



AGENDA AUDIT PANEL

Date: WEDNESDAY, 20 JUNE 2012 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 Jenni Clutten
Councillor Michael Harris
Councillor Ami Ibitson
Councillor Philip Peake
Councillor Jim Mallory
Councillor Dan Whittle

Independent Members

Paul Dale
Richard King
Mike Robinson
David Webb

Members are summoned to attend this meeting

Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 12 June 2012



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

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Agenda Item 1

AUDIT PANEL		
Report Title	ELECTION OF CHAIR AND VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 20 June 2012

Recommendation

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2012/13

Agenda Item 2

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 20 JUNE 2012

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 22 March 2012 be confirmed and signed.

LONDON BOROUGH OF LEWISHAM

Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on THURSDAY 22 MARCH 2012 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7:04p.m.

Present

Councillors Harris (Chair), Clarke and Mallory.

Apologies were received from Councillors Clutten, Peake and Till, and Paul Dale.

Independent Member

Richard King
Mike Robinson
David Webb

Audit Commission

Sue Exton - District Auditor
Geoffrey Banister - Audit Manager

RSM Tenon Ltd

Chris Harris - Director of Internal Audit

Officers

David Austin - Interim Head of Audit & Risk
Andreas Ghosh - Head of Personnel Development
Conrad Hall - Head of Business Management and Service Support
Kath Nicholson - Head of Law
Janet Senior - Executive Director for Resources and Regeneration

Minute No.

Action

1. MINUTES

RESOLVED that the Minutes of the meeting of the Panel held on 23 November 2011, which was open to the press and public, be confirmed and signed as a true record of the proceedings.

2. DECLARATIONS OF INTERESTS

- 2.1 Councillor Mallory declared a personal non prejudicial interest as the Chair of the Management Committee of Abbey Manor College.

The Chair declared a personal non prejudicial interest as the Director of a Limited Company.

Richard King declared a personal non prejudicial interest as the Director of a Limited Company.

3. EXTERNAL AUDITOR'S PROGRESS REPORT

- 3.1 Sue Exton, District Auditor, Audit Commission introduced the report. She said that members had requested to be informed of the arrangements that would be put in place to ensure that the 2011/12 Audit report would be delivered on time. She drew members attention to a list of things the Executive Director for Resources and Regeneration and her team, and the External Auditors had agreed following a meeting to ensure the process goes smoothly.
- 3.2 Sue Exton added that as a result of additional work that the External Auditors had to do the Council was charged extra fees. She said the Interim Audit was underway and would be completed by the next Audit Panel meeting. Sue Exton said that they were meeting with the Resources team regularly to monitor progress against the final accounts closedown plan. These meetings would ensure that potential problems would be flagged up earlier in the process, and would give parties time to deal with them. It was noted that the value for money conclusion should be completed within the next few months.
- 3.3 Geoffrey Banister, Audit Manager informed members that Lewisham received income from grant paying Departments and the Audit Commission had to review and certify them. He added that there were conditions attached to these grants and the Council has to show that they have met these conditions otherwise the funding would be at risk. He informed the Panel that there had been some reduction in the number of grant claims that needed to be certified for the Council.
- 3.4 Councillor Mallory asked why the fees charged for this year's grant claims were £30k higher than last year's even though the number of claims had dropped. It was noted that there were a number of slippages and delays in the paperwork, caused by government departments. Geoffrey Banister informed members

that he had done a successful workshop for grant officers last Spring and would be doing the same this year.

- 3.5 Sue Exton informed the Panel that following plans for the Audit Commission's work to be externalised, they would be transferring to Grant Thornton (UK) LLP, from 1 November 2012. She added that the Code of Practice would remain the same and the 2011/12 accounts would be completed under the current Audit practice. Councillor Mallory said he was concerned that fees had continued to go up even when budgets were being cut. He asked whether the Council would have a chance to examine the service they have been provided to ascertain whether it was getting value for money. Sue Exton informed the Panel that the fees would continue to be set by the Audit Commission, but under the new contract fees would likely go down by about 40%. She added that the 2011/12 fees were reduced by 10% and there would be a further rebate. Councillor Mallory requested that the 'how to' guide for Chairs and Board members of public bodies be circulated to Panel members. It was agreed that this guide together with the practical guide on how to undertake effective pay benchmarking would be circulated to Panel members.

ED Res &
Regen.

RESOLVED that the progress report be noted.

4. UPDATE ON 2011/12 CLOSING OF ACCOUNTS AND EXTERNAL AUDIT

- 4.1 The Head of Business Management and Service Support introduced the report. Councillor Mallory raised concerns about some of the areas which had been brought forward in the timetable especially for schools. The Head of Business Management and Service Support informed the Panel that officers have a very good working relationship with the schools and they would try to keep within the timetable. Councillor Mallory asked what would be done about the review of PFI schools and was told that the information would be sent to the Auditors sooner to make them aware of what would be going into the accounts. The Head of Business Management and Service Support said that this was a complex area but officers intended to prepare the accounts before the June Panel meeting.

ED Res &
Regen.

RESOLVED that the report be noted.

5. INTERNAL AUDIT UPDATE AND PLAN

- 5.1 The Interim Head of Audit & Risk introduced a report of three parts; the progress report, the performance of the Internal Audit Contractor and the Audit Plan for 2012/13. Councillor Mallory said that he was concerned that the Internal Audit contractors were not meeting the agreed targets. He added that earlier in the financial year the situation had been the same and it seemed as if the service was getting worse instead of improving. Councillor Mallory said that he was concerned that the shortfall would never be addressed in time for the deadline. He enquired whether a penalty would be levied. The Interim Head of Audit & Risk said that the Council had not yet considered penalties, but would be putting down clear ultimatums in April and discussing priorities of the remaining plan that were to be delivered.
- 5.2 The Chair said he understood the contract was renewed recently and sometimes slippages could occur during renewals. Councillor Mallory said if there was not any immediate sanctions then an improvement plan should be put in place. The Interim Head of Audit & Risk said that monitoring was ongoing, and an annual improvement plan is a condition of the contract and would be put into place before the next report to the Panel. Mike Robinson said that although he recognised that the Director of Internal Audit (Contractor) had assured members that he would put things right, the performance was still poor. He added that there were assurances earlier in the financial year that things would be put right by the year end, but improvement had not been made. Mike Robinson said that with the impending budget cuts over the next 2 years it was doubtful how improvement would be made.
- 5.3 The Chair said that he had also noted that the figures were worse than the previous year, with a lower standard achieved. The Director of Internal Audit (Contractor) said it was his responsibility to deliver the plan and he would work on this. The Executive Director for Resources and Regeneration said that a similar discussion had been held with the contractor prior to the Audit Panel and she had raised similar concerns with the Director of Internal Audit (Contractor), and to his credit he had not made any excuses but had given assurances that their performance would improve in the coming year and they aimed to deliver the plan. The Chair said although the Panel had been assured that additional resources have been provided to ensure the plan was delivered, something unexpected could happen which might delay things, as in the past.

- 5.4 The Director of Internal Audit (Contractor) said that he was aware that they needed to plan better for the future, but because there have been a lot of restructuring within the organisation, this had impacted on the plan. Following further discussion the Executive Director for Resources and Regeneration said she understood members' concerns, and highlighted that over the last year, officers had to deal with both internal organisational changes, plus the new IFRS systems and this had all impacted on the end result of the audit, but if performance did not improve, the ultimate sanction of issuing default notices and terminating the contract would be initiated.
- 5.5 The Interim Head of Audit & Risk informed members that as requested at the last meeting, an update for Direct Payments and Homecare has been included in the report, plus other Directorates which had overdue recommendations had been included in appendix 3 of the report. Members asked why there was no representative from the Children and Young People Directorate to explain to the Panel why some of their recommendations had not been adopted. The Interim Head of Audit referred to the report update on the position regarding schools recommendations and it was noted that someone would be attending the next meeting of the Panel if improvement was not seen. The Interim Head of Audit & Risk informed the Panel that the Finance Shared Services Manager was at the meeting to update members of developments that had taken place since their last Audit.
- 5.6 The Finance Shared Services Manager said that since the recommendations were agreed six months ago things had progressed. He said that the Council had invested in the Procure to Pay system which would eliminate most of the concerns that were raised by Internal Auditors, namely:
- all current monetary processes would be eliminated.
 - paper would be taken out of the system, and officers would ensure all communications supplies are backed up by official orders in the system.
 - if a purchase order is not raised there would be no payment.
 - officers would enforce that all suppliers use electronic system.
 - all inefficiencies in current payments would be eliminated
- 5.7 Members asked how late the report was and were told that November was the target date. The Interim Head of Audit & Risk said that, following reminders, officers should have liaised with Auditors to ensure they were aware of the challenges officers were faced with. Mr King said that if these recommendations

were high priority what had been achieved in the interim. The Finance Shared Services Manager said that officers were reviewing their target for implementation, and once the new system was in place any deficiency in the current system exposing the Council to risk would be addressed.

- 5.8 The Finance Shared Services Manager said that all payments now had to be authorised by a Head of Service or budget holder. The Chair asked if any of the high risk recommendations had been addressed. The Finance Shared Services Manager said that the original implementation timetable was unrealistic, and informed members that the current system did not expose the Council to risk, but was costly to run. Mr Robinson asked whether officers were implying that they would tolerate the current risk because when the new system is in place it would address it.
- 5.9 The Executive Director for Resources and Regeneration said that this project was not new to Lewisham; officers were aware of it and had decided to adopt it sometime ago, but the decision was on hold because of several factors including resources. She added that once it was in place the Directorate would have control of what was being ordered across the Council and officers would be able to identify where any inefficiencies were located. Mr King asked if the schools would buy into this system. The Head of Business Management and Service Support said that they can't be forced to, but they can if they so wish.
- 5.10 The Head of Personnel and Development informed the Panel that since their last update on Occupational Health Referrals, work had been underway to digitalise all the Council's personal files. He apologised for not notifying Auditors on time. The Head of Personnel and Development said that storage space within the Town Hall would become very limited, therefore paper files would need to be scanned and digitalised. He added that some parts of staff personal files would need to remain on paper to serve as back-up.
- 5.11 The Chair said that he was concerned that now that the Council was facing its biggest cuts this new system was being introduced. The Head of Business Management and Service Support responded that this was being done now as the technology was not available before. The Executive Director for Resources and Regeneration added that this was not the first time officers were going through this process in Lewisham; the only difference was that the current system was more sophisticated than the last one. The Executive Director for Resources and Regenerations said that in the past some of the

data was illegible once they have been scanned; some could not even be retrieved.

- 5.12 Councillor Clarke said that she understood some of the complexities of the situation as she had some similar experience. She asked whether there were examples of good practices. The Executive Director for Resources and Regeneration said that the Council as a whole had been using digital systems for the past five years but the Human Resources system was both different and difficult.
- 5.13 Councillor Mallory asked whether after a certain period some of the audit recommendations become obsolete, because he had noted that the target dates for Community Mental Health has already changed five times. Members were informed that if recommendations were not fulfilled the next audit of that area would pick them up until completed. Members requested that the officer responsible for SLAM should attend the next Audit Panel to explain the reasons for the delay, as with the Homecare recommendations, if still overdue.
- 5.14 Councillor Mallory asked, in terms of personal budgets, how the Council could determine whether there was a conflict of interest when vulnerable people were being asked to decide how to spend their money. The Interim Head of Audit & Risk said that this information would be included in an audit of this area to be put in the Plan for 2012/13. Members said they were concerned that some of the companies seemed to be telling the Council what to do instead of the other way round. It was noted that a corrective action plan has been put in place to address this, and officers had written to these companies with the internal audit recommendations. It would be up to them if they accepted the recommendations. Recommendations, those reported to the Panel, had also been drawn up for officers to act on.
- 5.15 The Chair commented that members were concerned about Lewisham Homes. The Head of Law said that the Council only has a contractual relationship with Lewisham Homes which was regulated. She added that this contract had to be reconsidered for tendering.
- 5.16 The Interim Head of Audit & Risk informed members that Auditors had met with all Heads of Services to ensure that they understood individual service risks as part of preparing the annual internal audit plan. The Chair asked whether there were proper processes in place for corporate credit cards. The Head of Business Management and Service Support said that significant controls have been put in place to prevent misuse.

Interim
Head of
Audit &
Risk

The Chair then asked when this process was last audited, and was told 2 years ago. The Executive Director for Resources and Regeneration said that new systems have been put in place and although staff members have been disciplined for misuse, corporate credit card usage was very useful for small expenditure, and the Directorate would not want to get rid of it. The Head of Law said that a report on Members' expenses went to the Standards Committee 2 years ago. The Chair asked if a registry of Senior Officers' interests was available on the website. The Head of Law said that she was not sure they were published but they were on file and available for public consultation.

- 5.17 Mike Robinson asked who would decide whether the Corporate Plan was fit for purpose. The Interim Head of Audit & Risk said that the process was for review by Heads of Services and then Executive Directors with their Management Teams. The plan is then put to the Internal Control Board and Audit Panel with the formal responsibility resting with the Executive Director for Resources and Regeneration as Section 151 officer to sign it off. Mike Robinson said that it would be useful if additional information was included in the plan about major corporate risks and how officers intend to shift resources to manage these risks. He also asked when the Risk Register went to audit, and why this was not included in the report. The Interim Head of Audit & Risk said that he would do a wider mapping that would address Panel members' concerns.

Interim
Head of
Audit &
Risk

RESOLVED that the report be noted.

6. ANTI FRAUD & CORRUPTION TEAM UPDATE

- 6.1 The Interim Head of Audit & Risk introduced the report. He highlighted that that work was ongoing and to date the team had more referrals and cases than the previous year. The team was concentrating on more serious cases rather than volume, and this was putting more demands on staff in the Legal Section. The Interim Head of Audit & Risk informed members that there was no current urgency for transfer of staff as the Department for Works and Pensions has confirmed that Benefit Investigators would continue to be employed by local authorities beyond 2013.
- 6.2 The Interim Head of Audit & Risk said that officers were being proactive rather than reactive and although more training would be necessary, the Council was getting value for money. Councillor Mallory said that some of these success stories outlined in the report should be communicated to the public. The Interim Head of Audit & Risk said that all successful

Minute No.

Action

prosecutions are reported on the Council's website and there was an ongoing poster campaign. The Chair said that Panel members were expecting to see a report from Lewisham Homes at the next Panel meeting.

Interim
Head of
Audit &
Risk

RESOLVED

- i. that the report be noted.
- ii. that a report from Lewisham Homes be brought to the next Audit Panel.

EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act as amended by the Local Authorities (Executive Arrangements)(Access to Information) Amendments (England) Regulations 2006:-

The meeting ended at 9. 30p.m.

Chair

Audit plan

London Borough of Lewisham

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Panel, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: Significant risks

Risk	Audit response
<p>Heritage assets</p> <p>The 2011/12 IFRS Code adopts the requirements of FRS 30 Heritage Assets for the first time. These are assets held by the council with the intention of preserving them for future generations because of their cultural, environmental or historical associations. Typical examples in local government include memorials, mayoral regalia and paintings. The standard requires that where information on cost or value is available, heritage assets must be reported on the Council's balance sheet and accounted for in accordance with the Code and its disclosure requirements. There is a risk that due to the difficulty in identifying and valuing heritage assets, this change in accounting policy may not be implemented correctly.</p>	<p>I will carry out procedures to ensure correct accounting of Heritage assets. Specifically, I will:</p> <ul style="list-style-type: none"> ■ Assess whether the Council has put in place adequate arrangements to identify all potential heritage assets and has applied appropriate judgements with regard to their classification, valuation and disclosure. ■ test the disclosures in the financial statements;
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to the fact that the valuation is an estimate. As such, the figures are inherently subjective and the monetary values presented can mean that even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements.</p>	<p>I will carry out procedures to ensure correct accounting of the revaluation of PPE assets. Specifically, I will:</p> <ul style="list-style-type: none"> ■ review Management's controls when using an expert (valuer) to carry out the valuations; ■ undertake audit procedures for reliance on the work of the valuer; ■ review reconciliations between the asset register and valuation reports; ■ test valuations calculations and associated depreciation calculations.

Closure and transfer of Libraries

In May 2011 the Council ceased to operate the libraries at Blackheath, Sydenham, Crofton Park, Grove Park and New Cross libraries.

There may be a risk that the Council has incorrectly accounted or disclosed these libraries within the financial statements because the former council libraries are now being operated by third parties. Hence the Council needs to establish if the rights and obligations have transferred to the third party requiring the Council to derecognise the assets from the balance sheet.

I will carry out year end substantive procedures to ensure that the correct accounting of the former libraries has occurred and review Management's controls.

Housing Revenue Account – Revaluation of HRA Dwellings

The value of the housing stock is one of the most significant balances on the Balance Sheet. The Housing Revenue Account (Accounting Practices) Direction 2011 requires authorities to use the specific bases and methods of valuation set out in the Stock Valuation for Resource Accounting – Guidance for Valuers issued by CLG.

The value of the authority's housing stock may be materially misstated as a consequence of the Council failing to comply with the guidance when preparing HRA asset valuations. This particularly relevant to the Council as there are a number of Housing and regeneration schemes where properties within estates are being decanted and redeveloped which impacts on the valuation of properties on estates such as:

- Kender estate
- Heathside and Lethbridge estates
- Catford town centre (Milford towers estate)

I will carry out procedures to ensure correct accounting of the revaluation of HRA Dwellings. Specifically, I will:

- review Management's controls when using the Borough Valuer to carry out the valuations.
- undertake audit procedures for reliance on the work of the Borough Valuer.
- review Council reconciliations between the asset register and valuation reports.
- test valuations calculations and associated depreciation calculations
- review the valuation methodology used by the Borough Valuer regarding the Kender, Heathside, Lethbridge and Milford towers estates.

Risk	Audit response
<p>Academy Schools</p> <p>In most local authorities schools are managed through a variety of governance arrangements. The difference is those arrangements have implications for the accounting treatment. During the year the Council has had schools transferring to Academy status and require derecognising from the Councils balance sheet. There may be risk that the Council has incorrectly accounted for or wrongly disclosed new academy schools within the financial statements.</p>	<p>I will carry out procedures to ensure correct accounting of Academy schools. Specifically, I will:</p> <ul style="list-style-type: none"> ■ evaluate management controls. ■ test the disclosures in the financial statements; ■ test the value of assets and liabilities derecognised to the underlying records;
<p>Building schools for the future (PFI)</p> <p>The Council continues with the BSF programme and during the year schemes were approved or expenditure continued on the following schools:</p> <ul style="list-style-type: none"> ■ Deptford Green ■ Addey and Stanhope ■ Prendergast Vale College ■ Bonus Pastor ■ a new ASD school ■ Prendergast Hillyfields <p>There is a risk that the financial statements may be materially misstated as a consequence of the Council failing to account for transactions relating to these schemes.</p>	<p>I will carry out procedures to ensure correct accounting of the BSF scheme. Specifically, I will:</p> <ul style="list-style-type: none"> ■ evaluate management controls ■ test the disclosures in the financial statements to ensure that they are consistent with the financial model; ■ test the value of assets and liabilities recognised to the underlying records;
<p>Street Lighting (New PFI scheme)</p> <p>The Council has a joint PFI scheme with the London Borough of Croydon for the provision of street lighting for the two boroughs. The contract</p>	<p>I will carry out procedures to ensure correct accounting of the street lighting scheme. Specifically, I will:</p> <ul style="list-style-type: none"> ■ review any external financial advice on the PFI scheme;

Risk	Audit response
<p>covers the replacement of existing street lights and the future maintenance . This could lead to material errors in the financial statements.</p>	<ul style="list-style-type: none"> ■ evaluate management controls. ■ test the disclosures in the financial statements to ensure that they are consistent with the financial model; ■ test the value of assets and liabilities recognised to the underlying records;
<p>Implementation of new financial systems (Asset register and Payroll system)</p> <p>There is a risk that Financial information is not migrated completely or accurately from the old ledger to the new systems and that the new systems are not operating effectively. This could lead to material errors in the financial statements.</p>	<p>I will carry out procedures to ensure the system has migrated completely and is operating effectively. Specifically, I will:</p> <ul style="list-style-type: none"> ■ review management oversight of checking of opening balances in the new system agree to closing balances in old system ■ review management oversight of checking the operational effectiveness of the new systems ■ test the operational effectiveness of new ledger and the migration of financial information from the old to the new systems.
<p>Housing Revenue Account (HRA) reform</p> <p>The government has reformed local authority housing finance by adopting a self-financing model from 1 April 2012. This was through a one-off settlement payment of £136m from central government in March 2012. This will change the HRA debt of the Authority. Payment from the government has been used to redeem an equal percentage of PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>I will carry out procedures to ensure correct accounting of the HRA reform. Specifically, I will:</p> <ul style="list-style-type: none"> ■ review of management oversight of transactions required by the Council; ■ agree settlement payment or receipt to the amount specified in the Settlement Payments Determination 2012; ■ check that the settlement transaction has been accounted for in line with the requirements of CIPFA guidance; ■ agree details of loan redemptions to supporting documentation ■ Re-perform calculations supporting item 8 debit and item 8 credit to the HRA.

Preparation of financial statements and working papers

In 2010/11 the audit opinion was delayed due to the volume of errors arising as a result of poor preparation of the financial statements and working papers. In particular.

- Our review of the financial statements highlighted significant numbers of arithmetic, consistency and referencing errors. Amendments were made to the most significant items.
- There were instances where the Council did not provide detailed working papers until the later stages of the financial audit. Examples of these were Non Current assets, Investments, PFI.
- The Council has had serious problems in previous years producing an accurate, timely Cash flow statement, supported by working papers.
- In previous years the Council has not been able to produce timely and accurate Whole of Government Accounts in order to achieve the deadline.

There is a risk to the opinion that the accounts will not be prepared to a good standard with comprehensive working papers for each area.

Group accounts

I am responsible for the direction, supervision and performance of the group audit. I may contact the auditors of the following components as part of my audit procedures.

- Catford Regeneration Partnership
- Lewisham Homes

Please discuss with me any concerns about me contacting component auditors.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

As in prior periods I will provide officers with a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 2: Significant risks

Risk	Audit response
The Local Government Finance Settlement reduced Central Government funding available to the Authority. In 2011/12 the Authority is targeting savings and the projected level of savings required will increase in future years.	I will carry out the following tasks. <ul style="list-style-type: none">■ Monitor progress on identified savings in 2011/12.■ Review arrangements for challenging the value for money of services and progress in identifying savings for 2012/13.■ Review the latest medium term financial plan.

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Interim financial statements audit visit	January – June 2012	Audit Plan
Final financial statements audit visit	July – September 2012	Annual governance report
Value for money conclusion: review of arrangements	January – September 2012	Annual governance report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	BY 31 October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Sue Exton District Auditor	s-exton@auditcommission.gov.uk 0844 798 2307	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Geoffrey Banister Audit Manager	g-banister@auditcommission.gov.uk 0844 798 2434 0781 587 8145	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £425,074, as set out in my letter dated April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £425,074 which represents a 10 per cent reduction on the 2010/11 audit fee communicated to you in April 2010.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Resources and Regeneration and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take.

- improve the quality of the draft financial statements; and
- improve the quality of working papers.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 5: Fees

	2011/12 proposed (£)	2010/11 actual (£)	Variance (£)
Audit	425,074	502,360	(77,286)
Certification of claims and returns	105,000	159,448	(54,448)
Total	530,074	661,808	131,734

2011/12 fee: The Audit Commission has issued a rebate on the 2011/12 fee of £34,000 reducing the amount payable to £391,074.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 6: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors;
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Panel.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit plan

London Borough of Lewisham Pension Fund

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve management or the Audit Panel, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: Significant risks

Risk	Audit response
<p>Pension fund bank account regulations</p> <p>Local Government Pension Scheme Regulations 2009 require that from 1 April 2011 pension fund administering authorities should hold all pension fund monies in a separate bank account to the administering authority's funds.</p> <p>Inappropriate allocation of funds when establishing the separate pension fund bank account creates audit risks in respect of existence and completeness. There is also a risk that the Council will continue to operate arrangements that contravene the requirements of the Regulations.</p>	<p>I will review the pension fund cash system and the related controls in place during 2011/12.</p> <p>I will consider whether the opening bank balance at 1 April 2011 equals the closing notional balance (bank and cash figure in the 2010/11 net assets statement) as at 31 March 2011.</p> <p>I will report to confirm if arrangements meet the requirements of the Regulations</p>
<p>Unquoted investments</p> <p>The valuation of unquoted investments is potentially a very complex area. The pension fund has a material amount of unquoted investments. There are risks around accurate valuation at year-end.</p>	<p>I will review the controls that the council has to gain assurance over the year-end valuation of unquoted investments.</p> <p>I will test a sample of unquoted investments at year-end to ensure that the valuation is fairly stated.</p>
<p>New payroll system</p> <p>There was a new payroll system introduced by the Council in 2011/12. The payroll system is directly linked to the pension fund (contributions and the benefits payments). There is an inherent risk with the introduction of any new system that payments could be inaccurate or incomplete as a result of the transfer.</p>	<p>I will review the work undertaken by the audit team at the council to ensure that there are no risks relating to the transfer of data and I will review the controls associated with the implementation of the new payroll system.</p> <p>I will select a sample of contributions and benefits payments in the pension fund at year end to ensure that the disclosures are both accurate and complete.</p>

Risk	Audit response
<p>Pension fund accounts preparation arrangements</p> <p>There were several errors identified during the audit of the accounts in the prior year due to the change in staff preparing the accounts. A new team will be preparing the accounts in 2011/12 and there is an inherent risk that there will be an increased number of errors due to the lack of continuity.</p>	<p>I will review the controls in place at the council to prepare and review the financial statements.</p> <p>I will increase my testing of balances at year end and I will sample all of the material entries in the financial statements.</p>

My interim audit is now almost complete and I have identified the following weaknesses that I have agreed with management. I will update my audit planning to incorporate these risks into my testing strategy for the financial statements audit in July. I am not expressing an opinion on the overall effectiveness of internal control.

Table 2: Interim audit findings

Description of weakness	Potential effect
<p>Monthly general ledger reconciliations</p> <p>My audit work indentified that the Council is not regularly carrying out reconciliations between the general ledger and</p> <ul style="list-style-type: none"> ■ contributions (payroll system); or ■ transfers in and out (pension system AXISe). <p>This finding was also reported in my Annual Governance Report during 2010/11 and I have repeated this recommendation below.</p>	<p>There is a risk that the general ledger is not kept up to date if reconciliations are not regularly completed between the systems.</p>
<p>New bank account</p> <p>The Council opened a new bank account for the pension fund during 2011/12. I found the following controls weaknesses:</p> <ul style="list-style-type: none"> ■ Bank reconciliations were undertaken during the year however these were not signed by a preparer or and there 	<p>There is a risk that the cash balance is misstated at year end, or that cash is allocated to the incorrect bank account.</p>

Description of weakness	Potential effect
<p>was no evidence of review; and</p> <ul style="list-style-type: none"> ■ Cash was transferred between the pension fund bank account and council bank account during the year but there was no evidence of controls over the movement of this cash between these internal accounts. 	
<p>New payroll system</p> <p>The Council implemented a new payroll system during the financial year and there is currently no automated interface to ensure that monthly changes to payroll (due to starters/leavers) are fed through to the AXISe system. The Council therefore designed a control to ensure that the monthly leavers/starters list generated from payroll is annotated to confirm that the changes have been made to the AXISe system and that the two sources are consistent. However I reviewed this control and I found that:</p> <ul style="list-style-type: none"> ■ not all of the individual items on the payroll list were annotated to confirm that they had been checked; and ■ the overall list had not been signed by the preparer to confirm that the list had been checked 	<p>There is a risk that changes made to the payroll system are not promptly reflected on the AXISe system.</p>
<p>Contribution rates - admitted/scheduled bodies</p> <p>The contributions data received from admitted and scheduled bodies is reviewed on a monthly basis to ensure that appropriate contribution rates (in line with the actuarial report) have been applied. However I found that there was no signature to confirm that this check has been performed or to confirm that the correct percentages had been applied by the admitted/scheduled bodies.</p>	<p>There is a risk of inaccurate or incomplete contributions received from the admitted and scheduled bodies.</p>
<p>Contributions – receipts from admitted/scheduled bodies</p> <p>The Council performs a check to confirm that the correct amount of cash has been received in line with their expectations for each admitted/scheduled body. I found that that there was no signature to confirm that this check had taken place each month.</p>	<p>There is a risk that cash receipts do not agree to the data supplied from the admitted and scheduled bodies.</p>

Recommendations

- R1** Ensure regular reconciliations are completed between the general ledger and the AXISe system/payroll system on a regular basis.
- R2** Design a control for the movement of cash between the main accounts and pension fund account.
- R3** Ensure that the pension fund bank reconciliation is performed and signed by both the preparer and the reviewer each month.
- R4** Evidence the check of data supplied from the admitted and scheduled bodies each month to confirm that the correct percentages have been applied.
- R5** Evidence the control in place to reconcile receipts of cash against the data supplied by the admitted and scheduled bodies

Testing strategy

My audit involves:

- testing the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts;
- substantive tests of detail of transactions and amounts; and
- where I am relying on internal audit, review and re-performance of work of your internal auditors.

The nature and timing of my proposed work is as follows.

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Table 3: Testing

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
Interim visit.	Relevant internal audit reports.				Retirement benefits.
Final visit.		Controls reports – fund managers and custodians.	Pensions liabilities – The Pension Fund actuary (Hymans Robertson) and my consulting actuary (PWC).		All material accounts balances and amounts. Year-end feeder system reconciliations. Investments.

I have agreed with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008. The Council is required to prepare the annual report for the pension fund by 1 December 2012. In prior years the Council has been late (but before the deadline) preparing some sections of the report and there is therefore a risk that the publication is delayed.

In 2011/12, there will be new external audit arrangements from 1 November 2012 when the Audit Commission is abolished. I will discuss the new audit arrangements with the Director of Resources and Regeneration and I will agree a date for the auditing the pension fund annual report.

Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February/March 2012	
Opinion: receipt of accounts and supporting working papers	July 2012	
Opinion: substantive testing	July-September 2012	
Present Annual Governance Report at the Audit Panel	September 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Auditor's report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Sue Exton District Auditor	s-exton@audit-commission.gov.uk 0844 798 2307	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and liaison with the Chief Executive.
Geoffrey Banister Audit Manager (Council)	g-banister@audit-commission.gov.uk 0844 798 2324	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources and Regeneration.
Amy Thorpe Audit Manager (Pension fund)	a-thorpe@audit-commission.gov.uk 0844 798 2686	Manages and coordinates the different elements of the audit work for the pension fund. Key point of contact for the Director of Resources and Regeneration.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £35,000 as set out in my letter of 18 April 2011.

The audit fee

The Audit Commission set a scale audit fee of £35,000 which represents no increase on the audit fee for 2010/11.

The scale fee reflects the Audit Commission's decision not to increase fees in line with inflation. Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Resources and Regeneration and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. In my view the Council could improve coverage of internal audit to include detailed controls testing of the pension fund administration system.

Total fees payable

In addition to the fee for the audit, the Audit Commission will make charges for the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows, overleaf.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	35,000*	40,000**	5,000
Total	35,000	40,000	5000

*The Audit Commission is committed to paying a rebate of £2,800 to reflecting attainment of internal efficiency savings, reducing the net amount payable to the Audit Commission to £32,200.

**In 2011/12 the audit fee was increased by £5,000 due to the number of errors, the standard of working papers, and the subsequent delays during the audit.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	<p>All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.</p>
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- Internal Audit meets professional standards.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements;
 - the full text of the Pension Fund Annual Report with the working papers;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the [Pension Panel] before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

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A body to which the Audit Commission is responsible for appointing the external auditor.

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Auditor(s)

Auditors appointed by the Audit Commission.

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The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Pension Investment Committee and the Audit Panel.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



AUDIT PANEL		
Report Title	DRAFT STATEMENT OF ACCOUNTS 2011/12	
Key Decision	No	Item No. 5
Ward	ALL	
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION	
Class	PART 1	Date: 20 JUNE 2012

1 SUMMARY AND PURPOSE

- 1.1 To review and comment on the draft Statement of Accounts for 2011/12 and the Annual Governance Statement.

2 EXECUTIVE SUMMARY

- 2.1 The Council is no longer required by law to obtain elected Members' approval of its draft accounts. However, given the importance of the document, and its complexity, officers are still of the view that it is appropriate to present the draft accounts to the Audit Panel. Accordingly, the draft accounts for 2011/12 are attached as Appendix 1 to this report (circulated under separate cover).
- 2.2 The draft 2011/12 accounts of the Pension Fund and the draft Annual Governance statement (AGS) are also attached as Appendices for information (again circulated under separate cover).
- 2.3 The summary of expenditure against budgets for 2011/12, known as the outturn, has already been reported to the Public Accounts Select Committee (on 14 June 2012) and is being reported to the Mayor & Cabinet at the same time as this meeting. The outturn should be read as a background paper to this report.

3 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Panel note the report and appendices.

4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

- 4.1 Officers have prepared the draft accounts so as to be able to despatch them to this Panel by 12 June 2012, slightly earlier than was the case in 2010/11. Some other authorities have taken advantage of the new provisions of the Accounts and Audit Regulations 2011 to approve their draft accounts nearer to the 29 June 2012 deadline.
- 4.2 It has unfortunately not been possible to finalise the Group Accounts Statement by the date of despatch of this report, although this will be available to this Panel at its meeting. The complete draft accounts will therefore be available in advance of the 29 June 2012 deadline. The Pension Fund accounts have already been presented to the Pensions Investment Committee.

- 4.3 Within the accounts four statements 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.

Movement in Reserves Statement (MiRS)

- 4.4 The MiRS shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be used to fund expenditure) and other reserves of a technical nature which cannot be used to fund expenditure. This is therefore a helpful summary of the resources that the council has available to fund future expenditure and to manage financial risks.

Comprehensive Income and Expenditure Statement (CIES)

- 4.5 The CIES sets out the total expenditure by the authority in the 2011/12 financial year, some £1bn. The format of the CIES is completely different to council’s management accounts, which present income and expenditure by Directorate. However, a reconciliation between the two is provided by note 23 to the core financial statements, segmental reporting, which discloses net expenditure by directorate in a form that Members will be familiar with from the Outturn report.

Balance Sheet

- 4.6 The balance sheet reports the ‘total equity’ of the council, and shows that it is similar to that of last year, around £0.94bn as at 31 March 2012 compared with some £0.90bn as at March 2011.

Cash Flow Statement

- 4.7 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2011/12 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

- 4.8 Members’ attention is also drawn to the following financial statements, which although not technically defined as “core financial statements” are nonetheless highly 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 national non domestic rates.
- 4.9 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding the financial position of the authority:

- Notes 15 and 19 to the core financial statements, which disclose the debtors to and creditors of the council as at 31 March 2012
 - Note 20 to the core financial statements, which discloses the provisions against likely future events held by the authority
 - Note 7 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.
- 4.10 The format of the accounts is essentially prescribed. As a result the document is extremely 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 and make their best endeavours to answer these. However, given the level of detail contained in the accounts it is likely that some questions of detail may not be capable of being answered at the meeting. If Members are minded to ask questions on points of detail they are respectfully requested to submit them in advance to Richard.lambeth@lewisham.gov.uk , ideally at least 24 hours before the meeting, in order to facilitate this.

5 ISSUES FOR THE ATTENTION OF MEMBERS

- 5.1 in constructing the accounts the officers concerned have applied professional judgements in the areas set out below. Officers believe that these are the correct judgements to apply, but acknowledge that with IFRS these are areas where alternative decisions might have been made, as the appropriate treatment is subject to professional debate. It is possible that the auditors may, during the course of their audit work, come to a different view, and as a result may recommend a different treatment.
- 5.2 Where future funding is uncertain, IFRS requires that consideration is given to 'impairing' (i.e. reducing) the value of assets that might be affected, for example if services were forced to close as a result. Although future government funding is less certain than may have been the case in previous years officers are of the view that there is sufficient certainty as regards funding in 2012/13 and subsequent years that such impairments are unnecessary.
- 5.3 There are a number of areas where officers have been required to make judgements about possible future events. These include issues such as judging the amounts of the debts due to it that may ultimately not be paid and more technical issues such as the actuarial assumptions to apply to value future pension liabilities. Officers have always had to make such judgements in constructing the accounts, although in some cases the factors to be considered in making these judgements have changed as a result of IFRS.
- 5.4 Finally, Members' attention is drawn in particular to the accounting treatment for the indemnity granted to Lewisham Homes in respect of pensions costs. This indemnity was agreed by the Council when Lewisham Homes was established, and the accounting for it has been a matter of concern to the auditors in recent years, and has been reported to Members as such.

- 5.5 Officers have again discussed this closely with the Audit Commission, and presented a sound and well-reasoned argument as to why the treatment they adopted in 2009/10 and last year remains correct. This treatment has again been adopted for 2011/12.

6 FINANCIAL IMPLICATIONS

The accounts are a financial document, and present a picture of the council's activities in 2011/12 and its assets and liabilities as at 31 March 2012. However, there are no financial implications directly arising from the Panel considering the draft accounts.

7 LEGAL IMPLICATIONS

- 7.1 Regulation 8(2) of the Accounts and Audit Regulations 2011 (the Regulations) means that local authorities are no longer required to obtain elected Members' approval of their draft accounts. Regulation 8(3)(b) does require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final accounts, having considered the auditor's report thereon.
- 7.2 The Regulations do require that the draft accounts are approved for issue by 30 June following the year end by the Responsible Finance Officer under s151 of the 1972 Act. In Lewisham, that officer is the Executive Director for Resources and Regeneration.

8 OTHER IMPLICATIONS

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

APPENDICES

(Dispatched under separate cover)

- Appendix 1 – Draft Statement of Accounts 2011/12
- Appendix 2 – Draft Pension Fund Accounts 2011/12
- Appendix 3 – Annual Governance Statement 2011/12 (AGS)
- Appendix 4 – AGS Action Plan

BACKGROUND PAPERS

Outturn report 2011/12 (PAC 14 June 2012, M&C 20 June 2012)

For further information on this report please contact:

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

LONDON BOROUGH OF LEWISHAM
2011 / 2012 STATEMENT OF ACCOUNTS

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FOREWORD

TO THE

STATEMENT OF ACCOUNTS

2011/12

FOREWORD BY THE EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION

1. INTRODUCTION

The Statement of Accounts brings together the financial results of all the Council's operations for the financial year 2011/12 and shows the financial position as at 31 March 2012.

The Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the COP), and the Service Reporting Code of Practice for Local Authorities (SERCOP) 2011/12, jointly developed by CIPFA and the Accounting Standards Board. The Code constitutes 'proper accounting practice' with which local authorities must by statute comply.

International Financial Reporting Standards (IFRS) were implemented throughout the Council's accounts in 2010/11. There are no fundamental changes to the basis on which the accounts are compiled for 2011/12.

The significant events that have had a major impact on the Statement of Accounts during 2011/12 are outlined in Section 5 of the foreword below.

2. THE COUNCIL'S STATEMENT OF ACCOUNTS

The Statement of Accounts comprises of this Foreword, a Statement of Responsibilities, an External Auditor's report (to follow after completion of the audit) and sections and appendices as outlined below.

Section 1 – The Core Financial Statements

Section 1a - Movement in Reserves Statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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

This statement shows the accounting cost in the year of providing the Council's services in accordance with IFRS, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Section 1c - Balance Sheet

The Balance Sheet shows the value as at the date of the Accounts of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie 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

Foreword

basis under regulations'. The Balance Sheet includes the Housing Revenue Account and the Council's own share of the Collection Fund, but excludes the Pension Fund and Trust Funds.

Section 1d - Cash Flow Statement

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

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 all the notes that help to explain or give more detail to the Core Financial Statements.

Section 4 – Supplementary Financial Statements

Section 4a – Housing Revenue Account

This reflects the statutory obligation to account separately for local authority housing provision and associated services to council tenants and leaseholders. It shows the major elements of income and expenditure on Council Housing.

Section 4b – Collection Fund

This statutory account shows the transactions relating to Council Tax and National Non-Domestic Rates and how the amounts collected have been distributed to the Council's General Fund and preceptor (GLA).

Section 5 – Pension Fund

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 6 – Lewisham Group Accounts

The Group Accounts combine the financial results of Lewisham Council with that of its subsidiaries, Lewisham Homes and Catford Regeneration Partnership Ltd. 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 – Annual Governance Statement

The Annual Governance Statement 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. The framework describes the activities with which it engages the community, and enables it to monitor the achievement of its 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.

Annexes

These include the Action Plan for the Annual Governance Statement and a Glossary which explains some technical terms.

Foreword

3. SUMMARY OF THE 2011/12 FINANCIAL YEAR**3a REVENUE SPENDING 2011/12****(i) Revenue Budget Setting**

The Council set a net budget of £278.8 million for 2011/12 at its meeting in March 2011. On the face of it, this represents an increase of £7.3m or 2.7% on the previous year's net budget requirement. However, due to changes in the local government funding mechanism and in particular the incorporation of a large number of previously ring-fenced grants into the main formula grant, the two figures are not directly comparable

(ii) Revenue Budget Outturn

During 2011/12, Mayor and Cabinet and the Executive Management Team (EMT) received regular financial monitoring reports. These enabled the council to take corrective action where pressures were identified, with the result that at the end of the 2011/12 financial year there was a net underspend of £1.8m on the Directorates service budgets, continuing the council's record of sound financial management. The reasons for these variances were reported to the Public Accounts Select Committee on the 14 June 2012 and the Mayor and Cabinet on the 20 June 2012.

(iii) Revenue Budget Outlook for 2011/12

The Council set a net budget requirement of £268.5m for 2012/13 at its meeting in February 2012. This was 3.7% lower in cash terms than the equivalent figure for 2011/12 and a significantly greater reduction once inflation is adjusted for. This reflects the significant spending pressures on local authorities, and realistic plans are in place to ensure that expenditure remains affordable in the future. The council has adequate, but not excessive, reserves to enable it to manage the significant funding risks it faces in the medium-term as the national programme of public sector expenditure reductions continues.

3b FUNDING OF THE REVENUE BUDGET

The Council Tax is a major source of local revenue. The other main sources of income are the Government determined National Non-Domestic Rates (NNDR) and the Revenue Support Grant (RSG). The amount to be raised from Council Tax was calculated as shown in the following table.

	2011/12	2010/11
	£000	£000
Lewisham's Net Budget	278,793	268,251
Less: Formula Grant	44,050	22,851
Less NNDR received from the national pool	142,512	157,367
Less: Surplus on Collection Fund	18	49
General Fund Services to be met from Council Tax	92,213	90,610
Add Precept (GLA)	27,415	26,939
Total to be met from Council Tax	119,628	117,549

Note: The variations between the years on Formula Grant and NNDR come about due to changes by Central Government in the redistributable amount. For variance purposes they are considered as one block.

Foreword

3c COUNCIL TAX LEVELS AND THE TAX BASE

The actual Council Tax is determined by dividing the net amounts to be met from Council Tax by the tax base, which for Lewisham is 89,422 equivalent Band D properties for 2011/12 (87,499 for 2010/11). This then equates to the following Council Tax at Band D:

	2011/12 £000	2010/11 £000	Increase £	Increase %
Lewisham's Demand	1,042.11	1,042.11	00.00	0
Add: Preceptor Requirements:				
Greater London Authority	309.82	309.82	0.00	0
Council Tax for Band D	1,351.93	1,351.93	00.00	0

3d CAPITAL PROGRAMME**(i) Capital Programme 2011/12**

A summary of the capital expenditure incurred during the year and its financing compared to the original programme budget is shown in the table below. The percentage of the 2011/12 programme budget that has been spent is 79%, with the balance on a couple of large schemes in particular rolled forward to the following year.

Major projects (with spend over £2m) in the 2011/12 directorates' capital programme were:

- Primary Places Programmes (inc Expansion) (£22.6m)
- Deptford Town Centre and Station (£10.5m)
- Building Schools for the Future (Design and Build) (£9.0m)
- Forest Hill Pool (£6.9m)
- Transport for London (£4.4m)
- Tidemill School (£3.2m)
- School Works and Upgrades (£3.0m)
- Highways and Bridges (BVR - Prudential Borrowing) (£2.6m)

The largest project in the 2011/12 Lewisham Homes capital programme was the Decent Homes improvement works with expenditure of £15.35m.

	2011/12 Actual Outturn £000	2011/12 Forecast Outturn £000	2010/11 Actual Outturn £000
CAPITAL EXPENDITURE			
Directorates' Capital Programme	70,677	94,995	54,012
Lewisham Homes' Capital Programme	28,019	28,720	1,600
Total Capital Expenditure for the Year	98,696	123,715	55,612
CAPITAL FINANCING			
Government Supported Borrowing	15,350	15,350	13,912
Unsupported Borrowing	2,606	2,715	2,645
Capital Grants	44,958	60,851	25,447
Capital Receipts	21,122	33,144	11,919
Capital Expenditure Financed from Revenue	14,660	11,655	1,689
Total Capital Expenditure Financed	98,696	123,715	55,612

Foreword

(ii) Capital Programme 2012/13

The Council's capital programme budget was agreed at Mayor and Cabinet in February 2012. This outlined the Council's rolled forward five year programme for the years 2012/13 to 2016/17, with total available resources of £336 million. However, most of this is earmarked for the school building and housing investment programmes, and there is relatively little capital finance available for other projects. On current projections the council is unlikely to enter into major new capital commitments (over and above those already included within the programme) due to lack of available capital finance.

The principal programmes and projects of over £2.5m include:

	2012/13 Programme Budget £000
Directorates' Capital Programme	
Primary Places Programme	9,329
BSF – Design and Build Programme	26,221
Schools Minor Works Programme	3,586
MyPlace – Wells Park	3,054
Heathside & Lethbridge	3,000
Highways (BVR - Prudential Borrowing)	3,000
Vehicle Replacement Programme	2,650
Other Schemes (below £2.5m)	43,760
Directorates' Capital Programme	94,600
Housing Revenue Account - Capital Programme	40,500
Total Capital Programme - 2012/13	135,100

3e COUNCIL TAX AND NATIONAL NON DOMESTIC RATES COLLECTION RATES

Actual Collection Rates	2011/12 %	2010/11 %	2009/10 %
Council Tax	94.56	94.09	92.68
National Non-Domestic Rates	97.41	98.98	98.80

Further information on Council Tax and National Non-Domestic Rates can be found in the Collection Fund statements in Section 4b of the Accounts.

4. FINANCIAL HEALTH**4a General Fund**

After transfers to and from reserves the General Fund balance now stands at £11.8m. This is an adequate but not excessive level of cover and represents approximately 2.5% of Lewisham's net budget (including Dedicated Schools Grant expenditure). Lewisham also has earmarked reserves for specific ongoing projects and these are detailed in Note 6 to the Core Financial Statements in Section 3 of the Accounts.

Foreword

4b Housing Revenue Account

After transfers to and from earmarked reserves the HRA total balance, including earmarked reserves, now stands at £17.2m. The earmarked reserves are for specific ongoing projects and these are outlined in Note 16 of the HRA statements in Section 4a of the Accounts.

4c Collection Fund

The Collection Fund had a surplus of £1,674,000 for the year, which when added to the brought forward surplus of £29,000, leaves a surplus of £1,703,000 to carry forward to 2012/13. The details are shown in the Collection Fund statements in Section 4b of the Accounts.

5. SIGNIFICANT EVENTS IN 2011/12 THAT HAVE HAD AN IMPACT ON THE ACCOUNTS

- a) **Housing self-financing**– In preparation for the new system of housing financing, which became effective on 1 April 2012, the council had £136m of housing debt written off on 28th March 2012. As a result the council's long-term borrowing has fallen from £303m to £198m.
- b) **Pension Fund Valuation** – In a turbulent year on the financial markets the value of the Fund increased during the year by £14m from £763m to £775m. At just under 2% this is below the long-term benchmark for fund performance and the deficit on the fund has increased as a result of this investment under-performance and changes to the fund's liabilities to pay future pensions.
- c) **National deficit reduction strategy** – The government's strategy to reduce the national deficit over the lifetime of this Parliament principally affects the council's future funding plans, but has had some direct effects on the 2011/12 accounts. In particular, termination costs of £9m have been recognised in the accounts as the council has implemented savings and staff reductions in response to the new funding climate..

Statement of Responsibilities

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 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.
- 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 give 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 2012.

Janet Senior CPFA

Executive Director for Resources and Regeneration
29th June 2012

SECTION 1

CORE FINANCIAL STATEMENTS

2011/12

**1a) MOVEMENT IN RESERVES
STATEMENT**

**1b) COMPREHENSIVE INCOME AND
EXPENDITURE STATEMENT**

1c) BALANCE SHEET

1d) CASH FLOW STATEMENT

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2012

YEAR ENDING 31ST MARCH 2012	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2011 Brought Forward	11,511	83,904	9,908	32,745	3,211	4,583	145,862	757,313	903,175
Movement in Reserves during 2011/12									
Surplus or (Deficit) on the provision of services	(6,914)	0	122,730	0	0	0	115,816	0	115,816
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(79,828)	(79,828)
Total Comprehensive Income and Expenditure	(6,914)	0	122,730	0	0	0	115,816	(79,828)	35,988
Adjustments between accounting basis and funding basis under regulations (see note 6)	34,179	0	(115,457)	(8,354)	1,318	(215)	(88,529)	88,529	0
Net Increase / Decrease before Transfers to Earmarked Reserves	27,265	0	7,273	(8,354)	1,318	(215)	27,287	8,701	35,988
Transfers to / from Earmarked Reserves	(26,976)	26,976	0	0	0	0	0	0	0
Increase / (Decrease) in 2011/12	289	26,976	7,273	(8,354)	1,318	(215)	27,287	8,701	35,988
Balance at 31 March 2012 Carried Forward	11,800	110,880	17,181	24,391	4,529	4,368	173,149	766,014	939,163

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2011

YEAR ENDING 31ST MARCH 2011	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010 Brought Forward	11,511	75,581	9,760	20,298	4,320	3,463	124,933	731,432	856,365
Movement in Reserves during 2010/11									
Surplus or (Deficit) on the provision of services	80,587	0	(287,733)	0	0	0	(207,146)	0	(207,146)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	253,956	253,956
Total Comprehensive Income and Expenditure	80,587	0	(287,733)	0	0	0	(207,146)	253,956	46,810
Adjustments between accounting basis and funding basis under regulations (see note 6)	(72,264)	0	269,395	12,447	17,377	1,120	228,075	(228,075)	0
Net Increase / Decrease before Transfers to Earmarked Reserves	8,323	0	(18,338)	12,447	17,377	1,120	20,929	25,881	46,810
Transfers to / from Earmarked Reserves	(8,323)	8,323	18,486	0	(18,486)	0	0	0	0
Increase / (Decrease) in 2010/11	0	8,323	148	12,447	(1,109)	1,120	20,929	25,881	46,810
Balance at 31 March 2011 Carried Forward	11,511	83,904	9,908	32,745	3,211	4,583	145,862	757,313	903,175

Core Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31ST MARCH 2012

2010/11			SERVICE	2011/12			Note
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	
41,277	(33,863)	7,414	Central services to the public	39,280	(32,414)	6,866	
25,589	(3,764)	21,825	Cultural and related services	24,098	(3,988)	20,110	
38,629	(5,270)	33,359	Environmental and regulatory services	36,644	(6,079)	30,565	
19,035	(5,433)	13,602	Planning services	17,083	(3,432)	13,651	
420,452	(293,198)	127,254	Children's and education services	351,748	(254,732)	97,016	
24,394	(10,223)	14,171	Highways and transport services	26,382	(10,939)	15,443	
661,665	(315,911)	345,754	Housing services*	348,618	(326,239)	22,379	4
119,249	(29,123)	90,126	Adult social care	121,148	(34,713)	86,435	
7,380	(193)	7,187	Corporate and democratic core	6,644	(294)	6,350	
(129,046)	0	(129,046)	Non distributed costs	13,404	(15)	13,389	
1,228,624	(696,978)	531,646	Cost of Services	985,049	(672,845)	312,204	
			Other Operating Expenditure				
220	(6,828)	(6,608)	(Gain) / Loss on the disposal of non-current assets	0	(6,962)	(6,962)	
1,787	0	1,787	Levies	1,730	0	1,730	8
688	0	688	Contribution of housing capital receipts to Government Pool	1,787	0	1,787	21a
2,695	(6,828)	(4,133)		3,517	(6,962)	(3,445)	
			Financing and Investment Income and Expenditure				
44,061	(63)	43,998	Interest payable and similar charges	75,871	0	75,871	
94	0	94	Changes in fair value of Investment Properties	466	0	466	10
555	0	555	(Gain) / loss on disposal of Investment Properties	127	0	127	10
441	(2,932)	(2,491)	Interest and Investment Income	316	(3,475)	(3,159)	
71,140	(51,608)	19,532	Pensions interest cost and expected return on pensions assets	61,882	(51,689)	10,193	40
116,291	(54,603)	61,688		138,662	(55,164)	83,498	
			Taxation and non-specific Grant Income				
0	(91,234)	(91,234)	Income from Council Tax	0	(93,522)	(93,522)	
0	(58,216)	(58,216)	General Government Grants	0	(47,899)	(47,899)	31
0	(75,238)	(75,238)	Recognised Capital Grants and Contributions	0	(224,140)	(224,140)	
0	(157,367)	(157,367)	National Non-Domestic Rates redistribution	0	(142,512)	(142,512)	
0	(382,055)	(382,055)		0	(508,073)	(508,073)	
		207,146	Deficit/(Surplus) on provision of services			(115,816)	
		(61,706)	Surplus or deficit on revaluation of non-current assets			(3,725)	22a
		(191,221)	Actuarial (gains)/losses on pension fund assets and liabilities			85,641	40
		(1,029)	Other (gains)/losses			(2,088)	
		(253,956)	Other Comprehensive Income and Expenditure			79,828	
		(46,810)	Total Comprehensive Income and Expenditure			(35,988)	

* Note 4 contains further information on material items included within this line of expenditure and income

Core Financial Statements

BALANCE SHEET AS AT 31ST MARCH 2012

31/03/2011 £000		31/03/2012 £000	Note
	Property, Plant & Equipment		
624,293	Council Dwellings	609,047	9a
855,122	Other Land and Buildings	836,233	9a
29,844	Vehicles, plant, furniture and equipment	32,913	9a
57,339	Infrastructure	72,960	9a
8,162	Community Assets	9,275	9a
0	Heritage Assets	257	44
31,170	Surplus Assets not held for Sale	24,710	9a
58,098	Assets under Construction	51,435	9a
1,664,028		1,636,830	
22,491	Investment Property	21,960	10
0	Long Term Investments	0	12
13,179	Long Term Debtors	13,161	15a
1,699,698	Total Long Term Assets	1,671,951	
78,620	Short Term Investments	40,276	12
0	Assets Held for Sale	825	19
233	Inventories	179	15
38,528	Debtors	44,278	17b
128,265	Cash and Cash Equivalents	173,455	18
4,712	Prepayments	4,235	20
250,358	Current Assets	263,248	
39,351	Short Term Borrowing	5,131	12
3,481	Provisions (Less than 1 year)	3,472	20
84,505	Creditors	79,179	19
64,904	Receipts in Advance	66,642	32
4,900	PFI Liabilities due within one year	5,669	36
197,141	Current Liabilities	160,093	
1,752,916	Total Assets less Current Liabilities	1,775,106	
303,372	Long Term Borrowing	197,782	12
9,683	Provisions (More than 1 year)	9,718	20
469	Deferred Capital Receipts	337	
173,073	Deferred PFI Liabilities	172,307	36
1,117	Capital Grants Receipts in Advance	744	32
362,027	Liability related to defined benefit pension scheme	455,055	40
849,741	Long Term Liabilities	835,943	
903,175	NET ASSETS	939,163	
	Usable Reserves		
11,511	General Fund Balance	11,800	
83,904	Earmarked Revenue Reserves	110,880	7
9,908	Housing Revenue Account	17,181	HRA16
32,745	Usable Capital Receipts Reserve	24,391	21a
3,211	Major Repairs Reserve	4,529	HRA15
4,583	Capital Grants Unapplied	4,368	21b
145,862		173,149	
	Unusable Reserves		
213,300	Revaluation Reserve	213,256	22a
923,021	Capital Adjustment Account	1,021,424	22b
(10,060)	Financial Instruments Adjustment Account	(8,557)	22c
(362,027)	Pensions Reserve	(455,055)	22d
22	Collection Fund Adjustment Account	1,313	22e
(6,944)	Short Term Compensated Absences Account	(6,367)	22f
757,313		766,014	
903,175	TOTAL EQUITY	939,163	

Core Financial Statements

CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2012

2010/11 £000s		2011/12 £000s	Note
(207,146)	Net surplus or (deficit) on the provision of services	115,816	
304,234	Adjustment to surplus or deficit on the provision of services for noncash movements	102,358	
(43,690)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(60,595)	
53,398	Net Cash flows from operating activities	157,579	45
(49,601)	Net Cash flows from Investing Activities Levies	28,004	46
(13,137)	Net Cash flows from Financing Activities	(140,393)	47
(9,340)	Net increase or (decrease) in cash and cash equivalents	45,190	
137,605	Cash and cash equivalents at the beginning of the reporting period	128,265	16
128,265	Cash and cash equivalents at the end of the reporting period	173,455	16

SECTION 2

**STATEMENT OF
ACCOUNTING POLICIES**

2011/12

STATEMENT OF ACCOUNTING POLICIES – 2011 / 2012

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its financial position at the year-end of 31 March 2012. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which requires them to be prepared in accordance with proper practices in relation to accounts. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice for Local Authorities 2011/12 (both published by the Chartered Institute of Public Finance and Accountancy (CIPFA)), supported by International Financial Reporting Standards (IFRS) and statutory guidance in the Accounts and Audit Regulations 2003 where applicable.

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

Changes in accounting estimates are accounted for prospectively, ie 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 Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

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.

Income from the provision of services or sale of goods is recognised when it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.

Expenditure on supplies is recorded as expenditure when they are consumed. When there is a significant gap between the date on which supplies are received and the date of their consumption, and the value is material, they are carried as stocks on the Balance Sheet. Expenditure on services received (including those provided by employees) is recorded as expenditure when the services are received rather than when payments are made.

Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates on a basis that reflects the effective interest rate, rather than the cash flows, of the loan or investment.

Where income and expenditure have been recognised in the accounts, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is probable 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.

Statement of Accounting Policies

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 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 gains or losses are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

6. VALUE ADDED TAX (VAT)

Income and Expenditure excludes any amounts related to VAT, unless it is unrecoverable 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
- 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 those services that benefit from the supply or service in accordance with the total absorption costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The exceptions are as follows;

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation (e.g. member's services, external audit fees).
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held for Sale.

These categories are defined in SeRCOP and accounted for as separate headings as part of Net Expenditure on Continuing Services in the Comprehensive Income and Expenditure Statement.

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 Authority 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 Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Statement of Accounting Policies

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 in the Balance Sheet as creditors. When conditions are satisfied, it is 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 Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. 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.

Any 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

Property, Plant and Equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. The initial direct costs of the Council are added to the carrying amount of the asset. Any premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Statement of Accounting Policies

ii) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as expenditure of the services benefitting from 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 pattern of payments (eg where there is a rent-free period at the commencement of the lease).

b) The Council as Lessor

i) Finance Leases

Where 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 (whether Property, Plant and Equipment or Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – 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 Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. 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 Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 Movement in Reserves Statement.

ii) Operating Leases

Where the Council grants an operating lease over a property or item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease).

11. INVENTORIES (STOCK)

Highways and fleet stores are valued and included in the Balance Sheet at cost price as a proxy for average price, there being no material difference between the two. Revenue accounts are charged with the cost of obsolescent stock written off.

Statement of Accounting Policies

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 due to be settled within 12 months of the year-end. They include such benefits as 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 holiday entitlements (or any form of leave, eg time off in lieu) 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 following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) Termination and Discretionary Benefits

Termination benefits are amounts payable either as a result of a decision by the Council to terminate an officer's employment before their normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant Service Cost line in the Comprehensive Income and Expenditure Statement in the year in which the Council is demonstrably committed to the termination of the employment of the officer.

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements and has an agreed scheme. It operates a Panel which considers proposals for retirement of employees on the grounds of redundancy and/or efficiency and applications for early retirement from employees. Any resulting additional liabilities arising to the Pension Fund are funded by payments from the Income and Expenditure Account.

Where termination benefits involve 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 Movement in Reserves Statement, 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.

c) Post Employment Benefits

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

- The Teachers Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme (LGPS) administered by Lewisham Council.
- The London Pension Fund administered by the London Pension Fund Authority (LPFA).

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

This scheme is a defined benefit scheme, but is accounted for as if it was a defined contributions scheme, since its liabilities can not be separately identified to individual local authorities. No liabilities for future payment of benefits are therefore recognised in the balance sheet for this scheme. The Comprehensive

Statement of Accounting Policies

Income and Expenditure Statement is charged with the employer's contributions paid to Teachers' Pensions during the year.

(ii) Local Government Pension Scheme

This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets can be identified to individual local authorities.

The liabilities of the Scheme which are attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie 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. This takes into account the items in the actuarial report 2010 page 7.

The assets of the Scheme which are attributable to the Council are included in the Balance Sheet at their fair value. The asset categories are:

- 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:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Council's pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as expenditure.

Statutory provisions only allow the Council to raise 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 5 of the Statement of Accounts.

Statement of Accounting Policies

(iii) London Pension Fund

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 Comprehensive Income and Expenditure Statement is charged with a levy from the LPFA to meet the employer's contributions and the costs of administration.

14. INTERESTS IN COMPANIES

Lewisham Homes (LH) and Catford Regeneration Partnership Ltd (CRPL) are wholly owned subsidiary companies of the Council. Group Accounts have been prepared which incorporate the accounts of LB Lewisham, LH and CRPL and these are included in Section 6 of the Statement of Accounts.

The Council has relationships with a number of other companies, details of which are shown in note 28 to the Core Financial Statements in Section 3 of the Statement of Accounts. During 2011/12 the Council had a minority interest (significantly lower than 50%) in these companies. The transactions between the Council and these companies are included in the Council's single entity accounts.

15. CARBON REDUCTION COMMITMENT ALLOWANCES

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of its services and is apportioned to services on the basis of energy consumption.

16. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES

a) Provisions

The Council has set aside amounts from its revenue account to form provisions, which will be used to cover future expenditure. These are shown in Note 22 of Section 3 of the Statement of Accounts.

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council has undertaken a number of staff restructuring exercises which will result in termination payments being incurred.

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg 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 authority settles the obligation.

Statement of Accounting Policies

b) Impairment Allowances

Impairment allowances (i.e. 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 bad debt provision. Where payments are made, they are credited to the provision on the Balance Sheet.

17. RESERVES

The Council has set aside specific amounts as reserves to cover future expenditure for policy purposes or for contingencies, which fall outside the definition of provisions (see above). These are shown in Note 8 of Section 3 of the Statement of Accounts.

The reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

A number of statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent resources for the Council to use. These reserves are explained in the relevant policies and notes.

18. 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. A contingent liability could also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts where it is probable that there will be an inflow or outflow of economic benefits or service potential.

19. 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 (such as home improvement grants or expenditure on voluntary aided schools), is charged to the relevant cost of service line in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has decided to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

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.

Statement of Accounting Policies

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

21. FINANCIAL INSTRUMENTS

a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council enters into a contract for a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that 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, this means that the amount shown in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. Premiums and discounts are split between the General Fund and Housing Revenue Account in accordance with their share of debt as identified by the Council's Capital Financing Requirement as at 1 April in the year in which they are incurred. In accordance with statute, the reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against Council Tax or Housing Rents is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b) Financial Assets

i) Loans and Receivables

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet when the Council enters into the financial instrument initially measured at fair value and subsequently at their amortised cost. This category includes short term investments and sundry debtors.

The credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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ii) Available-for-Sale Assets

These are assets which have a quoted market price and/or do not have fixed or determinable payments. The Council does not have any assets in this category.

22. INTANGIBLE NON CURRENT ASSETS

Intangible Non Current Assets (e.g. software licenses) do not have any physical substance but are identifiable and controllable by the Council through custody or legal rights. The expenditure on them is only capitalised when it is material and the future economic benefits or service potential flowing will also be material.

23. CHARGES TO REVENUE FOR NON CURRENT ASSETS

All services (including support services and trading accounts) are debited with the following amounts to record 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.

The Council is not required to raise council tax to finance these charges. However, it is required to make an annual contribution from revenue to reduce its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance (Minimum Revenue Provision - MRP). These charges, therefore, are replaced by the MRP charge to the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

24. 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 to the property, increases its ability to deliver future economic benefits or service potential, or can be capitalised as a component under IFRS and exceeds the Council's de minimus limit of £40,000. Expenditure financed from the Devolved Formula Capital Grant (from the government) is also capitalised on the basis that it increases the school's service potential.

Expenditure that only maintains an asset's value (ie 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

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying

Statement of Accounting Policies

amount of the asset given up by the Authority. The Council has not received any donated assets in 2011/12 or 2010/11. Any donated assets received in future will be accounted for according to the COP.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair 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.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. They are valued on the basis recommended by CIPFA and in accordance with the Statements of Appraisal and Valuation Manual and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement 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 balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

c) Impairment

Assets held on the Balance Sheet (over £40,000) are reviewed at year-end to assess whether they may be impaired. Where an indication exists, the recoverable amount of the asset is estimated and if material, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for as follows:

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

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

d) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets by applying the straight-line method based on the asset's useful life. Exceptions are made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

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- dwellings and other buildings – straight-line allocation over the useful life of the property as determined by the valuer (dwellings are usually over 25 years and buildings over 40 years).
- vehicles, plant and equipment – straight-line allocation over 5-10 years as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over 25 years, unless advised by a suitably qualified officer.

The Council's policy is to charge depreciation on the value of the asset as at 1 April each year (i.e. opening value). It is charged from the beginning of the year that follows the date of purchase or completion of construction, and is not adjusted for disposals or additions of assets during the year. Where a Property, Plant and Equipment 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.

25. DISPOSALS AND NON CURRENT ASSETS HELD FOR SALE

When it is almost certain that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, and the strict criteria outlined in the COP are met, it is reclassified as an Asset Held for Sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is currently payable to the Government. However, recent legislation concerning HRA self-financing will alter this with effect from 1 April 2012. The retained receipts are required to be credited to the 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 (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. 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 appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

26. INVESTMENT PROPERTIES

Investment properties are those assets which are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way for the delivery of services or

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production of goods or is held for sale. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. They are revalued annually according to market conditions, and are therefore not depreciated. Any gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. These are not permitted by statutory arrangements to have an impact on the General Fund Balance, and are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve if relevant.

27. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the 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 was 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 which are 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 Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the asset arising during the contract, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- 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.

28. HERITAGE ASSETS

Heritage Assets are recognised and measured in accordance with the Council's accounting policies on Property, Plant and Equipment. This includes policies on revaluation, impairment and disposal where applicable). The Council has, however, opted not to depreciate these assets.

SECTION 3

**NOTES TO THE
CORE FINANCIAL
STATEMENTS**

2011/12

Notes to the Core Financial Statements

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED

The Code of Practice on Local Authority Accounting 2012/2013 (the Code) introduces one change in accounting policy which relates to disclosures on Financial Instruments (Transfers of financial assets). The Council will be required to adopt this change in its 2012/13 financial statements.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the Accounting Policies set out in Section 2, the Council has had to make certain judgements about complex transactions (shown in this note, below) and a number of assumptions which involve uncertainty about future events (shown in the following note, Note 3).

The major judgements made in these Accounts are as follows:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- During the last two financial years, as a result of the implementation of IFRS accounting, a considerable number of judgements were made concerning the classification of and the accounting for Non Current Assets, Leases, PFI and other major contracts, Capital and Revenue Grants and other miscellaneous items. There are no material changes to these judgements for the 2011/12 accounts. Further details are included in the 2010/11 Statement of Accounts.
- The Lewisham Homes pension indemnity was agreed by the Council when Lewisham Homes was established. The accounting for it has been a matter of concern in recent years and has been reported to Members as such on several occasions. During the 2008/09 external audit the accounts were amended and subsequent accounts have continued with this revised treatment.
- The insurance provision is made up of contributions to cover liabilities arising from a number of insurance years dating back to 2002. It has been split between less than one year and greater than one year, estimating what proportion of the monies held relate to each of the years, what has been paid so far in each of those years and what remains outstanding. The Council commissions an annual review from its insurance advisors to inform this split.

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

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

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

a) Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, possibly bringing into some doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings could increase by approximately **£1.2m** for every year that useful lives had to be reduced.

Notes to the Core Financial Statements

b) Insurance Provisions

An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement could each have the effect of adding £0.16m to the provision needed.

c) 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. Two firms of consulting actuaries (one for the LGPS and one the LPFA) are 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. For instance, a 0.5% increase in the real discount rate assumption would result in a decrease in the pension liability of about £106m. However, the assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability had increased by £45m as a result of estimates being corrected as a result of experience and increased by £35m attributable to updating of the assumptions.

c) Arrears of Significant Debtors

The Council had balances of sundry debtors, Council Tax, NNDR and Housing Rents of approximately £92m as at 31st March 2012. All of the significant balances have been reviewed and impairment allowances for doubtful debts at appropriate levels have been set. However, although the current economic climate has been taken into account, it is not certain that such allowances will be sufficient, as the judgements made in respect of them are necessarily primarily based on historical trends. To date however, there is insufficient evidence of reductions in collection rates, which in some cases have improved during 2011/12, to justify making additional impairments in this respect. If collection rates were to deteriorate, an increase of 10% in the amount of the impairment allowance would require an additional £5m to be set aside.

4. MATERIAL ITEMS OF INCOME AND EXPENDITURE

Where material items have not been separately disclosed in the Comprehensive Income and Expenditure Statement, the nature and amount of items are set out below;

a) Housing Revenue Account – Self Financing

The government is reforming the council housing finance system from 2012/13 by abolishing the HRA subsidy system and replacing it by a "self-financing" system instead. A fundamental element of this was to adjust council's debt to make it affordable. The settlement for Lewisham comprised of the DCLG repaying £136.38m of PWLB debt on 28th March 2012. This has been accounted for as recommended by CIPFA in a specific bulletin (LAAP 92).

b) HRA – Decent Homes Strategy and Housing Stock Revaluation

These events took place in 2010/11 and had a significant effect on the Accounts.

A housing stock transfer took place in October 2010, in which 2,427 tenanted and 1,103 leasehold housing units, forming the Chrysalis Estate, were transferred to London and Quadrant RSL. The asset value of the transfer was £103.2m and overhanging debt of £41.5m was written off.

The housing stock is valued in the Council's accounts on the basis of Social Housing - Existing Use, which is defined by the Government as a percentage of the vacant possession value on the open market. For 2009/10, this percentage was set at 37%, but for 2010/11, it was reduced to 25%. This resulted in a reduction in the value of the Council's housing stock of £300m and was charged as an impairment to the HRA and reversed out through the Movement in Reserves Statement to prevent it being a charge against rents. There was no net effect on revenue, but the Net Equity on the Council's Balance Sheet Equity has been reduced by this figure.

c) Pensions Indexation

The change in indexation of pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI) in last years accounts has been maintained in the 2011/12 accounts. In 2010/11, this had the effect of

Notes to the Core Financial Statements

reducing the council's likely future pension liabilities by £130m, offset by an equal reduction in the Pensions Reserve.

5. EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration on 29 June 2012. Where events have taken place before this date which alter the conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the altered conditions. However, no such material post balance sheet events have occurred.

Events taking place after 29 June 2012 are not reflected in the financial statements or notes.

The following significant events have occurred after the 31 March 2012 which will affect the 2012/13 accounts, but have no effect on the 2011/12 accounts;

a) Trust Schools

Formal agreement has been reached with the governing bodies of Brent Knoll and Watergate Schools to become foundation schools (trust schools) with an implementation date of 2 April 2012

b) Schools Closing and Opening

Meadowgate and Pendragon Schools are closing in July 2012 and Drumbeat School is opening in September 2012.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the Comprehensive Income and Expenditure Statement 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.

Notes to the Core Financial Statements

2011/12	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items credited or debited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	73,247		12,621		16,381		(102,249)
Revaluation losses on Property, Plant and Equipment							
Movements in the market value of Investment Properties	466						(466)
Capital grants and contributions applied	(44,860)		(178,100)			(1,395)	224,355
Revenue expenditure funded from capital under statute	11,874						(11,874)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(4,730)		(2,105)	14,555			(7,720)
HRA capital expenditure or income from subsidy buy-out			41,762				(41,762)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment	(1,863)		(2,621)				4,484
Voluntary provision above MRP	(7,398)						7,398
Capital expenditure charged against the General Fund and HRA balances	(1,620)						1,620
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(1,180)					1,180	0
Application of grants to capital financing transferred to the Capital Adjustment Account							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement							
Use of the Capital Receipts Reserve to finance new capital expenditure				(21,122)			21,122
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,787			(1,787)			0
Adjustments primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA			10,811		(10,811)		0
Difference between Major Repairs Allowance and HRA depreciation			3,371		(3,371)		0
Use of the Major Repairs Reserve to finance new capital expenditure					(881)		881

Notes to the Core Financial Statements

2011/12 continued	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Financial Instruments Adjustment Account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(302)		(1,201)				1,503
Adjustments primarily involving the Pensions Reserve: Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	36,219		177				(36,396)
Employer's pensions contributions and direct payments to pensioners payable in the year	(28,837)		(172)				29,009
Adjustments primarily involving the Collection Fund Adjustment Account: Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(1,291)						1,291
Adjustments primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(577)						577
Other Adjustments	3,244						(3,244)
Total Adjustments	34,179	0	(115,457)	(8,354)	1,318	(215)	88,529

Notes to the Core Financial Statements

2010/11 comparative figures	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items credited or debited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	73,728		341,581				(415,309)
Revaluation losses on Property, Plant and Equipment							
Movements in the market value of Investment Properties	94						(94)
Capital grants and contributions applied	(23,801)		(41,537)				65,338
Revenue expenditure funded from capital under statute	3,942						(3,942)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	890		(6,943)				6,053
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment	(9,160)		(3,078)				12,238
Voluntary provision above MRP							
Capital expenditure charged against the General Fund and HRA balances	(1,689)						1,689
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						1,120	(1,120)
Application of grants to capital financing transferred to the Capital Adjustment Account							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement					25,054		(25,054)
Use of the Capital Receipts Reserve to finance new capital expenditure				(11,919)			11,919
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	688			(688)			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash							
Adjustments primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA			(13,670)		13,670		0
Difference between Major Repairs Allowance and HRA depreciation			(5,335)		5,335		0
Use of the Major Repairs Reserve to finance new capital expenditure			1,627		(1,627)		0

Notes to the Core Financial Statements

2010/11 comparative figures (Continued)	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Financial Instruments Adjustment Account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,439)		(1,601)				3,040
Adjustments primarily involving the Pensions Reserve: Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(85,598)		154				85,444
Employer's pensions contributions and direct payments to pensioners payable in the year	(30,385)		(177)				30,562
Adjustments primarily involving the Collection Fund Adjustment Account: Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3						(3)
Adjustments primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(820)						820
Other Adjustments	1,283		(1,627)				344
Total Adjustments	(72,264)	0	269,394	12,447	17,378	1,120	(228,075)

7. TRANSFERS TO AND FROM EARMARKED RESERVES

Lewisham keeps a number of earmarked reserves on the 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 voluntarily to earmark resources for future spending plans.

This note shows the amounts set aside voluntarily from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

The use of HRA earmarked reserves is shown in Note 16 of the notes to the HRA in Section 4a.

Notes to the Core Financial Statements

	Balance 31/03/10 £000	10/11 Transfers		Balance 31/03/11 £000	11/12 Transfers		Balance 31/03/12 £000
		In £000	Out £000		In £000	Out £000	
General Earmarked	42,849	12,509	(15,836)	39,522	20,767	(8,512)	51,777
PFI Schemes	9,412	2,910	0	12,322	5,903	0	18,225
Insurance	13,196	1,458	0	14,654	293	0	14,947
Capital Expenditure	5,932	1,724	(1,689)	5,967	2,328	(1,620)	6,675
	71,389	18,601	(17,525)	72,465	29,291	(10,132)	91,624
School Balances	3,568	13,058	(5,835)	10,791	7,740	0	18,531
School's External Funds	624	648	(624)	648	725	(648)	725
	4,192	13,706	(6,459)	11,439	8,465	(648)	19,256
Total	75,581	32,307	(23,984)	83,904	37,756	(10,780)	110,880

a) Insurance Reserve

Included within this reserve is an amount of £6.4m which has been set aside for contingent liabilities in respect of specific cases under the MMI scheme (including asbestos exposure cases and claims against former employees of one of the council's former children's homes).

b) Capital Expenditure Reserve

This is a reserve created to enable services to make revenue contributions towards their committed capital spending in future years.

c) Schools Balances

This reserve represents schools' self-managed budgets that remain unspent at the year-end. It is earmarked for use by the schools only.

d) Schools' External Funds

This is the unspent balances from schools' locally generated funds and is earmarked for schools only.

8. 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.

	2011/12 £000	2010/11 £000
London Pension Fund Authority	1,294	1,346
Environment Agency	174	174
Lee Valley Regional Park Authority	262	267
Total Levies Paid	1,730	1,787

9. PROPERTY, PLANT AND EQUIPMENT**a) Movements in Non Current Assets**

The movements in non current assets during 2011/12 were as follows:

Notes to the Core Financial Statements

2011/12	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 1st April 2011	639,633	880,726	59,022	102,691	8,162	31,365	58,098	1,779,697
Additions	15,722	11,248	4,105	12,409	100	3,177	32,024	78,785
Revaluations (Reval Reserve)	0	7,540	0	0	0	9,639	0	17,179
Revaluations (Surp/Def on Prov of Servs)	0	40	0	0	0	748	0	788
Total Revaluations	0	7,580	0	0	0	10,387	0	17,967
Impairments (Reval Reserve)	(421)	(5,315)	0	0	0	(5,757)	0	(11,493)
Impairments (Surp/Def on Prov of Servs)	(12,692)	(41,033)	(66)	(6)	0	(11,598)	(6,760)	(72,155)
Total Impairments	(13,113)	(46,348)	(66)	(6)	0	(17,355)	(6,760)	(83,648)
Disposals	(679)	0	(33)	0	0	(6,594)	0	(7,306)
Transfers	(2,066)	16,926	4,798	6,584	1,012	4,609	(31,926)	(63)
Assets reclassified to/from Held for Sale	0	0	0	0	0	(825)	0	(825)
Gross Book Value c/fwd at 31st March 2012	639,497	870,132	67,826	121,678	9,274	24,764	51,436	1,784,607
Depreciation b/fwd at 1st April 2011	(15,340)	(25,604)	(29,178)	(45,352)	0	(195)	0	(115,669)
Depreciation for year	(15,329)	(11,495)	(5,569)	(3,366)	0	(40)	0	(35,799)
<u>Depreciation written back on:</u>								
Transfers	115	176	(191)	0	(2)	(98)	0	0
Assets Revalued	0	1,058	0	0	2	26	0	1,086
Assets Impaired	72	1,966	0	0	0	252	0	2,290
Assets Sold	33	0	24	0	0	0	0	57
Depreciation c/fwd at 31st March 2012	(30,449)	(33,899)	(34,914)	(48,718)	0	(55)	0	(148,035)
Net Book Value at 31st March 2012	609,048	836,233	32,912	72,960	9,274	24,709	51,436	1,636,572

The movements in non current assets during 2010/11 were as follows:

Notes to the Core Financial Statements

2010/11	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Comm. Assets	Surplus Assets	Assets under Construction	2010/11 TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value b/fwd at 1st April 2010	949,010	876,537	52,353	98,202	8,451	31,536	38,785	2,054,874
Additions	13,329	25,273	4,434	5,036	10	1,077	30,819	79,978
Revaluations (Reval Reserve)	39,860	31,158	0	0	0	7,813	0	78,831
Revaluations (Surp/Def on Prov of Servs)	(1,442)	723	0	0	0	4,042	0	3,323
Total Revaluations	38,418	31,881	0	0	0	11,855	0	82,154
Impairments (Reval Reserve)	(9,778)	(2,768)	0	0	0	(4,578)	0	(17,124)
Impairments (Surp/Def on Prov of Servs)	(347,923)	(59,164)	0	(723)	(299)	(2,217)	0	(410,326)
Total Impairments	(357,701)	(61,932)	0	(723)	(299)	(6,795)	0	(427,450)
Disposals	(1,707)	(1,184)	(33)	0	0	(6,935)	0	(9,859)
Transfers	(1,716)	10,151	2,268	176	0	627	(11,506)	0
Assets reclassified to/from Held for Sale	0	0	0	0	0	0	0	0
Gross Book Value c/fwd at 31st March 2011	639,633	880,726	59,022	102,691	8,162	31,365	58,098	1,779,697
Depreciation b/fwd at 1st April 2010	(24,211)	(16,643)	(24,070)	(42,264)	0	(354)	0	(107,542)
Depreciation for year	(17,939)	(11,064)	(5,131)	(3,088)	0	(375)	0	(37,597)
<u>Depreciation written back on:</u>								
Transfers	0	0	0	0	0	0	0	0
Assets Revalued	1,570	383	0	0	0	226	0	2,179
Assets Impaired	25,213	1,720	0	0	0	106	0	27,039
Assets Sold	27	0	23	0	0	202	0	252
Depreciation c/fwd at 31st March 2011	(15,340)	(25,604)	(29,178)	(45,352)	0	(195)	0	(115,669)
Net Book Value at 31st March 2011	624,293	855,122	29,844	57,339	8,162	31,170	58,098	1,664,028

b) Non Current Assets Revaluations

Notes to the Core Financial Statements

A five-year rolling programme of revaluation for land and buildings is carried out to ensure that the Council's assets are held at valuations in accordance with RICS and CIPFA guidance. These were signed off by the Council's Valuers Department. The Council's policy on valuing its assets are set out in the Accounting Policies in Section 2 of the Accounts.

	Council Dwellings £000	Other Land & Buildings £000	Community Assets £000	Surplus Assets £000	Total £000
Valued at Historic Cost	0	16,504	8,344	0	24,848
Valued at Current Value					
As at 31 March 2012	3,990	15,462		715	20,167
As at 1 April 2011	99	132,161	40	21,170	153,470
As at 31 March 2011		77,504		2,456	79,960
As at 1 April 2010	604,958	216,556	36		821,550
As at 31 March 2010		144,396		258	144,654
As at 1 April 2009		68,247	854		69,101
As at 31 March 2009		134,026		111	134,137
As at 1 April 2008		27,830			27,830
As at 1 April 2007		3,547			3,547
Total Net Book Value	609,047	836,233	9,274	24,710	1,479,264

In addition to the rolling programme, a number of assets were revalued following the completion of capital programme works on them during the year.

10. INVESTMENT PROPERTIES

The following have been included in the Comprehensive Income and Expenditure Statement;

	2011/12 £000	2010/11 £000
Operating Expenses	138	138
Rental Income	(1,806)	(1,838)
Balance at End of Year	(1,668)	(1,700)

The following shows the movement in fair value of investment properties in 2011/12;

	2011/12 £000	2010/11 £000
Balance at Beginning of Year	22,491	23,583
Purchases	0	127
Disposals	(127)	(1,125)
Net Gains / (Losses) from fair value adjustments	(466)	(94)
Transfers to / from PPE	62	0
Balance at End of Year	21,960	22,491

Notes to the Core Financial Statements

11. INTANGIBLE ASSETS

The expenditure on these assets is only capitalised when it is material and the future economic benefits or service potential flowing will also be material. The Council has reviewed the level of spend on these assets and they continue to be immaterial and therefore are charged direct to the Comprehensive Income and Expenditure Statement.

12. FINANCIAL INSTRUMENTS

The 2011/12 Code of Practice requires compliance with IFRS but some of the requirements are non-compliant 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.

a) Financial Instruments Balances

	Long-Term		Current		
	31 Mar 2012 £000	31 Mar 2011 £000	31 Mar 2012 £000	31 Mar 2011 £000	
Financial Liabilities (Principal Amount)	197,607	303,206	5,000	35,000	
Accrued Interest	175	166	2,676	4,351	
Other accounting adjustments	-	-			
Financial liabilities at amortised cost	197,782	303,372	7,676	39,351	1
Financial liabilities at fair value through profit or loss	-	-	-	-	2
Total Borrowings	197,782	303,372	7,676	39,351	
PFI and finance lease liabilities	269,918	175,070	6,073	4,900	
Financial liabilities at amortised cost	-	-	-	-	
Financial liabilities at contract amount	-	-	71,850	78,301	6
Total Creditors	269,918	175,070	77,923	83,201	
Financial Guarantees	-	-	-	-	4
Soft Loans Received	-	-	-	-	5
Loans and Receivables (principal amount)	-	-	218,375	180,809	
Plus Accrued Interest	-	-	603	483	
Plus Accounting adjustments	-	-	-	-	
Loans and Receivables at amortised cost	-	-	218,978	181,292	1
Available-for-sale financial assets	-	-	-	25,593	
Financial Assets at fair value through profit or loss	-	-	-	-	2
Unquoted equity investment at cost	-	-	-	-	
Total Investments	-	-	218,978	206,885	
Loans and receivables	-	-	-	-	
Financial assets at contract amounts	-	-	37,748	32,382	6
Total Debtors	-	-	37,748	32,382	
Soft loans provided	-	-	-	-	5

Notes to the Core Financial Statements

Note 1 – The figures shown above do not all appear on the face of the balance sheet due to the reclassification of certain short and long term investments as Cash Equivalents under IFRS.

Note 2 – Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Note 3 – Fair value has been measured by:

- Direct reference to published price quotations in an active market; and/or
- Estimating using a valuation technique.

Note 4 – Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The Council provided no financial guarantees in the financial year and had none outstanding from previous years.

Note 5 – The Council has made no loans to voluntary organisations at less than market rates (soft loans), nor has it received any such loans.

Note 6 – The breakdown of these figures are shown in Notes 16b and 19 respectively.

Unusual Movements

The long term investments held by the two cash managers Investec and Invesco were cashed in during the year and the money brought back in-house and re-invested in the money market funds.

The government redeemed £136m of the Council's PWLB loans on 28th March 2012 under the new HRA Self Financing regulations.

Reclassification

There were no reclassifications of financial instruments in the year.

Derecognition of instruments

There is no derecognition expected to impact where the Council has transferred financial assets to a third party.

Collateral

The council does not hold or has not obtained any collateral for third party debts or other credit enhancements in the financial year 2011/12 or 2010/11.

Allowance for Credit Losses

No allowance for credit losses under section 7.4.2.6 of the Code was made during the year.

Defaults and Breaches

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

b) Financial Instruments Gains / (Losses)

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

Notes to the Core Financial Statements

Financial Instruments Gains and Losses 2011/12	Financial Liabilities	Financial Assets			Total £000
	Amortised cost £000	Loans and Receivables £000	Available For Sale £000	Fair Value £000	
Interest expense	(17,683)	-	-	-	(17,683)
Losses on derecognition	-	-	-	-	-
Reductions in fair value	-	-	-	-	-
Impairment losses	-	-	-	-	-
Fee expense	-	-	-	-	-
Expense in Surp or Def on Prov of Servs	(17,683)	-	-	-	(17,683)
Interest income	-	2,228	-	-	2,228
Interest Income accrued on impaired financial assets	-	-	-	-	-
Increases in fair value	-	-	-	-	-
Gains on derecognition	-	-	-	-	-
Fee income	-	-	-	-	-
Income in Surp or Def on Prov of Servs	-	2,228	-	-	2,228
Gains or Losses on Revaluation	-	-	-	-	-
Amounts charged after impairment	-	-	-	-	-
Surplus on revaluation of financial assets	-	-	-	-	-
Net Gain / (Loss) for the Year	(17,683)	2,228	-	-	(15,455)

Financial Instruments Gains and Losses 2010/11	Financial Liabilities	Financial Assets			Total £000
	Amortised cost £000	Loans and Receivables £000	Available For Sale £000	Fair Value £000	
Interest expense	(18,946)	-	-	-	(18,946)
Losses on derecognition	-	-	-	-	-
Reductions in fair value	-	-	-	-	-
Impairment losses	-	-	-	-	-
Fee expense	-	-	-	-	-
Expense in Surp or Def on Prov of Servs	(18,946)	-	-	-	(18,946)
Interest income	-	1,536	-	-	1,536
Interest Income accrued on impaired financial assets	-	-	-	-	-
Increases in fair value	-	-	-	-	-
Gains on derecognition	-	-	-	-	-
Fee income	-	-	-	-	-
Income in Surp or Def on Prov of Servs	-	1,536	-	-	1,536
Gains or Losses on Revaluation	-	-	-	-	-
Amounts charged after impairment	-	-	-	-	-
Surplus on revaluation of financial assets	-	-	-	-	-
Net Gain / (Loss) for the Year	(18,946)	1,536	-	-	(17,410)

Notes to the Core Financial Statements

c) Fair Value of Financial Instruments not Disclosed on the Balance Sheet

Financial liabilities and financial assets represented by loans and receivables 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 present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- 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 value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2012		31 March 2011	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	89,097	99,724	227,135	259,193
Non-PWLB Debt	116,361	117,976	115,588	123,835
Total Debt	205,458	217,700	342,723	383,028
Long Term Creditors	-	-	-	-
Total Liabilities	205,458	217,700	342,723	383,028
Money Market Loans	233,318	232,902	204,242	204,305
Bonds	-	-	-	-
Long Term Debtors	13,199	13,199	13,179	13,179
Total Assets	246,517	246,101	217,421	217,484

For bond holding, the differences are attributable to fixed interest loans receivable being held by the authority whose interest rate is lower than the prevailing rate estimated to be available at 31 March. This depresses the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

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;

Notes to the Core Financial Statements

Re-financing risk - The possibility that the Council might be requiring 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 are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance through the Act.

Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving 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 or before the Council's annual Council Tax setting budget or 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, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 1st March 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £567 million. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £527 million. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £467 million and £45 million based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are as follows:

	Upper Limit	Lower Limit
	%	%
Less than 1 year	15	0
Between 1 and 2 years	15	0
Between 2 and 5 years	50	0
Between 5 and 10 years	50	0
More than 10 years	95	50

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Notes to the Core Financial Statements

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 & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied.

This Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

The full Investment Strategy for 2011/12 was approved by Full Council on 1st March 2011 and is available on the Council's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks, building societies and Local Authorities of £233 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

d) Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure 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. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums invested (£233 million) are either due to be paid in less than one year or can be easily realised.

e) Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than 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 central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

Notes to the Core Financial Statements

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

	Approved Limits		Actual	Actual
	Minimum	Maximum	31 March 2012 £000	31 March 2011 £000
Less than 1 year	-	30,391	5,000	-
Between 1 and 2 years	-	30,391	5,612	5,000
Between 2 and 5 years	-	101,304	5,302	24,662
Between 5 and 10 years	-	101,304	10,000	23,002
More than 10 years	101,304	192,477	176,694	285,541
Total			202,608	338,205

f) Market Risk

i) Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be as follows:

Notes to the Core Financial Statements

	Variation £000
Increase in interest payable on variable rate borrowings	125
Increase in interest receivable on variable rate investments	(2,042)
Increase in Government grant receivable for financing costs	(75)
Impact on Surplus or Deficit on the Provision of Services	(1,992)
Share of overall impact on the HRA	(50)
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value of fixed rate borrowings liabilities	-

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair Value of Assets and Liabilities carried at Amortised Cost.

ii) Price risk

The Council, excluding the pension fund, does not invest in equity shares or marketable bonds.

iii) Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

14. STOCKS AND INVENTORIES

	31/03/2012 £000	31/03/2011 £000
Fleet	135	111
Highways	38	118
Other	6	4
Total Stocks	179	233

15. DEBTORS**a) Long Term Debtors**

These consist of sums repayable to the Council over a period of time of more than one year. Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council.

	31/03/2012 £000	31/03/2011 £000
Catford Regeneration Partnership Ltd	11,769	11,911
Mortgages	332	429
Land Charges Debts	507	498
Loans to Homeowners (DDA and DH)	338	0
Other Long Term Debtors	215	341
Total Long Term Debtors	13,161	13,179

Notes to the Core Financial Statements

b) Current Debtors

These are short term debts consisting of amounts due from the Government, other local authorities and amounts for goods and services provided as at 31 March 2012:

	31/03/2012 £000	31/03/2011 £000
Government and Other Public Bodies:		
HM Revenue & Customs - VAT	6,653	6,146
Education Recoupment	1,209	1,993
Central Government bodies	1,649	4,981
Other Local Authorities	1,097	1,908
NHS bodies	1,387	623
Other Public bodies	2,186	226
Council Tax Payers	21,744	23,083
Council Tax Court Costs	4,986	5,239
Housing Benefit Overpayments	12,057	10,330
Housing Rents (inc PSL, B & B, Hostels, Commercial)	7,337	8,238
Leaseholders Services Charges	7,581	7,432
General Debtors due for Supplies and Services	24,390	18,046
Total Current Debtors	92,276	88,245
Impairment Allowances	(47,998)	(49,717)
Total Net Current Debtors	44,278	38,528

c) Impairment Allowances

	Balance at 31/03/2011 £000	Movement in Year £000	Balance at 31/03/2012 £000
Collection Fund - Council Tax	(20,946)	1,235	(19,711)
Housing Rents	(6,514)	891	(5,623)
Housing Benefit Overpayments (Pub & Priv)	(7,723)	(998)	(8,721)
Council Tax Court Costs	(4,768)	329	(4,439)
Private Sector Leasing	(1,034)	1	(1,033)
Housing Service Charges	(1,287)	(76)	(1,363)
Other Services	(7,445)	337	(7,108)
Total Impairment Allowances	(49,717)	1,719	(47,998)

d) Debtors which are either past due or impaired

The Council generally requires trade debtors to be settled within 30 days. A table showing an age analysis of unpaid invoices issued through the accounts receivable system follows.

The notes to the Collection Fund include an age analysis of Council Tax and NNDR arrears.

Housing Rents owed by former tenants are not aged and are therefore not included in the table below.

Notes to the Core Financial Statements

Accounts Receivable System	31/03/2012		31/03/2011	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Debt				
Current (1 to 30 days)	5,029	41	4,583	43
31 to 60 Days	574	5	827	8
61 to 90 Days	1,133	9	261	2
91 to 180 Days	1,022	9	551	5
181 to 365 Days	1,626	13	870	8
Over 1 Year	2,851	23	3,660	34
Total	12,235	100	10,752	100

Housing Rents (Current Tenants)	31/03/2012		31/03/2011	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Debt				
Current (1 to 30 days)	299	9	286	10
31 to 90 Days	653	20	511	18
91 to 180 Days	619	19	443	16
181 to 365 Days	531	16	507	18
Over 1 Year	1,159	36	1,082	38
Total	3,261	100	2,829	100

Council Tax Court Costs	31/03/2012		31/03/2011	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Debt				
Year of Account	938	19	867	17
Under 2 Years old	829	16	1,031	20
Under 3 Years old	895	18	882	17
Under 5 Years old	1,396	28	1,130	21
Over 5 Years old	928	19	1,329	25
Total	4,986	100	5,239	100

16. CASH AND CASH EQUIVALENTS

	Balance 31/03/2010 £000	Movement in 2010/11 £000	Balance 31/03/2011 £000	Movement in 2011/12 £000	Balance 31/03/2012 £000
Cash Equivalents					
Short Term Deposits	126,751	(36,656)	90,095	(79,930)	10,165
Cash					
Money Market Funds	5,022	25,965	30,987	139,573	170,560
Call Accounts with Banks	15,000	(10,461)	4,539	7,777	12,316
Cash with External Cash Managers	5,523	(5,523)	0	0	0
	25,545	9,981	35,526	147,350	182,876
Other Cash and Bank Balances					
Schools Bank Accounts	(3,590)	1,955	(1,635)	(198)	(1,833)
Euro Bank Account	10	384	394	(385)	9
Main Bank Accounts	(7,224)	10,762	3,538	(21,525)	(17,987)
Other Cash Balances	(3,887)	4,234	347	(122)	225
	(14,691)	17,335	2,644	(22,230)	(19,586)
Total Cash and Cash Equivalents	137,605	(9,340)	128,265	45,190	173,455

Notes to the Core Financial Statements

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

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

c) The Schools Bank Accounts consist of individual accounts for each school, and a treasury account which is used to invest the balance in conjunction with the council's other balances. The balances on these accounts were £13.7m (10/11 £14.1m) and overdrawn £15.5m (10/11 overdrawn £15.8m) respectively.

17. ASSETS HELD FOR SALE

	2011/12 £000	2010/11 £000
Balance outstanding at start of year	0	5,153
Assets newly classified	825	0
Revaluation gains and losses	0	0
Impairment losses	0	0
Assets declassified as held for sale	0	0
Assets sold	0	(5,153)
Transfers from non-current to current	0	0
Balance outstanding at year-end	825	0

18. PREPAYMENTS

	31/03/2012 £000	31/03/2011 £000
Directorate prepayments	1,800	2,277
PFI Prepayments	2,436	2,435
Total Prepayments	4,236	4,712

19. CREDITORS

These consist of 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.

Notes to the Core Financial Statements

	31/03/2012 £000	31/03/2011 £000
Government and other public bodies:		
HM Revenue & Customs - Tax & NI Contributions	5,776	6,204
Education Recoupment	4,014	4,233
Central Government bodies	6,493	5,577
Other Local Authorities	2,111	2,836
NHS bodies	3,949	1,838
Other Public bodies	1,347	214
	23,690	20,902
Short Term Compensated Absences	6,367	6,944
General Creditors (amounts owed for supplies and services)	49,122	56,659
Total Creditors	79,179	84,505

20. PROVISIONS

Provisions are amounts which are set aside to meet liabilities or losses that are likely or certain to arise, it is not, however possible to determine precisely when any transfer of economic benefits will take place.

	Balance	11/12 Transfers		Balance
	31/03/11 £000	In £000	Out £000	31/03/12 £000
Current (less than 1 year)				
Insurance Provision	1,200	400	0	1,600
Redundancy Costs	2,281	162	(2,281)	162
Other Provisions	0	1,710	0	1,710
	3,481	2,272	(2,281)	3,472
Non Current (Over 1 year)				
Insurance Provision	6,517	0	(240)	6,277
Other Provisions	3,166	275	0	3,441
	9,683	275	(240)	9,718
Total - Provisions	13,164	2,547	(2,521)	13,190

Insurance Provisions

The Council holds insurance provisions for property and employers & public liability claims, which fall below the policy excess of insurance placed with external insurers. The Council does not arrange 'All Risks' insurance for all of its properties, but insures its buildings and contents for limited perils such as fire, lightning, aircraft impact, explosion and riot & civil commotion, It does not insure against water or weather perils or theft. All Risks cover is obtained for more attractive property such as cash, computers and other specified property. A reserve is also held to cover insurable but uninsured losses and to fund risk management initiatives.

Other Provisions

This includes a provision to cover the liability for repayment of charges made under the Section 117 1983 Mental Health Act that have now been declared unlawful by the Court of Appeal.

Notes to the Core Financial Statements

21. USABLE RESERVES**a) Usable Capital Receipts**

Capital receipts are mainly sums received from the sale of fixed assets. All Housing capital receipts are split into two parts: a usable part, which may be used to finance new capital expenditure; and a poolable part, which is paid to central government. Non housing capital receipts are wholly usable to finance new capital expenditure. The balance on this account represents amounts available for the financing of future capital expenditure.

	31/03/2012 £000	31/03/2011 £000
Balance brought forward at start of year	32,745	20,298
Amounts receivable in year	14,555	25,054
Poolable to Central Government	(1,787)	(688)
Amounts applied to finance new capital investment in year	(21,122)	(11,919)
Total increase/(decrease) in capital receipts in year	(8,354)	12,447
Balance carried forward at end of year	24,391	32,745

b) Capital Grants Unapplied

These are capital grants which are available to finance new capital expenditure but have yet to be used.

	31/03/2012 £000	31/03/2011 £000
Opening balance at start of year	4,583	3,463
Movement in year	(215)	1,120
Balance carried forward at end of year	4,368	4,583

22. UNUSABLE RESERVES**a) Revaluation Reserve**

The Revaluation Reserve records the accumulated gains since 1 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.

Notes to the Core Financial Statements

	2011/12 £000	2010/11 £000
Balance brought forward at start of year	213,300	161,419
Upwards revaluation of assets	18,518	78,829
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services	(14,793)	(17,124)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	3,725	61,705
Difference between fair value depreciation and historical cost depreciation	(3,664)	(2,117)
Accumulated gains on assets sold or scrapped	(105)	(7,707)
Amount written off to the Capital Adjustment Account	(3,769)	(9,824)
Balance carried forward at end of year	213,256	213,300

b) Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account is used to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

	31/03/2012 £000	31/03/2011 £000
Opening balance at start of year	(10,060)	(13,100)
Premiums paid for early redemption of debt	0	1,138
Amortisation of premiums and discounts	1,503	1,902
Balance carried forward at end of year	(8,557)	(10,060)

c) Capital Adjustment Account

This reflects the timing differences arising from the different arrangements for accounting 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 Comprehensive Income and Expenditure Statement (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, and also contains accumulated gains and losses on Investment Properties.

Notes to the Core Financial Statements

	2011/12 £000	2010/11 £000
Balance at Beginning of Year	923,021	1,260,106
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Charges for depreciation and impairment of non-current assets	(103,091)	(417,837)
Revaluation losses on Property, Plant and Equipment	0	0
Amortisation of intangible assets	0	0
Revenue expenditure funded from capital under statute	(12,112)	(3,942)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(7,270)	(15,640)
	(122,473)	(437,419)
Adjusting amounts written out of the Revaluation Reserve	4,342	11,987
Net amount written out of the cost of non-current assets consumed in the year	(118,131)	(425,432)
<u>Capital financing applied in the year:</u>		
Use of Capital Receipts to finance new capital expenditure	21,122	8,575
Use of Major Repairs Reserve to finance new capital expenditure	881	1,627
Capital grants and contributions credited to the CIES that have been applied to capital financing	44,315	64,218
Application of grants to capital financing from the Capital Grants Unapplied Account	0	0
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,883	12,238
Capital expenditure charged against the General Fund and HRA balances	6,619	1,689
HRA Self Financing Debt Repayment	136,338	0
	216,158	88,347
Movements in the market value of Investment Properties debited or credited to the CIES	376	0
Balance at End of Year	1,021,424	923,021

d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Notes to the Core Financial Statements

	31/03/2012 £000	31/03/2011 £000
Opening balance at start of year	362,027	669,254
Actuarial gains or losses on pensions assets and liabilities	85,641	(191,221)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	36,396	(85,444)
Employer's pensions contributions and direct payments to pensioners payable in the year	(29,009)	(30,562)
Balance carried forward at end of year	455,055	362,027

e) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages 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.

	31/03/2012 £000	31/03/2011 £000
Opening balance at start of year	22	25
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	1,291	(3)
Balance carried forward at end of year	1,313	22

f) Short Term Compensated Absences Account

This account shows the differences arising on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March each year. Statutory requirements are that the impact on Council Tax is reversed through the Account.

	31/03/2012 £000	31/03/2011 £000
Opening balance at start of year	6,944	7,764
Reversal of accrual made at the end of the preceding year	(6,944)	(7,764)
Amounts accrued at the end of the current year	6,367	6,944
Amount by which the accrued charge to the CIES is different from that charged in the year in accordance with statutory requirements	(577)	(820)
Balance carried forward at end of year	6,367	6,944

Notes to the Core Financial Statements

23. SEGMENTAL REPORTING (AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS)

SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2012

	CYP £000s	Community Services £000s	Customer Services £000s	Resources and Regeneration £000s	HRA £000s	Total £000s
Fees, charges & other service income	(13,444)	(37,441)	(47,453)	(20,911)	(81,147)	(200,396)
Government grants	(272,321)	(13,991)	(247,478)	(1,005)	(193,245)	(728,040)
Total Income	(285,765)	(51,432)	(294,931)	(21,916)	(274,392)	(928,436)
Employee expenses	207,959	37,784	37,563	31,342	2,153	316,801
Other operating expenses	126,868	131,061	290,848	38,466	270,645	857,888
Total operating expenses	334,827	168,845	328,411	69,808	272,798	1,174,689
Net Cost of Services	49,062	117,413	33,480	47,892	(1,594)	246,253
Net Budgets	49,543	118,037	33,011	49,104	0	249,695
Variation	(481)	(624)	469	(1,212)	(1,594)	(3,442)
Less; HRA Variation						1,594
General Fund Underspend reported to Members						(1,848)

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000s
Cost of Services in Service Analysis	246,253
Add services not included in main analysis	12,130
Add amounts not reported to management (Technical Accounting adjustments)	83,266
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(29,445)
Net Cost of Services in Comprehensive Income and Expenditure Statement	312,204

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(200,396)	0	0	0	(200,396)	0	(200,396)
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0
Interest and investment income	0	0	254	0	254	(3,159)	(2,905)
Income from council tax	0	0	0	0	0	(93,522)	(93,522)
Government grants and contributions	(728,040)	0	0	0	(728,040)	(414,551)	(1,142,591)
Total Income	(928,436)	0	254	0	(928,182)	(511,232)	(1,439,414)
Employee expenses	316,801	7,255	36,396	(29,009)	331,443	0	331,443
Other service expenses	857,888	4,875	29,130	0	891,893	0	891,893
Depreciation, amortisation and impairment	0	0	85,868	0	85,868	466	86,334
Interest Payments	0	0	(68,382)	0	(68,382)	86,064	17,682
Precepts & Levies	0	0	0	(436)	(436)	1,730	1,294
Payments to Housing Capital	0	0	0	0	0	1,787	1,787
Receipts Pool	0	0	0	0	0	1,787	1,787
Gain or Loss on Disposal of non-current assets	0	0	0	0	0	(6,835)	(6,835)
Total operating expenses	1,174,689	12,130	83,012	(29,445)	1,240,386	83,212	1,323,598
Surplus or deficit on provision of services	246,253	12,130	83,266	(29,445)	312,204	(428,020)	(115,816)

Notes to the Core Financial Statements

SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2011

	CYP £000s	Community Services £000s	Customer Services £000s	Resources and Regeneration £000s	HRA £000s	Total £000s
Fees, charges & other service income	(13,234)	(41,801)	(47,037)	(21,886)	(81,185)	(205,143)
Government grants	(281,611)	(34,199)	(234,236)	(3,089)	(57,064)	(610,199)
Total Income	(294,845)	(76,000)	(281,273)	(24,975)	(138,249)	(815,342)
Employee expenses	216,322	44,001	40,616	38,513	0	339,452
Other operating expenses	132,708	128,068	279,759	35,718	137,904	714,157
Total operating expenses	349,030	172,069	320,375	74,231	137,904	1,053,609
Net Cost of Services	54,185	96,069	39,102	49,256	(345)	238,267
Net Budgets	54,725	96,091	39,328	50,185	0	240,329
Variation	(540)	(22)	(226)	(929)	(345)	(2,062)
Less; HRA Variation						345
General Fund Underspend reported to Members						(1,717)

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000s
Cost of Services in Service Analysis	238,267
Add services not included in main analysis	19,409
Add amounts not reported to management (Technical Accounting adjustments)	304,972
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(31,002)
Net Cost of Services in Comprehensive Income and Expenditure Statement	531,646

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(205,143)	0	0	0	(205,143)	0	(205,143)
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0
Interest and investment income	0	0	212	0	212	(2,491)	(2,279)
Income from council tax	0	0	3	0	3	(91,233)	(91,230)
Government grants and contributions	(610,199)	0	35,362	0	(574,837)	(290,824)	(865,661)
Total Income	(815,342)	0	35,577	0	(779,765)	(384,548)	(1,164,313)
Employee expenses	339,452	12,804	(86,265)	(30,562)	235,429	0	235,429
Other service expenses	714,157	6,605	13,552	0	734,314	0	734,314
Depreciation, amortisation and impairment	0	0	406,516	0	406,516	95	406,611
Interest Payments	0	0	(64,408)	0	(64,408)	63,530	(878)
Precepts & Levies	0	0	0	(440)	(440)	1,787	1,347
Payments to Housing Capital	0	0	0	0	0	689	689
Receipts Pool	0	0	0	0	0	689	689
Gain or Loss on Disposal of non-current assets	0	0	0	0	0	(6,053)	(6,053)
Total operating expenses	1,053,609	19,409	269,395	(31,002)	1,311,411	60,048	1,371,459
Surplus or deficit on provision of services	238,267	19,409	304,972	(31,002)	531,646	(324,500)	207,146

Notes to the Core Financial Statements

24. TRADING OPERATIONS

The following services trade with the public or other third parties. The relevant line in the Comprehensive Income and Expenditure Statement is also shown for each category.

	2011/12			2010/11
	Expenditure £000	Income £000	(Surplus)/ Deficit £000	(Surplus)/ Deficit £000
Planning and Development Services				
Markets	1,191	(1,368)	(177)	0
Industrial Estates	138	(440)	(302)	(328)
Cultural and Related Services				
Theatre	1,134	(711)	423	681
Total - Trading Operations	2,463	(2,519)	(56)	353

Note - Under the Local Authorities Act 1990 (amended) Street Markets operate as a trading account and any surplus or deficit at the year end is carried over into the following year. As at 31 March 2012, the accumulated surplus is £320k.

25. AGENCY SERVICES

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 2011/12 or 2010/11.

26. INVESTMENT IN COMPANIES**a) Companies of which the Council is the sole owner.**i) Lewisham Homes Limited

Lewisham Homes is a wholly owned subsidiary of the Council and Councillors Bell, Nisbet and Paschoud sat on its board throughout the year. The Council paid a management fee of £18.9m to the company in 2011/12 (£20.4m in 2010/11).

ii) Catford Regeneration Partnership Limited

Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council and the Head of Business Management and Service Support and the Head of Public Services (replacing the Director of Property and Programme Management on 13th December 2011) are its directors. The Council advanced a loan of £12m to CRPL in 2009/10, and CRPL repaid principal of £61k and made interest payments of £0.83m during 2011/12 to the Council (In 2010/11, these payments were £57k and £0.84m respectively).

Both of these companies are included in the Council's Group Accounts, which are shown in Section 6 of the Statement of Accounts.

b) Companies of which the Council is a joint owner or shareholder.i) Lewisham Schools for the Future LEP Limited

The Council has a small minority stake of 10% in Lewisham Schools for the Future LEP Limited which is the Local Education Partnership company which was established by its strategic partners, a consortium made up of Costain Engineering & Construction Limited, Babcock Project Investments Limited and

Notes to the Core Financial Statements

Building Schools for the Future Ltd under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish the secondary schools within the Borough.

Additionally the Council has a 10% stake in four Special Purpose Vehicles set up in relation to those schools which are being newly built under the Government's Private Finance Initiative within this BSF Programme, one for each phase of the programme, known as Lewisham SPV Limited, Lewisham SPV 2 Limited, Lewisham SPV3 Limited and Lewisham SPV4 Limited, and in their related Holding Companies, Lewisham Building Schools for the Future Holdings 1 Limited, 2, 3 and 4 Limited. The corporate structure is standard to the BSF scheme.

The Head of Business Management and Service Support is the Council's Director on the LEP, its SPV's and Hold Co's.

The Council made payments in 2011/12 to the LEP of £10.0m (£6.0m in 2010/11), to the SPV of £8.7m (£8.2m in 2010/11), to the SPV2 of £3.2m (£0.9m in 2010/11) and to the SPV3 of £12k (zero in 2010/11). No payments were made to SPV4 in 2011/12 or 2010/11.

ii) South-East London Combined Heat and Power Ltd (SELCHP)

The Council has a small minority share of less than 1% in South-East London Combined Heat and Power Ltd (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 £5.1m were made in 2011/12 to the company (£5.0m in 2010/11).

iii) Greater London Enterprise Ltd

The Council has a small minority share in Greater London Enterprise Ltd which is a company limited by guarantee and provides property management & consultancy services.

27. MEMBERS' ALLOWANCES

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

	2011/12 £000	2010/11 £000
Allowances (inc. Pensions and NI)	1,027	1,012
Training	13	20
IT and Telephone	35	57
Travel and Subsistence	21	30
Other Expenses	2	26
Total Expenditure in Year	1,098	1,145

28. OFFICERS' REMUNERATION

a) Employees whose Remuneration was £50,000 or more

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more is shown below, in bands of £5,000. These figures include a number of senior employees whose details are also disclosed separately in note b) below.

Notes to the Core Financial Statements

Remuneration Band	2011/12			2010/11		
	Non-School Employees	School Employees	Total Employees	Non-School Employees	School Employees	Total Employees
£50,000 to £54,999	71	202	273	77	174	251
£55,000 to £59,999	25	82	107	41	67	108
£60,000 to £64,999	13	28	41	18	38	56
£65,000 to £69,999	15	38	53	15	34	49
£70,000 to £74,999	9	23	32	4	27	31
£75,000 to £79,999	4	19	23	3	11	14
£80,000 to £84,999	1	4	5	1	7	8
£85,000 to £89,999	2	6	8	2	8	10
£90,000 to £94,999	6	4	10	9	3	12
£95,000 to £99,999	4	2	6	2	1	3
£100,000 to £104,999	4	3	7	4	1	5
£105,000 to £109,999	1	2	3	2	2	4
£110,000 to £114,999	1	0	1	0	1	1
£130,000 to £134,999	1	0	1	0	0	0
£135,000 to £139,999	0	0	0	1	0	1
£140,000 to £144,999	3	0	3	3	0	3
£190,000 to £194,999	0	0	0	1	0	1
£230,000 to £234,999	0	0	0	0	0	0
Total	160	413	573	183	374	557

Note - Where salary bands are not quoted, there are no employees in those bands for either year.

b) Exit Packages agreed and paid in year

Cost Band (inc Pension Fund Contributions)	Number of Compulsory Redundancies		Number of Other Departures		Total Number of Exit Packages		Total Cost of Exit Packages	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11 £	2011/12 £
£0 - £20,000	144	237	0	0	144	237	1,125	1,973
£20,001 to £40,000	50	109	0	1	50	110	1,423	3,198
£40,001 to £60,000	27	36	0	1	27	37	1,340	1,802
£60,001 to £80,000	8	17	1	0	9	17	633	1,179
£80,001 to £100,000	3	6	0	0	3	6	244	531
£100,001 to £150,000	1	6	0	1	1	7	123	785
£150,001 to £200,000	0	1	0	0	0	1	0	171
Total	233	412	1	3	234	415	4,888	9,639

Notes to the Core Financial Statements

c) Disclosure of Senior Employees' Remuneration for financial year 2011/12

Post Holder Information	Salary (inc fees and allowances) £	Employer's Pension Contributions £	Total including Pension Contributions £
Senior Employees - Salary below £150,000			
Executive Director for Children and Young People	141,123	28,930	170,053
Executive Director for Resources	141,123	28,930	170,053
Executive Director for Community Services	141,123	28,930	170,053
Chief Executive	134,671	27,608	162,279
Director of Regeneration and Asset Management	111,668	22,892	134,560
Executive Director for Customer Services	109,843	22,518	132,361
Director of Children's Social Care	102,678	21,049	123,727
Head of Law and Monitoring Officer	71,692	14,697	86,389
Totals	953,921	195,554	1,149,475

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made in 2011/12 to these employees.

d) Disclosure of Senior Employees' Remuneration for financial year 2010/11

	£	£	£
Senior Employees - Salary over £150,000			
Chief Executive - B Quirk	192,387	38,477	230,864
Senior Employees - Salary below £150,000			
Executive Director for Customer Services	141,123	28,225	169,348
Executive Director for Children and Young People	141,123	28,225	169,348
Executive Director for Resources	141,123	28,225	169,348
Executive Director for Community Services	138,495	27,699	166,194
Director of Programme Management and Property	109,538	21,908	131,446
Head of Law and Monitoring Officer	107,538	21,508	129,046
Director of Children's Social Care (part year)	94,237	18,847	113,084
Totals	1,065,564	213,114	1,278,678

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made in 2010/11 to these employees.

Notes to the Core Financial Statements

29. EXTERNAL AUDIT COSTS

	2011/12 £000	2010/11 £000
Payments to the Audit Commission		
Fees payable with regard to external audit services	391	429
Fees payable in respect of statutory inspection	0	0
Fees payable for the certification of grant claims and returns	130	131
Fees payable in respect of other services provided by the appointed auditor	0	0
Total - External Auditor Fees	521	560

These fees exclude a £32,200 fee payable for the audit of the Pension Fund (£35,000 in 2010/11).

30. DEDICATED SCHOOLS' GRANT

The Council's expenditure on schools is funded primarily by the Dedicated Schools' Grant (DSG), which are grant monies provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. 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.

The details of the deployment of DSG receivable for 2011/12 and 2010/11 are as follows:

	2011/12			2010/11		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	2011/12 Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	2010/11 Total £000
Final DSG for Year	38,182	194,866	233,048	30,161	163,628	193,789
Brought forward from previous year	0	0	0	390	0	390
Carry forward to next year agreed in advance	0	0	0	0	0	0
Agreed budgeted distribution in Year	38,182	194,866	233,048	30,551	163,628	194,179
Actual Central Expenditure	37,681	0	37,681	30,551	0	30,551
Actual ISB deployed to schools	0	194,866	194,866	0	163,628	163,628
Local authority contribution for Year	0	0	0	0	0	0
Use of DSG in Year	37,681	194,866	232,547	30,551	163,628	194,179
Carried forward to next year	501	0	501	0	0	0

31. GRANT AND TAXATION INCOME

The Council credited the following taxation and general grants to the Comprehensive Income and Expenditure Statement in 2011/12;

Notes to the Core Financial Statements

	2011/12 £000	2010/11 £000
Credited to Taxation and Non Specific Grant Income		
Income from Council Tax	(93,522)	(91,234)
National Non-Domestic Rates redistribution	(142,512)	(157,367)
Formula Revenue Grant	(44,051)	(22,851)
Recognised Capital Grants and Contributions	(224,140)	(75,238)
Area Based Grant	0	(33,728)
Other Grants (non-service specific)	(3,848)	(1,637)
Total	(508,073)	(382,055)
Credited to Services		
Dedicated Schools Grant	(232,547)	(194,179)
Housing and Council Tax Benefit	(242,645)	(228,984)
Early Intervention Grant	(17,772)	0
Sure Start Grants	0	(14,290)
Schools Standard Grant and Schools Standard Fund	0	(31,896)
Other Grants	(57,029)	(65,130)
Total	(549,993)	(534,479)

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that have not yet been satisfied. The balances at the year-end are as follows:

	2011/12 £000	2010/11 £000
Capital Grants	(744)	(1,117)
Revenue Grants	(3,778)	(2,091)
Total	(4,522)	(3,208)

32. RECEIPTS IN ADVANCE

	2011/12 £000	2010/11 £000
Revenue Receipts in Advance		
Capital Contributions Unapplied	36,875	35,169
Council Tax	5,311	5,293
PFI Schemes	16,441	16,512
Other Receipts in Advance	8,015	7,930
Total Receipts in Advance	66,642	64,904

33. RELATED PARTY TRANSACTIONS

This note discloses additional information on transactions between the Council and its related parties. 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. The purpose of the note is to demonstrate fairness and openness in the Accounts.

Notes to the Core Financial Statements

(a) Central Government and Other Local Authorities

The general government grants received are shown in Note 31 to the Core Financial Statements. The precept to the Greater London Authority is shown in the notes of the Collection Fund in Section 4b of the 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 26 to the Core Financial Statements. The note also shows the material financial transactions between the two parties.

(c) Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The total cost of members (including allowances) is shown in Note 27. This note has been compiled by using the Council's Register of Members and Chief Officers' Declarations of Interests. This is open to public inspection at the Civic Suite at Lewisham Town Hall.

Declarable related party transactions where the Council has paid amounts of over £2,000 in 2011/12 to an organisation are shown as below (amount paid in brackets):

- The Mayor, Sir Steve Bullock, is a member of the Friends of the Horniman Museum (£23k).
- Councillor Adefiranye is a committee member of the Marsha Phoenix Memorial Trust (£0.25m).
- Councillor Affiku is employed by Lewisham Healthcare with whom Lewisham operates joint commissioning arrangements for health and social care (approximately £200m).
- Councillor Bell is a member of Bold Vision (£16k).
- Councillor Best is a member of Voluntary Action Lewisham (£0.3m), the Friends of the Horniman Museum (£23k), Sydenham Gardens (£7k), the Sydenham Society (£2.5k) and the London Wildlife Trust (£2k).
- Councillor Bonavia is a member and trustee of Age Exchange Theatre Trust (£96k) and was a member of Lewisham & Southwark Age Concern for part of the year (£42k).
- Councillor Clarke is a member of the Grove Park Community Group (£43k).
- Councillor Liam Curran is a member of Lewisham Plus Credit Union (£53k).
- Councillor Janet Daby is employed by Hillcrest Care Ltd (£47k).
- Councillor Egan is a member of Lewisham Park Housing Association (£0.59m) and Hither Green Community Association (£3k).
- Councillor Feakes is a member of Forest Hill and Sydenham Voluntary Service Association (£0.1m) and Sydenham Arts Festival (£5k).
- Councillor Fletcher is a board member of Phoenix Community Homes (£0.64m) and on the Council of Management of the Lewisham Youth Theatre (£68k).
- Councillor Foreman is employed by Haberdasher's Askes Knights Academy to whom Lewisham paid £0.6m in 2011/12 (£0.6m).
- Councillor Hall is a board member of the Phoenix Community Homes (£0.64m).
- Councillor Harris is a member of Lewisham Park Housing Association (£0.59m).
- Councillor Johnson is a committee member of the Marsha Phoenix Memorial Trust (£0.25m).
- Councillor Klier is a member and trustee of Age Exchange Theatre Trust (£96k).
- Councillor Long is Chair (remunerated) of the South London and Maudsley NHS Trust (£2.4m), and a member of the Millwall Community Scheme (£0.16m).
- Councillor Mallory is a member of Deptford Challenge Trust (£0.25m).
- Councillor Millbank is a member of Voluntary Action Lewisham (£0.3m), the Ackroyd Community Association (£0.16m), the Oak Hill Community Nursery (£63k) and Cambridge House (£23k).
- Councillor Morrison is employed by the North Downham Training Project (£0.24m) and is on the Management Committee of the Ackroyd Community Centre (£0.16m).
- Councillor Muldoon is a board member of the South London and Maudsley NHS Trust (£2.4m) and a member of the Noah's Ark Children's Venture (£64k).
- Councillor Nisbet is a member of Lewisham & Southwark Age Concern (£42k) and is a member of Sydenham Gardens (£67k).
- Councillor Onuegbu is a member of the South London and Maudsley NHS Trust (£2.4m).
- Councillor Jacqueline Paschoud is a member of Contact a Family – Lewisham (£0.1m).
- Councillor Paschoud is a member of the Ravensbourne Project (£0.24m), the Lewisham Disability Coalition (£0.16m) and Contact a Family – Lewisham (£0.1m).

Notes to the Core Financial Statements

- Councillor Peake is a member of the Friends of the Horniman Museum (£23k), the Forest Hill Society (£2.4k) and the Sydenham Society (£2.5k).
- Councillor Smith is a member of South East Enterprise (£98k) and Groundwork Trust, London South (£51k).
- Councillor Till is employed by Dinardo Ltd (£0.45m), a member of the Marsha Phoenix Memorial Trust (£0.25m), the North Downham Training Project (£0.24m), the Ackroyd Community Association (£0.16m), the Noah's Ark Children's Venture (£64k), the Parents Support Group (£28k), the London Youth Games (£11k) and the Rockbourne Youth Management Committee (£10k).
- Councillor Wise is a member of Sydenham Gardens (£67k).
- Up to October 2011, the Interim Executive Director for Regeneration was the Director of Interea Consulting, to whom Lewisham paid £0.13m in 2011/12 (£0.24m in 2010/11) for his services.

(d) Lewisham Pension Fund

- The Council's contribution to the Pension Fund in 2011/12 on behalf of its employees was 24.7m (£25.0m in 2010/11).
- The cost of administering the Pension Fund of £0.55m (£0.47 in 2010/11) was charged to the fund in 2011/12.
- As at the 31 March 2012 the Pension Fund owed the Council £1.56m (as at 31 March 2011 the Pension Fund had 0.04m of cash balances invested with the Council).

34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR movement is further analysed in the second part of this note.

	2011/12 £000	2010/11 £000
Opening Capital Financing Requirement	372,648	404,066
Capital investment		
Property, Plant and Equipment	73,781	51,362
Investment Properties	0	308
Intangible Assets	0	0
Revenue Expenditure Funded from Capital under Statute	11,874	3,942
	85,655	55,612
Sources of finance		
Capital Receipts	(21,122)	(11,919)
Government Grants and other contributions	(44,958)	(25,447)
Sums set aside from Revenue:	(1,620)	(1,689)
Minimum Revenue Provision	(6,883)	(6,439)
Other: HRA Self Financing / Transfer of Housing Stock	(136,338)	(41,536)
	(210,921)	(87,030)
Movement in Capital Financing Requirement in Year	(125,266)	(31,418)
Closing Capital Financing Requirement	247,382	372,648

Notes to the Core Financial Statements

Explanation of CFR movements in year	2010/11 £000	2010/11 £000
Increase in underlying need to borrowing (supported by government financial assistance)	15,350	13,912
Increase in underlying need to borrowing (unsupported by government financial assistance)	2,605	2,645
Debt Redeemed - HRA Self Financing / Housing Stock Transfer/ MRP	(143,221)	(47,975)
Increase/ (decrease) in Capital Financing Requirement	(125,266)	(31,418)

35. 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.

a) Authority as a Lessee**i) Finance Leases**

The Council does not have any properties held under finance leases.

ii) Operating Leases

The Authority has operating leases in the following areas:

Council Dwellings (life of 25 years),
School Plant and Equipment (life ranging from 1 - 7 years),
Council Plant and Equipment (contract expires in 2011-12)
Refuse Vehicles.

The future minimum lease payments due under non-cancellable leases in futures are:

	31/03/12 £000	31/03/11 £000
Not later than one year	3,022	2,934
Later than one year and not later than five years	6,066	7,755
Later than five years	27,208	29,000
	36,296	39,689

The expenditure charged to services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

Notes to the Core Financial Statements

	31/03/12 £000	31/03/11 £000
Minimum lease payments	3,231	3,001
	3,231	3,001

b) Authority as a Lessor**i) Finance Leases**

The Council has leased out a small number of commercial properties. The Council has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31/03/12 £000	31/03/11 £000
Finance lease debtor (net present value of minimum lease payments):		
Current	175	213
Unearned finance income	-	-
Gross investment in the lease	175	213

The gross investment and the minimum lease payments will be received over the following periods;

	Gross Investment in the Lease		Minimum Lease Payment	
	31/03/12 £000	31/03/11 £000	31/03/12 £000	31/03/11 £000
Not later than one year	87	112	87	112
Later than one year and not later than five years	141	202	141	202
Later than five years	236	178	236	178
	464	492	464	492

ii) Operating Leases

The Authority leases out Commercial property for Investment purposes.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/12 £000	31/03/11 £000
Not later than one year	2,037	2,251
Later than one year and not later than five years	6,959	7,718
Later than five years	21,905	23,577
	30,901	33,546

36. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

Notes to the Core Financial Statements

a) Description of PFI Contracts**i) Downham Lifestyles Centre PFI**

A PFI agreement was signed in September 2005 for the provision of the Downham Lifestyles Centre for a period of 32 years. The centre provides health and leisure facilities and opened in March 2007. Unitary charge payments were £2.0m in 2011/12 (£1.9m in 2010/11). It is expected that the lifetime unitary charge payments will be £74m.

ii) Brockley Area Housing PFI

An HRA PFI agreement was signed in June 2007 for the provision of the housing management services, repairs and maintenance and Decent Homes Standard refurbishment work to 1,845 leasehold and tenanted properties in the Brockley area. Under this contract the Council made unitary charge payments of £13.8m in 2011/12 (£13m in 2010/11). The contract is for a 20 year period and over its lifetime the project is expected to cost £314m.

iii) Grouped Schools PFI

A PFI contract was signed in August 2006 for the rebuild and running of three schools for 30 years at an estimated cost of £226m;

- Greenvale Special School - which opened in September 2007
- Forest Hill Secondary School - which opened in January 2008.
- Prendergast Ladywell Fields College (formerly Crofton Secondary School) - phase 1 opened in January 2008 and phase 2 opened in September 2008.

The unitary charge for 2011/12 was £6.9m (£6.8m in 2010/11).

iv) BSF 1 - Catford and Sedgemoor Schools

A PFI contract was signed in December 2007 for the rebuild and running of two secondary schools, Sedgemoor and Catford High (now Conisborough). The operational start dates were January 2009 for Sedgemoor School and April 2009 for Conisborough School. The unitary charge for 2011/12 was £8.2m (£8m in 2010/11). The estimated cost over the 26 year operational life of the contract is £238m.

v) BSF 2 - Northbrook School

A PFI contract was signed in 2009/10 for the construction of Northbrook School and the school became operational in January 2011. The unitary charge for 2011/12 was £2.8m (£0.7m in 2010/11). The estimated cost over 27 years is estimated to be £85m.

vi) BSF 3 – Deptford Green School

A PFI contract was signed in 2010/11 for the rebuild and running of Deptford Green Secondary School. The school is due to be operational in September 2012. The projected unitary payment of £4m per annum will begin on 1 September 2012 (part of the payment will be indexed by RPIx). The contract will run for 25 years at an estimated cost of £116m

vii) BSF 4 - Bonus Pastor and Prendergast the Vale Schools and Drumbeat Special Needs School

A PFI contract was signed in 2010/11 for the rebuild and running of two secondary schools, Bonus Pastor and Prendergast the Vale, and a new special needs school (Drumbeat). The two secondary schools are due to be operational in September 2012 and April 2013 respectively, and Drumbeat in April 2013. The projected unitary payment will be £7.5m per annum. Three quarters of this charge will begin in September 2012 and upon completion of Drumbeat the full amount will be paid (part of the payment will be indexed by RPIx). The contract will run for 25.5 years at an estimated cost of £221m.

viii) Street Lighting

The council together with Croydon Council entered into a joint Street Lighting PFI contract with Skanska in August 2011 for a period of 25 years. The part year contract charge for 2011/12 was £4.3m which was split between the Councils with Lewisham paying 36% and Croydon 64%. This sum is offset by PFI grant. The contract provides for the replacement of street lighting columns over the first five years and maintenance over the term of the contract.

Notes to the Core Financial Statements

b) Movement in PFI Assets in year

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

	2011/12		2010/11	
	£000	£000	£000	£000
Gross Book Value B/fwd		215,999		228,566
Additions		5,003		31,715
Revaluations (recognised in Revaluation Reserve)	0		2,507	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	19		511	
Total Revaluations		19		3,018
Impairments (recognised in Revaluation Reserve)	0		(2,125)	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0		(45,112)	
Total Impairments		0		(47,237)
Disposals		0		(63)
Gross Book Value at End of the Year		221,021		215,999
Depreciation Balance B/fwd		(4,039)		(482)
Depreciation for year		(4,489)		(4,041)
<u>Depreciation written back on:</u>				
Assets Impaired		0		482
Assets sold		0		2
Depreciation Balance c/fwd to following year		(8,528)		(4,039)
Net Book Value at End of the Year		212,493		211,960

c) Payments due under PFI contracts

The Council makes an agreed fixed 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 cash payments due to be paid (as part of a unitary charge) for each PFI. The price base is in nominal terms assuming a 2.5% RPI increase per annum compounded until the end of the contract. The amounts are broken down into the different elements of the payments reflecting how they will be accounted for.

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

Notes to the Core Financial Statements

	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF Catford & Sedgehill	BSF Northbrook	Deptford Green School	Bonus Pastor School	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Payments due within 1 year									
Service charges	5,474	202	2,306	2,165	674	493	22	1,554	12,890
Interest	5,842	1,515	3,725	4,784	1,923	1,585	3,305	318	22,997
Repayment of liability	2,699	113	736	1,224	273	351	53	624	6,073
Planned lifecycle costs	41	200	263	132	0	1	0	0	637
	14,056	2,030	7,030	8,305	2,870	2,430	3,380	2,496	42,597
within 2 to 5 years									
Service charges	25,256	861	9,880	9,326	2,870	2,647	5,286	5,232	61,358
Interest	20,789	6,174	14,131	18,105	7,444	11,523	23,320	4,704	106,190
Repayment of liability	11,908	619	2,999	5,374	1,209	2,539	2,785	3,051	30,484
Planned lifecycle costs	622	852	1,985	1,360	206	33	0	0	5,058
	58,575	8,506	28,995	34,165	11,729	16,742	31,391	12,987	203,090
within 6 to 10 years									
Service charges	42,814	1,204	14,004	13,313	3,964	3,616	7,311	5,415	91,641
Interest	18,838	7,831	15,677	19,435	8,531	13,428	27,658	8,208	119,606
Repayment of liability	14,664	713	4,051	7,111	1,886	4,003	3,860	5,260	41,548
Planned lifecycle costs	2,643	1,260	4,650	5,165	895	922	2,221	0	17,756
	78,959	11,008	38,382	45,024	15,276	21,969	41,050	18,883	270,551
within 11 to 15 years									
Service charges	49,250	1,362	16,106	15,430	4,477	4,165	8,347	7,286	106,423
Interest	10,704	8,015	13,232	15,485	7,389	11,705	25,330	6,314	98,174
Repayment of liability	23,112	1,299	5,926	9,990	2,639	5,151	6,444	6,148	60,709
Planned lifecycle costs	3,054	1,440	5,788	7,011	1,539	2,246	3,187	0	24,265
	86,120	12,116	41,052	47,916	16,044	23,267	43,308	19,748	289,571
within 16 to 20 years									
Service charges	630	1,541	18,532	17,888	5,066	4,834	9,565	9,804	67,860
Interest	211	7,693	10,426	10,385	5,729	9,062	20,392	3,761	67,659
Repayment of liability	647	2,082	11,010	16,363	4,349	6,677	9,475	7,087	57,690
Planned lifecycle costs	1	1,645	4,103	6,549	1,769	4,166	6,433	0	24,666
	1,489	12,961	44,071	51,185	16,913	24,739	45,865	20,652	217,875
within 21 to 25 years									
Service charges	0	1,743	17,362	12,083	5,731	5,613	10,966	11,299	64,797
Interest	0	6,882	4,238	1,662	2,972	5,668	12,540	504	34,466
Repayment of liability	0	3,563	14,095	12,263	7,249	9,860	16,752	6,883	70,665
Planned lifecycle costs	0	1,862	3,205	3,714	1,943	5,261	8,497	0	24,482
	0	14,050	38,900	29,722	17,895	26,402	48,755	18,686	194,410
within 26 to 30 years									
Service charges	0	760	0	0	514	306	2,379	0	3,959
Interest	0	2,310	0	0	40	385	1,023	0	3,758
Repayment of liability	0	2,155	0	0	751	1,323	4,593	0	8,822
Planned lifecycle costs	0	811	0	0	253	559	2,136	0	3,759
	0	6,036	0	0	1,558	2,573	10,131	0	20,298
Total Payments Due	239,199	66,707	198,430	216,317	82,285	118,122	223,880	93,452	1,238,392

d) PFI Liabilities

The unitary payments made to the contractors have been calculated to compensate them for the fair value of the services they provide, the capital expenditure they have incurred and interest they have paid whilst the capital expenditure remains to be reimbursed.

The Council's outstanding liability to pay to the contractors for capital expenditure incurred is as follows;

Notes to the Core Financial Statements

	Liabilities Due within 1 Year		Deferred Liabilities	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
Balance outstanding at start of year	4,900	6,968	173,073	146,189
Movement in Year	769	(2,068)	(765)	26,884
Balance outstanding at end of year	5,669	4,900	172,308	173,073

37. LONG TERM CONTRACTS**a) Leisure Centre Management**

At the start of 2011/12 the Council had a Public Private Partnership (PPP) investment contract for the management of three of its five leisure facilities (Bridge Leisure Centre, Ladywell Arena and the Wavelengths Leisure Centre) with Parkwood. The arrangement included investment, totalling £2.7m over the life of the contract, to upgrade and maintain the facilities. The contract commenced in October 2001 and ran until October 2011. However, due to the extension of the Wavelengths Leisure Centre and Library in August 2008 to include a new 25m pool and changing areas, a variation was agreed to manage the extended facility. The total payment under the revised contract in 2011/12 was £0.84m (£1.44m in 2010/11).

The two remaining centres were run under management only contracts which were due to expire on the 14 October 2006. The Forest Hill Pools contract was allowed to expire on its due date but was still managed under an extension contract until 2009 to enable the site to be maintained and secured. The Ladywell Leisure Centre contract was due to expire in April 2010 but a further Variation was secured to allow the contract to be extended until October 2011 to bring it in line with the existing Parkwood Contract. The total payment for these contracts in 2011/12 was £0.25m (£0.5m in 2010/11).

From October 2012 the Council entered into a new, 15 year contract with Fusion Lifestyles for the operation of all of the current leisure centres plus Bellingham Leisure & Lifestyle Centre. The contract will also cover both the new Forest Hill centre when it opens and the new centre in Loampit Vale, Lewisham which will replace the current Ladywell site. The total payment on this contract in 2011/12 was £0.69m.

b) Parks and Open Spaces

The Council entered into a 10 year Green Space Contract with Glendale Grounds Management on 1st March 2010. The contract has a 5 year break clause. Contract payments to the value of £3.3m were made in 2011/12 (£3.4m in 2010/11). The contract covers parks and open spaces, highways enclosure and housing grounds maintenance on Lewisham homes sites. There is no investment element to this contract.

c) Networks and Telecommunications and Primary ICT Services

Lewisham Council and Bromley Council jointly procured services from Capita for a period of up to 9 years. The contracts began on 1 April 2011 and run for 5 years, with options to extend for up to 4 more years. For Lewisham Council the cost is £2.3m per annum, which is fixed for the first 3 years of the contract.

d) Schools' ICT Framework

As part of the Building Schools for the Future programme, an ICT Framework agreement was signed in December 2007 for the provision of interim and full ICT managed service provision for secondary schools in the Borough over a period of 10 years. Capital investment in ICT equipment for 2011/12 was £1m (£1m in 2010/11), with the total estimated capital expenditure over the life of the contract to be just under £20m. The revenue implications of the ICT managed service are being met by the individual schools.

Notes to the Core Financial Statements

e) Internal Audit Contract

In September 2011 the Council entered into a 3 year contract with RSM Tenon for the provision of internal audit services. This contract has a total value of £1.1m.

f) IT contract for licenses and support

In May 2012 the Council entered into a 4 year contract with Oracle for licenses and support on the financial information system. This contract has a total value of £1m.

38. TERMINATION BENEFITS

The government's strategy to reduce the national deficit over the lifetime of this Parliament principally affects the council's future funding plans, but has had some direct effects on the 2011/12 accounts.

A sum of £9.6m for termination of employment costs, affecting 415 employees, has been recognised in the accounts as the council has implemented savings and staff reductions in response to the new funding climate. This sum includes payments of £1.5m to the Pension Fund in respect of employees who have been granted early access to their pensions. The costs of termination benefits in 2010/11 was £7.3m.

39. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers Pension Scheme, which is administered by Capita on behalf of the Department for Education (DfE). The scheme provides benefits for teachers upon their retirement with the Council making contributions to the scheme based on a percentage of members pensionable pay. The scheme is unfunded and the DfE use a notional fund to set a national employers contribution rate which is paid by all employers.

The Teachers Pensions Scheme is technically a defined benefit scheme. However, the assets and liabilities of the Teachers' scheme cannot reliably be identified at individual employer level and therefore for the purposes of this Statement of Accounts it is accounted for on the same basis as a defined contribution scheme.

In 2011/12 the Council paid £12.0m to the DfE in respect of teachers' pension costs (£12.2m in 2010/11). This represented 14.1% of pensionable pay between April 2011 and March 2012.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits are fully accrued in the pensions liability shown in Note 40 below.

40. DEFINED BENEFIT PENSION SCHEMES

a) Participation in pensions 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 therefore are required to be disclosed at the time that employees earn their future entitlement.

The Council makes contributions on behalf of its employees to two pension schemes:

(i) the Local Government Pension Scheme (LGPS), administered locally by the Council. This is a defined benefit final salary scheme, 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.

(ii) the London Pensions Fund Authority (LPFA), which provides retirement benefits for former Greater London Council (GLC) staff and operates in the same way as the LGPS.

Notes to the Core Financial Statements

b) Transactions relating to retirement benefits

In accordance with International Accounting Standard 19 (IAS19), the Council recognises the cost of retirement benefits relating to the LGPS and LPFA in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge which is required against council tax is based on the cash payable in the year so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made during the year in the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the General Fund Balance:

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme		LPFA	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
<u>Cost of Services</u>				
Current Service Cost	22,247	25,577	381	572
Past Service Cost	1,119	(126,186)	0	(5,599)
Curtailments and Settlements	2,260	660	196	0
<u>Financing and Investment Income and Expenditure</u>				
Interest Cost	58,150	67,088	3,732	4,052
Expected Return on Scheme Assets	(48,752)	(48,664)	(2,937)	(2,944)
Total Retirement Benefits charged to the Surplus or Deficit on the Provision of Services	35,024	(81,525)	1,372	(3,919)
<u>Other charges to the Comprehensive Income and Expenditure Statement</u>				
Actuarial Gains and (Losses)	(79,816)	169,898	(5,825)	21,323
Total Retirement Benefits charged to the Comprehensive Income and Expenditure Statement	(44,792)	88,373	(4,453)	17,404
Movement in Reserves Statement				
Reversal of net charges made for Retirement Benefits to the Surplus or Deficit on the Provision of Services	(35,024)	81,525	(1,372)	3,919
Actual amount charged against General Fund and HRA Balances for pensions in the year:				
Employers' contributions payable to scheme	27,656	29,852	1,353	710

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement at 31st March 2012 is a loss of £363.412m (£345.489m for the LGPS and £17.923m for the LPFA).

c) Assets and Liabilities in relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2012 are shown in the following tables detailing a reconciliation of opening and closing balances. It should be noted that the valuation of the assets was based on December 2011 data and may differ from the final valuation shown in the Pension Fund Accounts.

Notes to the Core Financial Statements

Reconciliation of Present Value of the Scheme Liabilities	Local Government Pension Scheme		LPFA	
	31 Mar 12	31 Mar 11	31 Mar 12	31 Mar 11
	£000	£000	£000	£000
Opening Scheme Liabilities	1,061,105	1,319,354	69,484	86,181
Adjustments relating to previous year	0	0	0	0
Current Service Cost	22,247	25,577	381	572
Interest Cost	58,150	67,088	3,732	4,052
Contributions by Members	7,465	8,376	117	139
Actuarial Losses/(Gains)	50,320	(194,632)	5,815	(11,474)
Past Service Costs	1,119	(126,186)	0	(5,599)
Losses on Curtailments	2,260	660	0	0
Liabilities Extinguished on Settlements	0	0	0	0
Estimated Unfunded Benefits Paid	(4,884)	(5,085)	(256)	(256)
Estimated Benefits Paid	(35,978)	(34,047)	(3,714)	(4,131)
Closing Scheme Liabilities	1,161,804	1,061,105	75,756	69,484

Reconciliation of Fair Value of the Scheme Assets	Local Government Pension Scheme		LPFA	
	31 Mar 12	31 Mar 11	31 Mar 12	31 Mar 11
	£000	£000	£000	£000
Opening Fair Value of Scheme Assets	709,444	686,418	59,118	49,863
Adjustments relating to previous year	0	0	0	0
Expected Return on Assets	48,752	48,664	2,937	2,944
Actuarial Gains/(Losses)	(29,496)	(24,734)	(9)	9,849
Contributions by the employer	22,772	24,767	1,097	454
Contributions by members	7,465	8,376	117	139
Contributions in respect of Unfunded Benefits	4,884	5,085	256	256
Benefits Paid	(35,978)	(34,047)	(3,970)	(4,131)
Unfunded Benefits Paid	(4,884)	(5,085)	(256)	(256)
Assets Distributed on Settlements	0	0	0	0
Closing Fair Value of Scheme Assets	722,959	709,444	59,546	59,118

The actual return on scheme assets in 2011/12 showed a gain of £19.392m for the LGPS (gain of £43.882m for 2010/11) and a gain of £2.928m for the LPFA (gain of £3.445m for 2010/11).

d) Scheme History

Scheme History	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
Local Government Pension Scheme					
Fair Value of Scheme Assets	722,959	709,444	686,418	485,433	635,822
Present Value of Scheme Liabilities	(1,161,804)	(1,061,105)	(1,319,354)	(793,449)	(812,380)
Surplus/Deficit	(438,845)	(351,661)	(632,936)	(308,016)	(176,558)
LPFA					

Notes to the Core Financial Statements

Fair Value of Scheme Assets	59,546	59,118	49,863	47,221	54,611
Present Value of Scheme Liabilities	(75,756)	(69,484)	(86,181)	(59,938)	(62,474)
Surplus/Deficit	(16,210)	(10,366)	(36,318)	(12,717)	(7,863)
Total Liability	(455,055)	(362,027)	(669,254)	(320,733)	(184,421)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. Whilst the total liability of £455m has a significant impact on the net worth of the authority as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees (i.e. before the payments become due), as assessed by the scheme actuary. Finance is only required to fund the payment of discretionary benefits when they are actually paid to pensioners.

The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2013 are £22.4m. The total expected contributions to the LPFA in the year to 31 March 2013 are £0.9m.

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), based on their latest triennial valuations as at 31st March 2010.

The main assumptions used in the valuations are:

	Local Government Pension Scheme		LPFA	
	2011/12	2010/11	2011/12	2010/11
Expected rate of return on scheme assets				
Equities	6.2%	7.5%	6.3%	7.2%
Bonds	3.9%	4.9%	-	-
Property	4.4%	5.5%	-	-
Target Return Portfolio	-	-	4.5%	5.0%
Cash	3.5%	4.6%	3.0%	3.0%
Cashflow Matching	-	-	3.3%	4.4%
Rate of Inflation – CPI	2.5%	2.8%	2.5%	2.7%
Rate of Inflation – RPI	-	3.6%	3.3%	3.5%
Salary Increase Rate *	4.8%	5.1%	4.2%	4.5%
Rate for discounting scheme liabilities	4.8%	5.5%	4.6%	5.5%
	Local Government Pension Scheme		LPFA	
	2011/12	2010/11	2011/12	2010/11
Mortality assumptions				
Longevity at 65 for current pensioners				
Men	21.0yrs	21.0yrs	20.1yrs	20.0yrs
Women	23.8yrs	23.8yrs	23.0yrs	22.9yrs
Longevity at 65 for future pensioners				
Men	22.9yrs	22.9yrs	22.1yrs	22.0yrs
Women	25.7yrs	25.7yrs	24.9yrs	24.9yrs

Notes to the Core Financial Statements

* Note – Salary increases in the LGPS forecast are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

Assets are valued at fair value, principally market value for investments, and consist of the following:

Fair Value of Total Scheme Assets	Local Government Pension Scheme			LPFA		
	2011/12		2010/11	2011/12		2010/11
	%	£000	£000	%	£000	£000
Equities	71	513,301	524,989	13	7,741	7,094
Bonds	18	130,133	113,511	-	-	-
Property	9	65,066	63,850	-	-	-
Target Return Portfolio	-	-	-	53	31,559	31,924
Cash	2	14,459	7,094	2	1,191	(591)
Cashflow Matching	-	-	-	32	19,055	20,691
Total Value of Assets	100.0	722,959	709,444	100.0	59,546	59,118

f) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in the years 2007/08 to 2011/12 can be analysed into the following categories, shown also as a percentage of assets or liabilities as at 31 March of that year.

Experience Gains and Losses	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
Local Government Pension Scheme					
Experience Gains/(Losses) on Assets	(29,496)	(24,734)	138,009	(199,461)	(136,900)
As a percentage of Assets	(4.1%)	(3.5%)	20.1%	(41.1%)	(21.5%)
Experience Gains/(Losses) on Liabilities	(50,320)	148,890	(2,015)	135	36,809
As a percentage of Liabilities	(4.3%)	14.0%	(0.2%)	0.0%	5.8%
LPFA					
Experience Gains/(Losses) on Assets	(9)	9,849	3,426	(7,825)	1,512
As a percentage of Assets	(0.0%)	16.7%	6.9%	(16.6%)	4.5%
Experience Gains/(Losses) on Liabilities	(95)	763	633	(11)	5,098
As a percentage of Liabilities	(0.1%)	1.1%	0.7%	0.0%	(8.2%)

41. CONTINGENT LIABILITIES

The Council has the following Contingent Liabilities as at the date of the approval of the Accounts:

a) The Council wholly owns Lewisham Homes, which is an arms-length management organisation (ALMO) who are responsible for managing and providing housing related services for the Council. In the event that they cease to be a “going concern”, all their assets and liabilities would revert to the Council, with the Council being responsible for any net liability. Since the 2011/12 draft accounts of Lewisham Homes show that they made a surplus and that they are a going concern, it is appropriate that this indemnity is disclosed as a contingent liability, rather than raise a provision in the Council’s accounts. It is not possible to quantify the extent of the costs that may result from this event happening.

Notes to the Core Financial Statements

b) The ending of the Connexions contract on 31 March 2011 resulted in the Council settling part of the case relating to a TUPE liability but an element remains to be resolved. However, there is still an outstanding claim for a member of staff linked to the TUPE transfer to the council.

42. 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.

43. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet.

	Balance 31/03/2010 £000	Movement in 10/11 £000	Balance 31/03/2011 £000	Movement in 11/12 £000	Balance 31/03/2012 £000
Children and Young People	27	1	28	0	28
Community Services	29	(6)	23	239	262
Cemeteries Graves Maintenance	11	11	22	(1)	21
Comforts Fund	1	0	1	0	1
Total Trust Funds	68	6	74	238	312

Interest on trust funds is credited annually at the average rate earned on the Council's revenue balances. The fund balances as at 31 March 2012 were invested as follows:

	Balance 31/03/2010 £000	Balance 31/03/2011 £000	Balance 31/03/2012 £000
External Investments	27	27	27
Cash	41	41	41
Total Trust Funds	68	68	68

44. HERITAGE ASSETS

	2011/12 £000
Balance at Beginning of Year	0
Additions	257
Disposals	0
Revaluations	0
Impairments	0
Balance at End of Year	257

These assets comprise Lewisham Clock Tower and the Civic Regalia.

Notes to the Core Financial Statements

45. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £000s		2011/12 £000s
2,336	Interest Received	2,970
(19,593)	Interest Paid	(37,387)
(17,257)		(34,417)

46. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2010/11 £000s		2011/12 £000s
(48,301)	Purchase of Property, Plant and Equipment, investment property and intangible assets	(71,109)
(184,871)	Purchase of short and long term investments	(120,000)
(7,272)	Other payments for Investing Activities	(347)
22,104	Proceeds from the sale of property plant and equipment, investment property and intangible assets	14,555
146,163	Proceeds from short-term and long-term investments	158,438
22,576	Other Receipts from Investing Activities	46,467
(49,601)	Net cash flows from investing activities	28,004

47. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2010/11 £000s		2011/12 £000s
38,685	Cash receipts of short and long term borrowing	23,421
0	Other receipts from financing activities	2,714
(4,903)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(4,900)
(43,685)	Repayment of Short-Term and Long-Term Borrowing	(161,628)
(3,234)	Other payments for financing activities	0
(13,137)	Net cash flows from investing activities	(140,393)

Notes to the Core Financial Statements

Housing Revenue Account

SECTION 4a

**HOUSING
REVENUE
ACCOUNT**

2011/12

Housing Revenue Account

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	2011/12	2010/11	
	£000	£000	Note
INCOME			
Gross Rent - Dwellings	(63,900)	(65,138)	1
Gross Rent - Other Housing Properties	(3,636)	(3,520)	1
Charges for Services and Facilities	(9,723)	(8,683)	1
Housing Subsidy - Housing Element	(15,145)	(15,527)	2
Contribution towards Expenditure	(3,888)	(6,048)	4
Government Grant - Self Financing Debt Repayment / Stock Transfer Overhanging Debt	(178,100)	(41,537)	
Total Income	(274,392)	(140,453)	
EXPENDITURE			
Supervision and Management - General Expenses	29,320	33,897	5
Supervision and Management - Special Expenses	5,478	6,380	6
Repairs and Maintenance	19,978	20,561	7
Repairs and Maintenance Funded by Major Repairs Allowance	10,811	13,151	15
Rent, Rates and Other Charges	282	379	8
Rent Rebate Subsidy Shortfall	(13)	850	3
Contribution to Doubtful Debts Provision	779	1,338	9
Depreciation - Dwellings	15,329	18,010	11
Depreciation - Other Housing Assets	1,052	994	11
Impairment of Non Current Assets	12,620	322,577	
Debt Management Expenses	48	48	
Total Expenditure	95,684	418,185	
Net Cost of Services included in the Council's Income and Expenditure Account	(178,708)	277,732	
HRA Services share of CDC	134	140	
HRA share of other amounts included in the Council's net cost of services but not allocated to specific services	0	0	
Net Cost of HRA Services	(178,574)	277,872	
HRA share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement			
(Gain) / Loss on Sale of HRA Non Current Assets	(2,105)	(6,943)	
Interest Payable and Similar Charges	58,189	17,046	12
Interest and Investment Income	(254)	(213)	
Pension Interest Cost and Expected Return on Pension Assets	14	(29)	17
Deficit for the Year on HRA Services	(122,730)	287,733	

Housing Revenue Account

HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

	2011/12 £000	2010/11 £000
Balance on the HRA at the End of the Previous Year	9,908	9,760
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	122,730	(287,733)
Adjustments between Accounting Basis and Funding Basis under Statute	(129,640)	269,395
Net Increase or (Decrease) before Transfers (To) / From Reserves	(6,910)	(18,338)
Transfers (To) / From Reserves	14,183	18,486
Increase or (Decrease) in Year on the HRA	7,273	148
Balance on the HRA at the End of the Year	17,181	9,908

An analysis of the amounts included within the figures for "Adjustments between Accounting Basis and Funding Basis under Statute" can be found within Note 6 to the Core Financial Statements.

Details of the movement in Housing Revenue Account Reserves and Balances can be found within Note 16 to the Housing Revenue Account.

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 2012, 1.3% of lettable property was empty (2.4% at 31 March 2011). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £81.70 in 2011/12 and £77.82 per week in 2010/11.

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

a) Housing stock

The Council was responsible for managing 15,160 dwellings as at 31 March 2012 (15,195 as at 31 March 2011). There were no stock transfers during 2011/12 (During 2010/11 one stock transfer took place: 2,427 flats and houses in the Chrysalis (Forest Hill, Rushey Green and Catford) area were transferred to London and Quadrant Housing Association).

The stock is made up as follows:

	31/03/2012 Number	31/03/2011 Number
Houses and Bungalows	2,446	2,447
Flats and Maisonettes	12,714	12,748
Stock at 31 March	15,160	15,195

The changes in stock can be summarised as follows:

	2011/12 Number	2010/11 Number
Stock at 1 April	15,195	17,893
Less Sales, Demolitions, etc.	(50)	(271)
Less Stock Transfers	0	(2,427)
Add Re-purchases, Conversions etc.	15	0
Stock at 31 March	15,160	15,195

b) Rent arrears

	2011/12 £000	2010/11 £000
Arrears due from former tenants	3,202	2,931
Arrears due from current tenants	2,246	3,071
Total Arrears	5,448	6,002
Total Arrears as % of Gross Rent of Dwellings Due	8.5%	9.2%

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.

Housing Revenue Account

c) Rent – other housing property

	2011/12 £000	2010/11 £000
Aerial Sites	252	313
Garage Rents	910	750
Reception Hostels	1,307	1,324
Commercial property Rent	1,115	1,065
Ground Rents	52	68
Total Other Rents and Charges	3,636	3,520

d) Charges for services and facilities (including Heating and Services Charges to Tenants and leaseholders).

Service Charges include caretaking, grounds maintenance, communal lighting and the Lewisham Tenants' Levy. In 2010/11 charges for bulk household waste removal and window cleaning were introduced. In 2011/12, charges for pest control were introduced. The average tenants' service charge was £5.75 in 2011/12 (£4.73 in 2010/11).

	2011/12 £000	2010/11 £000
Heating Charges	979	987
Leasehold Service Charges	4,248	3,558
Tenants Service Charges	4,496	4,138
Total Charges for Services and Facilities	9,723	8,683

2. GOVERNMENT HOUSING EXCHEQUER SUBSIDY

This is a Government grant towards the net cost of management and maintenance and financing costs (i.e. capital financing, lease costs and deferred interest payments) after allowing for an assumed rent increase. The subsidy includes the major repairs allowance, which represents the Government's estimate of the long-term average amount of capital spending required to maintain the housing stock in its present condition. The Subsidy is made up of the following elements:

	2011/12 £000	2010/11 £000
Management Allowance	16,428	17,116
Maintenance Allowance	23,200	23,981
Major Repairs Allowance	13,010	13,670
Charges for Capital	15,320	14,888
Other Reckonable Expenditure	137	80
PFI Credit	10,353	10,353
Guideline Rent Income	(63,288)	(64,539)
Interest on Receipts	(15)	(22)
Total Housing Element of Subsidy	15,145	15,527

Housing Revenue Account

3. REBATES

Assistance with rents is available under the Housing Benefits scheme for those on low income. Approximately 60% of Council tenants received help under this scheme as at 31 March 2012 (60% as at 31 March 2011). The scheme is administered by the Council. Rent rebates are chargeable to the General Fund and the corresponding subsidy is credited to General Fund.

Subsidy on rent rebates is subject to capping and if the Council's rent is in excess of the Government's limit for subsidy on rebates, the cost of rebates over the subsidy limit is recharged back to the HRA. The shortfall on subsidy due to overpayments is now met by the General Fund. Rent rebate administration costs are fully chargeable to the general fund.

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

	2011/12 £000	2010/11 £000
Rent Rebates Given (GF)	41,337	42,717
Subsidy Received on Rebates (GF)	(41,350)	(41,867)
Net cost to the HRA	(13)	850

4. OTHER INCOME

	2011/12 £000	2010/11 £000
Commission on insurance and water rates	657	712
Court costs	65	102
Government grants	336	439
Recharges of repairs	2,262	3,926
Professional fees	24	36
Recharge to capital receipts	270	429
Hostels: Heat, Light and Water Charges	241	239
Other miscellaneous income	33	165
Total Other Income	3,888	6,048

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.

6. SUPERVISION AND MANAGEMENT - 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.

Housing Revenue Account

7. 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. Gross repairs and maintenance expenditure for 2011/12 was £20.0m (2010/11 - £20.6m).

8. RENT, RATES AND OTHER CHARGES

This includes expenditure relating to business rates, ground rents and lease rents.

9. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE (PROVISION FOR DOUBTFUL DEBTS)

In 2011/12 a contribution of £0.78m (2010/11 - £1.34m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details are as follows:

	2011/12 £000	2010/11 £000
Housing Tenants	4,501	5,349
Leaseholders	2,484	2,453
Commercial Properties, Miscellaneous Debts	671	618
Total Provision for Bad and Doubtful Debts	7,656	8,420

10. NON CURRENT ASSETS

The following table gives details of the valuation of housing assets. 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 (and the Government) of providing housing at less than open market rents. The five yearly revaluation of council dwellings in 2010/11 resulted in a decrease of £300m in the value of the stock as at 31/03/11. For both 2011/12 and 2010/11, additional impairments resulted from capital expenditure which did not technically increase the value of the assets.

	31/03/12 £000	31/03/11 £000
Operational Assets:		
Dwellings (Existing Use Value - Social Housing)	609,047	624,293
Other Land and Buildings	39,667	39,826
Infrastructure	113	119
Vehicles, Plant and Equipment	4,428	2,139
Total Operational Assets	653,255	666,377
Investment Properties	17,374	19,479
Total Housing Assets	670,629	685,856
Valuation of Council Dwellings		
Vacant Possession Value	2,436,188	2,497,172

Housing Revenue Account

11. DEPRECIATION

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

	2011/12 £000	2010/11 £000
Operational Assets		
Dwellings	15,329	18,010
Other Land and Buildings	1,052	994
Total Operational Assets	16,381	19,004
Non Operational Assets	0	0
Total Housing Assets	16,381	19,004

12. AMORTISATION OF PREMIUMS AND DISCOUNTS

Included in the "Interest payable and similar charges" line is the cost to the HRA of loan redemption premiums and income from loan redemption discounts which are amortised over 10 years.

13. HOUSING CAPITAL EXPENDITURE

The level of capital expenditure in 2011/12 (£16.2m) was significantly higher than that in 2010/11 (£4.3m). This is mainly due to a borrowing approval from the Government for Decent Homes improvements. As in previous years, all expenditure that could not be capitalised as a component or did not add value to an existing asset has been charged to revenue. This amount has been fully funded from the Major Repairs Reserve, which can be used for both revenue and capital expenditure.

The total capital receipts from the disposal of housing assets were £2.9m in 2011/12 (£1.1m in 2010/11) of which £1.1m (£0.3m in 2010/11) were defined as usable capital receipts.

	2011/12 £000	2010/11 £000
Capital Expenditure on Housing	16,231	4,327
Financed by:		
Government Supported Borrowing	15,350	2,700
Capital Grants	0	0
Capital Receipts	0	0
Major Repairs Reserve	881	1,627
Total Capital Expenditure Financed	16,231	4,327

14. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)

Under the current Capital Finance system, there is no requirement to repay principal on housing debt. The total housing debt at 31 March 2012 was £83.5m (£204m as at 31 March 2011). The reduction was due to the debt repayment as part of the preparation for the move to HRA self financing from 1st April 2012.

Housing Revenue Account

15. MAJOR REPAIRS RESERVE

	2011/12 £000	2010/11 £000
Balance B/fwd as at 1 April	(3,211)	(4,320)
Transferred in (depreciation dwellings)	(16,381)	(19,004)
Financing of capital expenditure on housing assets	881	1,627
Financing Revenue Repairs (MRA)	10,811	13,151
Transfer to the HRA	3,371	5,335
Balance C/fwd as at 31 March	(4,529)	(3,211)

16. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

	Balance at 31/03/2011 £000	Transfers in £000	Transfers out £000	Balance at 31/03/2012 £000
Non-earmarked Balance	0	0	0	0
Property and Stock Related Reserves	6,737	815	(600)	6,952
Staff Related Reserves	300	450	0	750
Other Earmarked Reserves	2,871	6,608	0	9,479
Total	9,908	7,873	(600)	17,181

	Balance at 31/03/2010 £000	Transfers in £000	Transfers out £000	Balance at 31/03/2011 £000
Non-earmarked Balance	0	0	0	0
Property and Stock Related Reserves	6,935	582	(780)	6,737
Staff Related Reserves	300	0	0	300
Other Earmarked Reserves	2,525	346	0	2,871
Total	9,760	928	(780)	9,908

17. 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.

Housing Revenue Account

Collection Fund

SECTION 4b

**COLLECTION
FUND**

2011/12

Collection Fund

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 both Council Tax and National Non-Domestic Rates (NNDR) and the distributions to the Council's General Fund and the Greater London Authority in respect of Council Tax and to the Government in respect of NNDR.

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

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

COLLECTION FUND REVENUE ACCOUNT	2011/12 £000	2010/11 £000	Note
INCOME			
Income from Council Tax (net)	95,713	92,619	3
Transfers from General Fund:			
- Council Tax Benefits	28,623	28,359	3
Income from National Non-Domestic Rates (net)	47,987	48,213	4
TOTAL INCOME	172,323	169,191	
EXPENDITURE			
Precepts and Demands upon the Collection Fund			
- London Borough of Lewisham	92,213	91,184	
- Greater London Authority	27,415	27,109	
National Non-Domestic Rates			
- Payment to National Pool	45,380	46,163	4
- Cost of Collection Allowance	316	321	4
Business Rate Supplement			
- Payment to Greater London Authority	1,487	1,173	
- Administrative Costs	7	8	
Bad and Doubtful Debts			
- Net adjustment to Impairment Allowance (Council Tax)	(1,662)	1,876	5a
- Net adjustment to Impairment Allowance (NNDR)	371	246	5b
- Amounts Written Off (Council Tax)	4,673	745	
- Amounts Written Off (NNDR)	426	302	4
Contributions from previous year's Collection Fund Surplus			
- London Borough of Lewisham	18	52	
- Greater London Authority	5	15	
TOTAL EXPENDITURE	170,649	169,194	
DEFICIT / (SURPLUS) FOR THE YEAR	(1,674)	3	
(SURPLUS) AT THE BEGINNING OF THE YEAR	(29)	(32)	
FUND (SURPLUS) AT THE END OF THE YEAR	(1,703)	(29)	

COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

	Surplus as at 31/03/10 £000	Deficit for 2010/11 £000	Surplus as at 31/03/11 £000	Surplus for 2011/12 £000	Surplus as at 31/03/12 £000
London Borough of Lewisham	(25)	3	(22)	(1,290)	(1,312)
Greater London Authority	(7)	0	(7)	(384)	(391)
	(32)	3	(29)	(1,674)	(1,703)

Collection Fund

NOTES TO THE COLLECTION FUND

1. 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.

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

The annual budget process requires that each authority 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 1st 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 both 2011/12 and 2010/11 assumed a collection rate of 96.25%.

The table below sets out the tax base calculation for 2011/12;

Council Tax Band	Property Value £000	2011/12			2011/12		2010/11	
		No. of Properties		Band D Ratio	Band D Equivalents as per Ratio	Council Tax Charge £	Band D Equivalents as per Ratio	Council Tax Charge £
		Actual Number (1)	Adjusted Number (2)					
A	up to 40	7,205	5,647	6/9	3,765.0	901.29	3,643	901.29
B	40 - 52	32,324	26,501	7/9	20,611.9	1,051.50	19,908	1,051.50
C	52 - 68	41,427	35,757	8/9	31,783.8	1,201.72	30,907	1,201.73
D	68 - 88	25,206	22,700	1	22,699.8	1,351.93	22,407	1,351.93
E	88 - 120	7,164	6,564	11/9	8,022.4	1,652.36	8,036	1,652.36
F	120 - 160	2,753	2,573	13/9	3,716.6	1,952.79	3,700	1,952.79
G	160 - 320	1,298	1,203	15/9	2,004.2	2,253.22	2,008	2,253.22
H	over 320	177	151	18/9	302.0	2,703.86	300	2,703.86
Totals		117,554	101,096		92,905.7		90,909	
Add: Contributions in lieu						0		0
Total Band D equivalents						92,905.7		90,909
Estimated Collection Rate						96.25%		96.25%
NET COUNCIL TAX BASE						89,422		87,500

(1) Total number of dwellings as per Valuation Officer's List

(2) Total number of dwellings after allowing for Discounts, Exemptions and Other Adjustments

Collection Fund

3. COUNCIL TAX INCOME

	2011/12		2010/11
	£000	£000	£000
Gross Council Tax Income Due		144,643	143,602
Less: Adjustments to charge	411		604
Exemptions	(5,336)		(5,969)
Disabled Relief	(70)		(74)
Discounts	(15,314)		(15,980)
		(20,309)	(21,419)
Total Due from Council Tax payers		124,334	122,183
Transfers from General Fund for Council Tax Benefits		(28,623)	(28,359)
Adjustment to Charge		2	(1,205)
Net amount of Council Tax Receivable		95,713	92,619

4. NATIONAL NON-DOMESTIC RATES

The Council is responsible for collecting the National Non Domestic Rates (NNDR) (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 NNDR multiplier, which is set annually by the Government. The amount due is paid over to the Government and redistributed back to councils via the formula grant mechanism. The Council's share of this redistributed money is paid into the General Fund.

	2011/12		2010/11
	£000	£000	£000
Gross NNDR Collectable (after voids and exemptions)		52,635	51,717
Reductions and Relief:			
Mandatory Relief	(4,573)		(3,430)
Discretionary Relief	(170)		(165)
Interest on Refunds and Other Adjustments	95	(4,648)	(1,082)
Total Receivable from Business Rates		47,987	47,040
Irrecoverable Amounts Written Off		(426)	(302)
Net Adjustment to Impairment Allowance		(371)	(246)
Net Amount Collectable from Business Ratepayers		47,190	46,492
Business Rate Supplement			
Payment to Greater London Authority	(1,487)		
Administrative Costs	(7)	(1,494)	
NNDR			
Cost of Collection Allowance transfer		(316)	(329)
Amount Payable to NNDR Pool		45,380	46,163

Collection Fund

	2011/12	2010/11
Non-Domestic Rateable Value	£m 133.8	£m 133.8
National Non-Domestic Rate Multiplier	pence 43.3	pence 41.4
National Non-Domestic Rate Multiplier (Small Business)	42.6	40.7

5. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCE (BAD DEBT PROVISION)

a) Council Tax

	31/03/2012	31/03/2011
	£000	£000
Council Tax Arrears	28,054	29,890
Impairment Allowance	(25,512)	(27,174)
As a Percentage of Arrears	90.9%	90.9%

	2011/12		2010/11	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Arrears				
Year of Accounts	5,828	21	6,284	21
Under 2 Years old	4,414	16	5,062	17
Under 3 Years old	4,520	16	4,183	14
Under 5 Years old	7,292	26	6,330	21
Over 5 Years old	6,000	21	8,031	27
Total	28,054	100	29,890	100

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund. As at 31 March 2012, the arrears were £5.0m (£5.2m at 31 March 2011) with an impairment allowance of £4.4m or 89% (£4.8m or 91% at 31 March 2011).

b) National Non-Domestic Rates

	31/03/2012	31/03/2011
	£000	£000
NNDR Arrears	3,919	3,167
Impairment Allowance	(1,345)	(974)
As a Percentage of Arrears	34.3%	30.8%

	2010/11		2010/11	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Arrears				
Year of Accounts	2,308	59	1,883	59
Under 2 Years old	838	22	858	27
Under 3 Years old	428	11	269	9
Under 5 Years old	288	7	133	4
Over 5 Years old	57	1	24	1
Total	3,919	100	3,167	100

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund. As at 31 March 2012, the arrears were £117k (£49k at 31 March 2011) with an impairment allowance of £105k or 90% (£44k or 90% at 31 March 2011).

Collection Fund

ANNEXE 2

**GLOSSARY OF TERMS
AND ACRONYMS USED
IN THE ACCOUNTS**

2011/12

GLOSSARY OF TERMS USED IN THE ACCOUNTS

ACCRUALS	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	Expenditure on the acquisition or enhancement of assets which significantly prolong their useful lives or increase 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	Represents capital resources 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 National Non-Domestic Rates are paid in order to meet payments due to the Council's General Fund and Preceptors (currently the Greater London Authority).
CONTINGENT LIABILITY	A possible liability to incur future expenditure at the balance sheet date dependant upon the outcome of uncertain events.
CREDITORS	Amount of money owed by the Council for goods, works or services received.
DEBTORS	Amount of money owed to the Council by individuals and organisations.
DEPRECIATION	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	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	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	A classification of fixed assets which have no market value and which exist primarily to facilitate transportation and communication requirements (e.g. roads, street lighting). They are usually valued at historic cost.

Annexe 2

LEASES	<p>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.</p> <p>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.</p> <p>An Operating lease is a lease other than a finance lease.</p>
MEMORANDUM ACCOUNT	<p>These Accounts are not part of the Council's formal statutory Accounts and are included in the Statement for added information.</p>
MINIMUM REVENUE PROVISION	<p>The prudent amount which must be charged to an authority's revenue account each year for principal repayments on loans .</p>
NATIONAL NON-DOMESTIC RATE (NNDR)	<p>National Non-Domestic Rate (NNDR) is set by the Government and collected by the Council and paid into the central pool. The Government pays back to the Council their share of the pool as part of the formula grant allocation.</p>
PRIVATE FINANCE INITIATIVE	<p>This is a central government initiative 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 may be reduced if performance targets are not met.</p>
PRECEPT	<p>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.</p>
PROVISIONS	<p>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.</p>
REVALUATION RESERVE	<p>Represents the gains on the revaluation of non current assets which have not yet been realised through sales.</p>
REVENUE SUPPORT GRANT	<p>This is the main general grant which is paid to the Council by Central Government to fund local services.</p>
REVENUE EXPENDITURE	<p>Day-to-day expenditure incurred in the running of Council services, e.g. salaries, wages, supplies and services.</p>
SUPPORT SERVICES	<p>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.</p>

ACRONYMS USED IN THE ACCOUNTS

CDC	Corporate and Democratic Core
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
COP	Code of Practice
DSG	Dedicated Schools Grant
Ex-ILEA	Ex-Inner London Education Authority
FRS	Financial Reporting Standard
HRA	Housing Revenue Account
IAS	International Accounting Standard
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
NDC	Non Distributed Costs
NNDR	National Non-Domestic Rates
PCT	Primary Care Trust
PFI	Private Finance Initiative
SERCOP	Service Reporting Code of Practice
SPV	Special Purpose Vehicle
SSAP	Statement of Standard Accounting Practice
TPS	Teacher's Pensions Scheme
VAT	Value Added Tax

**DRAFT
PENSION
FUND
ACCOUNTS**

2011/12

Pension Fund Accounts

DRAFT PENSION FUND ACCOUNTS

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined 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 operated under various sets of regulations made under the Superannuation Act 1972. The fund is administered with the following secondary legislation:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

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

["www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"](http://www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm)

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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 actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note (k) below.

Pension Fund Accounts

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 also requires 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 Code summarises the Pension SORP and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to five months after a local authority must approve its Statement of Accounts. The Council will be taking its Annual Report to its Pensions Investment Committee in order to comply with this deadline.

The accounting policies and the basis of preparation of the accounts are shown below:

- (a)** 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, excepting 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.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2011/12 Local Authority SORP and the IAS 26 Retirement Benefit Plans. 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.
- (c)** 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 sales of investments during the year.
- (d)** Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement.
- (e)** The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund, which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").

Pension Fund Accounts

- (f) 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 funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure to are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

The only non UK funds are the Continental European Fund 1 and Lend Lease Real Estate Partners 3. Their net asset values are derived from the net asset values of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will vary between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations does however vary. All the funds are independently valued on a rolling basis at least annually.

- (g) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs.
- (h) The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using valuation techniques.
- (i) Contributions – there are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £13,500 a year to 7.5% for members earning over £85,300 a year. The employer's contribution is reviewed every three years and is determined 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.

Full time pay for the post	Contribution rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

- (j) 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.

Pension Fund Accounts

- (k) The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2010.

The valuation was based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following valuation and allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

In order to value liabilities which have accrued at the valuation date and those accruing in respect of future service the Actuary has assumed that the Fund's assets will generate a return of 6.1% per annum (5.8% 2007). The Actuary set the employer contribution accordingly to recover the deficit over future periods.

The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5%, with effect from 1st April 2011 and annual increases of 0.5% for the subsequent two years. The next actuarial valuation of the Fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The Actuary has calculated the actuarial present value of retirement benefits (on an IAS 26 basis) to be £1,158 million as at 31st March 2012 (£1,044 million 31st March 2011).

Actuarial Present Value of Promised Retirement Benefits

The triennial valuation on the 31st March 2010 revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% (87.4% 2007) of the liabilities valued at £949 million (£840 million 2007) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million (£106 million 2007).

- (l) 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 funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (m) 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: the converted foreign exchange rate is used at stock valuation date.

Pension Fund Accounts

- Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

(n) 2011/12 Financial Year Summary of Fund Value

Fund Manager	Assets	Assets Value 31st March 2012 £000	Assets Value 31st March 2011 £000	Proportion of the Fund 31st March 2012 (%)
UBS	Bonds	138,140	124,672	17.82
Alliance Bernstein	Global Equities	165,817	177,416	21.40
RCM	Global Equities incl. UK	171,255	169,067	22.10
Schroders Property	Property	68,846	68,386	8.88
HarbourVest (*Incl Legacy Stock)	Private Equity	31,234	30,020	4.03
UBS passive equity	UK Tracker fund	128,474	125,728	16.58
Fauchier	Hedge Fund of Fund	21,077	22,054	2.72
Investec	Commodities	37,587	40,062	4.85
M&G	Credit	10,827	5,314	1.40
Securities Lending	Securities Lending	8	150	0
Lewisham	Cash and Net Current Assets	1,735	-74	0.22
Total Fund		£775,000	£762,795	100

Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

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

2010/11 Restated £'000s	<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31st MARCH 2012</u>	2011/12 £000s	2010/11 £000s	Note
	<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u> <u>DIRECTLY INVOLVED WITH THE SCHEME</u>			
	Contributions Receivable:			
28,898	- from Employer	26,583	29,504	1
9,330	- from Employees	9,072	9,330	1
606	- Reimbursement for Early Retirement	1,951		
3,266	Transfer Values In	2,936	3,266	
0	Other Income	8	0	
42,100	Sub-Total: Income	40,550	42,100	
	Benefits Payable:			
27,724	- Pensions	30,041	27,724	2
4,757	- Lump Sums: Retirement allowances	8,826	4,757	
535	- Lump Sums: Death grants	1,167	535	
	Payments to and on account of leavers:			
1	- Refunds of Contributions	1	1	
8,210	- Transfer Values Out	6,059	8,210	
1,021	Administrative and other expenses borne by the scheme	860	1,021	3
42,248	Sub-Total: Expenses	46,954	42,248	
(147)	Total Net additions (withdrawals) from Dealings with Scheme Members	(6,404)	(147)	
	<u>RETURNS ON INVESTMENTS</u>			

Pension Fund Accounts

11,800	Investment Income	11,280	11,800	4
40,118	Change in market value of investments (Realised and Unrealised)	11,052	40,243	
	Investment Expenses:			
(1,649)	- Fund Managers' Fees	(3,211)	(1,649)	
(739)	- Tax on Dividends	(514)	(739)	
(1,735)	- Other Direct Expenses		(1,735)	
47,795	Total Net Returns on Investments	18,607	47,920	
47,648	NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	12,203	47,773	
715,146	OPENING NET ASSETS OF THE SCHEME	762,794	715,146	
762,794	CLOSING NET ASSETS OF THE SCHEME	774,997	762,919	

Pension Fund Accounts
NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2012.

2010/11 Restated £'000s	<u>NET ASSETS STATEMENT AT 31 MARCH 2012</u>	31st March 2012 £000s	31st March 2011 £000s	Note
-	EQUITIES			5
36,454	Equities: UK	41,716	36,454	
282,468	Equities: Global	271,495	282,468	
318,922		313,211	318,922	
	MANAGED FUNDS			5
62,831	Property	66,993	62,831	
149,430	Equity	151,512	149,430	
82,110	Fixed Interest	88,581	82,110	
42,516	Index Linked	49,552	42,516	
93,217	Other Assets	96,245	93,342	
430,104		452,883	430,229	
13,332	CASH DEPOSITS	6,196	13,332	9
	DERIVATIVE CONTRACTS			7
203	Assets	4	203	
(249)	Liabilities	(21)	(249)	
	OTHER INVESTMENT BALANCES			8
3,333	Debtors: Investment Transactions	2,164	3,333	
(2,777)	Creditors: Investment Transactions	(1,174)	(2,777)	
762,868	TOTAL INVESTMENTS	773,263	762,993	
	NET CURRENT ASSETS AND LIABILITIES			
547	Debtors	489	547	8
(663)	Creditors	(2,273)	(663)	8
41	Cash in Hand	3,518	41	9
762,794	TOTAL NET ASSETS	774,997	762,919	

The Net Assets Statement does not take account of the liability to pay pensions or benefits after the period end. This liability is included within the Authority's balance sheet.

Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2011/12 £000s	2010/11 £000s
Administering: Normal	22,752	24,344
Admitted: Normal	984	817
Scheduled	2,847	3,738
	26,583	28,899

<u>Employee Contributions</u>	2011/12 £000s	2010/11 £000s
Administering	7,448	8,241
Admitted	322	206
Scheduled	1,302	883
	9,072	9,330

<u>2. BENEFITS PAYABLE</u>	2011/12 £000s	2010/11 £000s
Administering	17,910	16,642
Admitted	192	174
Scheduled	730	745
Dependants Pensions	1,224	1,225
Pensions Increases	9,985	8,938
	30,041	27,724

<u>3. ADMINISTRATION COSTS</u>	2011/12 £000s	2010/11 £000s
Lewisham Administration	547	466
Advisory Costs Incl. Audit Fees	310	550
Bank Charges	3	5
	860	1,021

<u>4. INVESTMENT INCOME</u>	2011/12 £000s	2010/11 £000s
Cash	195	160
Equity	7,608	6,311
Fixed Interest	618	2,594
Managed Funds Incl. Property	2,067	2,535
Securities Lending	140	200
Other*	652	0
	11,280	11,800

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

Pension Fund Accounts

5. INVESTMENT ANALYSIS

The only (non UK Government) security forming over 5% of the portfolio is an investment in a UBS UK Equity Tracker pooled fund. This pooled fund is sufficiently diversified to ensure that overall exposure to a single UK security will not exceed 5%.

An analysis of investment movements is set out below:

Investments	Value at 31/03/2011 £000s	Purchases at Cost £000s	Sales Proceeds £000s	Change in Market Value £000s	Value at 31/03/2012 £000s
UK Equities	36,454	17,005	(9,064)	(2,679)	41,716
Global Equities	282,468	121,728	(130,245)	(2,456)	271,495
Equities	149,430	1,830	0	252	151,512
Property	62,831	12,517	(8,785)	430	66,993
Fixed Interest Securities	82,110	613	(3,855)	9,713	88,581
Index Linked Securities	42,516	0	(2,145)	9,181	49,552
Other*	93,217	8,496	(2,049)	(3,419)	96,245
Derivatives	(46)	0	0	29	(17)
	748,980	162,189	(156,143)	11,052	766,077
Cash deposits	13,332				6,196
Other Investment Balances	556				990
	762,868				773,263

The Pension Fund's bond investments are held with UBS in the form of pooled funds. The fund denoted Index Linked above is comprised wholly of UK Government index linked gilts. The remaining funds are comprised of various government and corporate bonds.

(The amounts in respect of derivative payments and receipts represent the cost at inception of the contract).

**EQUITY HOLDINGS
ANALYSIS**

	31 st March 2012		31 st March 2011	
	UK £000	Overseas £000	UK £000	Overseas £000
EQUITY				
Listed	41,716	271,495	36,454	282,468
Unlisted	0	0	0	0
	41,716	271,495	36,454	282,468
TOTAL EQUITY		313,211		318,922

Pension Fund Accounts				
EQUITY MANAGED FUNDS	UK	Overseas	UK	Overseas
*Unit Trust Equities	151,512	0	149,430	0
TOTAL EQUITY MANAGED FUNDS		151,512		149,430
TOTAL EQUITY INVESTMENTS		464,723		468,352

FINANCIAL INSTRUMENTS

The following categories of financial instruments are carried in the Net Asset Statement

2011/12		2010/2011
£'000		£'000
(794)	Loans and receivables	441
766,094	Available-for-sale financial assets	749,026
4	Financial assets at fair value through profit or loss	61
(21)	Financial liabilities at fair value through profit or loss	(107)
9,714	Cash	13,373
774,997		762,794

FINANCIAL RISK MANAGEMENT

As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), 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.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk.

Market risk includes price risk, interest rate risk and currency risk. 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 Lewisham Pension Investment Committee (PIC) has determined that the

Pension Fund Accounts

investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager, and its investment consultant (Hymans) advises on the nature of the investments made and associated risks.

The Fund's investments are held by Northern Trust, who act as custodian on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes 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 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) Market Price Risk

Market price risk represents 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. 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 smooths out short term price volatility.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	14.6
Overseas Equities	17.0
UK Bonds	5.6
Index Linked	6.9
Cash	0.1
Property	8.0

Pension Fund Accounts

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value £'000	Percentage Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	193,228	14.6	221,441	165,018
Overseas Equities	271,495	17.0	317,650	225,342
UK Bonds	88,581	5.6	93,542	83,620
Index Linked	49,552	6.9	52,971	46,133
Cash	6,196	0.1	6,203	6,190
Other Assets	96,245	9.0	104,906	87,582
Property	66,993	8.0	72,352	61,633
Total Assets*	772,290		869,065	675,518

* This figure excludes derivatives and other investment balances.

b) Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 1% change in the interest rate would result in an approximate change in income of £68,146.

c) 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 (£UK). The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of sterling against the local currencies of assets held. 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, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. As at

31 March 2012, forward foreign exchange contracts were the only derivative contracts held. 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.

Following analysis of historical data in consultation with the Fund's advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 10.6%.

Pension Fund Accounts

This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/12/12 £'000	+10.6% £'000	-10.6% £'000
Overseas Equities	271,496	300,148	242,844
Other Assets	64,344	71,134	57,553
Total	335,840	371,282	300,397

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 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 of and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur through the failure to settle transactions in a timely manner.

The Pension Fund is exposed to credit risk through Securities Lending and Forward Currency Contracts. The Securities Lending programme is run by the Fund's custodian Northern Trust who 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.

Forward Currency Contracts are with Alliance and Bernstein and RCM who operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of sterling against the local currencies of assets held. The Fund manages its risk by monitoring the credit quality and financial position of its fund managers. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

The Financing Fund is also exposed to credit risk. The fund gains exposure by investing in private placements. This risk is managed by assigning a credit analyst to all investments, who continually monitors the asset, its direct peers and its sector.

iii) Liquidity Risk – This is the risk that the Pension Fund will have difficulties in paying its financial obligations. 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 2012 these assets totalled approximately £604m, with a further £6.2m held in cash by fund managers.

Pension Fund Accounts

6. PRIOR YEAR ADJUSTMENT

Some Private Equities held with Harbourvest were previously included in the accounts at mid value of instead of bid value. These assets have been restated at bid value in 2010/11 resulting in a reduction in value of £125k as at 31st March 2011.

The Council makes a cash re-imburement to the fund as a contribution towards early retirement benefits paid during the year. In 2010/11, this was included in the Employer Contributions, but has now been restated as a separate item in the accounts. This totalled £606k in 2010/11.

7. DERIVATIVE CONTRACTS

The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of assets held. 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, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer.

At 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. Forward foreign exchange contracts are disclosed in the accounts at market value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

Foreign Exchange Gains	
Total Gains	4
Foreign Exchange Losses	
Total Losses	(21)
Total Unrealised Gains/(Losses)	(17)

8. DEBTORS & CREDITORS

These comprise the following amounts:

Debtors	2011/12 £000s	2010/11 £000s
Contributions due from Admitted / Scheduled Bodies	489	547
Equity Dividends / Income from Managed Funds	484	483
Interest and Other Income	0	151
Pending Trades	1,680	2,699
	2,653	3,880
Creditors	2011/12 £000s	2010/11 £000s

Pension Fund Accounts		
Fund Manager and Custody Fees	(516)	(662)
Consultancy / Advisory Fees (Incl Audit Fee)	(27)	0
Pension Payments Due to Employees	(167)	0
Taxes Due	0	0
Pending Trades	(1,174)	(2,777)
LB Lewisham	(1,563)	0
	(3,447)	(3,439)

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. Pending trade sales and purchases at the year end are treated as investment debtors and creditors.

9. CASH DEPOSITS

The Northern Trust Company is the fund global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of our fund managers. The total cash held for this purpose as at 31st March 2012 was £6.19m. Approximately £1.72m of this cash was held for Schroders, £0.8m for Alliance Bernstein and £3.35m for RCM. The Lewisham cash balance represents Pension Fund contributions held in the Pension Fund bank account as at 31st March 2012.

Cash in Hand

The increase in the cash in hand figure from 2010/11 to 2011/12 is mainly due to the Fund operating its own bank account, which necessitates the availability of cash. The cash in hand figure includes a figure of £1.5m owed by the Fund to the council for items described in note 13b below.

10. TRANSACTION COSTS

The following direct costs were incurred in relation to individual investment transactions:

	2011/12	2010/11
	£000s	£000s
Total Purchases	130	167
Total Sales	138	239
Total transactions	268	406

11. POST YEAR END EVENTS

A restructure of the Fund's investment portfolio will take place in 2012/13. The Fund will move from being actively managed to being passively managed. This will result in the change of some fund managers.

Since March 2012, there has been a marked decline in the global stock markets which would impact upon the market value of the fund's investments were they to be valued as at the date these accounts were prepared.

These changes are deemed to be non-adjusting post balance sheet events. There have been no events since March 2012, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

Pension Fund Accounts

12. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2012:

Harbourvest

HarbourVest Partners VIII – Venture Fund £1,632,029

HarbourVest Partners VIII – Buyout Fund £4,189,394

HarbourVest International Private Equity Partners V – Partnership Fund £3,355,240

HarbourVest International Private Equity Partners V – Direct Fund £215,694

Total HarbourVest Commitments - £9,392,357

M&G - £9,107,145

13. 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. Five Councillors of this Committee are members of the pension scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest which are minuted at the meeting. During the year no trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

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

- a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £547k (see note 3).
- b) 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. Any interest receivable/payable on such balances is paid to/from the Pension Fund annually at an interest rate equating to that earned by the Council on temporary investments.

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. 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.

Pension Fund Accounts

	£000s
Value at 1 April 2011	1,441
Contributions and Transfers Received	248
Investment Return	52
Paid Out	222
Value at 31 March 2012	1,519

16. SCHEDULED BODIES

The following are scheduled bodies to the fund:

Christ The King Sixth Form College
 Haberdashers' Aske's Knights Academy
 Lewisham Homes
 St Matthew Academy

17. ADMITTED BODIES

The following are admitted bodies to the fund:

National Car Parks Ltd
 Excalibur Tenant Management Project
 PLUS
 Housing 21
 Lewisham Nexus Services
 Lewisham Way Youth and Community
 Centre
 SAGE Educational Trust
 CIS Securities
 Wide Horizons
 Phoenix
 INSPACE
 T Brown & Sons
 Quality Heating
 Blenheim CDP
 RSM Tenon formerly RSM Bentley
 Jennison
 Broomleigh Housing Association
 Penrose
 Skanska
 One Housing
 Fusions Leisure Management
 3 C's Support

18. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). The council entered into stock lending transactions during the financial year

Pension Fund Accounts

earning £0.14million net of direct expenses. At the balance sheet date the value of aggregate stock on loan was £25.5m and the value of collateral held was £27.2m.

19. MEMBERSHIP

	Employees		Deferred Beneficiaries		Retired Former Employees	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Administering Authority Scheduled Bodies Admitted Bodies	5,035	5,436	6,958	6,694	6,448	6,201
	666	642	243	194	39	91
	162	128	66	51	106	35
	5,863	6,206	7,267	6,939	6,593	6,327



Draft Annual Governance Statement 2011/12

[Submitted to the Audit Panel as Appendix 3 and 4 of the Draft Unaudited Statement of Accounts]

20th June 2012

1. Introduction

- 1.1 The Council is required to produce an Annual Governance Statement (AGS) as an integral part of the Statement of Accounts. An AGS was first produced to accompany the 2007/08 accounts. This is updated annually, and has now been amended to reflect changes during 2011/12.
- 1.2 After the AGS has been approved, it will be included in the pre-audit Statement of Accounts along with the AGS Action Plan (which will be included as an Appendix). The Annual Governance Statement remains draft until it is signed off by Full Council in September as part of the Audited Statement of Accounts.
- 1.3 This year a new action plan has been developed following the decision taken by the Internal Control Board (ICB) in March 2012.

2. Recommendations

2.1 Audit Panel are asked to:

- Note the draft AGS 2011/12 (appendix 1) and the 2012/13 action plan (appendix 2) and recommend changes as appropriate.

Draft Annual Governance Statement

1. Scope of responsibility

The London Borough of Lewisham (Lewisham) is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must make certain that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Lewisham also has a duty under the *Local Government Act 1999* to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Lewisham is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Lewisham has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

The Annual Governance Statement (AGS) explains how the authority has complied with the code and also meets the requirements of regulation the *Accounts and Audit (England) Regulations 2011* in relation to the publication of a statement on internal control.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled. The framework also governs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk or failure to achieve aims and objectives or compliance with policies and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lewisham's policies, aims and objectives. It then evaluates the likelihood of those risks being realised and the impact should they be realised, and seeks to manage them efficiently, effectively and economically.

The governance framework has been in place at Lewisham for the year ended 31 March 2012 and up to the date of approval of the annual governance statement and statement of accounts.

A summary of the governance framework

Lewisham's directly elected Mayor ensures the Council has a clear strategic direction and effective leadership. The Council benefits from the perspectives and contributions of 54 Councillors. The Council's Constitution clearly defines the roles of Members and Officers, and this clarity contributes to effective working relationships across the Council.

The Local Code of Corporate Governance and well developed Codes of Conduct for Members and Officers demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely.

Financial decisions are tied to corporate priorities. The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel to provide a check on the Council's governance arrangements represent constructive and informative tools to ensure the robustness of the Council's arrangements.

The Council's overall vision for the area is shared by its key partners on the Lewisham Strategic Partnership (LSP) and was developed following extensive consultation with the community.

The Annual Audit letter of 2009/10, issued by the Audit Commission's appointed auditor concluded that the Council was considered to have '*strong governance arrangements in place*' and '*effective risk management systems which are well integrated across the whole of the council and includes partnership working*'.

In December 2010, the Government introduced the Localism Bill (now the Localism Act) into Parliament. The Head of Law provided an all party briefing on the Act, and also provided a briefing to the Standards Committee on 1st March 2012. Briefings on the Localism Act have also been provided to the Mayor and Cabinet, the Executive Management Team and Heads of Service. The Head of Law has also provided training to staff in specific services such Planning and Housing, where the Localism Act could have a significant impact.

3. Elements of the governance framework

a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

The long-standing vision of the Council is: *Together, we will make Lewisham the best place in London to live, work and learn*. This was agreed following extensive consultation and adopted by the LSP as the vision statement for Lewisham's first Community Strategy, launched in 2003. This joint vision is promoted on the Lewisham website and in Council strategies, which are also published on the website.

In 2008 the LSP published "*Shaping our future: Lewisham's Sustainable Community Strategy (SCS) 2008-2020*" in line with the recommendations of the Local Government White Paper, *Strong and Prosperous Communities* (2006). The development of the SCS was informed by an extensive programme of consultation, which identified resident's aspirations for Lewisham, and which ensured that those views fed into the six key outcomes for the borough the SCS sets out to achieve.

This development approach was endorsed by the Audit Commission, when they concluded in their 2009 Area Assessment that “*Lewisham’s local strategic partnership understands the issues of concern to residents very well. Their main priorities reflect local people’s needs and wishes clearly*”.

The Council has an enduring set of 10 corporate priorities. The corporate priorities set out how the organisation will contribute to the delivery of the SCS. Performance against the corporate priorities is reviewed every year through the Annual Report and is also supplemented by the Monthly Management Report.

Details relating to the Council’s vision, values and priorities are contained on the Lewisham online. This ensures that members of the public, citizens and service users are able to hold the Council to account.

b) Reviewing the authority’s vision and its implications for the authority’s governance arrangements

The Lewisham Strategic Partnership is led by the LSP board which is chaired by Lewisham’s directly-elected Mayor. A series of thematic partnerships work with the LSP board, each concentrating on a specific set of cross-cutting policy issues. The thematic partnerships bring together the relevant organisations and individuals to determine appropriate interventions and to ensure that joint-working results in the best possible outcomes for citizens and service users. The LSP board and thematic partnership boards have re-aligned their focus around the six key outcomes set out in the SCS. The plans which relate to the thematic boards, are monitored on a regular basis. The monitoring of such plans feeds up to the LSP board and into the wider monitoring of the SCS.

The Council assessed the implications of change for the Council’s governance arrangements through the review of the Local Code of Corporate Governance at the Standards Committee (10th May 2007) and at Council (23rd May 2007). Further reviews of the Local Code have taken place in 2008, 2009, 2010, 2011 and is ongoing for 2012. The review of 2009 (reported to Standards Committee on 5th May 2009) recommended that the Local Code be extended to include a new requirement – in the light of new CIPFA guidance and the Council’s extensive partnership arrangements – to ensure effective partnership governance and risk management.

Further to this, on an ongoing basis, the work of the Constitution Working Party and the Internal Control Board addresses governance issues arising out of the Council’s vision for the area.

c) Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority’s objectives and for ensuring that they represent the best use of resources.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that: ‘*The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision. It uses the Performance Plus performance monitoring system to monitor*

performance. Cabinet and the senior management team monitor the impact of the savings via regular budget monitoring reports.'

A review of the Performance Management Framework takes place annually, to ensure continuous improvement. The Performance Management Framework allows for robust and structured target setting against national requirements and local priorities. It also allows the Council, its partners and residents to monitor and measure the Council's effectiveness against these national and local performance indicators.

Our Monthly Management Report is the centrepiece of our performance reporting structure. It provides a clear and easy to read analysis of our performance against a basket of 59 indicators including former national indicators and local measures, and also includes an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. It is produced entirely from the Performance Plus (P+) system and is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and to the Mayor and Cabinet.

The Monthly Management Report utilises exception reporting to focus attention on key areas: exception reporting for red Projects, Risk and Finance and Red and Green exception reporting for performance. By combining these four areas for each of our corporate priorities, it functions as the critical tool for supporting decisions across the organisation. While examining this report, the Executive Management Team, Mayor and Cabinet and Public Accounts Select Committee challenge all aspects of performance. The report is also published on the Council's website, and so is accessible to members of the general public.

In March 2012, following a review of the Council's performance management system, our internal auditor RSM Tenon reported that: 'Taking account of the issues identified, in our opinion the Council can take Substantial Assurance that the controls are relied on to manage this area, as currently laid down and operated, are effective.'

The quality of services for users is also measured through satisfaction surveys and information from the complaints management and resolution process. The Council's complaints procedure is published on the web and has been publicised, through the Council's quarterly newsletter – "Lewisham Life" - to all residents of the borough. The Council has taken active steps to improve its complaints procedure and continues to use the Council's complaints management system, iCasework, to record complaints and feedback. The Council's website has been updated to provide comprehensive information relating to complaints. This also includes a fact sheet about the role of the Independent Adjudicator. The Head of Strategy and Performance for Customer Services reports annually to the Standards Committee with an update on complaints, complaints performance is considered annually by Mayor and Cabinet and the Public Account Select Committee. Further reports are considered monthly at Directorate Management Team level and quarterly at Executive Management Team and in the Council's Management Report.

Value for Money (VfM) is integral to Council operations, and the budget strategy is predicated on ensuring that the Council is delivering good VfM. A Budget Saving Strategy Group is in place and provides a focus on securing budget savings (whether this be via improving efficiency, or by the thematic review and re-design of services or by budget cuts or service cessations). The

group was created to focus on delivering the revenue budget savings which would be needed to ensure the success of the Budget Strategy.

The Group comprises, Heads of Strategy and Performance and Group Finance Managers, plus a representative from Human Resources and Legal Services. The Group has the remit to review and act as a sounding board for the Budget Strategy, savings process, saving proposals and the mechanics for ensuring the Council has a smooth process for delivering savings. The Group is also responsible for annually reviewing the existing process and suggesting ways to improve it.

In addition to this, the Council is continuing to develop its approach to value for money through its participation in the Local Authority Performance System (LAPS). The LAPS tool enables London local authorities to benchmark costs and performance and develop VFM profiles across a range of service areas.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that:

'The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency and productivity.'

d) Defining and documenting the roles and responsibilities of the Executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's Constitution sets out the roles and responsibilities of the Mayor, Chair of Council, the Council as a whole, the Executive, Overview and Scrutiny committees, Standards Committees and other committees.

Members follow the required formal procedures when making Council decisions, which ensure that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal and/or prejudicial interest.

Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution. Decisions are taken in accordance with the general principles of administrative law and on the basis of professional advice at all times. Minutes are published and made widely available through the Lewisham website. All Executive decisions are subject to review by Overview and Scrutiny business panel and may be called-in in accordance with the Council's Constitution. There was one matter called-in (referred to the Mayor for reconsideration), this was the prioritisation of transport schemes on June 1st 2011.

The highest standards of ethical conduct are adhered to in order to avoid actual, potential and perceived conflicts of interest. The principles of decision making appear as Article 16 within the Constitution. Each year the Standards Committee receives a report on Member

compliance with the Code of Conduct. In December 2011 the Standards Committee reported that there has been good compliance with the Member Code of Conduct. From the 1st July 2012 there will be a requirement for a new Code of Conduct, preparations have been made during 2011 and 2012 to brief members of the Standards Committee ahead of this, with the most recent briefing being given in March 2012.

In achieving accreditation under the London Member Development Charter in April 2008, the Council agreed a range of role descriptors for members according to the role they fulfil (e.g. executive/community representative/overview and scrutiny etc) and has put in place a personal development scheme to enhance member capability in those roles. In preparation for the 2012/13 Member needs development programme a training needs assessment was carried out. Officers support all Members in the performance of their various roles and this is detailed in the Constitution. The roles of the statutory officers are also set out at Article 14 of the Constitution and in detailed job descriptions. The Schemes of Delegation by both the Mayor and the Council are appended to the Constitution at Part VIII.

e) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The Council adopted an amended Member Code of Conduct in July 2010 to comply with new legal requirements. It complies with all statutory provisions and is appended to the Constitution at Part V. It appears on the Council's website, on the intranet and is well publicised. A comprehensive training programme on the Codes of Conduct is delivered by the Head of Law (Monitoring Officer) on an on-going basis for members of the Council. A revised Member Code of Conduct will be in place by July 2012, the Head of Law has briefed members of the Standards Committee ahead of these changes.

Monitoring Officer advice is regularly sought by members in relation to potential Code of Conduct issues. The Standards Committee was consulted on changes to the Member Code in November 2009. They were also consulted on the review of compliance with the Members Code of Conduct in November 2010.

The Council has in place an Employee Code of Conduct which complies with all legal requirements and is appended to the Constitution at Part V. The purpose and content of the Employee Code of Conduct is communicated frequently and widely.

f) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Reviewing and updating standing orders, standing financial instructions

The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet. The Financial Regulations, the Schemes of Delegation and the Financial Procedures were updated and published in November 2011. The Council's procedure rules, of which Standing Orders are a part, are reviewed alongside the Constitution; the Constitution is reviewed on a regular basis.

Alongside this, the financial awareness rolling training programme for budget holders will continue in 2011/12 and beyond, to ensure that all budget holders have the necessary skills required to manage budgets effectively.

Scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken

The Constitution is very clear about the decision making process. It requires that Members follow formal procedures when making Council decisions, which ensures that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Committee reports are produced by officers in a standard format to ensure that authors address all significant considerations such as the legal and financial implications of decisions, equalities issues, environmental issues and a crime and disorder assessment.

Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal or prejudicial interest. The principles of decision making appear as Article 16 within the Constitution.

There is a well embedded agenda planning process and a requirement for reports to be signed off by senior officers. Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution.

The Constitution requires Executive decisions to be published within two working days of being taken, and sent to all Members of the Council where possible by electronic means. Minutes are published and made publicly available on the Lewisham website. All Executive decisions may be called-in by the Overview and Scrutiny Business Panel in accordance with the Council's Constitution.

The Constitution provides for the Council to have a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements. In practice, the procedure rules set out in the Constitution are under constant review to reflect changing needs. In 2011/12 reports to Council have included a Parliamentary Boundary Review, a Polling District review, the creation of a Positive Ageing Council, and the confirmation of a statutory Scrutiny Officer. The Constitution has been updated to reflect these new responsibilities.

In October 2011 the Chief Executive, Barry Quirk, the Head of Law, Kath Nicholson and the Executive Director for Resources, Janet Senior provided training on decision making within the Local Authority. The training was delivered to Group Managers, Head of Services and other relevant staff who undertake decisions within the organisation.

Maintaining an adequate and effective system of internal audit

The Account and Audit (England) Regulations 2011, require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The role of internal audit is to provide an independent and objective opinion on the

control environment within the Council. Internal audit work is undertaken in accordance with the CIPFA Internal Audit Code of Practice for Internal Audit in Local Authorities 2006 (the code).

The work of internal audit is set out in an annual internal audit plan that covers the key financial systems, schools, and the operational activities where Internal Audit and management perceive there are risks to achieving operational objectives. The work of internal audit also supports the work of the Council's External Auditor who reviews our work in detail to satisfy themselves the work of internal audit can be relied upon.

The Council's governance, risk and control management arrangements are subject to annual independent review by the Audit Commission, the Council's external auditors.

In order to provide assurance on our risk management framework, a 'risk maturity thematic review' of risk management across the Council was again commissioned from our internal audit service providers, which reported in May 2012. The conclusion of the review is that the Council has maintained its 'managed' approach to risk, which is the second highest of their five potential categories for the assessment.

For each audit where controls have been analysed, Internal Audit issues an assurance statement which indicates the level of assurance that management can place on the adequacy and effectiveness of the internal controls. For 2011/12, four levels of assurance were used: Two positive levels, 'substantial' and 'adequate' assurance; and two negative levels, 'limited' and 'no assurance'. In each report Internal Audit may also make control improvement recommendations, rated High, Medium or Low.

For 2011/12 89 assurance reviews were undertaken. Of these, 79 have been concluded with an opinion on internal controls. There were 10% (7% in 2010/11) issued with a negative level of assurance (Limited or No Assurance), including two 'No Assurance' opinions. In respect of the 236 recommendations made in the year, 56% were High or Medium (63% in 2010/11).

The seventeen key financial systems are fundamental to the operation of the Council, so it is important that these systems have robust internal control mechanisms and operate effectively. The Head of Audit and Risk confirmed that, with one exception, all of these systems have been issued with a final assurance level for 2011/12 and that these are positive opinions (Substantial or Satisfactory). In all but three cases these systems have either maintained or improved their assurance level on 2010/11. Recommendations have been made to strengthen internal control for the three systems where the assurance opinion was lower this year than last - Council Tax, Payroll and Debtors. The internal control recommendations raised were in respect of compliance with controls, not the controls themselves. The audit of the Payments to Residential and the Domiciliary Care Service Providers system is still draft and further work is being undertaken with management based on an indicative limited assurance opinion for 2011/12. The recommendations made and arising will be addressed by management and followed-up by internal audit in 2012/13.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that the Council: *'has robust systems and processes to manage effectively financial risks and opportunities and secure a stable financial position'*.

The processes and controls required to manage risks

The Accounts and Audit (England) Regulations 2011 highlight the Council's responsibility for ensuring it has in place a sound system of internal control which includes arrangements for the management of risk.

There is a robust risk strategy and framework, reviewed and updated in 2010/11, in place to manage risks. All services must maintain an operational risk register aligned to their service plan objectives. Risks are recorded and reported using the Council's main performance management system – Performance Plus. The risk registers record significant risks and score them in terms of impact and likelihood. Target scores are set and mitigation actions identified and monitored.

Directorate risk registers are considered in detail at least quarterly at Directorate Management Teams. Key risks within the directorate and corporate risk registers are then subject to quarterly reviews by the Risk Management Working Party and the Internal Control Board. The Internal Control Board is chaired by an independent 'non executive' person (Bill Roots, a former London local authority Chief Executive) and comprises the Executive Management Team, Head of Law (Monitoring Officer), Head of Audit and Risk and Group Manager for Insurance and Risk. Risks are updated quarterly and are tracked through the monthly Management Report which summarises key risks and mitigation actions taken.

The focus on risk in the Management Report was reviewed in 2011/12 to include a statement on the risk environment for each priority as well as the risks with a 'red' rating being reported. In addition, for both corporate and directorate risks any significant variances against target are reported.

Risk Management is embedded within the Council's approach to programme and project management. Project risks are regularly reviewed by Project Review Groups and Corporate Project Board. Risks for the whole capital programme are reviewed and updated quarterly. Members are involved in scrutinising risks with updates of the Capital Programme considered regularly by Public Accounts Select Committee and reported to Mayor & Cabinet.

In addition for 2011/12 to support better decision making, with the significant savings proposals considered and agreed by members, specific attention was given to identifying, assessing the key risks for each proposal submitted as part of the budget setting process.

RSM Tenon, the Council's independent internal audit contractor, carried out an annual risk maturity review (which reported in May 2011) and has assessed the Council as maintaining its 'managed' approach to risk.

g) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Audit Panel is made up of six elected members and up to four independent advisors and meets at least quarterly. A key role of the panel is to review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports are received by the panel on a quarterly basis, summarising the audit reports issued, management's progress on implementing

internal audit recommendations, and the performance of the Internal Audit function. Update reports on the activities of the Anti-fraud and Corruption Team are also received by the panel on a quarterly basis. The panel receive the annual report of the Council's Head of Audit and Risk.

The panel consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. In terms of external assurance, the panel consider the external auditor's Annual Plan, other relevant external reports which contribute to the level of assurance. The panel monitors management action in response to issues raised by internal and external audit, and significant issues identified by these are included in the action plan appended to this statement.

The panel also consider the Council's annual Statement of Accounts and this Statement and makes comments on those to the meeting of the Full Council that considers the accounts.

h) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, Members and relevant staff on corporate legislative developments. In 2012, the Head of Law briefed EMT, Members and relevant staff on the Localism Act and the possible impact that it could have on the organisation. The Head of Law has also briefed EMT, Members and relevant staff on the Bribery Act 2010, which came into force on 1st July 2011.

Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Where gaps or non-compliance are identified, appropriate action is taken (e.g. in response to Freedom of Information compliance issues, alternative procedural arrangements were put in place to enhance performance). Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council.

The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director of Resources as Chief Finance Officer in accordance with Section 151 of the *Local Government Act 1972* and to discharge the responsibilities under Section 114 of the *Local Government Act 1998* and Sections 25-28 of the *Local Government Act 2003* in relation to the Chief Financial Officer's statutory duties. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process.

The Pensions Investment Committee has agreed a Governance Policy Statement which sets out how the Committee exercises its fiduciary duty to members of the Pension Fund. The Committee's governance arrangements include the appointment of an independent Custodian Bank responsible for the safe custody of the Fund's assets, the appointment of an independent investment advisor, independent actuary and investment consultant, Hymans Robertson. The

Committee will review its Statement of Investment Principles in accordance with the CIPFA's Pensions Panel Principles of Investment decision making.

i) Whistle-blowing and procedures for receiving and investigating complaints from the public

The Council has a whistle-blowing policy in place which is widely publicised on the Council's website and in 'Lewisham Life'. Complaints made under this policy are handled by the Head of Law (Monitoring Officer). An annual review is considered by the Standards Committee (this most recently happened in March 2012).

j) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The overall aim of the Members' Development Programme is to ensure that all members have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. For 2011-12 a general member development programme has been completed. This comprised member briefings, specific training events and targeted support as appropriate.

This is recognised as best practice and feedback from members indicates the programme has helped them considerably in carrying out their roles.'

The Head of Personnel and Development has responsibility for the development needs of senior officers. The Monitoring Officer also plays a key role in ensuring that senior officers are aware of their statutory duties and changes in legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors. These are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

k) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Lewisham has an open and outward facing culture that is clearly focussed on the needs of our residents and facilitated by an exceptionally strong and diverse approach to engagement and consultation.

The Council's engagement activity is overseen by the Strategy Performance and Communications Board. The Board operates at Executive Director level and provides a strategic steer on the communication and consultation agendas within the Council. It is supported by its subsidiary, the Consultation Steering Group, which draws representation from across the Council and supports effective resident engagement at an operational level.

These arrangements are underpinned by the Council's Framework for Engagement (2009-2012). This sets in place shared principles for engagement, which were also agreed at a partnership level through the Stronger Communities Partnership.

In support of this, and to provide increased channels through which citizens are engaged, the Council continues to promote e-Participation by implementing a new online engagement system. This system provides the platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Other channels of engagement

include the 18 ward-level Area Assemblies which came into operation in 2008 and are open to anybody living or working in the ward, and the Young Citizens Panel which enables any young person aged 11-18 years either living or studying in the borough to join.

The Audit Commission awarded Lewisham a “green flag” for community engagement and empowerment of local people, in their 2009 Area Assessment. They concluded that *‘empowering and involving local people is at the heart of the way public sector partnerships work in Lewisham to improve the area as a place to live. Partners have an excellent track record of involving local people, including those who are less likely to be active in the local community.’*

I) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission’s report on the governance of partnerships, and reflecting these in the authority’s overall governance arrangements

The Council acts in a number of partnerships with a view to improving the quality of life for local people. These partnerships take a variety of forms, from large scale contracting, as in the case of the Building Schools for the Future programme, to strategic alliances such as the Lewisham Strategic Partnership (LSP). The Council has used the Audit Commission report on the governance of partnerships to provide a framework to assess its arrangements in relation to partnership working.

As a first stage in that process, the Head of Law (Monitoring Officer) conducted an exercise in relation to several of the most significant partnerships in the borough and reported those findings to the Internal Control Board. In February 2009, a detailed audit of all of the Council’s major partnerships and contractual arrangements was reported to the EMT and to ICB. In response, EMT required all Directorates to consider partnership governance arrangements, and particularly the business continuity arrangements of those partnerships, as a standing item at Directorate Management Team meetings. In November 2009, the Chief Executive presented a paper to ICB which assessed the main risks to the partnerships within each of Lewisham’s six Sustainable Community Strategy priority themes.

As part of the review of the Local Code in 2009 the Standards Committee accepted a recommendation to extend the Code to include a provision to ensure that the Council has robust and effective mechanisms to ensure partnerships are effectively governed and that partnership risks are identified and managed.

In November 2009, Standards Committee considered a new “Standards in Partnership” protocol that has been developed by Standards for England. Adherence to this protocol is intended to ensure that the aims of the partnership can be fulfilled effectively and the public can have confidence in the operation of the partnership.

The Standing Committee made a recommendation to refer this partnership protocol to the LSP, where it was considered in December 2009. The LSP reviewed its Terms of Reference and Code of Conduct in 2010 in order to reflect the good practice set out in the new Standards for England partnership protocol.

4. Review of effectiveness

Lewisham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Risk's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process by which the governance framework has been maintained and reviewed is widespread. It occurs throughout the year and at year end. On an ongoing basis, throughout the year, it has involved the following:

- Consideration by Internal Control Board of governance issues – including risk registers, counter-fraud updates and internal audit reports.
- The Head of Audit and Risk prepares a rolling plan of audit coverage to be achieved in the forthcoming year, based in primarily on an assessment of the Council's risk profile. The plan is reviewed by the Internal Control Board.
- The Audit Panel receives the Internal Audit Strategy and approves the annual audit plan.
- The Audit Panel receives the annual assurance report from the Head of Audit & Risk which set out his opinion on the Council's overall control environment.
- The Audit Panel reports on its work to the Public Accounts Select Committee twice a year.
- Executive Management Team (EMT) consider a full range of governance issues throughout the year, including issues relating to the improvement of the Internal Audit Service. EMT scrutinise performance and risk regularly and ensure management action where necessary.
- The Standards Committee considered the efficiency of the Council's complaints handling system and the effectiveness of the Whistle Blowing Policy. In June 2011 it considered the review of the Council's Code of Corporate Governance, and in December 2011 it reviewed Member compliance with the Member Code of Conduct.
- The Independent Remuneration Panel made recommendations to the Council about the accountability and effectiveness of Members.
- An Executive Remuneration Panel was established and the Pay Policy Statement endorsed by full Council (March 2012).
- Consideration of external audit reports conducted in year by Mayor and Cabinet, Audit Panel and relevant Select Committees.
- Constitution Working Party considered the Ethical Framework (Localism Act 2011) and endorsed the retention of a formal Standards Committee.

At year end, the review of the effectiveness of the governance framework is conducted under the auspices of the Chief Executive by a team of officers consisting of:

- Kath Nicholson: Head of Law and Monitoring Officer
- Troy Robinson: Standards & Education Law Advisor
- Barrie Neal: Head of Corporate Policy and Governance
- David Austin: Interim Head of Audit and Risk
- Annabel Saunders: Principal Policy Officer
- Paul Aladenika: Head of Policy & Partnerships

The AGS working party have met regularly since March 2008. Officers have been drawn from across the council to represent key areas of expertise in governance and internal control matters. The terms of reference for the group are as follows:

- To provide expertise in the development of the AGS on governance and internal control matters
- To analyse CIPFA/SOLACE guidance in relation to the development of the Annual Governance Statement
- To collate evidence from across the organisation relating to CIPFA/SOLACE guidance
- To evaluate evidence collated and identify areas for action
- To compile an action plan of significant governance issues
- To develop the Annual Governance Statement to be incorporated in the Statement of Accounts on an annual basis
- To ensure that the AGS is signed off appropriately through the council's key control mechanisms: Internal Control Board (including EMT members), Audit Panel and Full Council
- To review the Annual Governance Statement and arrangements for governance and internal control throughout the year

The process by which the governance provisions are reviewed at year end includes:

- The consideration by ICB (EMT members) on the 29th May 2012 of a draft Annual Governance Statement. This year no significant gaps or governance issues have been identified, as such the action plan outlined in Appendix 2 outlines instead significant areas of governance focus needed to maintain an effective governance framework.
- Preparation of the Accounts and the Head of Audit and Risk's Annual Report and consideration of these and the Annual Governance Statement by the Council's Audit Panel on 20th June 2012.
- A review of the Council's Local Code of Corporate Governance by the Standards Committee on the 6th June 2012, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts, and advice from Audit Panel on the 26th September 2012.
- Sign off by the Chair of the Council and Chief Executive, once approved.

5. Significant governance focus

In addition to the action taken to deal with governance during the course of 2011/12, as outlined in section 3 of this statement, we propose to take steps over the coming year (2012/13) to continue to maintain and improve governance within Lewisham. Appendix 2 outlines the areas of significant governance focus in Lewisham, as well as progress to date and next steps. These actions have been selected due to their importance in maintaining an effective governance framework and have been agreed by the Internal Control Board.

We intend to monitor their implementation, operation and effectiveness as part of our next annual review. To do this regularly throughout 2012/13 it is proposed that the officer team dealing with governance arrangements meet quarterly and report on progress to the Internal Control Board and/or Audit Panel on relevant issues.

Signed:

Leading Member (or equivalent) & Chief Executive (or equivalent) on behalf of [the authority]

DRAFT

Appendix 4: Action Plan Update 2012/13

1. Governance Action:	Legislative Change – Ensure compliance with new and forthcoming legislation
Desired Outcomes	Lewisham is compliant with all legislation including new and forthcoming changes
Timescales	March 2013
Lead Officer	Troy Robinson
Notes	<p><u>Context & existing arrangements:</u> The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. As part of these duties the Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, Members and relevant staff on corporate legislative developments. Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council to support with this and wider legal matters.</p> <p><u>Progress to date:</u> Examples of progress over the past quarter include the following:</p> <ul style="list-style-type: none"> • briefings by the Head of Law have been done for all members, EMT, Service Heads and Legal Services on implications of the Localism Act 2011 with constitutional amendments being drafted; • reports to Standards Committee on the new ethical framework considered; • the Pay Policy Statement was agreed at full Council in March 2012; • evaluating the implications of the benefit changes; • the Healthier Communities Select Committee are received a briefing on the Health and Social Care Act 2012 in May 2012; • the Constitution Working Party met on the 6th June 2012 to consider constitutional amendments following the Localism Act 2011; • the Executive Management Team received a briefing on the implications of the Public Services (Social Value) Act 2012. Work is ongoing to incorporate the implications of the Act into the Procurement Strategy, and; • briefings and specific advice on Education Act 2011 and changes to school governance issues have been sent to the Children and Young People’s Directorate Management Team. The Standards & Education Law Advisor has also attended training for governors’ clerks. <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • consult as appropriate on suitable options to implement welfare reform; • submit a report to full Council in June 2012 to reflect new laws on the Member Code of Conduct once new Regulations are published, and; • review the Queen’s Speech implementation.

2. Governance Action	Procurement Strategy – Development and Implementation of an updated Procurement Strategy
Desired Outcomes	The Council is compliant with the revised procurement strategy including all new legislation
Timescales	December 2012
Lead Officer	Andy Murray
Notes	<p><u>Context & existing arrangements:</u></p> <p>The Procurement team works within European Union and UK legislation related to Public Procurement Regulations; and internally to Lewisham Council 's Contract Procedure Rules included within the Constitution. The Council's procurement function maintains a strategic overview of corporate procurement activity and ensures that contracts and purchasing arrangements are carried out in line with legal requirements and the Council's policies and procedures. The procurement function also:</p> <ul style="list-style-type: none"> • provides advice, guidance and training on all aspects of the Council's contractual procedures and contractual and purchasing arrangements including the review of draft committee reports, and; • undertakes contractor/service provider appraisals, tender evaluation and contract negotiations. <p><u>Progress to date:</u></p> <p>Early benchmarking research relating to the format and style of other Local Authority procurement strategies have been completed. An approach and structure has been agreed by the Director of Regeneration and Asset Management.</p> <p>Legal advice has been gained regarding new legislation that will be reflected within the revised strategy, this is namely the Localism Act 2011 and the Public Services (Social Value) Act 2012.</p> <p>The Procurement Team have been actively assisting client colleagues in meeting the Council's requirement to include social considerations in contracts, which has been achieved by the acceptance of paying the London Living Wage over an increased number of contracts. The Code of Practice for Contractors, Suppliers and Service Providers has also been amended to include the use of contracting activity to increase the number of apprenticeships, use of local labour and local businesses.</p> <p><u>Next steps:</u></p> <p>To produce an outline proposal for each section of the strategy by August 2012.</p>

3. Governance Action	Multi-agency Governance – Maintain effective multi-agency governance and partnership working
Desired Outcomes	Delivery of the priorities within the Sustainable Community Strategy (2008 -2020)
Timescales	March 2013
Lead Officer	Fenella Beckman
Notes	<p><u>Context & existing arrangements:</u> The Lewisham Strategic Partnership (LSP) brings together representatives from Lewisham’s public, private, voluntary and community sector organisations. The LSP Board coordinates partnership activity in Lewisham and brings together representatives from Lewisham’s public, private, voluntary and community sectors to set the overarching vision for the borough and to provide a partnership framework which will ensure that this vision is realised.</p> <p>The Shadow Health and Wellbeing Board is the most recently established thematic partnership having been formed in 2011 (ahead of statutory requirements to have this board in place by April 2013).</p> <p><u>Progress to date:</u> An LSP meeting was held in May 2012 to discuss the future role and work programme for the partnership.</p> <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • following the meeting in May, the Mayor has requested that a paper be drafted outlining the different options, relating to the future role and work programme of the LSP. This options paper will be used to agree any future changes to the partnership structure, and; • the formality of the Health and Wellbeing Board including terms of reference.

4.Governance Action:	Internal Control - Maintain robust risk management arrangements
Desired Outcomes	Foreseeable risks are anticipated with mitigations and controls in place and complied with to minimise the impact on service delivery and the wider Council (financial or reputational) in the event of a risk materialising.
Timescales	March 2013
Lead Officer	David Austin
Notes	<p><u>Context & existing arrangements:</u></p> <p>The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel also provide a check on the Council's governance arrangements and risk mitigation. In addition to this the Council also has systems in place to manage business continuity, health and safety (H&S), anti-fraud and corruption and information management.</p> <p><u>Progress to date:</u></p> <p>In 2011/12 the actions for improvement identified at the Internal Control Board were implemented. This included strengthening the focus and reporting to Internal Control Board on risk and internal control matters, significant business continuity testing and preparation in advance of the Olympics, launch of a mandatory training programme in respect of information asset safeguarding, and preparations for strengthening compliance arrangements.</p> <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • deliver the full planned core systems and risk based (including lessons learnt from cases of fraud) internal audit programme for the financial year. • complete the refresh and re-launch of all H&S procedures online supported by a full year's H&S training programme to raise H&S awareness and skills. • testing of critical service business continuity arrangements with the lessons learnt from these being included in updated plans. • continue to strengthen the framework around information management by updating policies to meet requirements of Transparency Agenda and proposed Freedoms Bill, delivering training and monitoring compliance with good practice.

5. Governance Action:	Performance Management - Maintain effective and robust performance management arrangements
Desired Outcomes	Performance management arrangements are a robust and transparent indication of the Council's performance
Timescales	March 2013
Lead Officer	Barrie Neal
Notes	<p><u>Context & existing arrangements:</u> The monthly Management Report is the centrepiece of Lewisham's performance reporting structure. It provides performance analysis against a basket of 59 indicators including an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. The management report is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and Mayor & Cabinet. It is also available on the Council website.</p> <p>The Report brings together performance indicators, risk entities, finance data and information on major projects into one overarching document.</p> <p>The production of the monthly Management Report is supported by Directorate Management Teams, which convene performance meetings to directly monitor and address performance for which they are responsible.</p> <p><u>Progress to date:</u> Progress continues to be reported against individual and aggregate performance measures (by Council priorities).</p> <p>The Council is also inputting into the Local Authority Performance System (led by London Councils) and LG Inform (led by the Local Government Association) to inform decisions relating to local and national benchmarking.</p> <p><u>Next Steps:</u> Over the next year the performance management framework and the basket of indicators will be reviewed to ensure continuous improvement of arrangements.</p>

6. Governance Action	Ensure that the financial management of the Local Authority is conducted in accordance with the Council's statutory and financial obligations
Desired Outcomes	<ul style="list-style-type: none"> • improve the quality of auditable grant claims; • close the council's financial accounts on time, and; • accounts are produced on time and without significant issues arising from external audit.
Timescales	June 2012, October 2012 and December 2012 respectively
Lead Officer	Conrad Hall
Notes	<p><u>Context & existing arrangements:</u> The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director of Resources as Chief Finance Officer. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources and Regeneration which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process</p> <p>The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet.</p> <p><u>Progress to date:</u> Closing timetable prepared and significantly shorter than last year, allowing for extra focus on key risk areas. Training provided to all finance staff to enable them to understand audit requirements better and hence how to prepare improved working papers. Audit Commission invoices disputed where audit arrangements are not considered to represent value for money for Lewisham</p> <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • immediate focus is on closing accounts, and; • preparation of the 2013/14 budget.

7. Governance Action:	Business as usual - Maintain robust control over the business as usual during the economic downturn and public sector cuts
Desired Outcomes	Public welfare (social, economic and environmental wellbeing of the area)
Timescales	March 2013
Lead Officer	Annual Governance Statement Working Party
Notes	<p><u>Context & existing arrangements:</u> The Executive Management Team (EMT) continue to receive reports on the economic situation and it's impact on related areas including employment, housing and health. EMT are also addressing the demographic pressures on school rolls.</p> <p><u>Progress to date:</u> The Council is addressing issues of unemployment, the implementation of the Health and Social Care Act, housing needs and the significant increase in demand on school places through discrete initiatives relating to:</p> <ul style="list-style-type: none"> • apprenticeships – which has seen 152 young people benefit to date; • a comprehensive review of housing needs which has led to engagement with external advisors who are currently testing the feasibility of developing new structures to meet the borough's housing needs, and; • the preparation for the transfer of Public Health functions to the Council, the establishment of the Shadow Health and Wellbeing Board, the Clinical Commissioners Group Pathfinder and the successful Council/Lewisham LINK bid to become a Healthwatch Pathfinder, and; • ongoing pupil places planning in conjunction with schools has resulted in the enlargement of seven schools. Further temporary places have been secured through more flexible use of school buildings. Where accommodation needs to be added to existing school sites this has been procured through a Lewisham-led Framework agreement for the provision of modular buildings and building conversion. <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • recruit for the 4th cohort of the apprenticeship program (starting October 2012); • develop a comprehensive NEETs strategy for 12-24 year olds; • Mayor and Cabinet will receive a report in July setting out the cost and benefits of various delivery options which may enable the Council to address existing sheltered housing problems, complete the decent homes programme and build up to 1000 new houses; • work is needed to progress the Health and Social Care Act and its implications to ensure appropriate arrangements are in place before April 2013. This includes: the transition of public health functions and staff to the Council; the Commissioning of a local Healthwatch organisation; establishing a statutory Health and Wellbeing Board and producing a Health and Wellbeing Strategy, and supporting the authorisation of Lewisham's Clinical Commissioning Group and; • to continue to carry out places planning in order to cater for the additional school places that will be needed.

Agenda Item 6

AUDIT PANEL		
Report Title	Internal Audit update report	
Key Decision	No	Item No. 6
Ward	ALL	
Contributors	Interim Head of Audit & Risk	
Class	Part 1	Date: 20 June 2012

1. Purpose of the report

- 1.1. This report presents members of the Audit Panel with a summary of:
- Internal audit progress with the audit plan since the last Audit Panel report,
 - Performance of the Internal Audit contractor,
 - Implementation of internal audit recommendations, and
 - The updated Internal Audit Strategy and Terms of Reference.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the content of this report and approve the Internal Audit Strategy and Terms of Reference.

3. Background

- 3.1. The Council's Head of Internal Audit reports to the Executive Director for Resources and Regeneration and is supported by an Internal Audit Contract Manager.
- 3.2. This client side of Internal Audit contracts the Council's Internal Audit Service. Since 2008 and following a competitive tendering process in 2011, this service is provided by RSM Tenon Ltd as the contractor.
- 3.3. The contractor is responsible for completing all the Internal Audit reviews for the Council (non-schools and schools) and any consultancy or grant certification work as directed.
- 3.4. Under a service level agreement the Internal Audit Service also undertakes audits for Lewisham Homes and occasionally when requested for some of Lewisham Council's partners. This work is fully recharged.

4. Internal audit progress update

2011/12

- 4.1. Against a target to deliver 95% of the full year plan to draft report stage by the end of March, the position at the end of May was:
- 6% of the plan is work in progress,
 - 94% of the plan has been completed to draft report stage, and
 - 88% of the plan has been completed to final report stage.

- 4.2. This shows that since the March Audit Panel meeting a significant amount of the delayed 2011/12 non-schools work has been caught up.
- 4.3. The table below summarises the number of audits by Directorate for the audit plan for 2011/12 up to the 29/05/12.

Lead Dir.	Original Audit Plan	Audit Work Added	Audits Pulled	Current Audit Plan	Final Reports Issued	Report at Draft Stage	Work in Progress	Work Not Yet Due
RRE	28	4	(6)	26	20	2	4	-
CUS	12	3	(2)	13	12	-	1	-
COM	5	6	(1)	10	7	3	-	-
CYP	6	1		7	7	-	-	-
SCH	32	1		33	33	-	-	-
TOTAL	83	15	(9)	89	79	5	5	-

- 4.4. Since the last Audit Panel meeting in March there have been no additional audits requested, two audits merged into one (review of Payroll and HR systems), and two cancelled reviews. The cancelled audits were:
- Croydon PFI Advice – Cancelled due to lack of time in 2011/12. Now taking place in early 2012/13.
 - Overview Report for the Monitoring of Contracts - Cancelled as the Contracts and Procurement Specialist had left the contractor.
- 4.5. Since the last Audit Panel report, there have been 37 final reports issued, 29 non-schools and eight school audits. Of these, two were issued with a 'Limited' opinions. The details of these two reports can be found in the Annual Assurance Report, along with all 2011/12 reports finalised.
- 4.6. The remaining 2011/12 at draft and Work In Progress (WIP) are:

Lead Dir.	Audit	Status	Draft opinion	Comment
RRE	Information Governance	Draft	Ltd	Findings reviewed to clarify recommendations and conclusions for the corporate team and wider business.
RRE	Cyber Threats	Draft	Ltd	Findings being reviewed following clarifications from client on the report and additional information provided by IT contractor.
RRE	Payroll & HR system	WIP	-	Final test on data migration to new payroll system being completed at suggestion of external auditors.
RRE	HR Thematic	WIP	-	This review was expected to extend into 2012/13. Progress slow in respect of client side responses.
RRE	Fraud	WIP	-	Draft now issued in June.
RRE	Regeneration of Lewisham	WIP	-	-
CUS	Implementation of NNDR	WIP	-	Other work pressures at year end required this audit to be delayed.
COM	Payments to RES & DOM care providers	Draft	Ltd	Key system audit. Given draft opinion additional work with client undertaken. Queries outstanding with system provider.
COM	Monitoring of small grants	Draft	Ltd	-

Lead Dir.	Audit	Status	Draft opinion	Comment
COM	Supporting people framework	Draft	Sat	-

2012/13

- 4.7. The audit plan for 2012/13 is underway. While the focus has been on completing the 2011/12 audit plan, audits for 2012/13 have started.
- 4.8. The contractor is due to complete 12 reviews to final by the end of June. This is against the original plan for 15. However, three schools have re-scheduled their audits to the next academic year. Given the focus on completing the 2011/12 plan the contractor, in agreement with the client, agreed not to bring forward other reviews to replace these deferred school audits. The position against plan should therefore be caught up in full by quarter three.
- 4.9. Since the audit plan was agreed by the Audit Panel in March, there are five additional reviews added (three audit and two consultancy). They are:
- Croydon and Lighting PFI Advice – postponed from the 2011/12 audit plan. This advice is in addition to a full audit due in Q3,
 - Gifts and Hospitality for Staff – requested by the Head of Audit & Risk,
 - Individual and Personal Budgets – requested by the Audit Panel in March,
 - Advice on Post Office Cash System – requested by the Directorate, and
 - Advice on Client Monies Procedures – requested by the Directorate.
- 4.10. The table below summaries the status of the 2012/13 audit plan at the end of May. It shows that 14% of the plan is underway at the end of May. In addition, three non-schools and seven school Audit Planning Sheets have been issued. This is against a target of 30% of the plan to be undertaken in the first quarter). Importantly there are 12 audits in progress or better and therefore in line to be completed to final by the end of June (see 4.8 above).

Lead Dir.	Original Audit Plan	Audit Work Added	Audits Pulled	Current Audit Plan	Final Reports Issued	Report at Draft Stage	Work in Progress	Work Not Yet Due
RRE	27	3	-	30	-	-	2	28
CUS	11	1	-	12	1	-	1	10
COM	9	1	-	10	-	-	1	9
CYP	6	-	-	6	-	-	-	6
SCH	29	-	-	29	-	2	5	22
TOTAL	82	5	(0)	87	1	2	9	75

5. Performance of the contractor

- 5.1. One of the ways that the performance of the contractor is measured is by Performance Indicators (PIs). The table below shows the PI's for 2011/12 work as at the 29/05/12.

No.	Performance Indicator (as at 29/05/12)	Target YTD	Actual YTD to	Variance (+/-)
1	Percentage of all draft reports issued against audit plan	100%	92%	(8)%
2	Percentage of draft audit reports issued within 15 working days of the exit meeting	90%	77%	(13)%
3	Percentage of final reports issued within 10 working days of agreed draft report	95%	89%	(6)%
4	The average level of client satisfaction to be achieved (out of a score of 5)	4.0	4.6	+0.6
5	Percentage of High & Medium recommendations made agreed by management.	95%	98%	+3%

- 5.2. Two of the five PIs targets have been met or exceeded, with three not met.
- 5.3. In respect of the three indicators not met (KPIs 1, 2 & 3) these contribute to the bigger issue of delays to delivery of the plan already discussed at previous Audit Panel meetings and with the current position summarised at 4.1 and 4.2 above.
- 5.4. As reported consistently through the year KPIs 4 & 5 have been met. These are the more quality indicators. We have refreshed the feedback survey and put it on-line to help ensure we continue to capture feedback from those being audited.
- 5.5. Due to the 2012/13 audit plan just starting, there are no PI's to report at this time. However, we will be reporting on them at the next Audit Panel meeting.
- 5.6. In addition to the KPIs above which focus on the contractor's performance, and to ensure the delays of 2011/12 are not repeated, we are also in discussion with RSM Tenon to agree a set of indicators that will monitor the Council's engagement with internal audit. In part this is reflected through the implementation of recommendations which is already reported. However, it is felt other steps in the audit process as set out in the protocol could usefully be monitored. For example, audit evidence requested provided within ten working days, client cancels meeting twice or fails to attend, no response to scoping document or draft report within agreed timeframe.

6. Implementation of internal audit recommendations

- 6.1. The table below is a summary of the total number of recommendations followed-up by the contractor since the last Audit Panel report and up to 29/05/12. It shows that 78% of recommendations that were followed up were either implemented, in progress or superseded, with 22% not implemented.

	Implemented	In progress	Superseded	Not Implemented	Not Due	Total
TOTAL	6	6	2	4	-	18

- 6.2. There were four audits followed up:
- Use of BACS
 - Property Services – Repairs and Maintenance
 - Property Services – Post Room

- Chelswood Nursery.

6.3. Overall in respect of proportion of recommendations not implemented this position is slightly worse than that seen in previous quarters. This position is being monitored through the follow-ups and via the tracking of outstanding recommendations – see below. Further details of the follow-up reviews for the year are presented in the Annual Assurance Report.

6.4. The table below shows the status of all High and Medium recommendations made up to the end of May.

Lead Dir	Previous No. of O/Due Recs.	Current No. of O/due Recs	Current No. of Recs with 2+ changes	Previous No. of Open 29/02/12	No. of New Recs from 29/02/12 to 30/05/12	No of Recs Re-opened 29/02/12 To 30/05/12	Closed Recs from 29/02/12 to 30/05/12	Current Open Recs at 30/05/12
RRE	11	13	6	37	18	9	(23)	41
CUS	-	-	2	14	14	-	(9)	19
COM	16	16	6	24	23	-	(13)	34
CYP	3	1	3	5	21	-	(2)	24
SCH	47	42	-	53	14	-	(21)	46
Total	77	72	17	133	90	9	(68)	164

6.5. A summary table in Appendix 1, shows those audits with recommendations either overdue or with two or more changes of implementation date. As at 30/05/12, there were 72 overdue (17 High and 55 Medium) recommendations.

7. Internal Audit Strategy

7.1. Good practice requires the Internal Audit Service to have a strategy in place, agreed with the Audit Panel, to direct it's work. The current strategy dates from 2009 and is therefore due an update. Attached at Appendix 2 is the updated Internal Audit strategy for 2012/13 for the Audit Panel's approval.

8. Internal Audit Terms of Reference

8.1. In addition to the strategy, good practice also requires the Internal Audit Service to have a terms of reference in place, again agreed by the Audit Panel, setting out in more detail how the Internal Audit Service will conduct it's work. The current Terms of Reference date from 2009 and is therefore due an update. Attached at Appendix 3 is the updated Internal Audit Terms of Reference for 2012/13 for the Audit Panel's approval.

9. Legal Implications

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

10. Financial Implications

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

11. Equalities Implications

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

12. Crime and Disorder Implications

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

13. Environmental Implications

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

14. Background Papers

14.1. This quarterly update should be read in conjunction with the HIA's Annual Assurance Report.

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

Appendix 1 – Overdue Recommendations and Recommendations Two or More Changes of Date as at 30/05/12

Lead Dir.	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Comment
RRE	Procurement of Goods and Services	07/12/11	2	4		No update since last meeting
RRE	Highways – Contract Monitoring Review	16/03/11	1	4	1	Date changed 3 times
RRE	Taxation	21/02/11		1		No update since last meeting
RRE	Payroll 11/12	26/03/12	1			
COM	Bellingham North Community Centre	31/05/12		5		
COM	Community Mental Health (SLAM)	Pre 2009		1	1	Date changed 6 times. NB updated after 29/05/12.
COM	Review of the Financial Management of Public Funds Held by LPHA	06/09/11	9	1		NB updated after 29/05/12.
CYP	School Outsourced Pension	16/09/11		1		
SCH	All Saints School	30/03/12		1		
SCH	Childeric School	21/10/11		1		
SCH	Forster Park	16/01/12	4	20		Follow-up review in progress
SCH	Grinling Gibbons School	11/02/12		5		
SCH	Lee Manor School	22/02/11		1		
SCH	New Woodlands School	05/03/12		2		
SCH	Perrymount Primary	23/12/12		1		
SCH	St Augustine's School	03/12/10		2		Overdue since last AP meeting
SCH	St Bartholomew's School	28/12/11		3		
SCH	St Saviour's School	27/03/12		2		
Recommendations not overdue but with multiple changes.						
RRE	Risk Management – Operational Risk Registers	01/11/10			1	Date changed 2 times
RRE	Property Services Mail Room	15/04/11			1	Date changed 2 times
RRE	Use of BACS Service	18/08/11			3	Date changed 2 times
CUS	Cash Collection and Banking	10/03/11			1	Date changed 4 times
CUS	Brockley Housing PFI	03/02/12			1	Date changed 2 times

Appendix 1 – Overdue Recommendations and Recommendations Two or More Changes of Date as at 30/05/12

Lead Dir.	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Comment
COM	Direct Payments 10/11	29/03/11			5	2 recs dates changed 2 times. 1 rec changed 3 times 1 rec date changed 4 times and 1 rec date changed 5 times
CYP	Family Support and Intervention	04/12/09			1	Date changed 6 times
CYP	Social Care Contractual Arrangements	26/05/11			1	Date changed 2 times
CYP	Payments for Looked After Children	04/04/11			1	Date changed 2 times
Total			17	55	17	

Appendix 2 – Internal Audit Strategy 2012 - 2013

1. Introduction

- 1.1. Internal Audit fulfils the statutory obligation on the Council, under the Accounts and Audit (England) Regulations 2011, to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 1.2. Internal Audit reports to the Executive Director for Resources and Regeneration as the Council's section 151 officer in respect of their duties as laid down in the Local Government Act 1972.
- 1.3. The Internal Audit Service adheres to the CIPFA Code of Practice for Internal Audit in Local Government (2006). It also provides advice, management assurances and supports compliance throughout the organisation.
- 1.4. The Internal Audit Service is outsourced, with the Head of Internal Audit role and management of the contract undertaken by an in-house team. The in-house team consists of the Head of Audit & Risk and an Internal Audit Contract Manager. RSM Tenon Ltd, are the outsourced providers of the Internal Audit Service. The contract is due to run until September 2014, with options to extend for up to three years.
- 1.5. The Head of Audit & Risk has produced this high-level strategy, detailing how the service will be delivered and be developed.
- 1.6. This strategy will explain the contribution that Internal Audit makes to the Council and will include:
 - What the Internal Audit objectives and outcomes are,
 - How the Head of Audit & Risk will form and evidence their annual assurance opinion on the control environment to support the Annual Governance Statement,
 - How Internal Audit's work will identify and address significant local and national issues and risks,
 - How the service will be provided, i.e. in-house or outsourced, and
 - What resources and skills the Head of Audit & Risk has to deliver the strategy.
- 1.7. This strategy should be approved, but not directed by the Audit Panel.

2. Internal Audit objectives and outcomes

- 2.1. The ambitions of the Service are to be:
 - Valued as the knowledgeable and cost effective provider of advice and support on risk management, controls, compliance and assurance matters.
 - Trusted for being professional and consistent in applying regulatory requirements sensitively in line with good practice standards through all our work.
 - Respected for being flexible and supportive in our planning and approach to service delivery yet firm in expressing our opinion and maintaining standards.
 - Passionate about serving as a catalyst for continuous improvement in those areas where we influence management practices – improving value for money, driving efficiencies in the organisation and improving the control environment.
 - Recognised by our peers as a leading and innovative Service for Internal Audit.

Appendix 2 – Internal Audit Strategy 2012 - 2013

2.2. The Chartered Institute of Internal Auditors defines Internal Audit as:

“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.”

2.3. As such, the main objective for Internal Audit is providing management with an independent opinion on how effective the controls are working within the Council.

2.4. To provide this assurance to management, the Internal Audit service conducts various reviews and provides an opinion on the controls in place for:

- Key financial systems - such as Accounts Payable and Main Accounting,
- Schools - each school is currently reviewed on a three year rolling plan,
- IT systems - specialist IT auditors review our IT systems and procedures, and
- Contract and Procurement - auditors with specialist knowledge review our contracts and procurement procedures.

2.5. In addition to assurance reviews, Internal Audit conducts consultancy reviews for management. The main objective of these reviews is to provide management with advice on good practice controls, rather than provide an opinion on controls. An audit opinion is not provided for these consultancy reviews.

2.6. Measuring the outcomes of the work from Internal Audit is not always easy as it is not always tangible. However, by conducting internal audits (assurance and consultancy) Internal Audit can provide recommendations to management on how to improve internal control. This in turn can save the Council money, limit reputation damage and ensure that Value for Money (VfM) is achieved.

2.7. The in-house team monitors, on behalf of the Internal Control Board (ICB) and the Audit Panel, the progress made by management on implementing internal audit recommendations.

2.8. Recommendations made in internal audit reports are up followed-up by the Contractor. Based on evidence reviewed, the Contractor will issue a follow-up report detailing their findings and providing the current status of the implementation of the recommendation.

3. How the Head of Audit & Risk will form an opinion on the control environment and support the Annual Governance Statement

3.1. The Head of Audit & Risk will produce an Annual Assurance Report for the Audit Panel which will include an opinion on the overall controls within the Council (control environment) for the financial year. This report will include:

- Outcomes of the internal audit reports conducted during the year,
- An annual review of the Internal Audit service to see it is fit for purpose,
- Follow up reviews conducted during the year,
- Monitoring the progress of implementing recommendations,
- Recommendations not accepted by management,
- Any significant changes that affect the Council's objectives or systems,
- Any limitations that may have been placed on Internal Audit, and
- Results of any other external reviews that the Head of Audit & Risk seeks to place reliance on.

Appendix 2 – Internal Audit Strategy 2012 - 2013

3.2. This annual report also contributes to the Annual Governance Statement (AGS), which is presented to the Audit Panel. Not only does the Annual Assurance Report contribute to the AGS, but the Head of Audit & Risk is part to the AGS working group.

4. How Internal Audit identifies local and national risk

4.1. The in-house team regularly attends meetings of the London Audit Group (LAG). These meetings are for public sector internal audit (not only for London), to exchange ideas and consider up and coming risks.

4.2. The in-house team also has access to on-line services, which provide information on issues impacting Local Government and Internal Audit such as:

- CIPFA tis-online information streams and forums
- Local Government Chronicle
- Chartered Institute of Internal Auditors
- Info4Local.gov.uk
- Intranet Local Knowledge Hub, and
- Internal committee reports, service plans and risk registers.

4.3. In addition, the in-house team comply with their relevant professional bodies requirements to Continue their Professional Development (CPD). This includes one off training sessions, e-learning, and working towards professional qualifications.

4.4. The Head of Audit & Risk also attends internal meetings to gain local knowledge. These meetings include Health & Safety, Schools Forum, Risk Management Working Party, Resources & Regeneration Directorate Management Team. Where possible, he also attends public committee meetings where normal attendance is not required.

4.5. The Contractor ensures that their staff are adequately trained to keep up with the relevant changes within the Internal Audit industry and Local Government. This involves training sessions provided by their in-house learning and development team, technical briefing, and working towards professional qualifications and continuing CPD.

5. How the Internal Audit Service will be provided

5.1. As previously stated, the Internal Audit Service consists of an in-house team and the outsourced provider.

5.2. The Head of Audit & Risk, together with the Contractor, will develop the annual audit plan. They will also agree a protocol for undertaking audit work to ensure timely and quality completion of reviews is adhered to. The contractor will then deliver the annual plan in line with the agreed budget, scope and timescales.

5.3. The in-house team will monitor the delivery of the Internal Audit contract and provide the management function part of the Internal Audit Service. They will monitor the progress of implementation of the recommendations made, and report the outcomes to management and members.

5.4. In addition to Internal Audit, the Head of Audit & Risk is also responsible for managing the in-house Anti Fraud and Corruption Team (AFACT), Risk Management & Insurance and Corporate Health & Safety. All of which have advisory and assurance roles and their own individual strategies and business objectives.

Appendix 2 – Internal Audit Strategy 2012 - 2013

6. Resources and skills to deliver the strategy

- 6.1. The Council is required to provide sufficient resources for Internal Audit so that they provide an adequate and effective service. The current level of resource for 2012/13 is sufficient to ensure that the audit plan is delivered to a reasonable standard to allow the Head of Audit & Risk to provide the Annual Assurance Report.
- 6.2. It also includes an adequate amount of contingency to allow for unexpected changes to the audit plan during the year and/or to commission ad-hoc assurance reviews or one-off pieces of advice as required.
- 6.3. The Contractor has confirmed that they have the necessary skills and resources to deliver the 2012/13 audit plan. This includes any training that may be required.
- 6.4. An internal review of the 'Role of the Head of Audit' guidance issued by CIPFA, was completed and we found that generally the Head of Audit & Risk is suitably qualified and that no additional resources were needed to comply with this guidance. The areas that were identified from this review for continued focus were:
 - Monitoring compliance with policies and procedures,
 - Assurance Map update,
 - Audit Panel training, and
 - Succession planning.
- 6.5. An annual assessment against the good practice identified in the CIPFA code of the Internal Audit Service for 2011/12 was undertaken. It found that generally the service is complying with the CIPFA code requirements. The areas identified for continued focus were:
 - Effective arrangements for obtaining assurance on partnership work,
 - Auditor rotation,
 - Working with other inspectors, as well as external audit,
 - Operational risk management, and
 - Annual improvement plan.

Appendix 3 – Internal Audit Terms of Reference

1. Objectives of Internal Audit

- 1.1. The Chartered Institute of Internal Auditors defines Internal Audit as:

“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.”

- 1.2. Internal Audit is a statutory function, which has come about from two main pieces of legislations¹. As such, the main priority of Internal Audit is to provide management with an independent opinion on how effective the internal controls (financial and non-financial) of the Council are.
- 1.3. Internal Audit also helps management improve internal control by conducting assurance reviews (audits with an opinion) and consultancy reviews (audits without an opinion). At the same time, it aims to promote good risk management and governance within the Council.

2. Responsibilities

- 2.1. It is a common misconception that Internal Audit is solely responsible for internal control. However, this is not completely true. Senior Management are responsible for putting in place controls to reduce the impact of the risks identified as arising from the Council's objectives and activities.
- 2.2. Internal Audit is responsible for providing recommendations to improve internal control and provide an opinion on how effective the controls in place are. This is done by reporting their findings and providing advice to Senior Management and Members.
- 2.3. It is also the responsibility for Internal Audit to remain independent of any operational duties within the Council. This ensures that any professional opinion or advice provided is independent and objective.

3. Reporting Lines and Relationships

- 3.1. Internal Audit forms part of the Audit & Risk Division of the Resources and Regeneration Directorate. The Head of Audit & Risk is also responsible for the Council's counter fraud, insurance, risk management and health & safety work. The Head of Audit & Risk reports directly to the Executive Director for Resources & Regeneration (who is the Council's section 151 Officer).
- 3.2. The Head of Audit & Risk reports on a quarterly basis to the Internal Control Board (ICB) and the Audit Panel on the outcomes of internal audits and progress with the implementation of audit recommendations. At these meetings, the Head of Audit & Risk

¹ **Accounts and Audit Regulations (England) 2011** - section 6.1 “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

Section 151 of the **Local Government Act 1972** – “every local authority shall 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”.

Appendix 3 – Internal Audit Terms of Reference

also reports on the work of risk management and the Anti Fraud and Corruption team (A-FACT).

- 3.3. In addition, the Head of Audit & Risk has unrestricted access to the Public Accounts Select Committee, the Mayor, the Chief Executive, members of the Council, the Monitoring Officer (Head of Law), the Responsible Financial Officer (Executive Director for Resources), individual Executive Directors, External Audit and all Council employees.
- 3.4. The Head of Audit & Risk has the freedom to investigate and report without fear or favour, to all Officers and Members, in particular to those charged with governance.

4. Scope of Internal Audit and Right of Access

- 4.1. The scope of Internal Audit's work encompasses all governance, risk and controls for the Council, including where the Council works in partnership with others.
- 4.2. Internal Audit has unrestricted coverage of the Council's operations and activities. Internal Audit has the right when conducting an audit or investigation to:
 - Unrestricted access to all Council records (whether manual or computerised),
 - Examine any Council equipment or assets,
 - Unrestricted access to enter Council property, and
 - Obtain explanations from officers or Members as necessary.

5. Annual Assurance Report

- 5.1. The Head of Audit & Risk produces an Annual Assurance Report which includes an opinion on the overall internal control arrangements in the Council for the year. When making their opinion, the Head of Audit & Risk will take into account the following:
 - All the internal audit reports (assurance and consultancy) conducted during the year,
 - An annual review of the Internal Audit service,
 - Follow-up reviews and monitoring of recommendations made,
 - Recommendations not accepted by management ,
 - Effects of any changes in the Council's objectives, governance or systems,
 - Any limitations or restraints that may have been placed on the of Internal Audit, and
 - Results of any other external reviews that the Head of Audit & Risk can place reliance on.
- 5.2. This Annual Assurance Report also contributes to the Annual Governance statement, which is also presented to the Audit Panel.

6. Anti Fraud Work

- 6.1. The Audit & Risk Section has separate Internal Audit and A-FACT teams. Please refer to the A-FACT strategy and policies for further details of their work.

Appendix 3 – Internal Audit Terms of Reference

7. Resources

- 7.1. The Internal Audit Service is made up of an in-house team, consisting of the Head of Audit & Risk and an Internal Audit Contract Manager. The in-house team are responsible for preparing the overall risk based internal audit plan each year, the monitoring of the contract, and progress on the implementation of recommendations made. The in-house team also reports to ICB and the Audit Panel on the outcomes of the Internal Audit Service.
- 7.2. The rest of the Internal Audit service is outsourced to RSM Tenon Ltd. The contract is due to run until 2014, with an option to extend for up to two years.
- 7.3. The Contractor's team is led by a Director, supported by an Audit Manager and, dependent on the plan and audit requirements, the a team made up of General, IT and Specialist Auditors. The Contractor completes all the internal audit reviews and follows up reviews on behalf of the Council.
- 7.4. The Head of Audit & Risk is responsible for ensuring, in consultation with ICB, that the Council's internal control risk profile and programme of internal audit work aligns with the available budget and adequate resources are available to provide the Council with an Annual Assurance Report based on adequate audit coverage. This is to ensure that the Council complies with its responsibilities.
- 7.5. This is done by agreeing with the contractor:
 - The amount of audit days required per audit,
 - The type of auditor required, i.e. Generalist, IT, Contract, or other specialist Auditor,
 - The timing of the audit,
 - The daily rate of the auditor, and
 - An annual improvement plan.

Agenda Item 7

Committee	Audit Panel	Item No.	7
Report Title	Head of Audit & Risk Annual Assurance Report for 2011/12		
Contributors	Interim Head of Audit and Risk		
Class	Information	Date	20 June 2012

1. Purpose

- 1.1. The purpose of this report is to present members of the Audit Panel with the Head of Internal Audit & Risk's annual assurance opinion and statement on the effectiveness of the Council's system of internal control.

2. Recommendation

- 2.1. Members are asked to note the report.

3. Background

- 3.1. The Accounts and Audit (England) Regulations 2011 statutory instrument, requires the Council to "undertake an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". And the Council, "must at least once in each year, conduct a review of the effectiveness of its Internal Audit".
- 3.2. The proper practices for Internal Audit are set out in the Chartered Institute for Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the CIPFA Code). The CIPFA code is informed by standards from other professional institutes, including the Institute of Internal Auditors (IIA) and the Government Internal Audit Standards (GIAS) issued by HM Treasury.
- 3.3. This report provides the Head of Internal Audit and Risk's assurance opinion on the adequacy and effectiveness of the London Borough of Lewisham's internal control arrangements for the year April 2011 to March 2012. The annual assurance statement accompanying this opinion contributes to the annual review of internal control required by the Accounts and Audit (England) Regulations 2011 and supports the completion of the Annual Governance Statement.
- 3.4. The Internal Audit Service is outsourced, with the Head of Internal Audit role and management of the contract undertaken by an in-house team. The in-house team consists of the Head of Audit & Risk and an Internal Audit Contract Manager. RSM Tenon Ltd, are the outsourced providers of the Internal Audit Service. The contract is due to run until September 2014, with an option to extend for up to three years.
- 3.5. In addition to Internal Audit, the Head of Audit & Risk is also responsible for managing the in-house Anti Fraud and Corruption Team (AFACT), Risk Management & Insurance and Corporate Health & Safety. All of which have advisory and assurance roles and their own individual strategies and business objectives.
- 3.6. The timing of this report is scheduled to allow it to be considered as part of the Council's annual review of governance and internal control.

4. Introduction

- 4.1. The CIPFA code sets out a number of elements to be included in the annual opinion and statement of the Head of Internal Audit. These are:
- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment,
 - Disclose any qualifications to that opinion, together with the reasons for the qualification,
 - Present a summary of the audit work from which the opinion is derived, including reliance on work by other assurance bodies,
 - Draw attention to any issues the Head of Internal Audit judges particularly relevant to the Annual Governance Statement,
 - Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and targets, and
 - Comment on the compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

5. Opinion

- 5.1. The Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:
- 5.2. *I have considered all of the work undertaken and reported on by the Internal Audit Service and Anti-Fraud and Corruption Team during the year ended 31 March 2012 and work undertaken post year end. In my opinion, **satisfactory assurance** can generally be placed on the adequacy and effectiveness of internal controls in place in those areas reviewed. This is the same level of assurance as last year. Where weaknesses have been identified these have been reported on and are being addressed by management.*
- 5.3. *I have also considered the risk management processes in operation throughout the organisation. The Council's risk management arrangements have also been assessed by the Internal Audit Service contractor – RSM Tenon – maintaining its position as 'Risk Managed'. I'm satisfied that the Council has an established risk management process in operation at the Corporate and Directorate levels, while it continues to challenge and enhance risk management at the operational level.*
- 5.4. *I was part of the Annual Governance Statement (AGS) working party through 2011/12, a group of senior officers responsible for preparing and reviewing the Council's AGS. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Issues which I judged relevant to the preparation of the AGS have been considered by the group and included in the AGS.*

6. Qualifications to the opinion

- 6.1. Overall a lot of good practices were identified as in place and operating effectively in the Council's governance, risk and control arrangements. However, five reports were still at draft report stage, including one key system audit, and five reviews were still at the fieldwork stage, including one other significant review from the 2011/12 plan. The areas that will benefit from continued management attention and control improvements are discussed in section 8 below.
- 6.2. The 'Payments to Residential and Domiciliary social care providers' key system audit is currently draft. This system has £60m placed through it each year and based on the initial

findings and recommendations indicate a Limited assurance opinion. However, management are undertaking additional work including queries with the system provider.

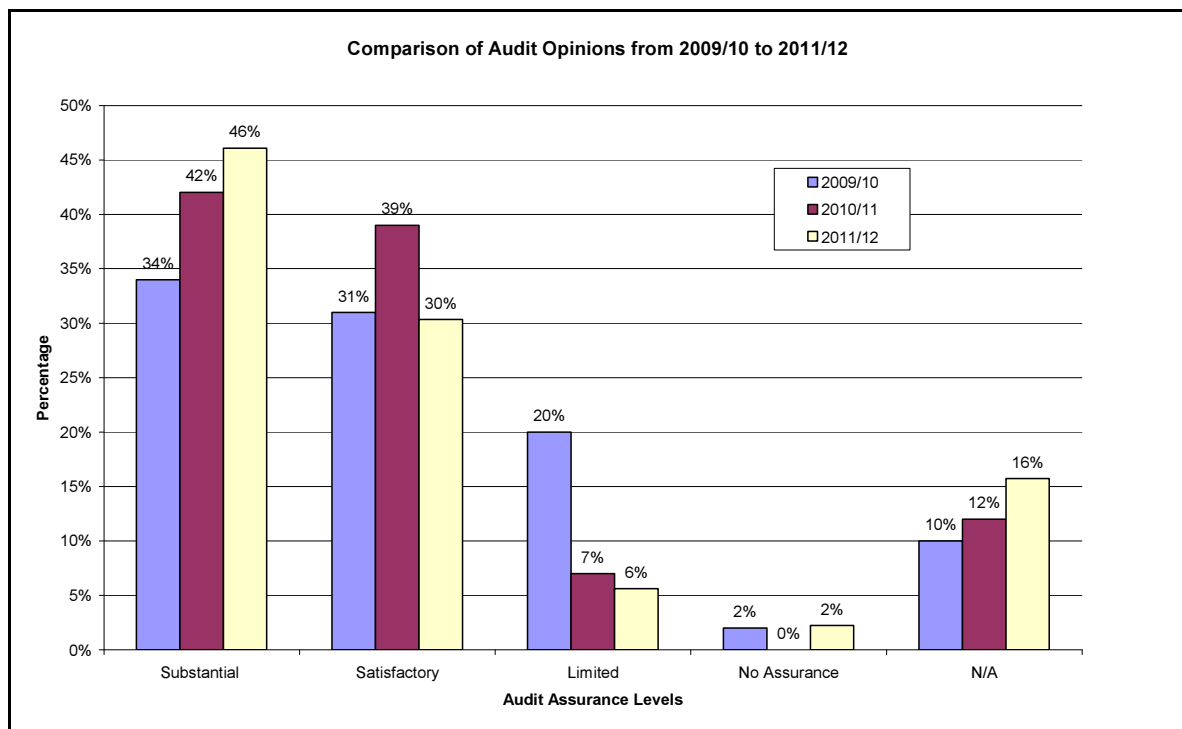
- 6.3. The 'Human Resources – thematic review' looking at HR policies and the effectiveness of these (i.e. assessment of outcomes) fieldwork is ongoing. This was anticipated to run into early 2012/13 at the time of the agreeing the scope in quarter three. The revised delivery date is now July 2012 for reporting to the September 2012 Audit Panel.

7. Summary of assurance work from which opinion is derived

7.1. Internal audit

7.1.1. The Internal Audit plan for 2011/12, approved by the Audit Panel in March 2011, included 90 audits, requiring 1,049 days of audit work (excluding follow-up reviews and contingency). Through the year in response to circumstances, emerging risks, and allowing for the restructuring of Directorates, seven additional audits were added and eight removed from the plan. Of the revised full year plan 94% was completed to draft report stage by the end of May. A full list of all the audits, status, assurance level, and number of recommendations is provided at Appendix 1.

7.1.2. A comparison of Internal Audit opinions in the finalised audit reports (79 in total) for 2011/12 compared to the prior years is presented below. (N/A = those reports that were advisory, grant work, or other non-audit assurance work).



7.1.3. There were two 'No Assurance' reports in 2011/12, one non-school and one school. In both cases there has been significant management intervention and fundamental governance changes made as the basis to re-establish effective internal control arrangements. Overall in 2011/12 the balance of positive (substantial or satisfactory) to negative (limited or no assurance) opinions excluding N/A was 90:10 compared to 92:8 for the prior year. Based on the indicative opinions for 2011/12 reports still in draft the ratio for this year would fall to 86:14. With the exception of the one school audit referred to above, this risk is all in the non-school (i.e. corporate) areas.

- 7.1.4. As part of this work, where recommendations are made to enhance controls or address specific issues these are classified according to their significance – High, Medium or Low. For 2011/12 236 high and medium recommendations were made. This represents 56% of the total compared to 63% for the prior year. The improvement witnessed is on the recommendations for schools. The proportion of high and medium recommendations for non-school audits remained at 63%. Of the recommendations made in 2011/12, 65% were in respect of the application of controls (compliance), rather than the design of the controls, compared to 70% in the prior year.
- 7.1.5. Internal Audit met regularly throughout the year with the external auditors, the Audit Commission. The external auditors review the quality of Internal Audit's work when deciding whether to place reliance on it to support their financial statements work. In addition, Internal Audit are regularly invited to sit on project boards to advise on possible areas of risk and control for management to consider in the design and implementation of new systems and processes. This work is important to managing the risk of control weaknesses being identified post-implementation when they will be harder and more expensive to correct.

7.2. Key systems

- 7.2.1. The key systems are fundamental to the operation of the Council, so it is important that these systems have robust internal control mechanisms and operate effectively. For these reasons Internal Audit allocates approximately 25% of its resource and reviews these systems every year, irrespective of previous assurance opinions.
- 7.2.2. A total of seventeen key systems audits were completed in 2011/12. Of these sixteen are final and all received a positive (i.e. substantial or satisfactory) audit opinion plus the risk maturity review at managed. One audit 'Payments to Residential and Domiciliary care providers' remains draft. Of the others, all except three received the same or improved levels of assurance.
- 7.2.3. A summary of this year's outcomes, with prior year comparisons, is presented below:

Core system	2009/10	2010/11	2011/12	DoT
1. Budget control and monitoring	Sub	Sub	Sub	→
2. Capital programme and expenditure	Sat	Sat	Sat	→
3. Cash collection and banking	Sub	Sat	Sat	→
4. Client contributions for residential & domiciliary care	-	Sat	Sat	→
5. Council tax	Sub	Sub	Sat	↘
6. Creditors (accounts payable)	Sat	Sat	Sub	↗
7. Debtors (accounts receivable)	Sat	Sub	Sat	↘
8. Housing benefit	Sub	Sub	Sub	→
9. Main accounting (general ledger)	Sub	Sub	Sub	→
10. Business rates (NNDR)	Sub	Sat	Sat	→
11. Non-current (fixed) assets	Sat	-	Sub	↗
12. Payments for looked after children	Sub	Sub	Sub	→
13. Payments to residential & domiciliary care providers - DRAFT	Sub	Sat	Ltd	↘
14. Payroll	Sat	Sub	Sat	↘

Core system	2009/10	2010/11	2011/12	DoT
15. Pensions	Sub	Sub	Sub	→
16. Treasury management	Sub	Sub	Sub	→
17. Risk maturity	Managed	Managed	Managed	→

7.3. Schools

7.3.1. The schools are audited using a three year rolling plan, adjusted for emerging risks and changes to school circumstances (for example, creation of an Academy). Improving the standard of internal control in schools has been a priority in previous years and strong improvements have been achieved.

7.3.2. From the Internal Audit conclusions in 2011/12 these improvements have been maintained. In 2011/12 33 of Lewisham's 80 schools were audited, with all but one (97%) receiving a positive (substantial or satisfactory) level of assurance. This compares to 2010/11 when 95% of the schools audited received a positive assurance opinion.

7.4. Anti-fraud and corruption

7.4.1. Audit & Risk is responsible for managing fraud investigations across the Council. This work is conducted by the Anti-Fraud and Corruption Team (A-FACT) and reported to the Audit Panel quarterly through the year.

7.4.2. The anti-fraud work in the Council arises from the need for it to ensure confidence in the administration of public funds. This recognises that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict much greater and more widespread damage than just the act itself.

7.4.3. To put this risk in context, the level of fraud against the London Borough of Lewisham can be estimated at £33m based on National Fraud Association figures for Local Government. The work of A-FACT is split into four areas:

- Benefit investigations
- Housing investigations
- Special investigations, and
- Preventative work.

7.4.4. Relative to the resources committed, in the three investigation areas the teams have all taken on more significant cases resulting in more frauds being proven and more serious action being taken. The knock on effect of this has been limited time available for preventative work. However, the team has continued with training and publicising successful investigations to communicate the Council's zero-tolerance of fraud policy.

7.5. Risk management

7.5.1. Audit & Risk is responsible for ensuring the Council has an effective risk management strategy and policy in place. The strategy and policy define the roles and responsibilities of individuals, directorates and groups, and sets out how the risk management process will be embedded. The strategy and policy were revised in 2010/11 and approved by the Internal Control Board and Audit Panel.

- 7.5.2. The Mayor and Cabinet and Members are appraised on risk management via the monthly management report. The monthly management report clearly maps risks to the Council's priorities and provides a narrative on changes to existing or emerging key (red) risks.
- 7.5.3. During 2011/12 the Council's Internal Audit service undertook their annual risk maturity review of the arrangements in place and their operation. This confirmed that Lewisham has maintained its rating of 'Risk Managed'. This is the second highest level on the Institute of Internal Auditors five point scale.
- 7.5.4. The Council continues to build on its approach to risk management, improving the quality of reporting on risks to the Executive Management Team and Internal Control Board. While arrangements are strong at the Corporate and Directorate levels a greater focus on operational risk management was highlighted through the 2011/12 service planning process (STAR assessments) and operational risk is an area for audit in 2012/13.
- 7.5.5. Evidence for the effective mitigation of identified risks and related focus on strengthening the organisation's internal controls comes from a number of sources. In addition to the work of Internal Audit these include:
- reports on the Council's services by other inspectorates (such as the Audit Commission, Care Quality Commission, OFSTED),
 - pieces of commissioned consultancy support, and
 - management assurances (using specialist skills such as those of the counter-fraud, health & safety and insurance teams as well as performance management and exception reporting on core activities).

8. Areas for control improvement

- 8.1. Following-up of the key corporate risk areas identified in the 2011/12 audit plan and from limited assurance opinions given in the year (information governance, contract management, property asset management, and general compliance arrangements) the current position is discussed below.
- 8.2. Information governance continues to be a risk area for the Council with significant work ongoing to strengthen the control framework, raise awareness of individuals responsibility for data, and work with teams to improve their local controls. Achieving full compliance with these requirements and changes across all the activities of the Council remains challenging and will take time.
- 8.3. Contract management is a risk area for the Council as more services are, in part or in full, delivered through different commissioning models. Following up on the findings and recommendations from some prior year audits, we reviewed seven large contracts across a range of activities in 2011/12. Of these seven, three received limited assurance opinions. Contract management is commanding management attention in the Council, as recognised in the Service Lewisham Smarter paper and revised service planning process.
- 8.4. Property asset management remains a risk area as there has been limited progress with the recommendations from the 2010 Internal Audit report. In particular due to delays in defining the corporate asset management framework underpinned by a consolidated approach to records management onto the K2 system. This work is now due to conclude in 2012.
- 8.5. Compliance is an issue arising where services are changing but the underpinning corporate policies, procedures and systems are not being revisited to adjust the expected controls in line with these. Overtime this risks leading to an overly complicated and burdensome control framework for a significantly reduced organisation. Work by Internal Audit is underway to refresh the assurance mapping arrangements and implement exception reports

for continuous monitoring of the core systems. Audit & Risk have proposed a compliance initiative directed at introducing arrangements to routinely remind employees of their responsibilities to help manage services in line with agreed corporate policies and procedures. This initiative, if agreed, will also highlight where there are redundant, unduly complex, or incomplete corporate policies or procedures in place.

- 8.6. Managers are responsible for implementing their agreed Internal Audit recommendations on a timely basis and reporting their progress in this. To assist with this, Internal Audit maintain a central on-line record of all recommendations and their status and regularly send reminders to managers to update progress with their outstanding recommendations. The number of recommendations overdue or due but with multiple date changes has risen throughout 2011/12. The comparison of overdue recommendations from May 2011 to May 2012, as reported to the Audit Panel, is from 43 to 72 respectively.
- 8.7. Internal Audit also follow-up all High and Medium recommendations within six months of a report being finalised. As with the updating of recommendations noted above, this work has also identified that management are taking longer to implement agreed actions to improve internal controls. The follow-up findings on progress with the implementation of recommendations for 2011/12 compared to the prior year is set out below.

	Implemented	In Progress	Superseded	Not Implemented	Not yet due
2010/11	66%	13%	5%	16%	0%
2011/12	59%	22%	5%	13%	1%

- 8.8. The above considerations have been discussed at the AGS working group and reported to the Internal Control Board. An area for continued improvement in the AGS action plan is reserved for internal control matters to which the Head of Internal Audit contributes.

9. Performance of the Internal Audit Service

- 9.1. The Internal Audit Service was retendered in 2011/12. This resulted in the incumbent provider, RSM Tenon Ltd, being reappointed in September on a three year contract with options to extend for up to a further three years. The internal audit resource to deliver the plan was allocated 40% under the old contract and 60% to the new contract.
- 9.2. As noted above, in 2011/12 Internal Audit delivered 94% of the plan to draft report stage by the end of May. This was against a target of 95% of the plan to draft by the end of March and 100% to final in time for this annual report. While the amount of work completed or close to conclusion is sufficient to conclude this annual assurance report, these delays are regrettable and avoiding them in future years is a priority for the Service.
- 9.3. In respect of managing the performance of the contract the Council reports on the following key performance indicators throughout the year to the Audit Panel. The full year position to the end of May for 2011/12 and 2010/11 is presented below.

	Performance Indicators	Actual 2010/11	Actual 2011/12	Target	2011/12 (+/-)
1	Percentage of all draft reports issued against audit plan.	99%	94%	100%	(6)%
2	Percentage of draft audit reports issued within 15 working days if the exit meeting.	83%	77%	90%	(13)%
3	Percentage of final reports issued within 10 working days of agreed draft report.	96%	89%	95%	(6)%

	Performance Indicators	Actual 2010/11	Actual 2011/12	Target	2011/12 (+/-)
4	The average level of client satisfaction to be achieved (score up to 5).	4.2	4.6	4.0	0.6
5	Percentage of High & Medium recommendations made agreed by management.	98%	98%	95%	3%

- 9.4. The two quality orientated indicators (4&5) have been exceeded for the last two years. This is encouraging given pressures on the Council as a whole and on the Internal Audit Service in particular, in a tender year and with a reduction in the amount of resource deployed.
- 9.5. The three KPIs not met all contributed to the late completion of the overall audit plan for 2011/12. This is commented on above (5.2, 7.1.1, & 9.2) and the position is being monitored closely by the Audit Panel.

10. Compliance with the code

- 10.1. The Chartered Institute for Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the CIPFA Code) is a non-statutory code. However, the new Accounts and Audit (England) Regulations 2011 statutory instrument, requires the Council to "undertake an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". Internal Audit is therefore required to comply with the CIPFA Code.
- 10.2. The Internal Audit service is overseen by the Head of Internal Audit & Risk supported by a contract manager. The service is provided by an external contractor, RSM Tenon. They are a regulated firm approved to provide audit and accounting services. As such they adhere to the industry good practice standards and have a good quality control mechanism. This involves an internal quality review of all audit reports, including comprehensive working papers, and ongoing supervision, training and appraisal of staff.
- 10.3. The Accounts and Audit (England) Regulations 2011 further require that the Council, "must at least once in each year, conduct a review of the effectiveness of its Internal Audit". For 2011/12 this requirement was met by means of a self-assessment against the CIPFA code and the CIPFA guidance for the 'Role of Head of Internal Audit'.
- 10.4. The work of the Internal Audit team continues to be subject regular monitoring meetings with the contractor – RSM Tenon – and the Council's external auditors, and results of their work and progress with the implementation of recommendations reported to the Internal Control Board and Audit Panel quarterly.
- 10.5. Generally the self-assessments against CIPFA good practice showed that the Internal Audit Service is performing well. The areas that were identified for continued focus were:
- Effective arrangements for obtaining assurance on partnership work,
 - Auditor rotation,
 - Working with other inspectors, as well as external audit (Assurance Map),
 - Operational risk management,
 - Annual improvement plan,
 - Monitoring compliance with policies and procedures,
 - Audit Panel training, and
 - Succession planning.

10.6. Of the above some are already in hand for 2012/13. For example; we have agreed an annual improvement plan with the contractor, formerly included auditor rotation in the protocol, and are undertaking operation risk, and assurance map reviews in the plan. The Head of Audit & Risk is also proposing an approach to establish Council wide compliance arrangements to strengthen management assurances and reduce reliance on independent third party assurances.

11. Legal Implications

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

12. Financial Implications

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

13. Equalities Implication

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

14. Crime and Disorder Implications

14.1. There are no specific Crime and Disorder implications arising directly from this report

15. Environmental Implications

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

16. Background Papers

16.1. Internal Audit and A-FACT papers to the Audit Panel through 2011/12

If there are any queries on this report please contact the Head of Audit & Risk on 020 8314 9114.

Appendix 1 – Internal Audit Opinions and Recommendations for 2011/12

Non-School Internal Audit Opinions and Recommendations for 2011/12

Auditable Area	Status	Assurance Level Given	Number of Recommendations made					Previous Review & Assurance Level
			High	Medium	Low	In Total	Agreed	
Review of Public Funds held by LPHA	Final	No Assurance	10	1	0	11	11	N/A
Highways - Generic Contract	Final	Limited	3	14	1	18	18	2010/11 Substantial
Building Security – Generic Contract	Final	Limited	4	6	1	11	11	N/A
Housing 21 – Generic Contract	Final	Limited	1	13	0	14	12	2009/10 Substantial
Brockley PFI	Final	Limited	4	8	5	17	17	N/A
School IT Security	Final	Limited	1	8	0	9	9	N/A
Information Governance	Draft	Limited	0	3	2	5	TBC	N/A
Payments to Residential, Domiciliary Care & Supported Care Service Providers	Draft	Limited	1	3	1	5	TBC	2010/11 Substantial
Cyber Threats	Draft	Limited	1	13	1	15	TBC	N/A
Monitoring of Small Grants for Community and Local Assembly	Draft	Limited	0	4	3	7	TBC	N/A
Accounts Receivable	Final	Satisfactory	0	3	1	4	4	2010/11 Substantial
Council Tax	Final	Satisfactory	0	5	0	5	5	2010/11 Substantial
NNDR	Final	Satisfactory	0	3	2	5	5	2010/11 Satisfactory
Cash Collection & Banking	Final	Satisfactory	1	1	2	4	4	2010/11 Satisfactory
Schools PFI – Generic Contract	Final	Satisfactory	2	6	2	10	10	N/A
Project Management & Capacity	Final	Satisfactory	0	4	0	4	4	N/A
Public Sector Transparency Board	Final	Satisfactory	0	2	2	4	4	N/A
Fixed Asset New System	Final	Satisfactory	0	3	0	3	3	2009/10 Satisfactory

Appendix 1 – Internal Audit Opinions and Recommendations for 2011/12

Auditable Area	Status	Assurance Level Given	Number of Recommendations made					Previous Review & Assurance Level
			High	Medium	Low	In Total	Agreed	
Payroll	Final	Satisfactory	1	2	5	8	6	2010/11 Substantial
Capital Programme – Monitoring & Expenditure	Final	Satisfactory	0	3	2	5	5	2010/11 Satisfactory
Major Grants	Final	Satisfactory	0	2	4	6	6	N/A
Personal Budgets	Final	Satisfactory	0	3	3	6	6	N/A
Client Contributions for Residential and Domiciliary Care Services	Final	Satisfactory	1	3	4	8	8	2010/11 Satisfactory
CONTROC system - joint review	Final	Satisfactory	0	4	3	7	7	N/A
Security	Final	Satisfactory	1	2	2	5	5	N/A
Learning Development - Shared Lives	Final	Satisfactory	0	4	6	10	10	N/A
Supporting People Service Plan	Draft	Satisfactory	0	2	1	3	TBC	N/A
Looked After Children	Final	Substantial	0	2	1	3	3	2009/10 Substantial
Comments, Complaints & Compliments	Final	Substantial	0	2	6	8	8	N/A
Performance Indicators for LAs	Final	Substantial	0	1	2	3	3	N/A
Legal Services	Final	Substantial	0	0	4	4	4	N/A
Learning Disabilities – Generic Contract	Final	Substantial	0	2	0	2	2	N/A
Green Scene – Generic Contract	Final	Substantial	0	0	2	2	2	N/A
Consultancy Planning Framework – Generic Contract	Final	Substantial	0	1	1	2	2	N/A
Pensions	Final	Substantial	0	1	3	4	2	2010/11 Substantial
Main Accounting System	Final	Substantial	0	2	4	6	6	2010/11 Substantial

Appendix 1 – Internal Audit Opinions and Recommendations for 2011/12

Auditable Area	Status	Assurance Level Given	Number of Recommendations made					Previous Review & Assurance Level
			High	Medium	Low	In Total	Agreed	
(General Ledger)								
Accounts Payable	Final	Substantial	0	1	4	5	4	2010/11 Satisfactory
Treasury Management	Final	Substantial	0	0	3	3	3	2010/11 Substantial
Non-Current Assets Register	Final	Substantial	0	0	2	2	1	2009/10 Satisfactory
Budget Control & Monitoring	Final	Substantial	0	1	2	3	3	2010/11 Substantial
Trading Standards	Final	Substantial	0	0	1	1	1	2009/10 Limited
Pest Control	Final	Substantial	0	0	3	3	3	N/A
Housing & Council Tax Benefit	Final	Substantial	0	1	0	1	1	2010/11 Substantial
Homesearch	Final	Substantial	0	0	2	2	0	N/A
Children Social Care	Final	Substantial	0	1	1	2	2	N/A
Provision of School Places	Final	Substantial	0	0	1	1	1	N/A
Younger Adults	Final	Substantial	0	0	1	1	1	N/A
Property Asset Management follow-up	Final	N/A Follow /up only	2	5	0	7	7	Limited
Risk Maturity	Final	Managed	1	2	1	4	4	Managed
Implementation of HR and Payroll Systems	In progress							N/A
HR – Thematic Review	In progress							N/A
Fraud	In progress							N/A
Implementation Review of NNDR system	In progress							N/A
Regeneration of Lewisham	In progress							N/A

Appendix 1 – Internal Audit Opinions and Recommendations for 2011/12

Schools Internal Audit Opinions and Recommendations for 2011/12

Auditable Area	Status	Assurance Level Given	Number of Recommendations made					Previous Review & Assurance Level
			High	Medium	Low	In Total	Agreed	
Forster Park Primary School	Final	No Assurance	4	20	5	29	29	2009/10 Satisfactory
Baring Primary School	Final	Satisfactory	0	4	4	8	8	2008/9 Limited
Childeric Primary School	Final	Satisfactory	0	3	4	7	7	2008/09 Satisfactory
Gordonbrock Primary School	Final	Satisfactory	0	3	4	7	7	2008/09 Limited
Grinling Gibbons Primary School	Final	Satisfactory	0	6	3	9	9	2008/09 Limited
Holy Trinity Primary School	Final	Satisfactory	1	2	1	4	3	2008/09 Limited
John Ball Primary School	Final	Satisfactory	0	5	3	8	8	2008/09 Limited
Perrymount Primary School	Final	Satisfactory	0	4	2	6	6	2008/9 Satisfactory
St Bartholomew's Primary School	Final	Satisfactory	0	3	2	5	5	2008/09 Limited
St Margaret's Lee Primary School	Final	Satisfactory	0	4	4	8	8	2008/09 Limited
St Winifred's Infants School	Final	Satisfactory	0	3	3	6	6	2008/09 Satisfactory
New Woodlands School	Final	Satisfactory	0	4	5	9	9	2008/09 Limited
Chelwood Nursery School	Final	Substantial	0	2	3	5	5	2008/09 Satisfactory
All Saints Primary School	Final	Substantial	0	1	3	4	4	2008/09 Limited
Ashmead Primary School	Final	Substantial	0	2	4	6	6	2008/09 Satisfactory
Brindishe Lee Primary School	Final	Substantial	0	0	3	3	2	2008/09 Substantial
Brockley Primary School	Final	Substantial	0	2	2	4	3	2008/09 Limited
Christ Church Primary School	Final	Substantial	0	1	1	2	2	2008/09 Substantial
Coopers Lane Primary School	Final	Substantial	0	2	4	6	6	2008/09 Substantial
Downderry Primary School	Final	Substantial	0	1	4	5	5	2008/09 Satisfactory
Elfrida Primary School	Final	Substantial	0	1	2	3	3	2008/09 Limited

Appendix 1 – Internal Audit Opinions and Recommendations for 2011/12

Auditable Area	Status	Assurance Level Given	Number of Recommendations made					Previous Review & Assurance Level
			High	Medium	Low	In Total	Agreed	
Eliot Bank Primary School	Final	Substantial	0	2	2	4	4	2008/09 Substantial
Haseltine Primary School	Final	Substantial	0	1	5	6	6	2008/09 Limited
Kelvin Grove Primary School	Final	Substantial	0	1	1	2	2	2008/09 Limited
Sir Francis Drake Primary School	Final	Substantial	0	0	4	4	4	2008/09 Substantial
St James Hatcham Primary School	Final	Substantial	0	2	2	4	4	2008/09 Limited
St John Baptist Primary School	Final	Substantial	0	1	3	4	4	2008/09 Substantial
St Saviour's Primary School	Final	Substantial	0	2	3	5	5	2008/09 Limited
St William of York Primary School	Final	Substantial	0	1	1	2	1	2008/09 Limited
St Winifred's Junior School	Final	Substantial	0	1	3	4	4	2008/09 Limited
Brent Knoll School	Final	Substantial	0	2	4	6	6	2008/09 Limited
Greenvale School	Final	Substantial	0	0	4	4	4	2007/08 (record deleted)
Meadowgate School	Final	Substantial	0	1	3	4	4	2008/09 Substantial

Opinion Levels	Design of Controls	Comply with Controls	Rec. Category	Definition
Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.	High	Action imperative to ensure that objective for the area under review is met.
Satisfactory Assurance	Sufficient framework or key controls for objectives to be achieved but could be stronger.	Controls are applied with some lapses.	Medium	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.	Low	Action advised to enhance control or improve operational efficiency.
No Assurance	System of control not in place. Absence of basic controls resulting in inability to meet objectives.	Fundamental controls are not complied with.		

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE	
Key Decision	NO	Item No. 8
Ward	ALL	
Contributors	Interim Head of Audit & Risk	
Class	Part 1	Date: 20 June 2012

1. Purpose of the Report

- 1.1. The purpose of this report is to provide an update to the Audit Panel on the work of the Anti-Fraud and Corruption Team (A-FACT). This is the annual report for the period April 2011 to March 2012.

2. Recommendations

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

3. Executive summary

- 3.1. The special investigations and housing teams have both faced the continuing pressure of increased referrals during 2011/12. The teams have managed this pressure by closing cases quickly where initial investigations find no evidence or little likelihood of proving fraud. In addition, the teams report and consult regularly with senior management and partners (in the case of housing) on caseload priorities. We have also reallocated resources with a benefit investigator seconded to the special investigation team and engagement of a housing investigator, using additional funding from central government to tackle social housing fraud.
- 3.2. The benefit team, now with three investigators compared to six in 2010/11, has become more selective in picking cases to investigate. Referrals come through a number of channels (the public, national fraud initiative, referrals from the Council's Public Services team, and other investigations). While fewer cases are taken on, the hit rate remains consistent, the number of sanctions per investigator is slightly improved, and the number of more serious and significant cases increased with more prosecutions and higher average overpayments reclaimed.
- 3.3. While the team has not had the time to undertake as much proactive work as it would like it continues to run training for frontline teams to raise the awareness fraud risks and publicise all successful prosecutions. Overall the focus remains on quality before quantity as a means to raising the Council's defences against the risk of fraud.

4. Special Investigations

- 4.1. The Special Investigations team is responsible for investigating all allegations of fraud other than those covered by the Benefit and Housing Investigation teams, whose work is discussed below (sections 5 & 6). This includes internal fraud, pre-employment checks, proactive counter fraud exercises, delivering an investigation capability to support Lewisham Homes under a call off service level agreement, and other varied cases.

- 4.2. The team was stable through the year with a manager and two investigators, supported by the group manager, a seconded benefit investigator and the seconded police officer from the Metropolitan Police Service.
- 4.3. During the year to March 2012 the Special Investigations team closed 115 cases relating to fraud and/or irregularity, excluding pre-employment checks undertaken and work for Lewisham Homes.

LB Lewisham Special Investigations Cases					
Year	Closed Total	Of which Employee	resulting in action	Of which Other	resulting in action
2009/10	133	27	16	105	12
2010/11	137	41	20	96	9
2011/12	115	53	20	62	10

Employee related cases

- 4.4. Of the 115 Council special investigations, a significant number concern employee related fraud. Investigations of 53 employee related cases were undertaken, involving 55 people. This in the context of the Council employing approximately 7,500 staff (3,100 in the Council and a further 4,400 in Schools). Of these investigations 20 concluded in action being taken. An analysis of the outcomes in these cases is presented in the table below.

Year	Dismissal / removed from contract	Dismissal & convicted	Resigned or left during enquiry	Other disc. action	Former agency employee convicted	Job offer with-drawn	Total
2009/10	3	0	4	3	0	6	16
2010/11	5	0	5	9	0	1	20
2011/12	5	1	4	8	1	1	20

- 4.5. In the category "Other disciplinary action" three employees received final written warnings, four were subject to standard setting and one received a verbal warning.

Other

- 4.6. The Special Investigation section also deals with a wide variety of concerns reported across all areas of the Council's activities. Of the 62 investigations undertaken in 2011/12, ten cases resulted in action. These were:

Special Investigations – Other work	11/12
Fraudulent invoice (not paid)	1
Single Person Discount fraud	1
False school admission application	1
Fraud alert issued on change of creditor details	1
Direct Payment Case (recovery only, not prosecution, due to circumstances)	1
Blue badge fraud	5

Lewisham Homes

- 4.7. A-FACT has continued to undertake investigation work on behalf of Lewisham Homes. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

Pre-employment Checks

- 4.8 A-FACT support Human Resources by undertaking a part of the recruitment checks. Each potential employee of the Council is required to complete a pre-employment check form which focuses on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on an individuals integrity. In the year to March 2012, 334 checks on potential staff (Lewisham Council & Lewisham Homes) were undertaken. This compares to 279 in the previous year.
- 4.9 These checks found one case where the offer of appointment was withdrawn as the applicant failed to declare their Council Tax arrears. There were four cases where arrangements were made to pay off rent or council tax arrears. In 16 cases directorships or other business interests were either found not to have been supplied or reminders needed to be issued of the Councils requirement for full time service. In one case single person discount was removed on a council tax account when an undeclared non-dependant applied for employment

5 Benefit Investigations

- 5.1 The Benefit Investigation team comprised four investigators during 2011/12 (one of whom was seconded to delivering Special Investigation work), supported by the group manager and Audit & Risk business support officer.
- 5.2 During the year to March 2012 the Benefit Investigation Team secured 84 sanctions. The total value of fraudulent benefit overpayments identified was £640,355. On recovery this represents a saving to the wider public purse.
- 5.3 In the year up to March 2012, the Benefit Investigations team accepted 264 referrals of benefit fraud, they completed and closed 296 cases, with a further 349 investigations in progress.

Year	No of referrals received	No. of closed cases	No. of o/s cases at Yr end	No. of Sanctions	No of sanctions per officer	Value of fraudulent overpayment
2006/07	711	(434)	568	149	16	£359,404
2007/08	469	(483)	554	164	18	£455,773
2008/09	561	(761)	354	159	23	£450,569
2009/10	548	(486)	416	143	20	£651,827
2010/11	591	(626)	381	181	25.8	£846,022
2011/12	264	(296)	349	84	28	£640,355

- 5.4 The sanctions figure is made up of 11 Administrative Penalties, 52 Cautions and 21 Prosecutions. In the case of the Administrative Penalties a financial penalty of 30% of the overpaid benefit must be paid by the claimant. The total amount of the Administrative Penalties levied in 2011/12 was £15,060. The Council are permitted to keep Administrative Penalties recovered as a contribution to the cost of investigating benefit fraud.
- 5.5 The higher number of prosecutions and average value of overpayment per sanction reflects the strategic decision to focus the efforts of the smaller team on more significant and serious cases of benefit fraud.
- 5.6 Each year, we report on all frauds with a value of over £10k to the Audit Commission. In respect of the 21 Housing Benefit prosecutions this included eleven cases in 2011/12. A summary of the results of these prosecutions is presented below.

Ref	Reason	Prosecution result
1.	Undeclared partner	Nine month custodial sentence
2.	Undeclared partner	Nine month custodial sentence, suspended for two years, and 200 hours unpaid work on each count to run concurrently
3.	Undeclared partner	180 hours community order
4.	Undeclared work	Six months custodial sentence, suspended, and 100 hours unpaid work
5.	Undeclared partner	Twelve months community order and 160 hours unpaid work
6.	Undeclared partner	36 week custodial sentence, suspended for two years, and 150 hours unpaid work on each count to run concurrently
7.	Undeclared capital	Six months, suspended for twelve months, with 28 day curfew and compensation & costs of £4k
8.	Undeclared work	60 hours unpaid work and £300 costs
9.	Undeclared work	Eight weeks custodial sentence, suspended for two years, and a twelve week curfew
10.	Undeclared capital	Twelve months custodial sentence, suspended for two years, and 250 hours unpaid work
11.	Undeclared capital	Twelve months community order and 200 hours unpaid work

5.7 The Housing Benefit Investigations team is directly impacted by the Government's creation of a Single Fraud Investigation Service (SFIS). Initially local authorities were no longer to be involved in benefit investigations. However, the current proposals for the SFIS state that it will be a partnership between DWP, HMRC and local authorities and that staff will remain in the employ of the local authority. We are still awaiting clarification on the lower level design detail for SFIS.

6 Housing Investigations

6.1 The team's Housing Investigation practitioner investigates allegations of Housing and Homelessness Application Fraud and Cash Incentive Scheme payments against the London Borough of Lewisham. The investigation of tenancy fraud has been the responsibility of Lewisham Homes since October 2008.

6.2 During the year to the end of March 2011 60 cases were passed for investigation, a similar amount to last year. The officer dealing with these cases completed 47 cases compared to 35 cases last year. There are currently 72 cases under investigation.

Housing Investigation Cases					
Year	Balance (b/f)	New	Closed	Balance (c/f)	Action taken
2010/11	59	60	(47)	72	16
2011/12	72	66	(90)	48	18

6.3 Of the 90 cases that were completed, 18 resulted in outcomes with action taken:

- three applications for housing due to Homelessness were cancelled as a result of proving that false information had been provided,
- seven tenancies was recovered having proved that subletting had occurred,
- seven applications for decants were found to be fraudulent, and

- one application for the succession of a tenancy was rejected on being found to contain false and misleading information.

7 DCLG Housing Bid funding

- 7.1 The Department for Communities and Local Government (DCLG) has, as part of the Government's commitment to tackling social housing fraud, allocated Lewisham Council £100,000 in both 2011/12 and 2012/13 for tackling social housing fraud. Following discussion between Strategic Housing and A-FACT and in consultation with the South East London Housing Partnership, it was agreed the funding should be put to supporting two housing providers - Pinnacle/Regenta and London & Quadrant (L&Q) - in tackling housing fraud in the region.
- 7.2 The Housing Investigator funded by this scheme was appointed on the 9th January 2011 and in the period to the 31st March has successfully recovered 9 properties (7 for L&Q and 2 for Regenta).
- 7.3 One of the investigations found that the tenant and their family had actually been living in France for the last 5 years. On the basis of this and the rent arrears an outright possession order was granted on this three bedroom property.

8 Publicity

- 8.1 During the year A-FACT published press releases on successful prosecutions. For reference, these are available on the News pages of the Council's website.
- 8.2 Please also see Appendix 1 attached to this report which maps the Council's 2011/12 benefit and housing fraud results. This replaces the 2010/11 map previously shared.

9 Fraud Awareness Training

- 9.1 During the year A-FACT has provided eight days of Fraud Awareness training for frontline staff, including in the area of document verification. Training was delivered to L&Q, Lewisham Homes, Council's Decant team and the Housing Options Centre.
- 9.2 We have also agreed to provide training to Phoenix Community Housing in early 2012/13. This service will be provided on a chargeable basis.

10 Metropolitan Police Seconded

- 10.1 The secondment of a Metropolitan Police Officer to the team continues to effectively contribute and enhance the work of the A-FACT by providing advice, assistance and applying Police powers where appropriate. Their access to Police systems and intelligence enables A-FACT to progress cases more quickly and thoroughly.
- 10.2 The officer is also an Accredited Financial Investigator and has used their powers under the Police and Criminal Evidence Act to obtain Production Orders for information from Financial Investigations for ongoing investigations.
- 10.3 They are currently working on a number of complex cases (which cannot be reported yet) and was key to several of the successful prosecutions undertaken this year.

11 Legal Implications

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

12 Financial Implications

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

13 Equalities Implication

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

14 Crime and Disorder Implications

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

15 Environmental Implications

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

16 Background Papers

16.1 There are no background papers reported.

If there are any queries on this report, please contact

David Austin at david.austin@lewisham.gov.uk or on 020 8314 9114

Housing Benefits/Fraud Statistics 2011/12



Legend

Housing Benefits Stats - Administration Penalties (11)

Housing Benefits Stats - Cautions (52)

Housing Benefits Stats - Prosecutions (21)

Housing Fraud (18)



Property Systems - Datagraphics x48280



Agenda Item 9

AUDIT PANEL		
Report Title	Exclusion of the Press and Public	
Key Decision		Item No. 9
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 20 June 2012

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

10. Closed Minutes

By virtue of paragraph(s) 3, 4, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3, 4, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted