the boroughs Key services have provided risk assessments to highlight potential risks and how these can be mitigated. These risk assessments are currently being updated to take account of the extended Brexit deadline. Priority 1 service areas have been asked to provide a response to a series of "what-if" Brexit scenarios that looks at the impact and implications of a 'no-deal' Brexit on you. The responses from services to these scenarios will be used to support pan-London assessments of the immediate and longer term impacts of Brexit on London local authorities. A Brexit Action Plan has been developed and the actions taken to address relevant issues and concerns identified by the Group and services have been incorporated into this document. The Action Plan is routinely discussed and updated at the Group meetings. A revised Brexit timetable is being developed to identify and plan activity around key milestones over the next four months, leading up to the UK's planned departure from the EU. Officers are currently refreshing the Action Plan in line with the revised Brexit timetable, incorporating feedback from Directorate Management Teams.

Key findings – Brexit arrangements

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	You continue to develop a data log to capture some important data sets, supporting baseline measures for staff numbers and the client profile for specific services. This is especially important in relation to residents and staff from the EU. The data list is a regular item for discussion and updating at the Coordinating Group meetings. You have set up a dedicated webpage www.lewisham.gov.uk/brexit on 16 January 2019 to help local residents understand the implications of Brexit and indicates how EU nationals resident in the borough can apply for settled status. There have been exactly 5,000 visits to the webpage up to 5 July 2019 and the page is regularly updated to keep it relevant. The Lewisham communications team are in contact with the LGA and London Council's communications teams to keep abreast of best practice and ensure consistent messaging. You are also maintaining a page on the internal staff intranet which provides information and updates for staff who are EU nationals. You have held question and answer sessions to support EU nationals who work for you.

Key findings – chief executive recruitment

Significant risk	Findings and conclusion
Chief Executive recruitment May 2018 to December 2018.	In our previous year Value for Money conclusion we recommended that Members should reflect on potential lessons from the recruitment of your previous permanent Chief Executive and how future recruitment can be undertaken to minimise the risk of recurrence. You conducted a review and reflected on the previous Chief Executive recruitment process and made a range of changes to support a successful outcome. These changes are summarized below: • Fundamentally revised the person specification for the role, with feed in from a range of key stakeholders. • Used a different search and selection organisation and fully briefed them on the candidate profile we are looking for. • Introduced psychometric and critical reasoning testing at an earlier stage of the process. • Introduced an experienced ex London Chief Executive into the technical interview process, who has had experience of working at Lewisham and knows our environment, in conjunction with the recruitment consultant. • Revised the membership of the members Appointments Panel. • Revised the stakeholder day interview panels to include a panel of Cabinet Members and Scrutiny Chairs. You are nearing the conclusion of your new recruitment process and hope to appoint a new Chief Executive shortly.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you. The following non-audit services were identified/ which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2018/19 was £3,500 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension return	6,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £6,500 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits claim	30,370	Self-Interest (because this is a recurring fee	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £30,370 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level
Non-audit related			
Place Analytics subscription for 3 years from 2016/17	26,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this for 3 year period from 2016/17 was £26,000 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Panel. None of the services provided are subject to contingent fees.

Action plan

We have identified 4 recommendations for management as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	The draft financial statements provided for audit contained more misstatements than previous years. A robust management review may have identified and corrected some of these misstatements prior to submission for audit.	Ensure that sufficient time is built into your closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. **Management response**
2	●	You were unable to reconcile your general ledger to your fixed asset register. There is a risk that your assets could be materially misstated. Good practice is that this reconciliation should take place on at least a quarterly basis	Reconcile your fixed asset register with your general ledger on a regular basis. **Management response**
3	●	Responses to queries throughout the audit were generally not provided on a timely basis. This has a significant impact on the ability to progress the audit on a timely basis and carries increased costs for you. Obtaining information from the wider organisation has been difficult and external audit requests have not always been prioritised. Your finance team has been extremely supportive in seeking to overcome these issues, and have sought to expedite and resolve audit queries with the wider organisation, working in partnership with us. However, when information is requested from other departments, we encounter significant delays.	All officers of the Council need to be reminded that audit queries need to be responded to in a timely manner. The importance of the financial closedown and external audit process should be communicated from the highest level to the rest of the organisation. **Management response**
4	●	Your financial reporting on the progress of delivery of savings does not give sufficient explanations of the underlying causal factors which prevented the savings from being delivered.	Your financial reporting should be enhanced by providing more narrative explaining the key factors for savings that have not been delivered. The lessons learned from these factors should then be applied to the setting and delivery of future programmes. **Management response**

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of your 2017/18 financial statements, which resulted in 4 recommendations being reported in our 2017/18 Audit Findings report

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	TBC	Our testing of IT General Controls identified breaches of password policies, users with default responsibilities with excessive privileges and a lack of audit logging in Oracle EBC or the Database. There is the risk that passwords are not strong enough and unauthorised access may be gain to the Council's IT systems. The full details of the control findings have been shared with management.	**Management Response** Since May 2018, the Council has been using Oracle Cloud for finance and e-procurement. Access to the solution is achieved via a single sign-on and therefore for the most part, access is governed by the policies of the access to the main council's system. This area has also been subject to a recent internal audit review on the post implementation of the new solution. This continues to be under review. Auditors Response Our external audit work on the IT General Controls is still progressing.
2	✓	Our testing of creditors identified an old creditor account with no activity for more than 5 years. The creditor was investigated and found not to be valid. Whilst it was not indicative of a material error, there risk is that there are other invalid creditors on the creditors ledger. We recommend you review all creditor accounts that have had no activity for more than 6 months and determine whether the creditor remains valid.	**Management Response** Prior to migration from Oracle EBS to Oracle Cloud Fusion officers undertook a purge of 'inactive' creditors on the system. The regular and routine purge of the AP database will become routine as part of the support model arrangements for the Oracle Cloud solution once the entire integrated solution (including HR and Payroll) goes live in August 2019. Auditors Response Management have undertaken a review of creditor balances and written back those which are over 6 years old. We have not identified any creditors that are older than 6 years in our sample testing.
3	✓	The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.	**Management Response** Directorate Management Teams are responsible for the tracking of progress being made in delivering agreed savings proposals. These are also reported in the financial forecast reports which are presented to Members. Go forward, the improved clarity of savings progress is set out in a clearer way in the new financial forecasts report, the most recent one of which has been considered by M&C and the Public Accounts Select Committee on 10th July 2019 Auditors Response Savings programmes are now being directly monitored and reported within budget monitoring reports.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations continued

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	✓	The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends. We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year.	**Management Response** **The new format for the monthly financial forecast report seeks to improve on the clarity of reporting of the spend position. It seeks to state clearly the reasoning for specific budget pressures and sets out the proposed management action or any other intervention being deployed to alleviate those budget pressures. The beneficial impact, in financial terms, of the management action is made clear on the budget pressure position. In addition, officers have introduced a suite of activity information to illustrate the correlation of activity drivers to costs. These improvements are in line with the recently concluded independent Financial Control Review. The new report format has been expressed as part of the Finance Report – Period 2 for 2019/20, which was considered by M&C and the Public Accounts Select Committee at their respective meetings on 10th July 2019.** Auditors Response There is more granular information included within budget monitoring reports to explain reasons for overspends. To enhance the reports further you need to focus reporting on the mitigating actions to redress the overspend and balance the budgets.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	You revalued your Council Dwellings as at 28 February 2019. You subsequently obtained a revised valuation as at 31 March 2019. The impact of the updated revaluation was a decrease of £17,832k to your Council Dwellings Net Book Value balance. We are awaiting documentation from the Council in order to fully document the adjustments here.	No overall impact on the General Fund Position	Cr Council Dwellings £17,832 Dr Revaluation Reserve £17,832	No impact on General Fund balances position.
2	You revalued your other land and buildings as at 31 January 2019. You subsequently obtained a revised valuation as at 31 March 2019. The impact of the updated revaluation was a decrease of £1,921k to your other land and buildings Net Book Value balance and an increase of £1,672k to surplus assets Net Book Value balance. We are awaiting documentation from the Council in order to fully document the adjustments here.	No overall impact on the General Fund Position	Cr other Land and buildings £1,921 Dr surplus assets £1,672	No impact on General Fund balances position.
3	You identified an accrual which relates to 2018/9 which was incorrectly coded into 2019/20	Debit Children & Young People Directorate Gross expenditure £1,555k	Credit Creditors £1,555	Impact reduced earmarked general fund reserves by £1,555k
	Overall impact	£1,555	£19,636	£1,555

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjustment agreed to be made?
Misclassification	The National Non Domestic Rates Unoccupied Property Relief balance of £1,190k within Note 5 of the Collection Fund was included in Discretionary Relief instead of Mandatory Relief. There is no impact on the total reductions and reliefs balance of £17,083k.	✓
Disclosure	The working paper supporting the Minimal Lease payments for Council as a Lessee contained an error in the formula for leases relating to schools. As a result of correcting the error, the payments no later than one year and not later than 5 years were amended from £3,131k to £3,637k and those later than five years were amended from £16,391k to £15,602k.	✓
Disclosure	The working paper supporting the PFI Note 34e contains a formula error that resulted in the incorrect cells from the PFI Model . The amendments are as follows: • Brockley HRA interest cost in 2019-20 amended from £7,894k to £3,756k. • Downham Lifestyles interest cost in 2019-20 amended from £3,208k to £1,576k. • Grouped schools interest cost in 2019-20 amended from £6,368k to £3,139k • BSF1 interest cost in 2019-20 amended from £7,782k to £3,824k • BSF2 interest costs in 2019-20 amended from £3,465k to £1,706k • BSF3 interest costs in 2019-20 amended £5,162k to £2,558k • BSF4 interests costs in 2019-20 amended from £10,132k to £4,957k • Street lighting interests costs in 2019-20 amended from £4,681k to £2,322k	✓
Disclosure	There was an error inputting the HRA Rent Rebate in note 3 to the HRA accounts. The balance of £37,707k was amended to £35,643k.	✓
Misclassification	Testing identified a classification error in short term debtors between other public bodies which was overstated by £1,156k with a corresponding understatement on general debtors.	✓
Omission	You are applying an accruals de-minimis level in accounting for accruals of £5,000, but this was not disclosed within your accounting policies	✓

Audit Adjustments

Misclassification and disclosure changes

Disclosure omission	Detail	Adjustment agreed to be made?
Disclosure	An error in your formula within your debtors working papers led to the prior year Long Term debtors per note 14a being understated by £12,392k. The balance of £44,948k per the prior year balance sheet is correct.	✓
Misclassification	The prior year comparators for Collection Fund note 3 require re-statement. The significant amendments were between non Domestic Rates relating to the Greater London authority of £1,442k amended to £2,328k and Central government £3,605k amended to £2,721k.	✓
Disclosure	Note 27a - there are banding amendments required to the remuneration note, with the number of officers included in the £70,000 to £74,999 being increased to 13.	✓
Misclassification	You misclassified income overstating General Government Grants by £28,856k and understating Non Domestic Rates income by the same amount.	✓
Disclosure	Your accounts and accounting policies were not updated for the new International Financial Reporting Standard 9 (Financial Instruments) and International Financial Reporting Standard 15 (Revenue from Contracts and Customers).	✓
Group accounts	PPE is materially different in the group accounts compared with the single entity – there should therefore be a PPE note in the group accounts but there isn't. Code ref 3.4.2.25	✓
Financial instruments	There were a number of disclosure amendments required in your financial instruments disclosure including: • disclosing cash as a financial instrument; • providing a reconciliation of balances to enable readers to agree the financial instruments disclosures back to the balance sheet; and • for your LOBOs enhancing the disclosure on the interest rates, disclosing the triggers and the risks	✓
Various	There are other amendments that have been made as a result of the audit process (including errors identified by your officers) which we have not needed to detail individually but have impacted on disclosure and presentation of your financial statements.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Reason for not adjusting
1	**Potential impact of the McCloud judgement** The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies. You have requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate allowance for McCloud and GMP indexation was of a possible increase in pension liabilities of £11,998k. The total relating to McCloud is £6.4m. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties both relating to the outcome of the appeal process at this point in time, and relating to the estimation of the impact on your liability.	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£148,789	TBC
Total audit fees (excluding VAT)	**£148,789**	**TBC**

The fees reconcile to the financial statements. The proposed fees exclude the Place Analytics subscription from 2016/7 to 2018/19 of £26,000 paid in prior years. The final audit fee will be determined following the completion of the audit.

Non Audit Fees

Fees for other services	Fees
Audit related services:	
• Certification of Housing Benefit Claim	£30,370
• Certification of Teachers' Pension return	£6,500
• Certification of Housing capital receipts grant	£3,500
Total (excluding VAT)	**£40,370**

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Executive Director Resources and Regeneration's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Executive Director Resources and Regeneration has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual Accounts, the Member Preface, the Annual Governance Statement, the Written Statements and the Executive Director's Narrative Report, other than the Authority and group financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.

Audit opinion

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Accounts, the Member Preface, the Annual Governance Statement, the Written Statements and the Executive Director's Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director Resources and Regeneration. Executive Director Resources and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director Resources and Regeneration determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, Executive Director Resources and Regeneration is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit Panel is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

Audit opinion

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of objections related to the year ended 31 March 2017 brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature to be inserted]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date to be inserted]

Grant Thornton

The Audit Findings for the London Borough of Lewisham Pension Fund

Year ended 31 March 2019

July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work is being undertaken on site during June and July 2019. Our findings to date are summarised on the following pages. We have identified, to date, one adjustment to the financial statements that has resulted in a £1.5m increase in the Pension Fund's reported financial Net Assets position. Audit adjustments are detailed in Appendix A. Our work is nearing completion. As at the date of writing there are no matters of which we are aware that would require modification of our audit opinion (Appendix B) or material changes to the financial statements. Our anticipated audit report opinion will be unqualified. The outstanding matters include the following items where we are awaiting information from you as at the date of this report: • response from our request to the monitoring officer regarding any breaches in laws and regulations or litigation involving the fund; • response from management and the Chair of the Audit Panel to our letters regarding laws and regulations; and • receipt of the amended financial statements. We are still completing work in the following areas, in addition to those areas where we are awaiting information: • completion of our work on Journals, financial instruments and Level 3 Investments; and • finalisation of work on the Information Technology general control environment. Our work is subject to the following closing procedures which necessarily take place at the end of the audit: • final senior management and quality reviews and clearance of any queries that may arise from this final process; • agreement of your management representation letter; • review of the final set of amended approved financial statements; and • review of the final Pension Fund Annual Report (the deadline for this is 1 December 2019)

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to the Audit Panel in March 2019

Conclusion

We are nearing the completion of our audit of your financial statements and, subject to the satisfactory completion of outstanding matters and queries, we anticipate issuing an unqualified audit opinion, as detailed in Appendix B. We are unable to issue the audit opinion until we have completed our work on the Council's financial statements, the audit of which is in progress.

Our approach to materiality

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

Our materiality has been updated from our Audit Plan to reflect the draft financial statements and the increase in Net Assets.

	Pension Fund Amount (revised) (£)
Materiality for the financial statements	13,852,000
Performance materiality	9,697,000
Trivial matters	693,000

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The risk that revenue includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of your and the Fund's revenue streams, we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the Pension Fund.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The group and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for you and the Fund, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have completed the following work in relation to this risk: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk and unusual journals ; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions We are currently finalising our work in the following area: • review of large and unusual journal entries for the last few periods of the year and year end journals for testing back to supporting documentation. Subject to the satisfactory completion of outstanding matters set out on page 3, we have not identified any material issues from our work at this stage that we need to report to you.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**The valuation of Level 3 investments is incorrect** By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£119 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We are in the process of completing the following work in relation to this risk: • evaluating management's processes for valuing Level 3 investments; • reviewing the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • Agreeing the valuations to the fund manager confirmations at 31 March 2019; • for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We are reconciling those values to the values at 31 March 2019 with reference to known movements in the intervening period; and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. In line with the planned timetable of work in June and July, we are currently finalising our work in this area. At this stage we have not identified any material issues that we are required to bring to your attention.
4	**Incomplete or inaccurate financial information transferred to the new general ledger**	**Auditor commentary** We have undertaken the following work in relation to this risk: • reviewed your arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred; • mapped the closing balances from the redundant general ledger (Oracle) to the opening balance position in the new ledger (Oracle Cloud) to assess accuracy and completeness of the financial information; and In line with the planned timetable of work in June and July, we are currently finalising our work on the information technology (IT) environment review, including documenting, evaluating and testing the IT controls operating within the new general ledger system. We are satisfied that the data transfer of balances from Oracle to Oracle Cloud was materially accurate and complete.

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Management have reviewed the Fund’s funding position and cash flows.	• The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions. • There is no plan by the Ministry of Housing, Communities and Local Government to wind up the London Borough of Lewisham Council Pension Scheme. • The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.
Work performed	**Auditor commentary**
Detail audit work performed on management’s assessment	• We have reviewed management’s assessment that the financial statements are prepared on a going concern basis. • We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 78%. • The Council continue to pay deficit funding contributions into the pension fund in 2018/19. • The fund continues to operate as usual.
Concluding comments	**Auditor commentary**
	• We are satisfied that it is appropriate that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in: • HarbourVest £37.6m & M&G £0.7m - private equity/venture capital. By the nature of these investments, publicly quoted prices are unavailable and there is no active market to obtain comparable prices. Values are not based on observable market data, but price based on manager valuations. • J.P. Morgan £80.6m - Infrastructure fund Investments will generally be illiquid, and not publicly traded or readily marketable. The adviser to the fund will not have access to readily ascertainable market prices when establishing valuations and there may be a relative scarcity of market comparables. The fund adviser will appoint external appraisers of valuers to determine the FV of assets on at least an annual basis.	We have completed the following work in relation to this risk: • reviewed your assessment of the estimate considering the fund managers latest audited accounts for each fund comparing your capital statements to the values at this date. Where the audited financial statements are for a period ending other than 31 March 2019 we have verified any drawdowns or disbursements from the fund, thereby assessing the reasonableness of estimates used; • assessed the Fund Managers as experts and reviewed internal control reports where these are prepared; and • reviewed the adequacy of disclosure of estimate in the financial statements. As noted on pages 3 and 6, in line with our planned timetable we are currently finalising our work in this area. We do not anticipate identifying any material issues that will require reporting to you.	Green
Level 2 investment	The Pension Fund has investments that in total are valued on the balance sheet as at 31 March 2019 at £1.2bn. The investments are not traded on an open exchange/market and the valuation of the investment is subjective.	• We have triangulated the values in the pension fund accounts to the Fund Manager valuations and independent valuations from the Fund's custodian. These two independent valuations gives us assurance that the Level 2 investment values are materially fairly stated. • Whilst comparing the custodian and the Fund Manager report for Partners Group, we identified that the balance in the financial statements was based on the custodian report which was using an outdated valuation. There is a £1.5m variance to the value of the Partners Group's management report as at 31 March 2019. The Pension Fund's reported financial Net Assets position is therefore understated by £1.5m.	Amber

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures. We are awaiting formal written confirmation of this from you.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We are awaiting formal written confirmation of this from you.
4	**Written representations**	A letter of representation has been requested from the Pension Fund, which will be included in the July Audit Panel papers.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received a response from all third parties.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	All information and explanations requested from management was provided.
8	**Matters on which we report by exception**	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are awaiting the draft Pension Fund Annual report for review. The Annual Report has a later deadline of 1 December 2019.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are set out in the following table

	Proposed fee	Final fee
Pension Fund Audit	16,000	16,000
Total audit fees (excluding VAT)	**£16,000**	**£16,000**

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. There were no other services provided to the Pension Fund.

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019. Management has agreed to adjust the accounts for the below misstatement.

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1	The Investments for Partners Group within the Pension Fund financial statements of £40,307k were based on the custodian report which was using an outdated valuation. There is a £1.5m variance to the value of Partners Group's Fund Managers report as at 31 March 2019. The Pension Fund's reported financial Net Assets position is therefore understated by £1.5m	Credit Change in Market Value of Investments 1,469	Debit Investment assets (other) 1,469	Increase in Net assets by 1,469
	Overall impact	£1,469	£1,469	£1,469

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / Omission	Detail	Adjustment agreed?
Disclosure	The Individual Investment assets with a market value exceeding 5% of the total fund value required updating. There is no impact on the Net Assets Statement.	✓
Omission	The salary and pensions contributions of the acting Executive Director for Resources and Regeneration needs to be included within the Related Parties note.	✓

Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements above our reporting level.

Impact of prior year unadjusted misstatements

There are no adjustments impacting on the prior year.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report. This is a draft version that will be updated.

Independent auditor's report to the Members of London Borough of Lewisham council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of London Borough of Lewisham (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2019 and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resources and Regeneration's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Executive Director for Resources and Regeneration has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

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

Audit opinion

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)
In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Executive Director for Resources and Regeneration and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resources and Regeneration. The Executive Director for Resources and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, which give a true and fair view, and for such internal control as the Executive Director for Resources and Regeneration determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director for Resources and Regeneration is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Performance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

Audit opinion

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

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AY

X July 2019

AUDIT PANEL			
Report Title	**Internal Audit Update Report**		
Key Decision	**No**		**Item No. 7**
Ward	**ALL**		
Contributors	**Interim Chief Finance Officer**		
Class	**Part 1**	**Date: 11 July 2019**	

1. Purpose of the report

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

- Progress against the internal audit plans – corporate and schools, and
- Progress of implementation of internal audit recommendations.
- Audit charter
- Draft internal audit plan for 2019-20.

2. Recommendations

2.1. It is recommended that the Audit Panel:

2.1.1. note the contents of this report;

2.1.2. approve the audit charter; and

2.1.3. request an update on the 2019/20 audit plan and completion of the annual assurance report for the September meeting.

3. Executive Summary

3.1. At the time of writing, 18 reports were final, 5 at draft report, 13 at review stage, and 5 still progressing. The plan is still to issue all 18/19 work as draft by the end of July so the team can concentrate on 19/20 work.

3.2. This delay in the delivery of the plan is disappointing but not unexpected. As reported previously due to recruitment and retention difficulties with the in-house team and a general lack of resources available from in the sector, delivery of the 18/19 audit plan has been delayed.

3.3. There were no limited reports issued since the last meeting, although there are some at review stage which maybe and these will be reported to the next meeting and need to be considered as part of the annual assurance opinion.

<u>High or Medium recommendations not agreed by management</u>

3.4. Management agreed all High and Medium recommendations made.

Follow up reviews

3.5. There was one follow up review conducted on Oracle which notes the delay to implementing recommendations, in part due to the focus in recent months on preparing to launch the HR and Payroll elements of the system.

Management progress against actions agreed

3.6. The number of overdue corporate actions has fallen in the last period but remains at a similar proportion (45%) of open actions. Of the open actions, 48% are taking 12 months or more to complete. This has increased from the 38% reported at the last meeting.

3.7. From discussion with managers this is not only delay in completing the actions but also a frustration with the process and reporting, in particular when internal audit re-open actions or they need re-assigning as responsible staff move.

3.8. This process will be reassessed by internal audit in 2019/20 as the move to tracking individual actions rather than whole recommendations has significantly increased the volume of tasks to be tracked and may be contributing to the delays in closing outstanding and overdue actions.

Types of controls for corporate audit actions

3.9. Overall for the year, procedures and Compliance / Legal controls are where the most actions made, not segregation or duties or reconciliations as previously.

Schools - audit plan, progress on recommendations and follow-up reviews

3.10. All school audit work is complete with 24 final and three at draft pending any feedback from the schools. One limited report was issued since the last meeting.

Audit plan

3.11. The audit plan for 19//20 is attached for members to note and, to learn the lessons from delays in previous years, is scheduled in two parts. The first part is to focus is on delivering the core financial and schools audits. The second part of the plan will then be finalised in September on a risk basis to focus the remaining internal audit coverage on key changes being implemented in the year. Subject to the timing of these planned changes, the expected audits will include IT System changes, Contract Management, and Project Assurance.

3.12. The scope of the schools, core financial and deferred work have been previously agreed. The specific details for the second part of the year audits will be brought to the Audit Panel in September for their review and approval.

3.13. Audit charter

The audit charter is attached for members to approve. Other than date changes there are no material changes from the previous version.

Any other business

3.14. Given the identified potential for conflicts of interest and additional work for the Internal Audit manager as the Director for Corporate Resources role has grown; the recruitment of a separate Head of Internal Audit, distinct from the Director for Corporate Resources role, is being finalised.

4. Background

4.1. Internal Audit is a statutory service. Its main priority is to provide management and members with independent and objective assurance on the control environment within the Council. This is set out more fully in the Charter.

4.2. The internal audit service consists of an in-house team that is supported by an external service provider.

5. Progress against the corporate internal audit plan

5.1. All 41 audits had started.

- 18 Finalised
- 5 Draft
- 13 Review stage / Exit meeting / end of Fieldwork
- 5 Fieldwork on going

5.2. The grant certification (Supporting Families) work is on-going, with no issues identified. See appendix 1 for further detail on the status of the corporate plan.

5.3. Since the last meeting, 10 corporate reports were finalised. The table below shows them with the audit opinion, and number or recommendations.

Audit (Corporate)	Date of Final	Audit Opinion	H	M	L	Follow up due
			Recs made			
2018/19-23 - Payroll 18-19	08/05/19	Satisfactory	-	5	-	n/a
2018/19-30 - Pensions and Investments 18-19	14/03/19	Satisfactory	1	3	-	n/a
2018/19-34 - Direct Payments 18-19	23/04/19	Satisfactory	-	12	1	n/a
2018/19-44 - Housing Benefit and Council Tax Reduction Scheme (CTRS) 18-19	14/03/19	Substantial	-	1	1	n/a
2018/19-61 - Besson Street Project	11/06/19	Satisfactory	1	5	-	n/a
2018/19-66 - Recruitment Process	04/06/19	Satisfactory	-	1	-	n/a
2018/19-76 - Lewisham Services for Schools Website	03/03/19	Substantial	-	3	3	n/a

Audit (Corporate)	Date of Final	Audit Opinion	H	M	L	Follow up due
			Recs made			
2018/19-79 - Fostering Arrangements	14/03/19	Satisfactory	-	7	-	n/a
2018/19-81 - Implementation of GDPR	04/06/19	Substantial	-	2	-	n/a
2018/19-81 - CSC Performance Management audit 2018-19	02/07/19	Satisfactory	-	2	1	n/a

Cancelled / Deferred

5.4. There was three audits deferred or cancelled since the last meeting:

- 2018/19-12 - Adult Care System (ACS) interface with Financial System – Cancelled as system improvement project is currently being scoped.
- 2018/19-60 - OracleCloud – Payroll – Cancelled - merged in the HR Oracle Audit.
- 2018/19-71 - Office 365 and SharePoint – Deferred to 2019/20 – not at a stage to be audited in 18/19 given the focus on key IT security issues first.

Delays to the plan 18/19 plan

5.5. As previously reported, the in-house team and contractors have had resourcing issues during this year that have contributed to the in-house part of the plan falling behind.

5.6. Due to the above, the core audits started much later than planned. This meant that the timing of the audits unfortunately coincided with officers and auditors going on annual leave, the Easter break, Exam leave, Half term, and finance year-end processes and external audit work.

5.7. This combination and recognising that external audit work has to be given priority this has added up to four weeks delay on some audits.

Additional work

5.8. There was no additional assurance or consultancy work required or requested.

6. High or Medium recommendations not agreed by management

6.1. Where management do not agree high or medium recommendation, the recommendation goes before the next Internal Control Board (ICB) for the final decision.

6.2. Management agreed all High or Medium recommendations made.

7. Follow-up reviews

7.1. Internal audit conducts a formal follow-up review on all reports with a Limited or No Assurance opinion, and Consultancy reviews. Internal audit also reserve the right to follow-up on any audit or any individual action as required.

7.2. The table below lists the follow-up conducted since the last meeting, showing the number of implemented, in progress, not implemented and reopened actions.

Audit Follow-up	Date of follow up	Implemented	In Progress	Not Implemented	Re-opened
2018/19 - F07 - Oracle Cloud Financials – Migration	17/06/19	-	2	2	2

8. Progress against Management Actions

Overdue actions

8.1. This section reports on the status of management actions since the last meeting.

8.2. While internal audit still makes recommendations in their reports, it is the management actions that are now tracked and reported on. Actions now have the due dates and owners against them, rather than the recommendations.

8.3. There may be more than one action to a recommendation. This means that it may not always be able to compare like for like until a few reports time.

8.4. Please note, the recommendations in reports prior to 2018/19, are now treated as actions for ease of reporting. The cut-off date for management to respond by was the 14/06/19.

8.5. To accompany the table, appendix 2 lists the individual audits with actions that overdue and / or show those taking 12 months or more to complete.

8.6. The number of overdue actions has dropped but, the percentage still remain high at 45%.

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions
Jul 19	151	68	45%
Mar 19	183	80	44%
Dec 18	170	45	26%

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions
Sep 18	164	50	30%
Jul 18	167	68	41%

Aged analysis report

8.7. This age analysis for actions is worked out by using the current due date for each open action against the date of the final report.

Month of Meeting	No. of recs under 3 mths	No of recs 3 under 6 mths	No of recs from 6+ to 9 mths	No. of rec 9+ to 12 mths	No of recs 12+ to 18 mths	No of recs over 18+ mths	No / % of recs over 12 m
Jul 19	37	15	19	7	31	42	73 / 48%
Mar 19	38	34	28	14	29	40	69 / 38%
Dec 18	30	32	32	12	25	39	64 / 38%
Sep 18	31	29	28	19	25	32	57 / 35%
Jul 18	44	35	24	13	37	14	51 / 30%
Mar 18	59	26	11	16	30	17	47 30%

8.8. The table above shows that the percentage of open actions that are taking over one year to be completed. The percentage of actions taking over 12 months is increasing. Please see appendix 2 for details.

8.9. This is an area for focus identified by the Executive Management Team (EMT) at the Internal Control Board (ICB). All responsible officers for actions now over one year old are being required to submit an explanation to explain the reasons for the delay in their implementation. The next ICB meeting is on the 17 July. Any additional work to close these actions off will then be considered.

9. Control issues found

9.1. The section reports on the types of controls as they relate to High or Medium findings. One finding may have more than one control recorded against it. This is because the controls are connected to the management actions.

9.2. For example – a finding could state that a policy was not in place. The actions for this finding could state that management will create a policy (Policies), get it approved (Governance) and then publish it (Other). As such, it would show three controls against one finding.

9.3. The table below provides the number of actions per control in relation to the reports issued during 18/19. Going forward they will be shown by meeting in line with other tables in this report.

9.4. In Appendix 3, it shows each finding and what controls are recorded against it for audits issued since the last meeting.

9.5. This table shows that main areas to date where actions are made are:

- Compliance / Legal – 28; and
- Procedures – 26.

Type of control	From April to Nov 19	Mar 19	Jul 19	Running Total
Authorisation	-	2	-	**2**
Compliance / Legal	27	-	1	**28**
Financial / Budget Monitoring	3	1	-	**4**
Governance	5	1	7	**13**
Information Security	6	4	7	**13**
Policies	2	2	1	**7**
Procedures	11	8	10	**26**
Reconciliations	1	-	-	**1**
Separation of duties	-	-	-	**-**
Other	6	2	2	**9**
Total per month	**63**	**20**	**28**	**103**

10. Progress against schools' internal audit plan

10.1. With the exception of the three schools still at draft, all are now finalised. See appendix 4. There were five school audits finalised since the last meeting. Of these, one was Limited. The executive summary for this audit is in appendix 6.

Audits (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
2018/19-20 - Bonus Pastor Catholic College 18-19	10/04/19	Limited	7	18	4
2018/19-40 - Forster Park Primary 18-19	20/03/19	Satisfactory	2	11	6
2018/19-50 - St Mary Magdalen's Catholic Primary 18-19	13/05/19	Satisfactory	1	16	4
2018/19-54 - Kilmorie Primary 18-19	14/06/19	Satisfactory	1	13	8
2018/19-10 - Ashmead Primary 18-19	23/06/19	Substantial	1	3	2

School actions

10.2. The table below shows the status of open High and Medium actions. The percentage of overdue recommendation that are overdue has increased to 88%. While this is being tracked the reporting, which has to be completed manually as schools operate outside the Council's IT environment, updates are not being actively chased from schools due to other resourcing pressures and the recognition that the primary responsibility for completion of the actions rests with school governors.

10.3. This is a holding position pending conclusion of discussions with the new Education and Schools Improvement Director to bring forward a proposal of how to manage this going forward.

10.4. The status of the individual schools where actions are overdue can be found at appendix 5.

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions to open
Jul 19	307	269	88%
Mar 19	253	191	76%
Dec 18	234	160	68%
Sep 18	148	99	66%
Jul 18	142	65	46%

School follow up reviews

10.5. There were no school follow up reviews issued since the last report.

11. Audit plan for 2019/20

11.1. The plan below is for information with the full more detailed plan to be presented to members in September for their final approval. The indicative plan for 19/20 core financial audits and schools audit can be found at appendix 7. This allocates approx. 270 days for corporate work and 145 days for schools work, and 50 days for service audits deferred from 18/19.

11.2. Given the delays with the 18/19 audit plan and discussed at the March Audit Panel, the intention is to start with the schools audits, audits deferred from 2018/19 and move on to complete the core financial audits by quarter three. There will then be the flexibility to focus the remaining audit days to other risks. This will be for up to a further twelve audits to address the identified risk areas of IT Security, Contract Management, and Project Assurance (as raised in respect of governance from the last Vale for Money opinion).

11.3. Currently the Council is implementing a range of IT security improvements and planning a number of key system changes (e.g. Housing and Licencing, Debt Management, Adult and Children Social Care, and completing the Oracle Cloud enhancements). The Council also continues to procure and commission a wide range of services to a value of over £200m annually for which the contract and performance monitoring has to be rigorous. Changes also require a range of improvements around behaviours (as identified in 18/19 compliance and procedures are areas for improvement) to develop and sustain the right culture for the organisation which are being driven through a range of programmes overseen by EMT. For these reasons, these are the areas that will be assessed for audit in the latter part of the year as the planned projects and changes are delivered and it is appropriate for them to be audited.

12. Progress with the 2019/20 plan to date

12.1. While the focus is on completing the 2018/19 plan, the 19/20 schools' plan has started and is underway, with one audit at draft, and 11 audits have had their school visit at the time of writing.

12.2. With the exception of three school audits that will be conducted in the school holidays (as agreed with the schools), all visits should be completed by mid-July. This will allow corporate internal audit work to start the 19/20 core financials in Qrt 3 so the issues of delivery experienced in previous years are avoided.

12.3. For the corporate plan, the contract management audits that were deferred from 18/19 plan are also underway.

13. Audit Charter for 19/20

13.1. The audit charter (appendix 8), details the role of internal audit. The main changes to the charter is the structure (more reliance on in-house staff). Apart from that there are no significant differences from the 18/19 charter.

14. Any other business

14.1. Due to the change in role of the Head of Corporate Resources to the Acting Chief Finance officer, the risk of conflicts of interest returned. External also identified this risk in their audit. The decision has therefore been taken to recruit to a dedicated Head of Internal Audit role with the work in progress to redefine this role as part of the Corporate Resources service and complete the recruitment.

15. Legal implications

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

16. Financial implications

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

17. Equalities implications

17.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010

18. Crime and disorder implications

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

19. Environmental implications

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

20. Background papers.

20.1. There are no background papers.

If there are any queries on this report, please contact:

David Austin, Interim Chief Finance Officer, on 020 8314 9114, or email them at: david.austin@lewisham.gov.uk

Appendix 1 – Progress on the corporate audit plan 2018-19

Audit	Audit type	Milestone	Final Report Date	Assurance opinion	H	M	L
2018/19-43 - Adherence to the Local Government Transparency Code	Corporate	Final Report	12/10/18	Limited	1	3	-
2018/19-03 - Deprivation of Liberty Safeguards (DoLs)	Corporate	Final Report	19/10/18	Satisfactory	1	6	1
2018/19-04 - Apprenticeship Levy Spend including Professional Qualifications	Corporate	Final Report	27/09/18	Limited	3	8	-
2018/19-74 - Complaints (Corporate)	Corporate	Final Report	06/11/18	Satisfactory	-	6	1
2018/19-18 - Business Continuity Plans (BCP) - Core Processes	Corporate	Final Report	02/01/19	Satisfactory	1	3	-
2018/19-35 - Disability Facilities Grant (DFG)	Corporate	Final Report	17/12/18	Substantial	-	4	1
2018/19-57 - Treasury Management 18-19	Core Financial	Final Report	02/02/19	Substantial	-	5	3
2018/19-63 - Corporate Health and Safety	Corporate	Final Report	20/02/19	Substantial	-	1	1
2018/19-76 - Lewisham Services for Schools Website	Corporate	Final Report	03/03/19	Substantial	-	3	3
2018/19-23 - Payroll 18-19	Core Financial	Final Report	08/05/19	Satisfactory	-	5	-
2018/19-30 - Pensions and Investments 18-19	Core Financial	Final Report	14/03/19	Satisfactory	1	3	-
2018/19-34 - Direct Payments 18-19	Core Financial	Final Report	23/04/19	Satisfactory	-	12	1
2018/19-44 - Housing Benefit & Council Tax Reduction Scheme (CTRS) 18-19	Core Financial	Final Report	14/03/19	Substantial	-	1	1
2018/19-61 - Besson Street Project	Corporate Audit	Final Report	11/06/19	Satisfactory	1	5	-
2018/19-66 - Recruitment Process	Corporate Audit	Final Report	04/06/19	Satisfactory	-	1	-
2018/19-76 - Lewisham Services for Schools Website	Corporate Audit	Final Report	03/03/19	Substantial	-	3	3
2018/19-79 - Fostering Arrangements	Corporate Audit	Final Report	14/03/19	Satisfactory	-	7	-
2018/19-81 - Implementation of GDPR	Corporate Audit	Final Report	04/06/19	Substantial	-	2	-

Appendix 1 – Progress on the corporate audit plan 2018-19

Audit	Audit type	Milestone	Final Report Date	Assurance opinion	H	M	L
2018/19-32 - Performance Management Framework for Child Social Care (CSC)	Corporate Audit	Final Report	02/07/19	Satisfactory	-	2	1
2018/19-27 - Client Contribution for Care Provision 18-19	Core Financial	Draft Report					
2018/19-28 - Domestic Waste Management	Corporate Audit	Draft Report					
2018/19-56 - Homecare Service	Corporate Audit	Draft Report					
2018/19-78 - Special Educational Needs	Corporate Audit	Draft Report					
2018/19-14 - Capital Expenditure 18-19	Core Financial	Draft Report					
2018/19-07 - Accounts Payable 18-19	Core Financial	Review Stage					
2018/19-08 - Accounts Receivable and Debt Recovery 18-19	Core Financial	Review Stage					
2018/19-25 - Children in Need (CIN) Framework	Corporate Audit	Review Stage					
2018/19-26 - Payments to Child Care Provider and Foster Carers for Looked After Children 18-19	Core Financial	Review Stage					
2018/19-58 - OracleCloud - Financials - Post Implementation	IT Review	Review Stage					
2018/19-59 - OracleCloud - HR and Payroll Implementation	IT Review	Review Stage					
2018/19-69 - Icasework IT System	IT Review	Review Stage					
2018/19-15 - ASH - Debt Recovery System	IT Review	Review Stage					
2018/19-73 - Self Service IT processes	IT Review	Review Stage					
2018/19-77 - Payments to Adult Care Providers 18-19	Core Financial	Review stage					
2018/19-13 - Budget Setting and Monitoring 18-19	Core Financial	Review stage					
2018/19-65 - Pooled Budgets and Section 75 Payments	Corporate Audit	Exit meeting					

Appendix 1 – Progress on the corporate audit plan 2018-19

2018/19-21 - Non-Current Assets 18-19	Core Financial	Fieldwork End					
2018/19-19 - Main Accounting 18-19	Core Financial	Fieldwork on going					
2018/19-17 - Banking 18-19	Core Financial	Fieldwork on going					
2018/19-22 - Business Rates 18-19	Core Financial	Fieldwork on going					
2018/19-31 - Council Tax 18-19	Core Financial	Fieldwork on going					
2018/19-70 - New Phone System and BCP	IT Review	Fieldwork on going					
2018/19-80 - Supporting Families Programme Grant Certification 18-19	Grant	Ongoing	n/a	n/a	n/	n/a	n/a

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Accounts Payable 17-18	Satisfactory	20/04/18				2
Accounts Payable 2016-17	Satisfactory	16/03/17		1		2
Accounts Receivable 17-18	Satisfactory	26/06/18				1
Adherence to the FOIA and DPA 17-18	Satisfactory	06/02/18				1
Adherence to the Local Government Transparency Code	Limited	12/10/19	3	10		
Adult Social Care System - Back up and BCP	Limited	04/04/16			1	1
Apprenticeship Levy Spend including Professional Qualifications	Limited	27/09/18	3	4		
Banking 16-17	Limited	18/05/17				1
Banking 17-18	Satisfactory	22/02/18			3	
Budget Monitoring and Setting 2017-18	Satisfactory	05/12/17		2		2
Business Continuity Management - Adult Social Care Providers	Limited	20/06/17		1		1
Client Contributions to Care Provision 16-17	Satisfactory	24/05/17				1
Data Breach Management	Limited	18/05/17				3
Direct Payments 17-18	Satisfactory	22/03/18				1
Disability Facilities Grant (DFG)	Substantial	17/12/18		5		

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Expenses Reimbursed by Payroll 16-17	Satisfactory	30/01/17		1		1
Fostering Arrangements	Satisfactory	14/03/19		7		
Garden Waste Service 2017/18	Satisfactory	05/01/18		2		
Governor Services	Substantial	05/06/18		1		
Health Visiting	Limited	29/05/18			2	2
Homelessness Applicants 2017/18	Satisfactory	18/05/18		1		
Housing Benefit and Council Tax Reduction Scheme (CTRS) 18-19	Substantial	14/03/19		1		
ICT Disaster Recovery	Substantial	11/04/17				1
Initial Contact, Information and Advice	Consultancy	29/05/18				2
IT Helpdesk - Shared Services	Substantial	17/05/18		1		1
Lewisham Services for Schools Website	Substantial	03/03/19		3		
Main Accounting 17-18	Satisfactory	06/02/18	1		1	2
Mobile Devices Contract 16-17	Satisfactory	07/07/17				2
Monitoring of Child Care Providers	Limited	17/10/17		1	2	4

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Multi-Agency Safeguarding Hub Arrangements 2017/18	Consultancy	28/09/17	1	5	1	5
Oracle Cloud - Migration 17-18	No Assurance	02/07/18	1			
Parking Contract 2017/18	Satisfactory	27/11/17				1
Passenger Services	Substantial	18/05/18				1
Payments to Adult Care Providers 17-18	Satisfactory	27/04/18		1		1
Payments to Care Providers and Foster Carers 2017-18	Satisfactory	19/03/18	1	1		
Payroll 2017-18	Substantial	05/12/17				1
Pensions 17-18	Satisfactory	15/01/18				1
Performance Indicators and Service Planning 17-18	Consultancy	21/07/17				1
Prepaid Cards 16-17	Limited	17/03/17				4
Public Sector Network 16-17	Limited	01/02/17				1
Recording of Safe Guarding – Section 42 Referrals	Limited	03/07/17		1		7
Reed Agency 17/18	Satisfactory	26/06/18				1
Schools' Catering Contract 16-17	Limited	03/03/17		3		3

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
South London and Maudsley NHS (SLaM)	Satisfactory	14/07/15		1		1
Synergy Application	Satisfactory	19/06/18	1	1		
Treasury Management 18-19	Substantial	02/02/19		1		
VAT 17-18	Limited	16/09/18	1	1	1	1
Vehicle and Fuel Maintenance	Satisfactory	19/06/17			1	1
		Total	**12**	**56**	**12**	**61**

Appendix 3 – Types of Controls

Finding	Compliance / Legal	Governance	Information Security	Other	Policies	Procedures
Caldicott Guardians have no had training.			2			
Declarations of Business Interests not complete		1				
Prospective foster carers were not notified of Stages 1 or 2 of the assessment process	1					
Service teams in their delegated authority to publish SLA's are not formally documented.						1
Formal feedback from users of the website had not been sought.				1		
Final decisions on fostering applications were not being made within the 8 month time frame						1
Leavers not taken off LBL systems in a timely manner			1			1
Policies and Procedures not all in place					1	
Appointment of (Joint Venture) Board Representatives were not current members of staff		1				

Appendix 3 – Types of Controls

Expired articles on the website are not being archived.						2
There were no procedure notes in place for staff to refer to when reviewing Stages 1 and 2 of the fostering application process.						1
Records of Member Meetings not sufficient enough		2				
Review of seven leavers identified three did not have their access to the website portal removed.			2			
Testing of eight 'form Fs', identified three forms that were not evidenced as approved by the Fostering Assessment and Recruitment Team Manager.						1
Records of Project Board Meetings not sufficient in details		2				
The first time password for registering for the website portal was published on the public website in guidance notes.			1			
There were no procedure notes in place for staff to refer to when a						1

Appendix 3 – Types of Controls

withdrawal request is made by a foster carer applicant.						
Although approval limits for Enhanced and Exceptional Payments were in place, these were not formally documented						1
Data was not encrypted			1			
Risk Registers and Reporting of Risks not fully in place		1		1		
There were no records of letters detailing payment decisions being sent to foster carers once an 'Enhanced and Exceptional Payment' had been approved.						1
TOTAL	**1**	**7**	**7**	**2**	**1**	**10**

Appendix 4 Progress on the Schools' Audit Plan for 2018-19

Audit	Status	Report date	Assurance opinion	H	M	L
2018/19-01 - Abbey Manor College 18-19	Final Report	16/11/18	Limited	2	11	3
2018/19-02 - St Michael's CE Primary School 18-19	Final Report	12/07/18	Substantial	1	4	7
2018/19-09 - Adamsrill Primary 18-19	Final Report	07/08/18	Substantial		3	6
2018/19-11 - Addey and Stanhope Secondary 18-19	Final Report	02/10/18	Satisfactory	1	12	7
2018/19-20 - Bonus Pastor Catholic College 18-19	Final Report	10/04/19	Limited	7	18	4
2018/19-24 - Chelwood Nursery School 2018-19	Final Report	01/12/18	Satisfactory		11	3
2018/19-29 - Conisborough College 18-19	Final Report	07/03/19	Limited	2	13	9
2018/19-33 - Deptford Green Secondary 18-19	Final Report	19/10/18	Limited	2	8	6
2018/19-37 - Edmund Waller Primary 18-19	Final Report	17/12/18	Satisfactory		12	5
2018/19-38 - Fairlawn Primary 18-19	Final Report	08/11/18	Substantial		1	4
2018/19-39 - Forest Hill Secondary School 18-19	Final Report	28/11/18	Satisfactory		9	7
2018/19-40 - Forster Park Primary 18-19	Final Report	20/03/19	Satisfactory	2	11	6
2018/19-41 - Prendergast Ladywell 18-19	Final Report	21/09/18	Substantial		8	1
2018/19-42 - St Margaret's Lee CE Primary 18-19	Final Report	17/09/18	Substantial		8	5
2018/19-45 - Prendergast Vale School 18-19	Final Report	27/09/18	Substantial		5	2
2018/19-46 - Sedgehill Secondary 18-19	Final Report	18/09/18	Satisfactory	2	9	1
2018/19-47 - Prendergast School (Secondary) 18-19	Final Report	27/09/18	Satisfactory	2	10	2
2018/19-48 - Launcelot Primary 18-19	Final Report	19/11/18	Satisfactory		12	7

2018/19-49 - Watergate (special) 18-19	Final Report	16/10/18	Substantial		6	3
2018/19-50 - St Mary Magdalen's Catholic Primary 18-19	Final Report	13/05/19	Satisfactory	1	17	4
2018/19-51 - Kender Primary School 2018-19	Final Report	27/12/18	Satisfactory	2	10	6
2018/19-53 - Holbeach Primary School 2018-19	Final Report	15/01/19	Substantial		6	5
2018/19-54 - Kilmorie Primary 18-19	Final Report	14/06/19	Satisfactory	1	13	8
2018/19-10 - Ashmead Primary 18-19	Final Report	23/06/19	Substantial	1	3	2
2018/19-16 - Athelney Primary 18-19	Draft Report					
2018/19-52 - Sydenham Secondary 18-19	Draft Report					
2018/19-55 - Trinity All Through School 18-19	Draft Report					

Name of Audit (Schools)	Opinion	H Actions Overdue	M Actions Overdue
Addey and Stanhope Secondary 18-19	Satisfactory	1	
Baring Primary School 2017-18	Satisfactory	3	10
Beecroft Garden Primary School 2017-18	Satisfactory		14
Bonus Pastor Catholic College 18-19	Limited	10	21
Brent Knoll School 2017-18	Satisfactory		15
Chelwood Nursery School 2018-19	Satisfactory		12
Conisborough College 18-19	Limited	4	13
Deptford Green Secondary 18-19	Limited	4	13
Edmund Waller Primary 18-19	Satisfactory		16
Elfrida Primary School 2017-18	Satisfactory		12
Fairlawn Primary 18-19	Substantial		1
Forest Hill School 2015-16	Satisfactory		2
Forest Hill Secondary School 18-19	Satisfactory		12
Forster Park Primary 18-19	Satisfactory	4	10
Holbeach Primary School 2018-19	Substantial		7
Horniman's School 16-17	Satisfactory		1
Kelvin Grove Primary School 2017-18	Substantial		2
Launcelot Primary 18-19	Satisfactory		16
New Woodlands School 17-18	Substantial		2
Prendergast - Hilly Fields 2015-16	Satisfactory		2
Prendergast Ladywell 18-19	Substantial		10
Prendergast School (Secondary) 18-19	Satisfactory	4	10
Prendergast Vale School 18-19	Substantial		4
Sandhurst Infants School 16-17	Substantial		2

Sandhurst Junior School 16-17	Satisfactory		1
Sedgehill Secondary 18-19	Satisfactory	3	11
Sir Francis Drake Primary School	Substantial		8
St Augustine's Catholic Primary School	Substantial		1
St James Hatcham CE Primary School 2017/18	Satisfactory		16
St Margaret's Lee CE Primary 18-19	Substantial		10
St Saviour's RC Primary School 17-18	Satisfactory		1
St William of York Catholic School 17-18	Substantial		3
St Winifred's Catholic Primary School 17-18	Substantial		4
Watergate (special) 18-19	Substantial		11
TOTAL		**33**	**274**

Bonus Pastor Catholic College 2018-19

	Process Areas	High	Medium	Low
▲	1. Procurement	2	9	0
▲	2. Income	1	3	0
▲	3. Asset Management	1	1	0
●	4. Governance	0	2	3
●	5. Budget Monitoring	1	1	0
▲	6. Banking	1	0	0
▲	7. Payroll	1	1	0
★	8. HR	0	0	1
★	9. Information Security	0	1	0
	Total	**7**	**18**	**4**

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance

Introduction

The background for this internal audit are included in the Terms of Reference at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

On Friday 09/11/2018 the college became aware of an unpaid invoice from the school meal provider Chartwell's of £247,984.29. As a result an Interim

Bursar was appointed by the college to oversee the finance management of the college on the 12/11/2018.

After investigating the college finances, it was identified that since March 2018 a substantial number of financial transactions had not been processed on the finance management system (FMS), Wauton Samuel. This included:

- Financial journals such as income, expenditure, and payroll which are compiled by LBL School Finance (i.e. central income / expenditure); and
- Invoices sent to the school for payment (although suppliers were paid).

Due to the above, the Interim Bursar had to perform a full financial reconstruction of all the transactions that had been processed through the college main bank account for the financial year 2018/19.

At the time of the audit, the Interim Bursar had brought all bank reconciliations and VAT returns up to date.

Basis of Opinion

The assurance opinion is based on testing for the period of the scope of the audit, that covered 01/02/2018 - 31/01/2019.

Evidence of a number of financial processes prior to the appointment of the Interim Bursar could not be provided by the college. This included bank reconciliations and budget monitoring. These are high risk areas, which significantly impacts on the college's financial management.

In addition, during the audit a system error with the FMS meant that the college was prevented from producing some key reports, such as budget monitoring and cash reconciliation forms. However, this system error appears to be resolved at the time of writing the report.

The FMS is no longer supported by technical back up, and the college is moving to a new finance system, Capita SIMS in April 2019.

It should be noted that the college were fully cooperative during this audit, and helped to supply all documentation, and explanations when requested.

Assurance Opinion and Recommendations Made

Bonus Pastor Catholic College 2018-19 has been assigned a rating of Limited. The previous opinion from 2015/16 was Satisfactory.

To improve controls, recommendations are agreed by management. The number of recommendations and their categories were:

7 High recommendations, of these 3 were made in the previous report,

18 Medium Recommendations, of these 4 were made in the previous report, and

4 Low Recommendations.

Key Findings *indicates reoccurring recommendation

- * An accrual of approximately £200,000 for dinner money collected on behalf of Chartwell's, the school meal provider for 2016/17 and 2017/18 was not incorporated into the 2018/19 budget.
- * Procurement card statement reconciliations for the past 12 months could not be provided.
- * The college does not have an up to date asset register. In addition, an inventory check has not been carried out in the past year.
- For the financial year 2018/19, evidence of budget monitoring and forecasting could not be provided for the period April - December 2018.
- Reconciliation of six officer's salary payments to their contract of employment identified one officer was being overpaid. In addition, it was not possible to reconcile the salary of another officer as they were not recorded on the costing report received from Payroll.
- Re-performing the cash reconciliation for March 2018 identified some figures on the form did not agree with source documents. In addition, the cash reconciliation form as required by School Finance is not being completed.
- Testing of 24 purchases identified five invoices were not retained on file. In addition, VAT was reclaimed on four purchases without a valid VAT invoice.
- * Of the six purchases that required a purchase order (PO), a PO was not raised in five cases. In addition, of the one purchase with a PO, it was raised and authorised after the invoice date.
- * Of the two purchases above the college procurement threshold, evidence of quotations could not be supplied for both purchases.
- * Testing of 24 purchases identified one instance where the name of the supplier on the finance system did not agree to the name of the supplier on the invoice. In addition, there was three instances where the cheque number on the bank statement did not agree to the cheque number on the finance system.
- * There was no evidence of an IR35 assessment for two individuals being paid off payroll.
- A procurement card handed back by the card holder to a Senior Manager in 2016 was not cancelled with the bank. On the August statement, there was spend on the card of £1,025.
- It was not possible to verify the financial information presented to Governors agreed to the information on the finance system.
- One officer is using an administrator username for the finance system.
- Reconciliation of the college 2018/19 budget submitted to School Finance and original budget entered onto the finance system identified seven out of 23 expenditure CFR codes did not agree.
- Review of invoices issued in November 2018 for three lettings identified two instances where the charges did not agree to the college price list, two invoices were not paid as yet and two invoices were not inputted to the finance system.
- Review of three lettings identified all three had no application form on file.
- Testing of 24 purchases identified 12 were not paid within supplier payment terms.
- Testing of 24 purchases identified four had no evidence of an effective goods / services received check.
- The asset disposal policy does not impose a financial limit on the Head Teacher in his delegated authority to dispose of assets. In addition, the internal disposal of laptops were not authorised as per the policy.
- The college is currently unable to access the trip bank account as the two bank account administrators have left employment of the college. Payments for trips are being made from the college main bank account.
- The college two voluntary funds were not independently financially assessed in the last year.
- The lettings policy does not include an approved schedule of charges.

- There was no evidence of payroll reconciliations prior to November 2018. Review of the December '18 and January '19 payroll reconciliations identified they were not signed by the compiler and approver.
- Vouchers and receipts to evidence petty cash spend prior to November 2018 could not be provided. In addition, six petty reimbursements since 12/11/18 were over the £50.00 limit.

Areas that worked well

- Invoices that were available had been authorised for payment appropriately.
- The Governing Body and Finance Committee met as required, and minutes retained.
- Register of Interest forms were in place for all Governors and staff with financial responsibility.
- Evidence of right to work in the UK, DBS checks and satisfactory references are retained on staff personnel files.
- The college data is backed up daily through a third party and is encrypted.

Monitoring of recommendations and follow up reviews

Officers are required to provide progress updates on High or Medium recommendations when required. A follow up review will take place in six months.

Limitations to the scope of the audit:

Our work does not provide absolute assurance that material error, loss, or fraud does not exist. It is not a substitute for management checks and control

Type	Dir	Audit Name	Scope	Days	Start	Link to Risk Register	Conducted by
Core	CUS	Accounts Payable 19-20 (Core Financial Audit)	See previous audit for scope – Full scope when presenting draft plan.	19	Qrt 3		In-house
Core	CUS	Accounts Receivable and Debt Recovery 19-20 (Core Financial Audit)	See previous audit for scope	19	Qrt 3		In-house
Core	CUS	Banking 19-20 (Core Financial Audit)	See previous audit for scope	12	Qrt 3		In-house
Core	RRE	Budget Setting and Monitoring 19-20 (Core Financial Audit)	See previous audit for scope	10	Qrt 3		In-house
Core	CUS	Business Rates 19-20 (Core Financial Audit)	See previous audit for scope	12	Qrt 3		In-house
Core	RRE	Capital Expenditure 19-20 (Core Financial Audit)	See previous audit for scope	15	Qrt 3		In-house
Core	CUS	Client Contribution for Care Provision 19-20 (Core Financial Audit)	See previous audit for scope	15	Qrt 3		In-house
Core	CUS	Council Tax 19-20 (Core Financial Audit)	See previous audit for scope	15	Qrt 3		In-house
Core	COM	Direct Payments (Core Financial Audit) 19-20	See previous audit for scope	15	Qrt 3		In-house
Core	CUS	Housing Benefit and Council Tax Reduction Scheme (CTRS) 19-20 (Core Financial Audit)	See previous audit for scope	20	Qrt 3		In-house
Core	RRE	Main Accounting 19-20 (Core Financial Audit)	See previous audit for scope	15	Qrt 3		In-house

Core	RRE	Asset Management 19-20 (Core Financial Audit)	See previous audit for scope	12	Qrt 3		In-house
Core	COM	Payments to Adult Care Providers 19-20 (Core Financial Audit)	See previous audit for scope	15	Qrt 3		In-house
Core	CYP	Payments to Child Care Provider and Foster Carers for Looked After Children 19-20 (Core Financial Audit)	See previous audit for scope	16	Qrt 3		In-house
Core	RRE	Payroll 19-20 (Core Financial Audit)	See previous audit for scope	16	Qrt 3		In-house
Core	RRE	Pensions for LGPS 19-20 (Core Financial Audit)	See previous audit for scope	16	Qrt 3		In-house
Core	RRE	Treasury Management 19-20 (Core Financial Audit)	See previous audit for scope	12	Qrt 3		In-house
GEN	CUS	Schools' Finance	To review the framework, support and advice of the school finance team. - look at how they work out the funding, create the financial regulations and scheme of delegation, and process returns from schools.	12	Qrt 3/4	Unforeseen expenditure/loss of income from funding streams	In-house
GEN	CUS	Bereavement Services	To review the framework surrounding the bereavement services including payments and income	10	Qrt 3/4	Failure to manage performance leads to service failure	In-house
GEN	CUS	Rouge Landlords	To review the framework of rogue landlords. Including how to identify them, process of resolving issues including any legal action	15			
GEN	RRE	Planning Control	To review the framework of the planning control department	15	Qrt 3/4	Respond to legislative change	In-house

Follow Ups	All	Follow ups reviews on limited reports	Follow up on Limited and No Assurance Reports	35	Qrt 2-4	n/a	In-house

School plan.

Type	Dir	Audit Name	Scope	Days	Start	Conducted by
SCH	SCH	Brindishe Green Primary	Procurement, Income, Asset Management, Governance, Banking, Budget Monitoring, Payroll, HR and Information Governance	6	Qrt 1/2	In-house
SCH	SCH	Brindishe Manor	As Above	6	Qrt 1/2	In-house
SCH	SCH	Clyde Nursery	As Above	6	Qrt 1/2	In-house
SCH	SCH	Dalmain Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Deptford Park Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Drumbeat Special School	As Above	7	Qrt 1/2	In-house
SCH	SCH	Good Shepherd Catholic School	As Above	6	Qrt 1/2	In-house
SCH	SCH	Holy Cross Catholic Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Horniman Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	John Stainer Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Lucas Vale Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Marvels Lane Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Myatt Garden Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Rangefield Primary	As Above	6	Qrt 1/2	In-house

SCH	SCH	Rathern Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Rushey Green Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Sandhurst Junior (Primary from Apri 18)	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Augustine's Catholic Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Joseph's Catholic Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Mary's CE Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Stephen's CE Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Stillness Infant	As Above	6	Qrt 1/2	In-house
SCH	SCH	Stillness Jnr	As Above	6	Qrt 1/2	In-house
SCH	SCH	Torridon Primary	As Above	6	Qrt 1/2	In-house

Internal Audit Charter

2019-20

Last Reviewed: Mar 2019
Next Review : Mar 2020

Internal Audit Charter – 2019/20

Introduction

The main purpose of this charter is to provide the members and management on how the internal audit service will function in the coming year. It includes the roles and responsibilities of internal audit, including members and management responsibilities in relation to the council's control environment. It is split into sections six sections.

1. Public Sector Internal Audit Standards (PSIAS)

This section explains how the PSIAS which came in to force in April 2014, revised April 2016, evolved and what its objectives are. All public bodies' internal audit services have to adhere to these statutory set of standards. A definition of internal audit, mission, core principles and the reason for the charter are also included.

2. Statutory Framework

Internal audit is a statutory function that all public bodies are required to have. It is supported by various legislation, which this section details.

3. Internal Audit Structure

For 2019/20, the internal audit structure will consist of an in-house team supported by the Head of Audit and an Internal Audit Manager. External resources will support the team. The Head of Audit (HIA) is the Interim Chief Finance Officer and is part of the Senior Management Team.

4. Accountability

Internal audit are required to report their findings to individual managers, Internal Control Board (ICB) and the Audit Panel. The Audit Panel reports to the Public Select Accounts Committee, who in turn report to the Mayor and Cabinet and Full Council. This section also covers the current relationship between Internal Audit and External Audit.

5. Internal Audit Framework

Independence and Objectivity - Internal auditors are required to be independent and objective. The Internal Audit Manager monitors and controls the conflicts of interests of the team (including contractors) and those of the Head of Internal Audit who has other operational responsibilities.

Resourcing Internal Audit – this will be the first year where an in-house team will formally be resourced and form a significant part of the internal audit service. External resources, from both public and private internal audit sectors, will support them in the delivery of the internal audit plan.

Types of Audit Reports – in addition to the individual audit reports, internal audit reports quarterly to the (ICB) and Audit Panel. The Schools Forum receives an annual report on the schools audited during the year. The HIA produces an annual assurance report that is presented to ICB and the Audit panel, which provides an opinion on the overall control environment.

Types of Work Conducted – Assurance work, which provides an opinion on controls is the most common type of work, with Consultancy (advisory) and grant certification taking a small part of the plan. Advice is provided to management when requested including attending project meetings.

Authorisation and Management Responsibilities – the Executive Director of Resources and Regeneration has given internal auditors and AFACT investigators the authority to access all council areas, including records and premises. Management are responsible for the control environment and have a duty to ensure that the audit process runs smoothly.

6. Professional Codes of Conduct and Whistleblowing

All internal auditors are required to adhere to their own professional body's code of conduct, including being mindful of the seven principles of public life. Internal audit annually review the compliance with the CIPFA guidance on the Role of the Head of Internal Audit.
The Whistleblowing policy and details on how to report fraud or suspected fraud are found in this section.

Contents

1. The Charter and Public Sector Internal Audit Standards

PSIAS

1.1. The Public Sector Internal Audit Standards (PSIAS), developed in collaboration by a number of bodies, including Charted Institute of Internal Auditors and the Chartered Institute of Public Finance and Accounting (CIPFA), came into effect on the 1 April 2013. The PSIAS was revised in April 2016. The statutory standards were developed to create consistency in the practice of internal audit and establish the basis for quality assurance across the public sector.

1.2. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

1.3. The PSIAS state that an independent external assessment of the Internal Audit Service is to be conducted at least every five years. However, an assessment (whether internal or review by a peer) should be done annually and results reported in the annual assurance report. Lewisham's first formal independent external assessment took place in 2015/16.

Core Principals for the Professional Practice of Internal Auditing

1.4. To be an effective internal audit service, all of the core principles should be in put in place and adhered to. Failure to achieve any of the principals could imply that that the internal service is not as effective as it could be.

1.5. The core principals are:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement

Internal Audit Mission

1.6. The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission. It also aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Auditing

1.7. The Global Institute of Internal Auditors definition is: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Anti-Fraud and Corruption Team (A-FACT)

1.8. In Lewisham, A-FACT conduct the investigational side of Internal Audit. They are responsible for developing anti-fraud policies and procedures, promoting a counter fraud culture, and undertaking investigations of potential fraudulent activity committed against the Council. A-FACT also ensures that appropriate sanctions, including prosecution and the

recovery of assets where applicable, are sought where fraud is proven. The Council's A-FACT policy and strategy is separate to this internal audit charter.

Purpose of Internal Audit and A-FACT

1.9. Internal Audit and A-FACT are council resources that assist management in the achievement of the Council's corporate and service objectives. While management are responsible for risk management and the control environment, internal audit assists management in proving advice on how to mitigate these risks and how to improve the control environment.

2. Statutory Framework

2.1. As defined by the following acts and guidance listed below, Internal Audit is a statutory function of the Council (and other public bodies). This means that the Council is required to have an internal audit function, whether it is in-house, outsourced or a combination.

The Accounts and Regulations 2015 (England and Wales) – Part 2 Internal Control 5.1

2.2. This Act requires the Council to 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

Local Audit and Accounts Act 2014 – Section 32 (g),

2.3. "The Secretary of State may by regulations applying to relevant authorities other than health service bodies make provision about— (g) the maintenance by relevant authorities of systems of internal control (including arrangements for the management of risk).

Section 151 of the Local Government Act 1972

2.4. This act states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

The Council's Chief Financial Officer (CFO)

2.5. This role is fulfilled by the Executive Director for Resources and Regeneration. The CIPFA Statement on the Role of the CFO in Local Government states that they "must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively".

3. Internal Audit and Organisational Structures

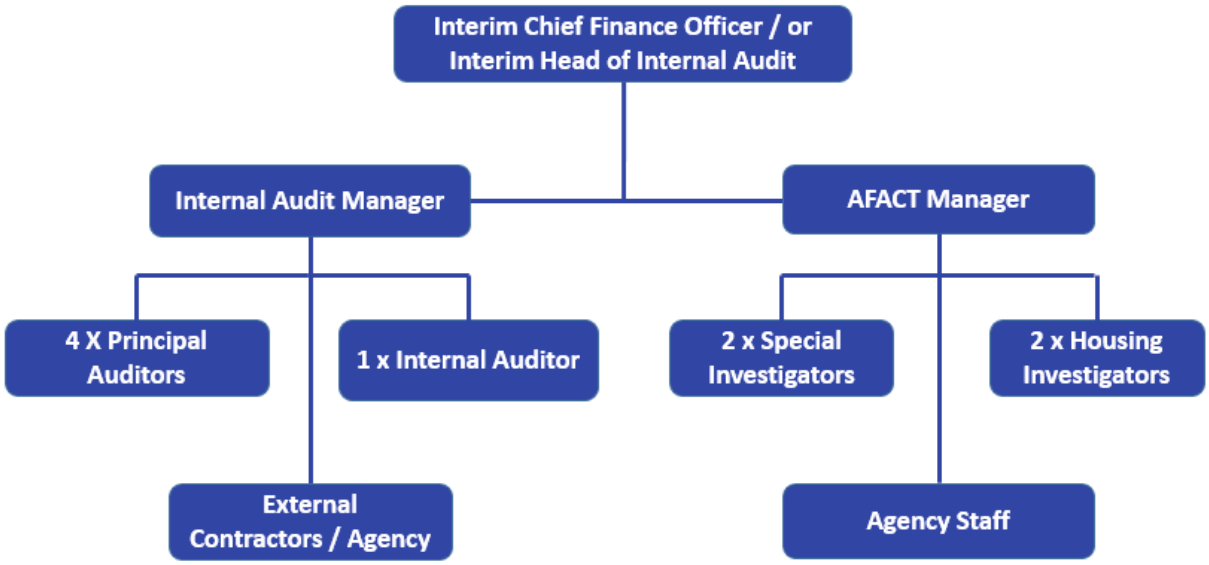
3.1. Internal Audit and A-FACT are part of the Corporate Resources service area that sits within the Resources and Regeneration Directorate. The Head of Internal Audit (HIA) is also the Interim Chief Finance officer, and 151 officer. The HIA reports directly to interim Chief Executive, who is also.

Internal Audit Structure Chart

3.2. For 2019/20, the structure is made up of mainly in-house staff.

3.3. A temporary Head of Audit is being recruited to cover until the new Chief Executive is appointed. This is because currently the interim Chief Finance Officer has too much conflict of interest, (perceived or real) in their interim role. At the time of writing this charter, the post was not yet filled.

3.4. The chart also shows the AFACT team structure.



Senior Management Structure

3.5. The top tier management for Resources and Regeneration chart shows where the HIA (Head of Corporate Resources) sits within the senior management structure of the Council. The Council's senior management structure charts can be accessed via the link below.

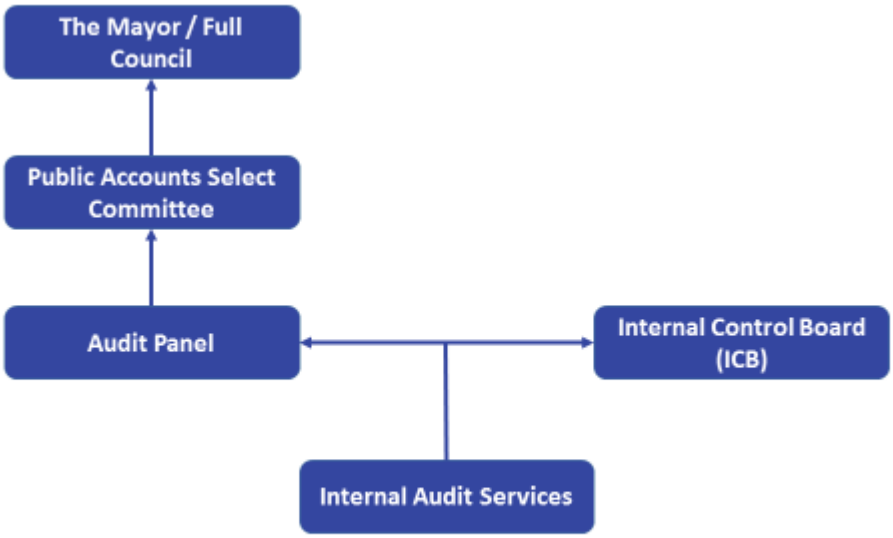
https://lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/council-structure/management-structure-charts

4. Accountability

4.1. In addition to reporting to the Section 151 Officer, the HIA reports directly to the Internal Control Board (ICB) and the Audit Panel on a quarterly basis

Internal Audit Reporting Lines

4.2. Please see a simple structure showing the reporting lines for internal audit in relation to management and members.



4.3. A link to Council's Constitution is provided below, which details the whole governance of the Council.
https://lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/our-constitution

Internal Control Board (ICB).

4.4. The HIA reports to the ICB quarterly and reports on:

- Progress of the internal audit plan, including follow-up reports
- Limited, No Assurance and Consultancy reports.
- High and Medium Recommendations not agreed by management
- Progress by management of the implementation of recommendations made

The HIA reports annually on the:

- Proposed annual audit plan
- Annual Assurance report and
- Audit Charter

4.5. Membership of this board consists of an Independent Non-Executive Chair (external person), the Executive Directors, the Chief Executive Officer, the Head of Law, and the Group Manager of Insurance and Risk. The HIA reports quarterly to ICB. Please see Appendix 1 for the ICB terms of reference.

Audit Panel

4.6. The HIA also reports to the Audit Panel on a quarterly basis. The Audit Panel report has the same content as the ICB report. The Audit Panel consists of six Non-Executive Councillors, one of which serves as the Chair. In addition, there are up to four Independent Members.

4.7. In addition, the remit of the Audit Panel (in terms of internal audit), is to receive, review and, where appropriate, advise and make recommendations on the following:

- Review and approve the Internal Audit Strategy / Charter, Plans and Resources;
- Review the progress reports on the Internal Audit Function;
- Review the HIA Annual Assurance report;
- Review the progress of implementation of recommendations; and
- Monitor the effectiveness of Risk Management and associated Anti-Fraud and Corruption arrangements.

The Chair of the Audit Panel reports to the Public Accounts Select Committee (PASC) at least once a year.

Public Accounts Select Committee (PASC)

4.8. PASC consists of at least seven and no more than 11 non-Executive Councillors. The remit in terms of Internal Audit is to:

- Receive reports from the Audit Panel; and
- Scrutinise the effectiveness of the Audit Panel.

For the full terms of references for the PASC, please refer to the link below to the Council's Constitution.

https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/Our-constitution.aspx

External Audit

4.9. External audit are independent of internal audit and the council. Their main role is to certify the Council's financial statements. Although they review the controls in relation to financial statements, they do not provide an opinion on the effectiveness of them.

4.10. Internal audit issue all final assurance reports to external audit and the files are available to them to view if required.

Schools' Forum

4.11. In addition to the above, internal audit report to the Schools' Forum annually. This is forum is made up of staff from schools, such as Head teachers and School Governors. Officers from the council are also attendance. This forum is not members' lead.

5. Internal Audit Framework

Independence and Objectivity

5.1. A definition of independence (in relation to Auditors') is, "The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".

5.2. PSIAS definition of objectivity: "An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors to not subordinate their judgment on audit matters to others".

5.3. Internal auditors are mandated by the PSIAS to be independent and objective concerning the business activities they audit. The HIA and Internal Auditors, who may have conflicts of interests either real or perceived, must declare them to the Internal Audit Manager. This is in addition to any declarations that they council may require. The Internal Audit Manager will monitor these conflicts to ensure that they do no impact on the internal audit service.

5.4. The Internal Audit Manager will declare any interests to the HIA for him to monitor.

5.5. As the HIA has other operational activities not relating to internal audit, the HIA has delegated the responsibility for agreeing the scope of the audit to the operational manager with the Internal Audit Manager overseeing the work to ensure that it fulfils internal audit requirements. In these audits, the Internal Audit Manager will operate independently from the HIA, and report to the CFO.

Resourcing Internal Audit

In-house Internal Audit Team

5.6. The in-house team will be responsible for

- Conducting internal audits and follow-up reviews;
- Monitoring any internal audit contracts and liaising with partners;
- Monitoring and reporting on the progress of management actions (recommendations) to ICB and Audit Panel;
- Assisting the HIA in the annual audit planning process;
- Providing management information as requested;
- Assisting the HIA in preparing the annual assurance report; and
- General management of the internal audit function.

Internal Auditors (Contractors / Outside partners) and Agency staff

5.7. The following will support the in-house team to complete the audit plan.

- Mazars – (under the London Borough of Croydon Framework)
- Agency staff through REED

Head of Internal Audit (HIA)

5.8. In addition to the internal audit and A-FACT, the HIA has operational responsibilities within the Council. They are:

- Insurance;
- Risk Management;
- Corporate Health & Safety;
- Procurement; and
- Strategic Finance, including Treasury and the Pension Fund investments and accounts.

5.9. In addition to the above, since September 18, the HIA took additional responsibilities due to the change in the Chief Executive. The HIA is temporary taking over some of the

responsibilities of Executive Director for Resources and Regeneration, while they are acting up as Chief Executive. This includes the role of section 151 officer and overseeing Regeneration and Place service.

5.10. Insurance, Corporate Health and Safety, AFACT and Risk Management have a three-year audit cycle. Procurement and Strategic Finance will continue on an annual audit basis.

Productive Days

5.11. The corporate audit plan for 2019/20 consists of approx. 850 days productive days and up to 55 reviews. Due to the issues during the year with recruitment, resources and change of senior management the more detailed break down of the plan is still to be finalised. However, it is expected to be broken down as follows:

- Core Financial Audits 270 days / 17 audits (confirmed);
- Schools 145 days / 24 audits (confirmed);
- Risk based service reviews; including IT Systems, Contract Management, and Project Assurance audits – 245 days
- Follow up – 35 days;
- Management review – 100 days;
- Grant certification – 5 days (confirmed); and
- 50 days contingency.

5.12. IT Audits, General and Contract audits days to be confirmed on conclusion of the delayed 18/19 work. As the school audits are being conducted in Quarters 1 and 2, this allows time to produce an audit plan that prioritises the core financial audits and matches the focus of remaining assurance work to key risk areas, rather than rolling forward a similar a similar plan to previous years.

5.13. The HIA will ensure that there are enough resources and qualified staff to provide the annual opinion on the control environment of the Council. Where the HIA believes that there are insufficient resources, they will bring this to the attention of the Section 151 officer and the Audit Panel, and a qualification to the annual assurance report may be required.

Anti-Fraud and Corruption Team (A-FACT)

5.14. The team is made up of five full time permanent staff supported by agency staff where required. The team's main areas of work are Housing investigations, Special Investigations and fraud awareness training.

5.15. In addition, AFACT are the main point of contact for the National Fraud Initiative (NFI) that is run every two years by the Cabinet Office (previously overseen by the Audit Commission).

Types of Audit Reports

Quarterly and Other Annual Reports

5.16. Internal audit reports to ICB and the Audit Panel on a quarterly basis.

5.17. Annually, internal audit reports to the Schools' Forum on the schools' audit plan and control issues found during the year.

Annual Assurance Report

5.18. The HIA issues an annual assurance report to the Audit Panel. This informs the Annual Governance Statement (AGS) which incorporates the Statement of Internal Control. The HIA annual assurance report includes:

- An opinion on the overall adequacy and effectiveness of the Council's control environment;
- Any qualifications to the opinion;
- Summary of audit work completed that helped form the opinion;
- Summary of reliance placed on the work by other assurance bodies;
- Confirmation on compliance with the PSIAS (including role of HIA if applicable); and
- Internal Audit's quality assurance and improvement plan.

Individual Audit Reports

5.19. For each individual review, (whether assurance or consultancy), management receive a report with the following information.

- Audit opinion of the controls in place (for assurance reviews only);
- Executive Summary;
- Agreed ToR, including any changes to the original scope;
- Auditor findings;
- Recommendations made (ranked high, medium or low),
- Management actions on how to implement the recommendations, and
- Management comments, including the expected date of implementation of recommendations and officer responsible for implementing them.

Types of Work Conducted

Assurance Review

5.20. An Assurance review is an objective assessment that provides an opinion on the effectiveness of the controls in place. In addition, internal auditors will recommend actions to management on how to improve controls in their area.

5.21. Internal audit follows-up on any audits Limited, No Assurance or Consultancy review, normally within six months of the final report.

5.22. For Assurance reviews, internal audit report by exception, which means the report only contains detail those areas where controls need to be improved. This type of review should form the majority of the work in the internal audit plan.

Consultancy Review

5.23. A consultancy review is an advisory review that intends to add value and improve the Council's governance, risk management and controls processes. Management agree the scope of the review. Internal audit does not provide an opinion on the effectiveness of the controls in place but does provide recommendations to management to improve the processes and/or controls. Internal audit follows-up on any audits with High or Medium recommendations made, six months from the final report.

5.24. Consultancy reviews make up a small part of the audit plan. Where the plan is made up of significant consultancy work, the Audit Panel would need to approve the request before the work is committed to.

Advice

5.25. It is not always appropriate to conduct an assurance or consultancy review when management just require help and advice. Where internal audit provides advice to management or attends a project meeting to give advice, management will receive an informal memo detailing any advice or recommendations made. An opinion is not provided in these memos and any recommendations made to management are not monitored or followed-up by internal audit.

5.26. Where an auditor has provided significant advice to management, they will be prevented from auditing that area for the next 12 months (or longer if applicable), so that internal audit independence and objectivity is retained.

Grant Claims

5.27. Central Government Bodies sometime require internal audit to certify a grant claim. In these instances, internal audit will confirm if management have met the qualifying criteria of the grant. A memo type report is issued to management certifying the grant where needed. Any recommendations to management are not normally monitored or followed-up by internal audit.

Authorisation and Management Responsibilities

Authorisation

5.28. Both the HIA and the Internal Audit Manager have unrestricted access to the:

- Chief Executive Officer;

- Executive Director of Resources and Regeneration (Section 151 officer/ CFO); and
- The Chair of the Audit Panel.

5.29. The CFO has given authorisation to all Internal Auditors (both in-house, agency staff and contractor) and A-FACT staff to:

- Enter Council premises at all reasonable times;
- Have access to and remove as necessary Council records (paper or electronic);
- Require explanations from Council officers as necessary; and
- Require any person holding Council property to produce it for examination.

Responsibility of Management

5.30. Management are responsible for the control environment. They also have a responsibility to assist internal audit in the audit process to ensure it runs as smoothly as possible. They should ensure that they:

- Respond to any requests for information promptly;
- Do not cancel meetings with auditors unnecessarily;
- Query any findings or recommendations prior to the finalisation of the audit.
- Update the progress of implementation of their management actions when required.

Management may be required to attend the Audit Panel to explain to members if they do not comply with any of these requirements.

6. Professional Codes of Conduct and Whistleblowing.

6.1. Internal Auditors (both in-house and contractors) must adhere to their professional bodies codes of conduct. In addition, they should adopt the CIIA Code of Ethics, and Seven Principles of Public Life.

IIA Code of Ethics

6.2. The CIIA Code of Ethics is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing.

Integrity - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Objectivity - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Confidentiality - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency - Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Seven Principles of Public life

6.3. The ‘seven principles of public life’ apply to anyone who holds a public office or works in the public sector. Internal auditors have adopted these principles in addition to adhering to internal code of conduct. They are: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Role of Head of Internal Audit

6.4. CIPFA issued the statement on the role of the Head of Internal Audit in December 2010. Although not a mandatory like the PSIAS, the statement provides the framework to ensure that the HIA role is up to the required standard to run the statutory internal audit function. The framework consists of five principles. The Role of the HIA is reviewed annually and is reported in the Annual Assurance Report. The main principals are:

Principle 1 – Championing best practice in governance,
Principle 2 – Objectivity,
Principle 3 – Governance,
Principle 4 – Leadership, and
Principle 5 – Qualification and Experience.

Whistleblowing Policy

6.5. The Whistleblowing policy (see link below) is overseen by Legal, but any fraud or concerns about fraud can also be reported to A-FACT.

Whistleblowing Policy
https://lewisham.gov.uk/mayorandcouncil/complaints-and-feedback/whistleblowing

How to report fraud
Telephone 24hr: 0800 0850 119
Email: reportfraud@lewisham.gov.uk

Website detailing the types of fraud the A-FACT can investigate:
https://lewisham.gov.uk/mayorandcouncil/aboutthecouncil/fraud

7. Approval and Contacts

7.1. Main Contacts for Internal Audit and A-FACT

Head of Internal Audit (Interim Chief Finance officer) – david.austin@lewisham.gov.uk
Internal Audit Manager – julie.hetherington@lewisham.gov.uk
A-FACT Manager – carol.owen@lewisham.gov.uk

7.2. Charter Approved by Audit Panel on : July 19(TBC)

7.3. Next Review : March 2020

Appendix 1 – Corporate Internal Control Board Terms of Reference

Corporate Internal Control Board

Membership

- Independent non-executive Chair
- Chief Executive
- Executive Director for Resources & Regeneration
- Executive Director for Children & Young Persons
- Executive Director for Community Services
- Executive Director to Customer Services
- Head of Law
- Group Manager Insurance & Risk
- Head of Corporate Resources (for monitoring and control)

Terms of Reference

1. To identify and manage key strategic risks that could prevent the Council from meeting its objectives

2. To link risks to the corporate priorities and assess the likely impact and consequences of those risks

3. To allocate responsibilities for controlling identified risks

4. To complete the Corporate Risk Register, reviewing and monitoring this on a quarterly basis

5. To receive regular reports on Internal Control within the Authority

6. To ensure a corporate approach to the management of risk, health and safety and emergency planning

7. To approve the Risk Management Policy and Risk Management Strategy

8. To support the risk management reporting and review framework, detailed in the Risk Management Strategy

9. To oversee the annual review of the System of Internal Control and Annual Governance Statement

Frequency of Meetings

Quarterly

Accountability and Links

- Informs EMT and Mayor & Cabinet quarterly of the risk status against the ten corporate priorities in Management Report

APPENDIX 9 – Annual Counter Fraud Update for 2018/19

AUDIT PANEL			
Report Title	**ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE**		
Key Decision	**NO**		**Item No.**
Ward	**ALL**		
Contributors	**A-FACT Group Manager**		
Class		**Date: 11 July 2019**	

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 financial year.

2. Executive Summary

2.1. There are no major changes to report. The detail is provided in the body of the report for which the highlights are:

- The number of employee cases has returned to the levels seen in previous years.
- The increased work undertaken for Lewisham Homes under the chargeable SLA has impacted on some of the work conducted for Lewisham Council but has increased income.
- A lack of experienced investigators has resulted in the team carrying vacancies for much of the year. An initial plan to take on an apprentice is not feasible due to the lack of an apprentice route into the profession therefore a proposal for a trainee role is being developed.

3. Recommendations

3.1. It is recommended that the Audit Panel note this report for information, as part of the July internal audit update.

4. Special Investigations

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

Summary of Special Investigations work & Requests for assistance	2018/19	2017/18	Change		2016/17	2015/16
	FY	FY	Number	%	FY	FY
b/f	17	24	-7	-29%	8	45
New	118	141	-23	-16%	130	102
Closed	116	148	-32	-22%	114	136
c/f	19	17	2	12%	24	11
Of which						
E'ee & agency cases	14	15	-1	-7%	13	17
- resulting in action	6	10	-4	-40%	6	10
Other cases	102	133	-31	-23%	101	119
- resulting in action	77	96	-19	-20%	53	27

Employee Related cases

4.2 Of the 116 cases closed this year 14 related to employees and 6 of those resulted in action. These cases are included in the year to date figures shown below.

Analysis of employee fraud	2018/19	2017/18	Change		2016/17	2014/15
	FY	FY	Number	%	FY	FY
Dismissed/resigned & Convicted	0	2	-2	100%	0	0
Resigned/Dismissed incl agency staff	1	2	-1	0%	0	1
Other disciplinary (incl not employed)	2	3	-1	-33%	1	2
Monies repaid or Goods returned	0	2	-2	100%	1	2
Management action incl process review	2	1	1	0%	2	2
Identity or other issue cleared	1	0	1	0%	1	1
Total	6	10	-4	-40%	5	10

4.3 The number of staff related cases has fallen back to the level in previous years after last year's increase.

4.4 "Other Cases" include applications for support by those who have No Recourse to Public Funds, Blue Badge fraud, Council Tax fraud and reviews of operational processes to prevent or deter fraud. The actions taken are summarised in the table below.

Analysis of Non Employee Cases 2018/19 FY	Total Cases	Fraud Proven/ Process review	Evidence provided to assist assessment	Info verified/ Occ Check	NFA	Req for info
Blue Badge	25	18			7	
Applications for support	7		2	4	1	
Direct Payments for Care	4		1	1	2	
Spec Invest Other cases	45	9	2	3	15	37
Total	102	27	5	8	25	37

4.5 Included in the fraud proven total are four applications for Home Improvement Grants by landlords that were rejected, following investigations by A-FACT, on the basis that a conflict of interest was identified between the applicants, the agent and the companies involved in the applications indicating that the applications were neither transparent nor independent. These application relate to nine properties and had an approximate value of over £55k.

4.6 A-FACT are undertaking more checks for other services across the Council to confirm identity, address history and/or circumstances as part of an assessment of a claim for a service or support. As the assessment of these claims can be impacted by a number of factors we are now reporting on all cases where significant evidence is provided to assist with the application.

Pre-employment Checks

4.7 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 Council tax, benefits, rent and personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward. This process also applies to agency staff.

Summary of pre-employment checks	2018/19	2017/18	Change		2016/17	2015/16
	FY	FY	Number	%	FY	FY
Checks completed	**354**	**301**	*53*	*18%*	**268**	**317**
Action taken	**40**	**60**	*-20*	*-33%*	**30**	**35**

4.8 The majority of cases where action was required relate to business interests. Either the Council was not previously aware of the interest or checks had to be undertaken to ensure no conflict of interest. This accounts for 30 cases. There have also been more cases of potential employers owing significant amounts in Council Tax etc.. to the Council. Generally these are approved for employment providing a reasonable arrangement to pay the debt is made and adhered to.

Lewisham Homes

4.9 During 2018/19 A-FACT continued to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement. The amount of investigation days was greater than planned which impacted on the work that could be undertaken for Lewisham Council but did generate additional income. The Service Level Agreement has now been extended for 2019/20. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

4.10 One of the cases successfully undertaken for Lewisham Homes received press coverage recently. The article from www.legalfutures.co.uk is shown in Appendix 1 but the story was also carried by the News Shopper is an abbreviated form.

5 Housing Application Investigations

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

Summary of Housing App Investigations	2018/19	2017/18	Change		2016/17	2015/16
	FY	FY	Number	%	FY	FY
b/f	12	22	-10	-45%	2	19
New	25	50	-25	-50%	125	28
Closed	32	60	-28	-47%	105	45
C/fwd	5	12	-7	-58%	22	2
Resulting in action	10	29	-19	-66%	33	25
Proactive Exercise-Deceased applicants	38	155	-117	-75%		

5.2 The 10 successful cases resulted from eight cancelled applications for housing and two cases where the tenant tried to inflate the size of the property required. Based on current Cabinet Office figures each represents an indicative savings of £18k. In total a value of £180,000.

5.3 In addition to the reactive case load figures there were 38 applications for housing removed from the register following data matching undertaken as part of the National Fraud Initiative found that the applicant was deceased but not classed as fraudulent. Based on the indicative savings figure these have a value of £684K. The reduction in the number of cases from this work is due to the large scale cleansing of the data in the previous exercise.

5.4 We have also undertaken a joint exercise with Lewisham Homes to verify the occupants of one of Lewisham's larger hostels. This resulted in the successful visits to 29 of the 47 units, this is not included in the figures above. The remaining cases will be followed up shortly although two cases have been identified for detailed investigation.

5.5 This area of the team also deals with a significant Lewisham Homes caseload (including the case mentioned in paragraph 4.10) but not included in these figures.

6 RSL Partnership Cases

6.1 Since January 2012 A-FACT have worked with local housing partners to tackle fraud related to social housing.

Summary of RSL Housing Investigations Work	2018/9	2017/18	Change		2016/17	2015/16
	FY	FY	Number	%	FY	FY
b/f	25	19	6	32%	5	176
New	38	65	-27	-42%	87	76
Closed	33	40	-7	-18%	63	246
c/f	30	44	-14	-32%	29	6
Resulting in action	19	16	3	19%	19	16

6.2 There were 18 tenancies successfully recovered during the year. The Cabinet Office have stated that the notional value of a social tenancy is now £75k on that basis this equates to a total saving to the Council of £1.35 million The remaining case relates to a prosecution against a tenant who had sublet their two bedroom property for six years. The former tenant received a suspended sentence of 18 months and an award of just under £30k under the Proceeds of Crime Act.

6.4 One of the more interesting cases involved a tenant who had purchased and lived in a property in Chatham since 2017. They had retained the social tenancy for convenience as their partner occasionally stayed in London to be near their work. When confronted with the fact that they no longer occupied the property as their home the tenant completed a vacation notice the same day. The property is now in the process of being re-let to a family with a genuine housing need.

7 Local Government Transparency Code 2014

7.1 The Local Government Transparency Code requires all local authorities to publish data on their anti-fraud arrangements on at least an annual basis.

7.2 The data for 2018/19 is shown along with the two previous years for comparison.

Data required	2018/19	2017/18	2016/17
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to require information) (England) Regulations 2014 or similar powers.	32	145	68
Total number of employees undertaking investigations and prosecutions of fraud	6	6	7
Total number of professionally accredited counter fraud specialists	6	6	6
Total amount spent by the authority on the investigation and prosecution of fraud	£248,437	£313,559	£355,734
Total number of cases investigated	219	424	282

8 Any other business

8.1 The Councils Anti-Fraud & Fraud Policy has been reviewed and updated. The revised version is attached as Appendix 2

8.2 During the year we have delivered training to 85 mainly front line officers from Lewisham Council and our partner organisations.

8.3 The contractual negotiations, along with all London Boroughs, continue in respect of joining the CIPFA Counter Fraud Hub. A revised contract has been put forward which will need to be evaluated.

Appendix 1

Article from LegalFutures.co.uk

Solicitor convicted of subletting council home

12 April 2019
Posted by Neil Rose

Rawlinson House: People seen moving out of property

A solicitor's conviction for illegally subletting his council flat has been upheld after he lost his appeal against a suspended jail sentence.

Rahand Raza, 39, was living and working as a solicitor in Birmingham while he illegally sublet his council home in Lewisham, south London for over three years.

Lewisham Homes' tenancy audit team was first alerted that the property at Rawlinson House, Lewisham might be sublet after people were seen moving out of the property.

Detailed enquiries by the council's anti-fraud and corruption team established that the property was being illegally sublet.

Following a joint prosecution by the pair in May 2018, Mr Raza was convicted under the Prevention of Social Housing Fraud Act 2013.

Bexley Magistrates' Court handed the solicitor a custodial sentence of 12 weeks, suspended for two years. He was also ordered to pay costs of £5,000 and to pay back the unlawful profit of £3,496.

The judge said illegal subletting was a serious problem that impacted on Lewisham council and its residents.

Upholding the decision on appeal, a judge at Croydon Crown Court said the offence was not trivial in light of the profit Mr Raza made on a monthly basis. Mr Raza had also applied for the 'right to buy' on the tenancy.

Lewisham council said the details of the conviction have been passed to the Solicitors Regulation Authority (SRA) for possible disciplinary action.

Anti-Fraud and Corruption Policy

Date last Reviewed	April 2019
Approved by:	Submitted for approval Audit Panel April 2019
Version No	2
Next Review date	April 2020
Document Owner	Carol Owen, Anti-Fraud & Corruption Team Manager

Anti-Fraud and Corruption Policy

Introduction:

Fraud within the public sector is estimated to cost the taxpayer billions of pounds each year. Detected cases of fraud and corruption are on the increase and tackling public sector fraud is a major priority of the current government. Local authorities, which bear the brunt of loses through fraud, are now taking active steps to reduce and eliminate fraud at all levels within their organisations.

Lewisham Council has a zero tolerance to fraud and to this end the Council is committed to preventing fraud and corruption within all aspects of the Council's daily life, whether internal or external to it's workings.

Lewisham is committed to establishing, and the public has a right to expect, the highest standards of probity and conduct in the administration of the borough. To this end, the Council is determined to eradicate fraud, financial malpractice and any other irregularity, which may call into question the integrity of the Council's operations.

The London Borough of Lewisham will take all appropriate measures to prevent, deter, detect and remedy fraud and this policy document is a statement of the Council's anti-fraud strategy.

The policy will ensure that the Council, its Councillors and its officers conduct themselves so as to be beyond reproach, above suspicion and fully accountable. No financial malpractice will be tolerated. Perpetrators can expect the Council to take a range of actions such as prosecution, disciplinary measures and restitution.

The aim is for Lewisham to be at the forefront of ensuring public probity in local administration and governance.

This policy supplements but does not replace the current Anti-Bribery Policy for the London Borough of Lewisham.

The Council has an Anti-Fraud and Corruption Team (A-FACT) dedicated to the deterrence, prevention, detection and investigation of any fraud or irregularities within Council proceedings. In addition, the Council's Internal Audit Section undertake annual plans based upon risk assessment, aiding management in it's responsibility to ensure robust systems and enhancing the effectiveness of internal control.

The Council expects

- Only the highest standards from its members and employees;
  Nolan principles;
  Member Code of Conduct;
  Employee Code of Conduct;

- Managers to be responsible for ensuring that adequate controls, to minimise the risk of fraud, are in place;
- Members and employees to report incidents of irregularity to A-FACT;
- Contractors to act with integrity and adhere to the Council's Anti-Fraud and Corruption Policy and the Code of Practice for Contractors, Suppliers & Service Providers.

Definition of Fraud and Corruption:

Fraud:
Fraud is the illicit gaining of cash or other benefits by deception. The definition is wide-ranging but covers any actions by employees, Councillors, clients, partners, agents, consultants and contractors intended to misappropriate funds or other Council assets for personal gain.

The Fraud Act 2006 has placed the act of fraud into three categories:

- Fraud by misrepresentation;
- Fraud by failing to disclose information; and
- Fraud by abuse of position.

Corruption:
For the purpose of this policy corruption is defined as

> *'the offering, giving, soliciting or acceptance of an inducement or reward which may influence official action or decision making. These inducements can take many forms including cash, holidays, event tickets, meals etc'.*

The public is entitled to expect the highest standards of behaviour from all those employees, Councillors, clients, partners, agents, consultants and contractors who work in local government. Conduct must never be influenced by improper motives. Councillors and employee are expected to maintain the highest standards of integrity and should abide by the Seven Principles of Public Life, as recommended by the Committee on Standards in Public Life (The Nolan Committee).

The Council is seeking to develop and maintain an environment which makes fraud and corruption undesirable to contemplate and difficult to perpetrate. All practicable steps are being taken to minimise the risk and effect of fraud and corruption by its Councillors, employees, customers or clients. The need for appropriate controls is acknowledged, and the Council will seek to sustain such controls in the administrative, financial, operational and computer systems employed in the delivery of external and internal services and management.

Councillors: As elected representatives of the public, Councillors have a duty to be fair, honest and open in their roles. They are bound by legislation, the Council's Standing Orders, the Council's Member Code of Conduct and adopted policies and procedures.

In particular, Councillors are required to declare and register any pecuniary interest they may have in companies, charitable organisations, voluntary groups or other relevant organisations. They are required to abstain from any debate or vote which pertains to matters involving any such organisations in which they have an interest, and are required to leave the room during such debates.

All allegations of fraud and corruption involving Councillors will be investigated and treated equally, regardless of the perpetrator. Action will be taken in accordance the Council's

procedure for handling complaints of breach of the Member Code of Conduct including referral to the Police if appropriate.

Management: It is the responsibility of all managers to ensure that there are appropriate and adequate controls in place within the systems for which they are responsible to minimise the risk of fraud. The Council expects that current recommended best practice would be followed at all times. Controls will be designed to deter, prevent and detect all forms of fraud and corruption and also identify a clear pathway for investigation.

Employees: All Council employees are bound by the Council's Code of Conduct and Disciplinary Code. Employees are also bound by the Council's Standing Orders, Financial Regulations, Financial Instructions and the Code of Practice for Receipt of Gifts & Hospitality. In addition employees who are members of professional bodies will also be expected to abide by any codes of conduct and/or professional ethics issued by those bodies.

All allegations of fraud and corruption by employees will be thoroughly investigated. Employees found to have improperly benefited from the Council through offences of fraud, theft, serious financial malpractice, or of using their position for personal gain or the gain of others, will be subject to disciplinary action. Where an allegation of gross misconduct is proven, an employee may be summarily dismissed. The Council will also seek to prosecute all offenders and recover lost monies or assets.

Initiatives may be conducted from time to time to ensure the continued integrity of those employed by the Council.

Contractors; Partners and Agents: The Council expects all of its contractors, suppliers, agents, partner organisations and individuals, to act with honesty and integrity. Client officers will be responsible for monitoring their actions and for ensuring that their terms of reference, agreements and/or contracts include a clause to the effect that the contractor must abide by the Council's Fraud Policy and co-operate with fraud investigations by Council officers. The Council will seek to ensure that all its dealings will be conducted on the same basis and expects its Councillors and employees to lead by example.

Agency employees engaged by the Council are bound by the same rules as direct Council employees and are expected to uphold those principles contained in the Code of Conduct. Failure to do so will result in termination of their engagement.

The Public: Members of the public receive financial assistance and support from the council through a variety of sources. These include council housing, temporary

accommodation, children’s act payment, direct care payments, renovation and other housing related grants, right to buy discounts blue badges, voluntary sector grants and discounts on council tax and business rates.

The Council has a responsibility to protect public funds, assets and services from fraudulent activity. All allegations of fraud or other misuse of public funds by those receiving support from the Council will be thoroughly investigated by the Anti-Fraud & Corruption Team. The Council will seek to prosecute offenders and recover lost monies. Where a claimant is also an employee disciplinary action will be pursued.

Systems: Under the Local Government Act 1972, S151, each Council appoints an officer, at Lewisham the Executive Director for Resources & Regeneration, whose statutory duty is to

ensure that proper arrangements are made to administer the Council's finances and financial systems. The Council acknowledges this role, supports the duties of the post and considers the Executive Director's advice on changes to systems of control, financial administration and associated rules and regulations.

The Council operates a system of managerial and financial control whereby the Executive Director for Resources & Regeneration has a formal responsibility for the finances of the Council, but in practice responsibility for financial control and administration is devolved to officers in directorates. Under the system of financial devolution, Heads of Resources represent the Executive Director for Resources & Regeneration in the directorates and also support other Executive Directors and Budget Holders in discharging their financial and budgetary responsibility.

The authority recognises that prevention is better that cure and all managers must ensure that as far as possible their systems are protected by sound internal controls. It is the responsibility of all managers to establish and maintain systems of internal control and to ensure that the Council's resources are properly applied to the activities intended. This includes the responsibility for the prevention and detection of fraud, corruption and financial malpractice.

The Strategy:

Prevention:

Lewisham Council is committed to the aim of removing all forms of fraud and corruption from the Public Sector and in particular the activities, operations and services where the Council is a stakeholder, this is achieved by maintaining and promoting:

- An anti-fraud culture – A-FACT Service Plan;
- Internal Audit’s continued role in assessing systems and controls-Internal Audit Plan;
- An awareness of fraud and corruption through a programme of employee and member training;
- The Council may publicise fraud issues and successful prosecutions;

- Council Policies which emphasise the role and responsibilities of the Employee, Manager and Member:
    - Constitution;
    - Financial Regulations;
    - Financial Procedures;
    - Member Code of Conduct;
    - Employee Code of Conduct;
    - ICT Acceptable Use Policy;
    - Whistleblowing;
    - Gifts and Hospitality;
    - A-FACT Prosecutions & Sanctions Policy
    - Contract of employment;
    - Relevant departmental manuals.

- Pre-employment vetting of all new employees, agency workers and consultants;
- Joint working with other Public Sector organisations and enforcement agencies
- An Anti-Money Laundering Policy;
- The Code of Practice for Contractors, Supplier & Service Providers.

Deterrence:

Prosecution:
The Council has the right to refer attempted or actual cases of theft, fraud or corruption, by members of the public, clients, elected members, employees, agency workers, partners, consultants and contractors for criminal prosecution. The decision to consider Prosecution and/or other sanction will be made with reference to the Anti-Fraud & Corruption Teams Prosecutions and Sanctions Policy.

In all cases where fraud and corruption are found recovery action will be taken to ensure monies are recovered wherever possible.

The Council will seek to optimise the publicity opportunities associated with it's anti-fraud and corruption activity.

The Council will seek to make use of the asset recovery provisions of the Proceeds of Crime Act 2002.

Disciplinary Action:
Employees found to be involved in theft, fraud or corruption will face disciplinary action, but may also be prosecuted, depending upon the circumstances of the case.

Elected members will face appropriate action if found to be involved in theft, fraud or corruption against the authority. All cases will be referred to the Council's Monitoring Officer for referral to the Standards Committee. Prosecution may be considered depending upon the circumstances of the case.

Detection and Investigation:

Data Matching & Data Sharing:
The Council pro-actively uses data matches from such sources as the National Fraud Initiative (NFI). The Council will also share information using legislation or legal gateways available to us and our partners.

Referrals:
Referrals are received from many sources, some of these are listed:

- Internal Audit;
- Managers;
- Officers;
- A-FACT hotline;
- Anonymous letters;
- Whistleblowing Policy.

Investigation of Fraud and Irregularity:
The Anti-Fraud and Corruption Team investigates all fraud and irregularity reported to the Council. All members of A-FACT are accredited counter fraud officers. The Team encompasses Special Investigations and Housing Tenancy Investigations. The team will utilise

all methods available to detect and investigate fraud. This includes data matching, open source research, surveillance and intelligence lead investigation

The Team undertakes all investigations in accordance with the requirements of the following legislation:

- Human Rights Act 1998,
- Data Protection Act 1998,
- Criminal Procedures and Investigation Act 1996,
- Regulation of Investigatory Powers Act 2000,
- Police and Criminal Evidence Act 1984,
- Internal Procedures as appropriate.

The Team liaises with external bodies such as:

- Police,
- Cabinet Office https://www.gov.uk/government/organisations/cabinet-office
- Department for Works and Pensions www.**dwp**.gov.uk
- Home Office
- HM Revenues and Customs
- Other local authorities and Public Bodies

The Team will also liaise with other enforcement teams within the Council as appropriate.

Report a fraud or irregularity:

Internal referrals:
Please raise your concerns with your line manager or their line manager. If you are unable to do this please contact the A-FACT Manager directly on **0208 314 7909 or carol.owen@lewisham.gov.uk**. All referrals will be treated confidentially.

External Referrals:
If you wish to report a fraud please contact us

Fraud Hotline no: 0800 0850119

Or

Email A-FACT on 'reportfraud@lewisham.gov.uk'.

Or

Write to the
A-Fact Manager
Room 204, Town Hall Chambers,
Catford SE6 4RY

All referrals are treated confidentially,

Conclusion:

Lewisham Council is committed to an anti-fraud culture, it expects the highest standards from all Members, Officers, Agency Workers, Consultants and Contractors.

However, the prevention and detection of fraud and corruption is everyone's responsibility, therefore we must ALL