



AGENDA AUDIT PANEL

Date: THURSDAY, 18 JUNE 2015 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 Helen Klier
Councillor Bill Brown
Councillor Mark Ingleby
Councillor Jim Mallory
Councillor Jonathan Slater
Councillor Eva Stamirowski

Independent Members

Paul Dale
Richard King
2 Vacancies

Members are summoned to attend this meeting

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

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 9 June 2015**



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: 18 June 2015 |

Recommendation

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2015/16

Agenda Item 2

| AUDIT PANEL | | |
|--------------|-----------------|--------------------|
| Report Title | MINUTES | |
| Key Decision | | Item No. 2 |
| Ward | | |
| Contributors | CHIEF EXECUTIVE | |
| Class | Part 1 | Date: 18 June 2015 |

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 19 March 2015 be confirmed and signed.

MINUTES OF THE AUDIT PANEL

Thursday, 19 March 2015 at 7.00 pm

PRESENT: Councillors Helen Klier (Chair), Simon Hooks, Mark Ingleby, Jim Mallory, Jonathan Slater and King

ALSO PRESENT: Jamie Bewick, David Austin, Selwyn Thompson and Julie Hetherington

Apologies for absence were received from Councillor Chris Barnham and Paul Dale

1. Minutes

RESOLVED that the minutes of the Panel held on 19 November 2015, which was open to the press and public, be confirmed and signed as a true record of the proceedings.

2. Declarations of Interests

None.

3. Update on 2014/15 Closing of Accounts and External Audit

The report was introduced by the Head of Financial Services. He highlighted that most of it related to early audit work carried over from January and February. He added that a lot of preparatory work had been done for the main audit which would be reported to the June meeting. The Head of Financial Services said Panel Members had been concerned about the payroll not been up to date, and this had now been brought to date, as of February. The Panel was told that the Final Audit and Value for Money work would be reported to the June meeting.

Councillor Ingleby asked if Grant Thornton envisaged problems with pensions investments as stated on page 75 of the report. Jamie Bewick said he was aware of 7 Councils that have a Pension Committee, and Lewisham might want to see what others were doing.

Richard King said he was still concerned that the issue on reconciliations had still not been addressed. He said the Panel was told at their last meeting that reconciliations would be done by April, and this had not been done. He said it was a fundamental process that should be done monthly. The Head of Financial Services apologised for the delay in addressing this issue, saying this was because work had to be prioritised because of the pressure on resources. He added that this concern would be addressed in the Summer.

The Chair asked if reconciliations had not been done because of the pressures faced by a reduced team. The Head of Financial Services responded by stressing that officers had to focus on priorities because of the situation the Council was experiencing with the savings drive. Mr King said he thought reconciliations should be termed as the number 1 priority in finance, and could not understand why it should be problematic.

The Chair asked how the school's accounting and auditing were progressing. Jamie Bewick said he had not seen any update as yet, and wanted to bring the issue of the December CIPFA update to the attention of Panel members.

RSEOLVED that the report be noted.

4. Grant Thornton Claims Certification Report

The report was introduced by Jamie Bewick. It was noted that Grant Thornton were required by the Audit Commission to certify certain claims and returns submitted by the Council. The report gave a summary of Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process and drew attention to significant matters in relation to individual claims.

Grant Thornton certified two claims and returns on behalf of the Audit Commission for the financial year 2013/14 relating to expenditure of £235.7million. They were Housing Benefits and Housing Capital Receipts Pooling. Panel members noted that Grant Thornton also certified the Teachers Pension return which also required certification but was not part of the Audit Commission's regime. Panel Members were informed that 9 types of errors were discovered, which was more than in previous years.

Audit Panel noted that the errors were linked to changes in benefit regime; increase in claimants and record keeping. Jamie Bewick said Lewisham disposes its records after 6 years, and might want to keep it longer as a precaution. Councillor Hooks asked what the guidance advised, and was told the DWP do not have a limit. Jamie Bewick said most councils keep it for 5 years because of the sensitive information. He emphasised there were only a small number of cases with errors.

Mr King said 9 errors on a sample of 60 cases was equivalent to 15% which was a large amount. Councillor Slater asked whether the errors occurred because claimants did not put down the right information. Mr Bewick said this was partly because claimants income could change within a week. Councillor Slater asked whether sufficient assistance was provided to support claimants, and the Head of Financial Services replied that the Benefits Manager would be able to answer this query. Councillor Slater stated it would be helpful if the Benefits Manager was invited to the next Audit Panel to explain what the errors consisted of.

Mr Bewick said the errors were not material and there was no cause for alarm, although the Council should not be complacent. Councillor Slater said he would agree with Mr Bewick's statement but was concerned that patterns were emerging and the problem would need to be addressed. The Head of Corporate Resources said he understood Panel Members need to invite the Benefits Manager to address their concerns, but the June meeting might not be the best time as the agenda would be large. The Chair concluded she would decide whether the Benefits Manager would be at the June meeting or a future meeting once she had seen the agenda.

The Chair asked whether concerns raised about the teachers' pensions had been resolved, and was told that procedures had been put in place to address the problem. The Head of Financial Services said he had met with stakeholders, and the work had been spread across different areas to ensure clear lines of responsibility. He added that the emphasis would be on timeliness, notification for adjustments, and he had requested monthly reconciliations to be part of the process.

RESOLVED that the report be noted.

5. The Internal Audit Update and Plan

The Head of Corporate Resources introduced the report. He said no consultancy report or negative assurance had been finalised since the last report, and audit recommendations were being implemented. He added that an officer from Corporate Asset Services was at the meeting to take questions from Panel members. He concluded that the Internal Audit Charter which was included in the report, had been improved, and would continue to improve.

Richard King commented that he was surprised that at the end of February there were still 26 pieces of audit work that had not been completed, and would need to be done by the end of June. The Head of Corporate Resources replied saying this delay had occurred because of the transition from external contractors to internal provision, and added that this had been a difficult year for the audit section.

The Chair asked why 3 pieces of work had been dropped off the audit plan, and was told that they were not part of the risk register audit being processed, and this was requested by the Departmental Management Team because of the constraint on resources, but they have been booked to be done in September. Councillor Ingleby asked about Highway Maintenance Reactive Maintenance audit which currently had a superseded recommendation, and was told that in future officers would notify Panel Members if recommendations were to be closed.

The Interim Corporate Asset Strategy Manager gave a short presentation on what officers were currently doing to ensure the production and maintenance of an efficient asset strategy for the council. The Chair asked if the council had an IT system that would cope with the data, and the Interim Asset Strategy Manager said there had been some delays in completing the IT system, but this would be addressed.

The Chair said she understood that there would be additional income generated through the new strategy. The Interim Corporate Asset Strategy Manager said an example would be of a commercial estate which generated an income of £ 2.5m in the past, could potentially make £4m in future. The Interim Corporate Asset Strategy Manager said officers were looking at new land and sites that could generate new income. Councillor Slater said community centres could be better utilised for income generation. He asked if members could use the register to see what properties were owned by the council, as this could help them pre-empt issues, and was told they could.

Councillor Hooks commented that it would be useful to have this register, as it could improve income and business development. He added that in response to the findings that the Council did not have a champion for Asset Management at member level, it would be necessary for members to get involved, and champion some of the ideas that might be generated from this project. Councillor Mallory said members involvement would be crucial, and added that the way forward could be discussed at the Public Accounts Select Committee (PASC). The Interim Corporate Asset Strategy Manager said members could get involved through Ward Assemblies. He added that officers were planning how to roll out the new strategy. The Head of Corporate Resources said a piece of work was being done at PASC and inviting Members to become Champions could be included in the recommendations. The Chair thanked The Interim Corporate Asset Strategy Manager for attending the meeting.

Audit Charter

It was noted that the Charter had been revised to include comments from Panel Members. Following a question from Mr King, the Head of Corporate Resources said the restructuring of the Audit section would be completed in two years time, which would be the end of the transition period. Mr King questioned officers proposal of changing the reporting period of the Plan from 1 April to 1 July, and Panel members were told that because of insufficient resources it would be efficient to have it in July this year, but it would revert to April in future. It was noted that the external auditors were in agreement to this arrangement.

Mr King said he had expected to see the audit strategy included in the Charter. The Internal Audit Contract Manager responded saying Lewisham did not have a separate strategy and it was now included in the Charter , which was similar to that of other boroughs. Mr King then said he thought either the Audit Panel or Council should approve Lewisham's Strategy.

Councillor Mallory commented that he had thought a charter should be a short document, which this one was not. The Head of Corporate Resources told Panel Members it was a compromise between standards and comprehensiveness. He added that an executive summary of the charter could be done with additional appendices. Councillor Slater said in future it would be helpful if the reports include executive summaries as a cover sheet followed by the comprehensive reports. This was agreed. The Internal Audit Contract Manager said she would do an executive summary of the Charter and would bring it back to the next meeting for the Audit Panel to approve. This was agreed.

The Head of Corporate Resources explained that the Public Sector Internal Audit Standards (PSIAS) assessment was due in 2015/16. There were three assessors to choose from. Some of the London Borough Heads of Internal Audit have agreed to team up to conduct the external assessments between them. While this is cost effective, it did not have true independent as they often worked closely together. The Chartered Institute of Internal Auditors would be independent but were too costly. Panel Members agreed to the preferred provide, the London Audit Consortium NHS, to conduct the assessment on behalf of the Audit Panel.

RESOLVED that the report be noted, and an executive summary of the Audit Charter to be done for Audit Panel Members.

6. Ant-Fraud and Corruption Update

The Head of Corporate Resources introduced the report. He said the report covered Special Investigations, Benefit Investigations and Housing Investigations. The Head of Corporate Resources informed Panel Members of the Local Government Transparency Code 2014, which required local authorities to publish data on its anti-fraud arrangements at least on an annual basis. Panel Members were also informed that Lewisham A-FACT had won four bids of funding from the DCLG Counter Fraud Fund.

Councillor Ingleby said the success of the bids was reported to PASC, which was impressive. Councillor Mallory congratulated officers for getting the funds. The Head of Corporate Resources said the funding would be used to develop the counter fraud work within the team, and strengthen partnership working. He said Lewisham was considering partnership arrangements with 4 other boroughs. He added that the council would benefit by having a wider consistent approach to this work.

Councillor Mallory asked whether the Council would be able to monitor its benefits fraud after the service had been transferred to the DWP. The Head of Corporate Resources said the Council would not be handling cases but would be able to monitor its expenditure to some degree. He said there would be data that the councils would be able to access. Councillor Mallory asked if Lewisham would be able to check if this process was effective, and was told that the Council would have to ask the DWP, at the appropriate time.

RESOLVED that the report be noted.

The meeting ended at 8:55pm

Agenda Item 3

| AUDIT PANEL | | |
|--------------|--------------------------|--------------------|
| Report Title | DECLARATIONS OF INTEREST | |
| Key Decision | | Item No. 3 |
| Ward | | |
| Contributors | Chief Executive | |
| Class | Part 1 | Date: 18 June 2015 |
| | | |

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

1 Personal interests

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

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

2 Disclosable pecuniary interests are defined by regulation as:-

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.
- (e) Licence to occupy land in the borough for one month or more.

- (f) Corporate tenancies – any tenancy, where to the member’s knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.
- (g) Beneficial interest in securities of a body where:-
- (a) that body to the member’s knowledge has a place of business or land in the borough; and
 - (b) either
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

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

(3) Other registerable interests

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

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes, or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

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

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

- (a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take no part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**
- (b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.
- (c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- (d) If a non-registerable interest arises which affects the wellbeing of a member, their family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- (e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

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

(7) Exempt categories

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

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

The Audit Plan for the London Borough of Lewisham

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2015

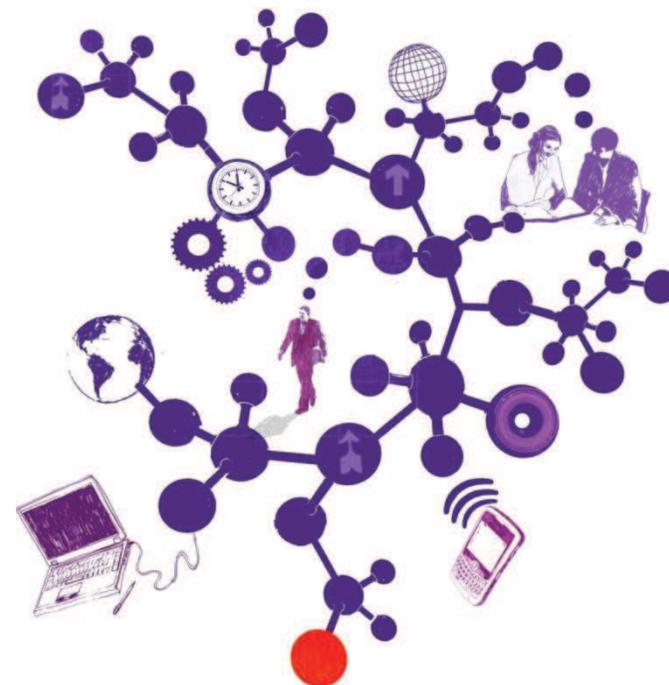
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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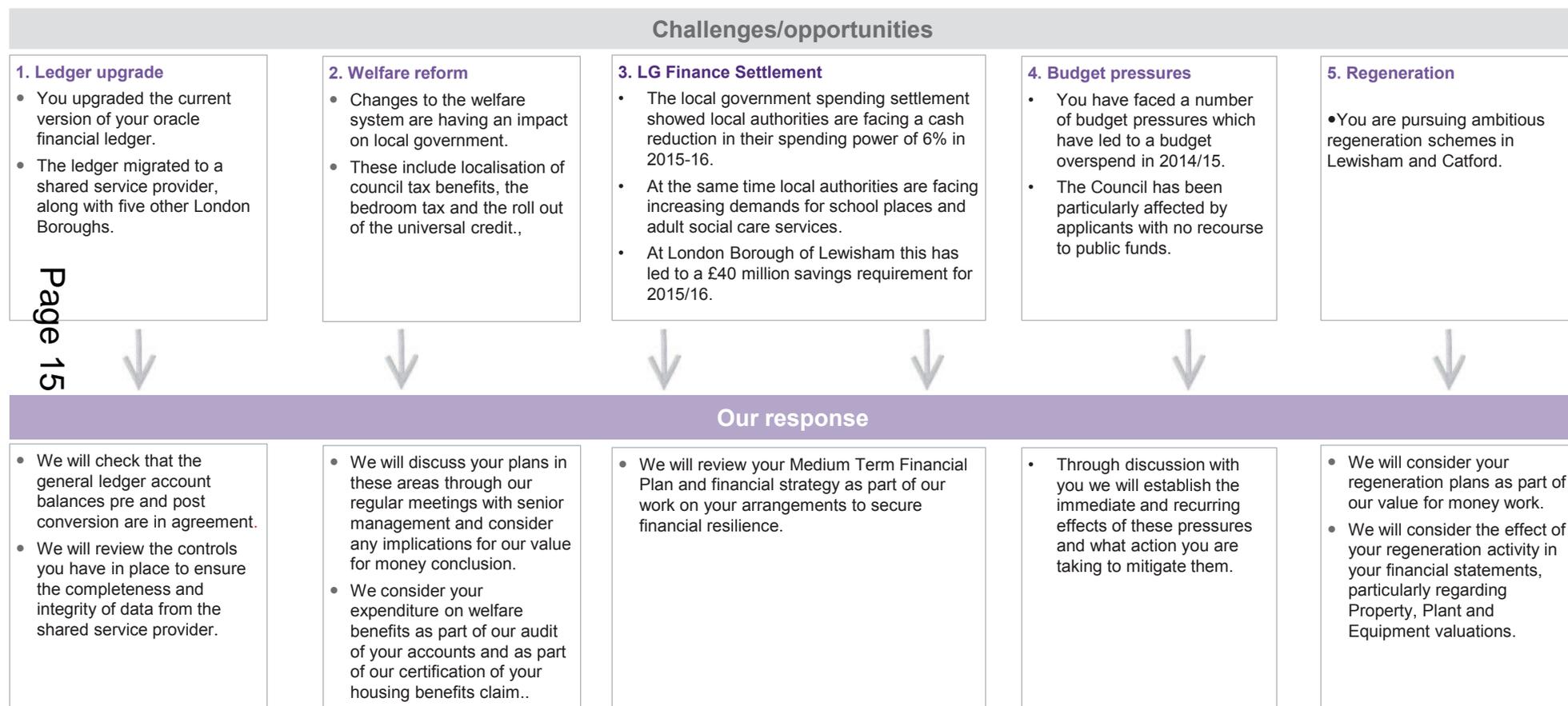
1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Value for Money
9. Results of interim work
10. Key dates
11. Fees and independence
12. Communication of audit matters with those charged with governance

Appendices

- A. Action plan

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Changes to the recognition of school land and buildings on local authority balance sheets
- Adoption of new group accounting standards (IFRS 1 and 12)

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Better Care Fund

- Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015

4. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

We will review that

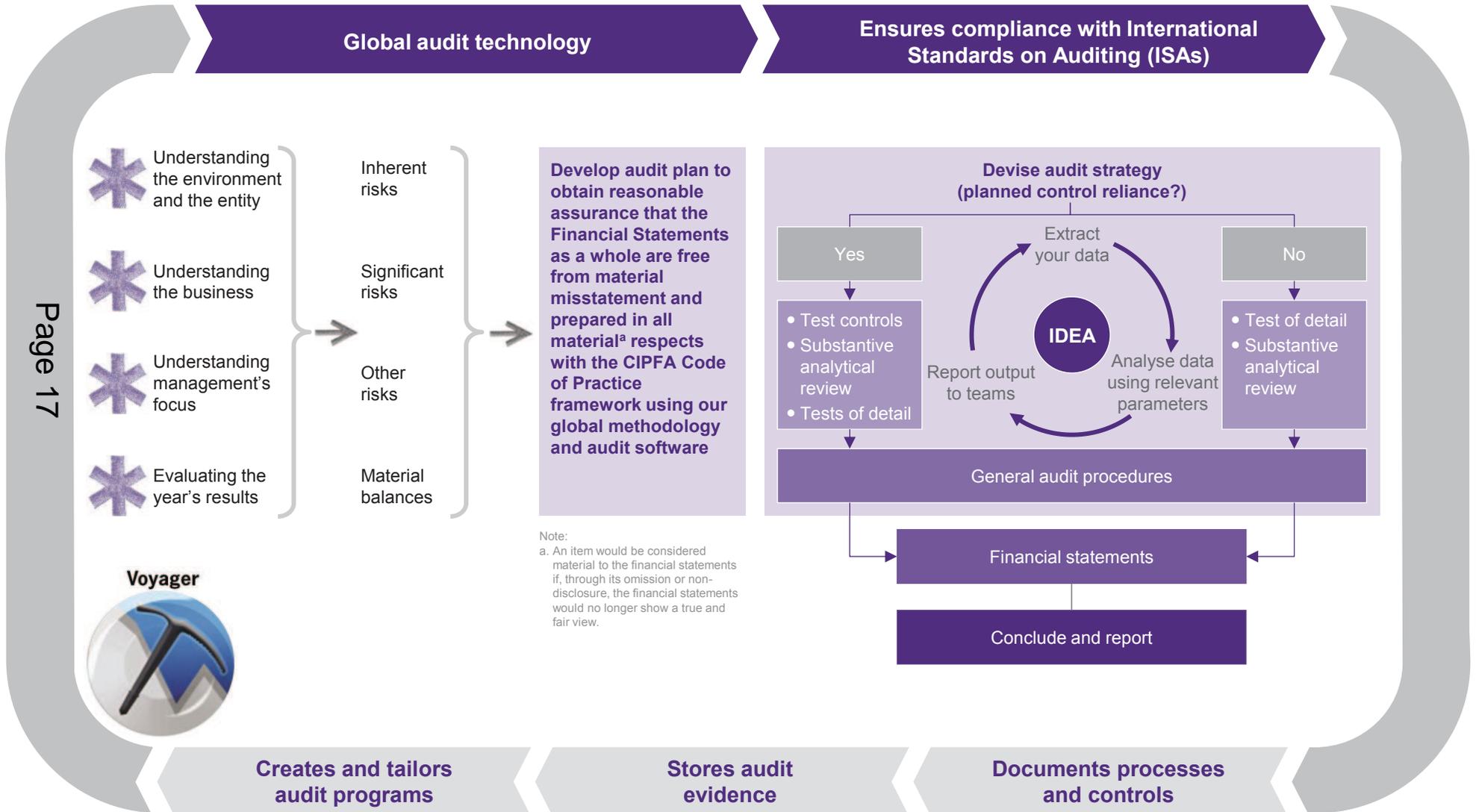
- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our final accounts testing
- schools are accounted for correctly and in line with the latest guidance
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge, as well as considering how effectively these documents communicate your governance arrangements to the reader of the accounts.

- We will consider whether the Better Care Fund is a risk in the context of our VfM conclusion and will carry out further work if required

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|--|---|---|
| The revenue cycle includes fraudulent transactions | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lewisham Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the Council has a strong counter fraud culture and ethical frameworks. |
| Management over-ride of controls | <p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal entry policies and procedures <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions |
| Ledger upgrade | <p>The general ledger migrated to a shared service provider, along with five other London Boroughs. As this is a significant non-routine event it is our view that this represents a significant risk under ISA 315.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of the general ledger account balances pre and post conversion to ensure that they are in agreement. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the controls the Council has in place to ensure the completeness and integrity of data from the service provider. |

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit Approach |
|--|---|---|
| Operating expenses <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 19</div> | Creditors understated or not recorded in the correct period (Operating expenses understated) | Work completed to date: <ul style="list-style-type: none"> Walkthrough of operating expenses system, updating our understanding Further work planned: <ul style="list-style-type: none"> Review and test the year end creditors control account reconciliation. Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) Review your accruals policy and confirm that it has been properly applied |
| Employee remuneration | Employee remuneration accruals understated (Remuneration expenses not correct) | Work completed to date: <ul style="list-style-type: none"> Walkthrough payroll system, updating our understanding Further work planned: <ul style="list-style-type: none"> Reconciliation of payroll to the General Ledger (for completeness) Undertake analytical procedures e.g. trend analysis Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) |
| Welfare Expenditure | Welfare benefit expenditure improperly computed | Work planned: <ul style="list-style-type: none"> Our work to certify your Housing and Council Tax benefits claim should give us adequate assurance over the accuracy of your financial statements Review the reconciliation between your financial statements and the Housing and Council Tax benefits claim |

Other risks identified (continued ..)

| Other risks | Description | Audit Approach |
|---|--------------------------------------|---|
| Property Plant and Equipment Page 20 | Revaluation measurements not correct | Work planned: <ul style="list-style-type: none">• Walkthrough the system for PPE valuations• Substantively test the accounting entries for PPE valuations to underlying records• Review of reconciliation between general ledger and fixed asset register• Write to the external Valuer to establish the scope and basis of valuations work for the 2014/15 financial statements.• Review the valuations information in your financial statements to confirm they have been accounted for correctly, in line with the Local Government Code of Accounting and accounting standard IAS16.• Consider the reasonableness of your valuations information by reference to valuation trend data provided by the auditor's expert. |

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

| VfM criteria | Focus of the criteria |
|---|--|
| The organisation has proper arrangements in place for securing financial resilience | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity |

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review key financial performance indicators for 2014/15.
- review and comment on your medium term financial projections.
- review your performance against your savings targets and comment on your identification of savings in 2015/16 and beyond.
- consider the work of the Lewisham Futures Board in seeking to ensure a sustainable future for the Council's services.
- consider the results of the recent peer review from the Local Government Association.
- Consider the management of staffing reductions in the finance function and more widely across the Council.
- Comment on your partnership working in seeking to maximise the benefits of the Better Care Fund.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

We will issue a separate report to comment on your financial resilience

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed and findings | Conclusion |
|---|--|---|
| <p>Internal audit</p> <p>Page 22</p> | <p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We review specific Internal Audit reports in detail where these relate directly to our own audit work, for example, the Council's key financial systems.</p> <p>The previous internal audit contract ended as at the 1 July 2014. Currently the Council is deploying the existing internal resource of one audit manager and one audit trainee and the Council has contracted the London Borough of Greenwich to deliver the schools audit plan, and an independent IT consultant to deliver the IT audits in the plan. For non-schools audit work the Council has liaised with the London Borough of Croydon and London Borough of Islington to obtain resources under their frameworks with Mazars and PwC respectively.</p> <p>At the time of our review there has been no Internal audit work completed on the core financial systems of the Council in which to provide assurance on internal controls. We understand that Mazars have recently started this programme of work.</p> <p>The internal audit plan shows that most of this work is scheduled to be completed place towards the end of the audit year, which is due to finish by the end of June 2015 to enable the Head of Internal Audit opinion to be signed.</p> | <p>While the responsibility for identifying and managing risks belongs to management and those charged with governance, one of the key roles of internal audit is to provide assurance that risks have been properly managed meaning that Internal audit plays a central and essential role in maintaining a sound system of internal control.</p> <p>Maintaining the internal control environment is especially important at a time when the Council has been undergoing significant internal restructuring and staffing reductions. The Council has also recently migrated its ledger to a shared service provider.</p> <p>At the time of our interim audit visit there had been little or no internal audit coverage of financial systems. We are unable to comment on the adequacy of internal coverage although we note that this coverage is due to take place towards the end of the audit year.</p> <p>Management and those charged with governance should ensure sufficient and timely internal audit coverage to provide assurance at a time of significant change.</p> |

Results of interim audit work cont'd

| | Work performed | Conclusion |
|--|--|--|
| Review of information technology controls | Our information systems specialist is performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also follow up on the issues that were raised last year as well as considering the controls the Council has in place to ensure the integrity of data from the service provider. This work is on-going. | Our work on IT controls is on-going. |
| Journal entry controls | We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. | No issues have been identified that we wish to highlight for your attention. We will undertake detailed testing on journal transactions recorded for the first nine months of the financial year during our interim visit in March. Testing of months 10 to 12 and year end journals will be performed as a part of the final accounts audit. |
| Early substantive testing | We have reconciled the 2013/14 audited closing balances to the 2014/15 opening trial balance. | There are no issues to report from the early testing we have carried out to date. We will carry out early substantive testing on employee remuneration expenditure in March 2015. |
| Ledger upgrade | We asked the Council to provide working papers to support the assumption that the data migration had been successful in July 2014. We reviewed the overall totals that were migrated to the shared service provider as well as a sample of detailed account codes to check the data mapping to the new chart of accounts. We did not identify any issues. Officers carried out a number of 'dry-run' tests before migrating the data, and kept their own spreadsheet records of control totals. However most of the data migration working papers supplied to us were prepared retrospectively by finance officers when we requested them. It was not clear to us how management and those charged with governance obtained assurance over the data migration at the time that it happened. | We are satisfied that the migration of the general ledger balances appears materially successful, mitigating the risk of material error within the financial statements due to migration errors. However our work is not intended to provide assurance to the Council that there are no errors within the data migration exercise. Our procedures are performed in accordance with international auditing standards to provide us with sufficient assurance that the data migration exercise was materially correct to gain assurance that the financial statements will be free from material error as a result of this exercise. The Council has not obtained any assurances from its own internal control processes e.g. from Internal Audit. |

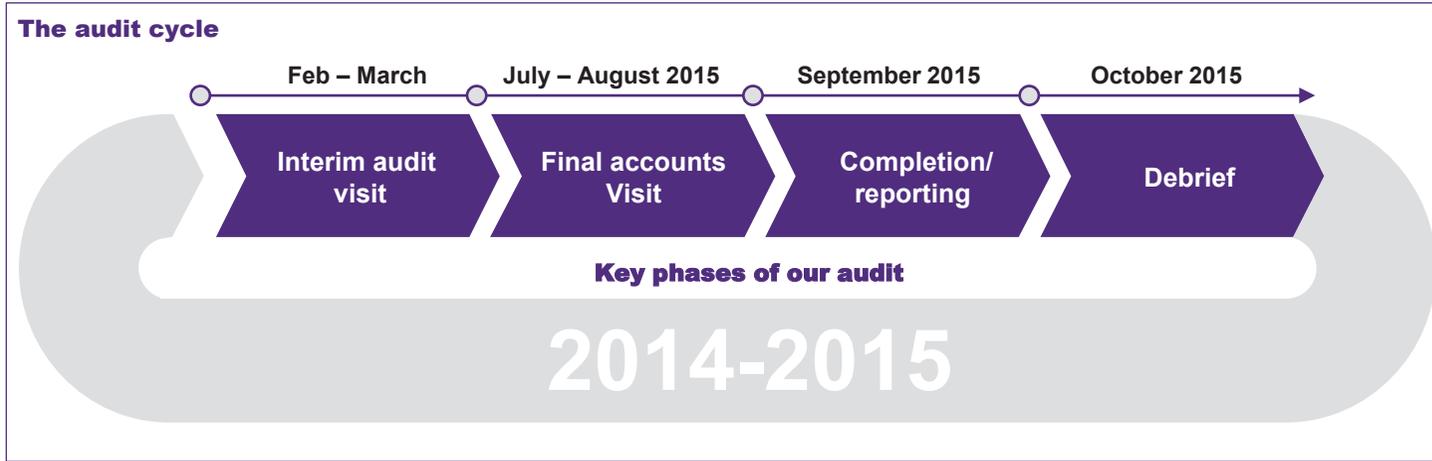
Results of interim audit work cont'd

| | Work performed | Conclusion |
|-----------------------------------|---|---|
| <p>Walkthrough testing</p> | <p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. The systems reviewed were:</p> <ul style="list-style-type: none"> • Employee Remuneration • Accounts Payable (Operating Expenses) • Welfare Expenditure • PPE valuations <p>Our work has identified the following issues which we wish to bring to your attention.</p> <p>Bank reconciliations</p> <p>We requested evidence that bank reconciliations were taking place as this is a key control within many of our walkthroughs. While attempting to obtain these we were informed that the Council has not performed regular bank reconciliations as the member of staff dealing with this was made redundant in July 2014, and no handover of duties took place.</p> <p>We were given an example of the last formal reconciliation for the Co-op Payments Account 2 - Cashbook Reconciliation for May 2014. This reconciliation is in the traditional format expected of a reconciliation showing reconciling items. This reconciliation has a variance of £163m and is therefore also incomplete.</p> <p>We recognise that this is only one example but the Council holds a number of bank accounts and yet no single officer is responsible for the preparation of bank reconciliations as responsibilities are divided among finance staff and no high level 'control schedule' exists to show bank accounts held, date of last reconciliation, who prepared, who reviewed etc.</p> <p>In our 2013-14 audit findings report where we recommended that the Council took action to provide full reconciliations and audit trails for principal bank accounts.</p> | <ul style="list-style-type: none"> • We are unable to determine the completeness and timeliness of bank reconciliations. • We are unable to determine the completeness and timeliness of AP reconciliations. • The timeliness of payroll reconciliations requires improvement. <p>We raised this issue with management immediately when we became aware of it. Management agreed with our findings and took prompt action to prepare a full bank reconciliation for the most recent month (February 2015).</p> <p>We have held discussions with management on the reconciliations we would expect to see on a regular monthly basis.</p> <p>In our view this issue requires an individual at the Council to take an overview of all the key reconciliations, ensuring they are carried out and reviewed on a regular and timely basis.</p> |

Results of interim audit work cont'd

| | Work performed | Conclusion |
|---------|---|---|
| Page 25 | <p>Walkthrough testing (continued)</p> <p>Accounts Payables (AP) to GL reconciliation</p> <p>We requested the reconciliation between payables system and the general ledger (accounts representing the payables system) but we have not been able to verify that these are being performed and have not received any examples of a reconciliation being prepared during the year. When we queried this with officers it was again confirmed that the Council has not performed these reconciliations as the member of staff dealing with this was made redundant in July 2014, and consequently no handover of duties took place.</p> <p>Payroll reconciliations</p> <p>Our 2013-14 audit recommended that the Council carries out and retains evidence of regular and timely reconciliations of the payroll interface with the ledger. This recommendation appears to have been implemented by the Council by the creation of a 'payroll control' reconciliation.</p> <p>At the time of our first interim visit during February, the February payroll had just been processed but the latest reconciliation performed by the Council was dated November 2014.</p> | |
| | <p>Entity level controls</p> <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> |

Key dates



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| Date | Activity |
|--------------------|--|
| January 2015 | Planning |
| Feb - March 2015 | Interim site visit |
| March 2015 | Presentation of audit plan to Audit Committee |
| July - August 2015 | Year end fieldwork |
| September 2015 | Audit findings clearance meeting with Executive Director |
| September 2015 | Report audit findings to those charged with governance Audit Panel |
| September 2015 | Sign financial statements opinion |

Fees and independence

Fees

| Service | £ |
|-----------------------------------|----------------|
| Council audit | 255,044 |
| Grant certification | 39,980 |
| Total fees (excluding VAT) | 295,024 |

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

| Service | Fees £ |
|--|--------|
| Certification of Teachers pension return | 8,500 |

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

The plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

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Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---------------------|--------------------------------------|
| 1 | Nominate a responsible officer to maintain a log/control schedule of all control account reconciliations prepared by the Council, recording details of when they were last performed and reviewed. | High | | |
| 2 | Carry out and retain evidence of regular and timely reconciliations of bank accounts. | High | | |
| 3 | Carry out and retain evidence of regular and timely reconciliations of accounts payable. | High | | |
| 4 | Ensure that key controls and business-critical processes continue to be undertaken when finance staffing reduces or is restructured. | High | | |
| 5 | Ensure payroll reconciliations are done on a timely basis . | Medium | | |
| 6 | Ensure the Internal Audit service provides management and those charged with governance with sufficient and timely assurance over key financial control risks, for example the upgrade to the ledger. | High | | |

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The Audit Plan

London Borough of Lewisham Council Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

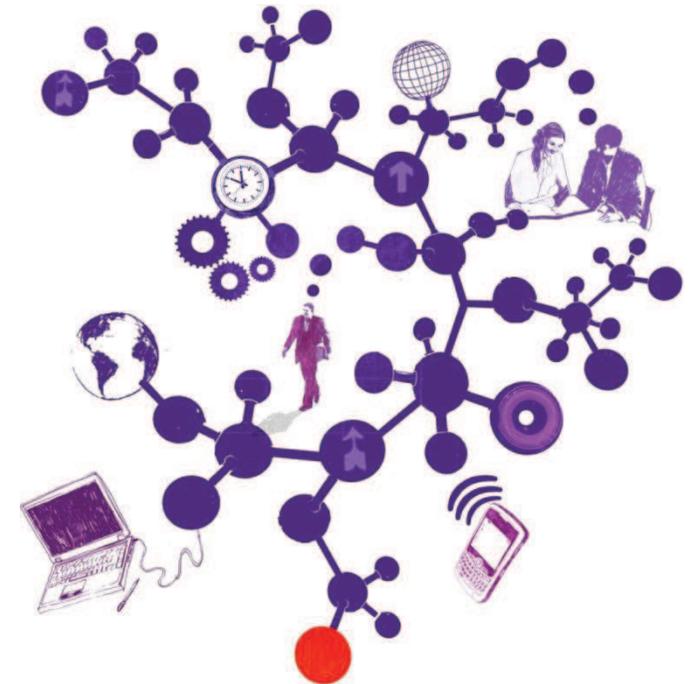
Year ended 31 March 2015

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

Contents

Section

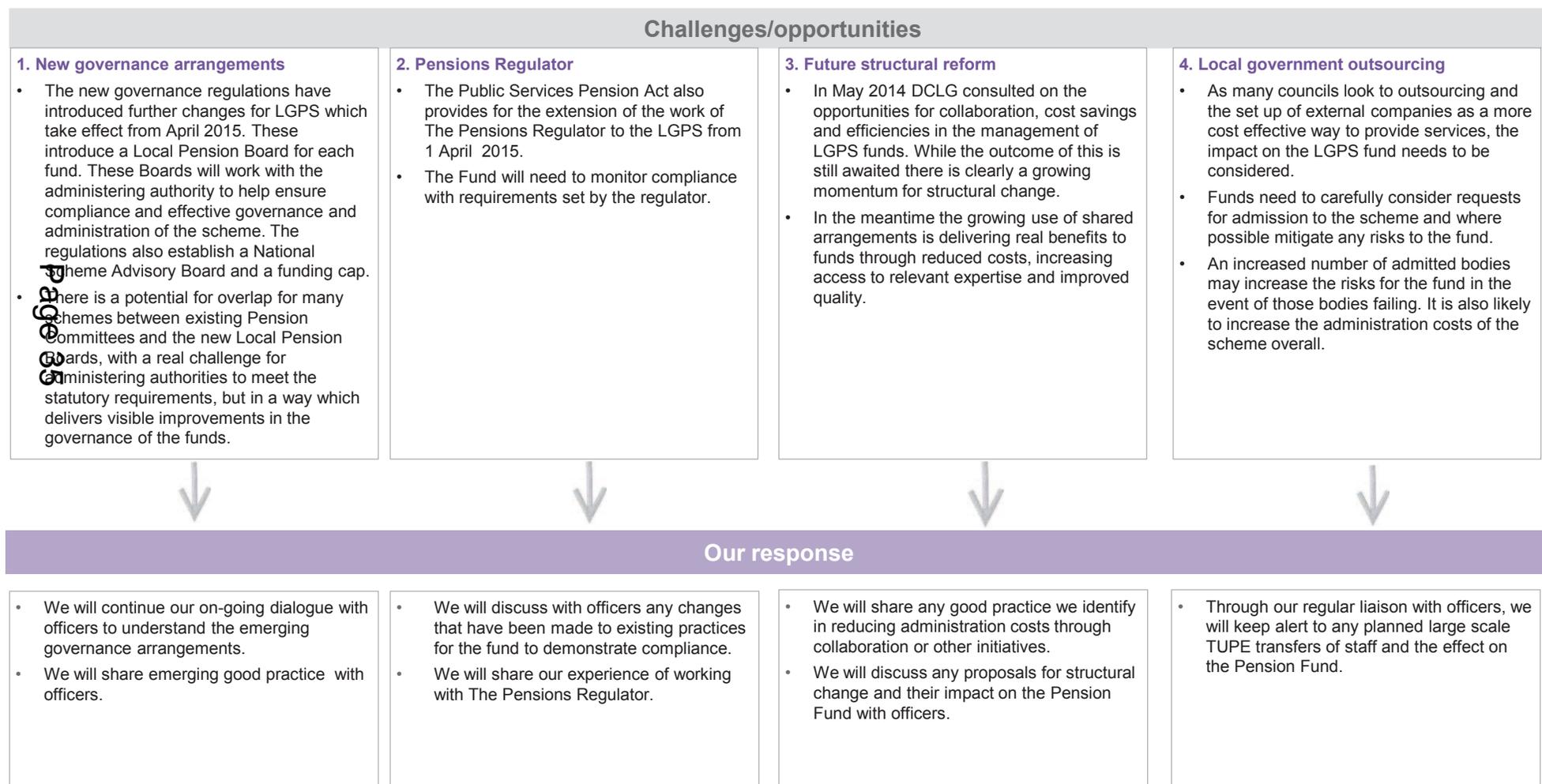
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Appendices

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

Our response

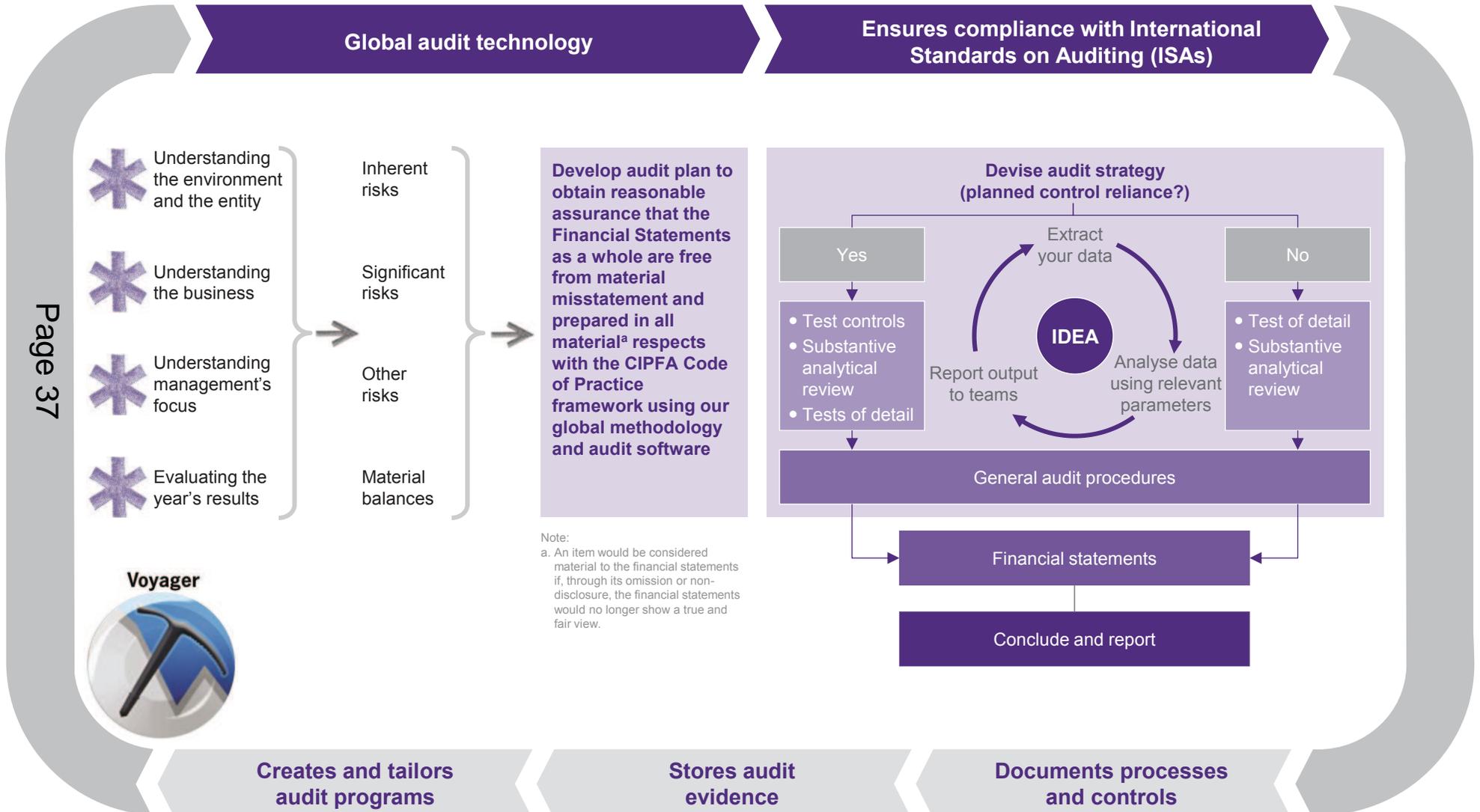
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

Our audit approach



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Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. The first two risks are presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs). Further details are set out below:

| Significant risk | Description | Substantive audit procedures |
|--|---|--|
| <p>The revenue cycle includes fraudulent transactions</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 38</p> | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Lewisham Council Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including London Borough of Lewisham Council Pension Fund who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable. |
| <p>Management over-ride of controls</p> | <p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Risk assessment of accounting estimates, judgments and decisions made by management <p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions. |
| <p>Level 3 Investments – Valuation is incorrect</p> | <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • walkthrough tests of controls on investments <p>Work planned:</p> <ul style="list-style-type: none"> • For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • To review the nature and basis of estimated values. |

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit Approach |
|---|--|---|
| Investments | Investment activity not valid. (Valuation Gross) | <p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on investments <p>Work planned:</p> <ul style="list-style-type: none"> Test a sample of purchases and sales to ensure are appropriate |
| Investment values – Level 2 investments | Valuation is incorrect. (Valuation net) | <p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on investments <p>Work planned:</p> <ul style="list-style-type: none"> Test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices. |
| Investment values – Level 3 investments | Valuation is incorrect. (Valuation net) | <p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on investments <p>Work planned:</p> <ul style="list-style-type: none"> Test a sample of level 3 investments to independent information from custodian/manager on units and on unit prices. |
| Contributions | Recorded contributions not correct (Occurrence) | <p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on contributions <p>Work planned:</p> <ul style="list-style-type: none"> Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. |

Other risks identified cont'd

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit Approach |
|------------------|--|--|
| Benefits payable | Benefits improperly computed/claims liability understated (Completeness) | <p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on benefits payable <p>Work planned:</p> <ul style="list-style-type: none"> Controls testing over, completeness, accuracy and occurrence of benefit payments, Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. |
| Member Data | Member data not correct. (Rights and Obligations) | <p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on member data <p>Work planned:</p> <ul style="list-style-type: none"> Sample testing of changes to member data made during the year to source documentation |

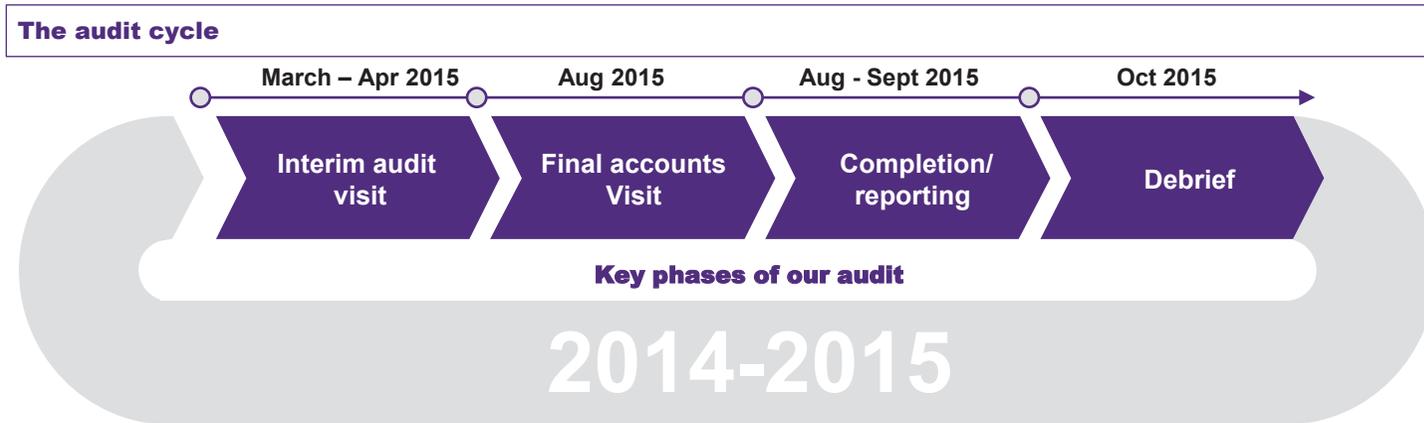
Results of interim audit work

| | Work performed and findings | Conclusion |
|------------------------------|--|--|
| Internal audit | <p>We have completed a high level review of internal audit's overall arrangements.</p> <p>At the time of our review Internal Audit had not carried out any work in 2014/15 specific to the pension fund. We have noted in our audit plan for the main council audit that internal audit coverage is mainly scheduled towards the end of the audit year, which year due to end in June 2015 to enable the Head of Internal Audit opinion to be signed.</p> | <p>There has been no internal audit coverage of the pension fund at the time of our review.</p> <p>To date no issues have arisen which impact on our audit approach. We will revisit internal audit coverage at the time of our main audit.</p> |
| Walkthrough testing | <p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our walkthrough of controls on investments identified one control failure on level 3 investments. We did not see any evidence that the Fund review level 3 fund manager valuations against audited statements. As these types of investments are not quoted, we would expect level 3 valuation provided by the Fund Manger valuations to be independently validated.</p> <p>As at 31 March 2014, these types of investments represented £32m of the Fund's value of investments.</p> <p>No other issues have been identified from our walk through testing that we would like to bring to your attention at this time.</p> | <p>As level 3 investments by their very nature require a significant degree of judgement in reaching an appropriate valuation at year end, we would expect to see a documented control by which management review audited statements of the Fund Manager to gain assurance that the valuation is reasonable.</p> <p>We will undertake additional substantive testing at year end on level 3 investments.</p> |
| Entity level controls | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • communication and enforcement of integrity and ethical values • commitment to competence • participation by those charged with governance • management's philosophy and operating style • organisational structure • assignment of authority and responsibility • a selection of human resource policies and practices | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p> |

Results of interim audit work cont'd

| | Work performed | Conclusion |
|--|---|--|
| Journal entry controls | We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements. | Our work has not identified any issues of note that we would like to bring to your attention at this time. |
| Follow up of previous year issues | <p>In last year's Audit Findings Report we commented that the Council has been increasing its use of the Pension Fund Bank Account, but is still not fully compliant with LGPS Regulations to use the separate account for all pensions transactions.</p> <p>Officers view is that the Council uses the bank account as much as is practicable.</p> | We note the position regarding the bank account which is unchanged from the previous year. |

Key dates



| Date | Activity |
|------------------------|---|
| Mar 2015 | Planning |
| Jun 2015 | Presentation of Audit Plan to Regulatory and Audit Committee |
| Aug 2015 | Benefits controls testing |
| 3rd Aug 2015 | Audit of Pension Fund statements commences |
| Aug 2015 | Audit findings clearance meeting with Pensions and Investments Manager and Service Director |
| Sept 2015 | Report audit findings to those charged with governance (Regulatory and Audit Committee) |
| By 30 Sept 2015 | Issue opinion Pension Fund statements |

Fees and independence

Fees

| | £ |
|----------------------------|--------|
| Total fees (excluding VAT) | 21,000 |

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

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Action plan

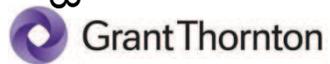
Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|--------------|---|----------|---------------------|--------------------------------------|
| 1 Page 47 | We would expect to see a control by which management agree all unquoted level 3 valuations provided by the Fund Manager to audited accounts to gain assurance that the valuation is reasonable. | Medium | | David Austin - Head of Resources |



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| AUDIT PANEL | | |
|---------------------|--|---------------------------|
| Report Title | DRAFT PRE-AUDIT STATEMENT OF ACCOUNTS 2014/15 | |
| Key Decision | No | Item No. |
| Ward | ALL | |
| Contributors | EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION | |
| Class | PART 1 | Date: 18 JUNE 2015 |

1 SUMMARY AND PURPOSE

- 1.1 To review and comment on the pre-audit Statement of Accounts and Pension Fund Accounts for 2014/15 and the Annual Governance Statement.

2 EXECUTIVE SUMMARY

- 2.1 The Council is not required by law to obtain elected Members' approval of its pre-audit accounts. However, given the importance of the document, and its complexity, officers are of the view that it is appropriate to present them to the Audit Panel.
- 2.2 Accordingly, the pre-audit Statement of Accounts for 2014/15 is attached as Appendix 1 to this report. The 2014/15 pre-audit accounts of the Pension Fund are attached as Appendix 2 and the draft Annual Governance Statement (AGS) and are attached as Appendix 3.
- 2.3 The summary of net expenditure against budgets for 2014/15 was reported to Mayor & Cabinet on 3 June 2015.

3 RECOMMENDATIONS

- 3.1 To note the report and appendices.

4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

- 4.1 Officers have prepared the draft pre-audit accounts so as to be able to despatch them to this Panel by 9 June 2015 for their information. The final pre-audit accounts will be completed in advance of the 30 June 2015 deadline and submitted to the external auditors, Grant Thornton. The pre-audit Pension Fund accounts will be presented to the Pensions Investment Committee on 11 June 2015, and subsequently submitted to Grant Thornton by 30 June 2015.
- 4.2 Within the Statement of Accounts there are four statements which are defined as "core financial statements", which essentially means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

Movement in Reserves Statement (MiRS)

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

Comprehensive Income and Expenditure Statement (CIES)

- 4.4 The CIES sets out the total expenditure by the authority in the 2014/15 financial year, some £1.3bn. The format of the CIES is completely different to the council's management accounts, which present income and expenditure by Directorate. However, a reconciliation between the two is provided by note 21 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

- 4.5 The balance sheet reports the 'total equity' of the council, and shows that it is similar to that of last year, around £1.05bn as at 31 March 2015 compared with some £0.97bn as at March 2014.

Cash Flow Statement

- 4.6 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2014/15 financial year. This statement is more valuable to understanding the financial health of private companies rather than local authorities, since most local authority funding comes either from government grants or from local property taxation.

Other Statements

- 4.7 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are very important to understanding key aspects of local authority services and financing.
- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
 - The Collection Fund which presents a summary of the collection of Council Tax and National Non Domestic Rates.
- 4.8 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding the financial position of the authority:
- Notes 13 and 15 to the core financial statements, which disclose the debtors to and creditors of the council as at 31 March 2015

- Note 8 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.

4.9 The format of the accounts is essentially prescribed. As a result the document is long and detailed. Members may have questions that they wish to pose to officers on points of detail. Appropriately qualified officers will attend the meeting and make their best endeavours to answer these. However, given the level of detail contained in the accounts it is possible that some questions of detail may not be capable of being answered at the meeting. If Members have such questions they are asked to submit them to Richard.lambeth@lewisham.gov.uk , ideally at least 24 hours before the meeting.

5 ISSUES FOR THE ATTENTION OF MEMBERS

5.1 In constructing the accounts officers have applied professional judgements in a number of areas. Some of these areas are where the appropriate treatment is subject to professional debate, and 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, consideration needs to be given to ‘impairing’ (i.e. reducing) the value of assets that might be affected, for example if services are forced to close as a result. Although future government funding is less certain than it has been in previous years officers are of the view that there is sufficient certainty as regards funding in 2015/16 and subsequent years that such impairments are unnecessary.

5.3 Other areas where officers have been required to make judgements about possible future events 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.

5.4 Last year it was concluded that full consolidated Group Accounts for the Council were not required on the grounds of materiality. This approach has again been taken for 2014/15. The Council’s group interests are disclosed by means of the note on “Interests in Companies” (note 24).

6 FINANCIAL IMPLICATIONS

7.1 The accounts are a financial document, and present a picture of the council’s activities in 2014/15 and its assets and liabilities as at 31 March 2015. However, there are no financial implications directly arising from the Panel considering the pre-audit 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 pre-audit 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 audited 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

Appendix 1 – Pre-Audit Statement of Accounts 2014/15

Appendix 2 – Pre-Audit Pension Fund Accounts 2014/15

Appendix 3 – Annual Governance Statement (AGS) 2014/15

BACKGROUND PAPERS

Outturn report 2014/15 (M&C 3 June 2015)

For further information on this report please contact:

Selwyn Thompson, Head of Financial Services, on 020 8314 6932

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

LONDON BOROUGH OF LEWISHAM

2014 / 2015 DRAFT PRE - AUDIT STATEMENT OF ACCOUNTS

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Contents

Foreword

FOREWORD BY THE EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION

1. INTRODUCTION

This Statement of Accounts reports the financial results of all the Council's operations for the financial year 2014/15 and shows the Council's financial position as at 31 March 2015. The Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice for Local Authorities (SERCOP) 2014/15, jointly developed by CIPFA and the Accounting Standards Board. These constitute proper accounting practice with which Local Authorities must by statute comply and includes adherence to International Financial Reporting Standards (IFRS). There are no fundamental changes to the basis on which the accounts have been compiled for 2014/15.

2. THE COUNCIL'S STATEMENT OF ACCOUNTS

The Statement of Accounts comprises this Foreword, a Statement of Responsibilities, an External Auditor's report (which will be inserted when it is upon completed), Core Financial Statements and other Accounts as set out below. A review has concluded that Group Accounts are not required to be prepared.

Section 1 – The Core Financial Statements

Section 1a - Movement in Reserves Statement (MiRS)

This statement shows the movement in the different reserves held by the Council during the year, analysed into 'usable reserves' and 'unusable reserves'. The Surplus or (Deficit) on the Provision of Services line shows the true 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 and dwellings rent setting purposes respectively. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund and Housing Revenue Account Balances.

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. Council's raise taxes to cover expenditure in accordance with regulations; this may be different from the accounting cost.

Section 1c - Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council at the end of the year. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. There are two types of reserve, 'usable' and 'unusable'. Usable reserves are those that can be used to provide services, subject to keeping a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that cannot be used to provide services. They include unrealised gains and losses where amounts only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the MiRS line 'Adjustments between accounting basis and funding 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

This statement shows the changes in cash and cash equivalents of the Council during the year and how it generates and uses these by classifying cash flows into operating, investing and financing activities. Operating activities show how the Council is funded by taxation, grant income and service users. Investing activities show the extent to which cash outflows have been made for resources which contribute to the Council's future service delivery. Financing activities identify claims on future cash flows by providers of capital (i.e. borrowing) to the Council. The indirect method of compilation has been used.

Foreword

Section 2 – Statement of Accounting Policies

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

Section 3 – Notes to the Core Financial Statements

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

Section 4a – Housing Revenue Account

This is a statutory account which shows the major elements of income and expenditure on Council Housing provision and associated services to Council tenants and leaseholders.

Section 4b – Collection Fund Accounts

This is a statutory account which shows the transactions relating to Council Tax and Non-Domestic Rates. It shows how the amounts collected have been distributed to the Council's General Fund, the Greater London Authority (the preceptor for Council Tax) and Central Government (for NDR).

Section 5 – Pension Fund Accounts

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

Section 6 – Annual Governance Statement

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

Section 7 - Glossary

This explains some technical and commonly used terms.

3. REVENUE BUDGET**3a 2014/15 Revenue Budget Setting and Funding**

The Council set a net budget requirement of £268.1 million for 2014/15 at its meeting on 26th February 2014. This is a decrease of £16.5m or 5.8% on the previous year's net budget requirement of £284.6m.

The main sources of income are the Council Tax and the Government determined Settlement Funding Assessment (SFA), comprising Non-Domestic Rates (NDR) and Revenue Support Grant (RSG). The amount determined to be raised from Council Tax was calculated as shown in the following table.

| | 2014/15 £000 | 2013/14 £000 |
|---|-------------------------------|-------------------------------|
| Lewisham's Net Budget Requirement | 268,062 | 284,632 |
| Less: Revenue Support Grant | (102,606) | (124,948) |
| Less: NDR received from the national pool | (84,744) | (83,124) |
| Less: Surplus on Collection Fund | (2,309) | (4) |
| General Fund Services to be met from Council Tax | 78,403 | 76,556 |
| Add: Precept (GLA) | 22,108 | 21,876 |
| Total to be met from Council Tax | 100,511 | 98,432 |

Foreword

3b 2014/15 Revenue Budget Outturn

During 2014/15, the overall overspend against the directorates' net controllable budgets was £9.1m. After applying the sum of £3.9m which was set aside in setting the 2014/15 budget for 'risks and other budget pressures', this brought the final overspend down to £5.2m. The reasons for these variances were reported to the Mayor and Cabinet on the 3rd June 2015.

Throughout the year, Mayor & Cabinet and the Executive Directors have received regular financial monitoring reports and continued to put in place measures designed to alleviate the Council's overall budget pressures to help bring spending back into line with budget. These have included the strengthening of local controls on particular areas of expenditure. With regards to the most significant budget pressure which the Council faces in 'no recourse to public funds', which ended the year at £6.3m overspent, the corporate team which is responsible for assessing all new cases presenting to the Council has shown signs of limiting the increase of the overall budget pressure in this area.

3c 2015/16 Revenue Budget Outlook

The Council set a net budget requirement of £246.2m for 2015/16 at its meeting on 25th February 2015, which is £21.9m lower than the equivalent figure for 2014/15. The Council again made significant savings reductions of £28.4m to its budget and added £7.5m to provide for the significant spending pressures which are being experienced. An amount of £10m is being taken from reserves to fund the budget, but action is being taken to ensure that expenditure is affordable in future years. The Council is maintaining adequate reserves to enable it to manage the significant funding risks it faces as the national programme of public sector expenditure reductions continues.

Notwithstanding the pressure on 'no recourse to public funds', there still remains a number of significant budget pressures in other areas across the Council. In the main, these included pressures for service areas such as looked after children, adult social care and temporary bed and breakfast accommodation. All of these pressures undoubtedly represent the most significant level of reported budget pressures for the Council of any financial year over the course of the last decade.

4. COUNCIL TAX AND NON-DOMESTIC RATES (NDR)**4a 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 73,941 equivalent Band D properties for 2014/15 (72,199 for 2013/14).

| | 2014/15 £ | 2013/14 £ | Variation £ | Variation % |
|--|-----------------|-----------------|----------------|----------------|
| LB Lewisham's Demand | 1,060.35 | 1,060.35 | 0.0 | 0.0 |
| Preceptor Requirements: Add: Greater London Authority | 299.00 | 303.00 | -4.0 | -1.3 |
| Council Tax for Band D | 1,359.35 | 1,363.35 | -4.0 | -0.3 |

4b Council Tax and Non-Domestic Rates Collection Rates

| | 2014/15 % | 2013/14 % | 2011/12 % |
|--------------------|--------------|--------------|--------------|
| Council Tax | 95.1 | 94.8 | 94.6 |
| Non-Domestic Rates | 99.4 | 99.1 | 97.4 |

Foreword

5. CAPITAL PROGRAMME**5a 2014/15 Capital Programme**

The capital expenditure incurred during the year and how it was resourced is shown below. The percentage spent compared to the revised programme budget was 89%. A number of budget under spends, mainly on school buildings and housing schemes, have been carried forward to 2015/16.

| | 2014/15 Final Outturn £m | 2014/15 Budget Report (26 Feb 2015) £m | 2013/14 Final Outturn £m |
|---|---|---|---|
| CAPITAL PROGRAMME EXPENDITURE | | | |
| General Fund | 69.7 | 84.8 | 69.4 |
| Housing Revenue Account | 53.0 | 52.5 | 44.9 |
| Total Capital Expenditure for the Year | 122.7 | 137.3 | 114.3 |
| CAPITAL FINANCING | | | |
| Borrowing | 3.5 | | 2.8 |
| Capital Grants | 88.8 | | 65.6 |
| Capital Receipts | 4.3 | | 14.4 |
| Capital Expenditure Financed from Revenue | 26.1 | | 31.5 |
| Total Capital Expenditure Financed | 122.7 | | 114.3 |

The final expenditure on major projects in the 2014/15 capital programme was:

Major Projects of over £1.5m**General Fund**

| | |
|--|------|
| Primary Places Programme (inc Expansion) | 24.2 |
| Building Schools for the Future (BSF) – Design and Build Programme | 16.8 |
| Highways and Bridges (inc TfL programmes) | 6.1 |
| Schools Works and Upgrades Programme | 5.0 |
| Housing Regeneration Schemes | 3.5 |
| Asset Management Programme | 2.2 |
| Acquisition and Conversion of Properties | 2.9 |

Housing Revenue Account

| | |
|--------------------------------|------|
| Decent Homes programme | 39.6 |
| Other Major Works to Dwellings | 13.4 |

| 2014/15 Expenditure £m |
|---------------------------------------|
| 24.2 |
| 16.8 |
| 6.1 |
| 5.0 |
| 3.5 |
| 2.2 |
| 2.9 |
| 39.6 |
| 13.4 |

5b 2015/16 Capital Programme

The Council set its capital programme budget at its meeting on 25th February 2015. This outlined the Council's programme for the years 2015/16 to 2018/19 of £424m. A major part of the of the General Fund programme is focused on schools with the Primary Places Programme well underway and the major BSF secondary school refurbishment and rebuild programme nearly completed. The implementation of Housing self-financing has given the Council the opportunity to invest in new housing stock, and the decent homes programme will be completed during the year. The Council is also undertaking a number of development and regeneration schemes which utilise and maximise the value of its assets.

Foreword

| | 2015/16 Budget £m |
|---|----------------------------------|
| 2015/16 Capital Programme | |
| General Fund | |
| Lewisham Homes – Property Acquisition | 20.0 |
| Primary Places Programme (inc Expansion) | 15.7 |
| Other Schools Works and Upgrades | 6.2 |
| Highways and Bridges (inc TfL programmes) | 5.5 |
| Housing Regeneration Schemes | 4.5 |
| Acquisition – Hostels Programme | 2.8 |
| Asset Management Programme | 2.5 |
| Other Schemes | 5.3 |
| | 62.5 |
| Housing Revenue Account | 70.2 |
| Total Capital Programme | 132.7 |

6. FINANCIAL HEALTH**6a General Fund**

After transfers to and from reserves the General Fund balance has been increased to £13.0m due to the proposed reduction in future Government funding and the corresponding requirement on the Council to make savings. This is an adequate level of cover and represents approximately 2.5% of Lewisham's Net Budget Requirement and the Dedicated Schools Grant expenditure. The Council has also has a number of earmarked reserves for specific on-going initiatives and these are shown in Note 8 to the Core Financial Statements.

6b Housing Revenue Account (HRA)

The HRA is reporting spend to budget after transfers to reserves as at 31st March 2015. It continues to build upon its reserves on an annual basis and this is mainly to ensure that there are sufficient resources available to fund the current 30 year business plan which seeks to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. Such examples include the housing regeneration taking place in both Catford and Ladywell. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs.

After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £65.3m (£46.3m as at 31st March 2014). These reserves include the Major Repairs Reserve and are for specific on-going projects as outlined in the notes to the HRA in Section 4 of the Accounts.

6c Collection Fund

The Collection Fund had a deficit of £1.5m for the year, which when added to the brought forward surplus of £4.0m gives a surplus of £2.5m to carry forward to 2015/16. The details are shown in the Collection Fund statements in Section 4b of the Accounts.

Foreword

7. SIGNIFICANT EVENTS IN 2014/15 THAT HAVE HAD AN IMPACT ON THE ACCOUNTS

7a National Deficit Reduction Strategy

The government's strategy to reduce the national deficit over the lifetime of the previous Parliament had a major effect on the Council's current and future funding plans. It has had a direct effect on the 2014/15 accounts, with termination costs of £5.8m (£5.1m in 2013/14) being incurred during the year as the Council has implemented further reductions in staff in response to the constrained funding climate (see Note 26c to the Core Financial Statements).

7b Building Schools for the Future

The substantial building works at Sydenham Secondary School were completed by the end of the year and the school was fully opened in April 2015. These works were part of the Building Schools for the Future capital programme.

7c Dedicated Schools Grant

In 2014/15 the Dedicated Schools Grant increased by £12m in respect of the funding for Lewisham's Academy secondary schools, Hatcham College and Knights Academy. This funding was then recouped by the Education Funding Agency in order to fund the schools.

7d Pension Fund Valuation

The Pension Fund's value rose over the year by £xxm from £905m to £1,043m (15%), mainly due to an increase in stock valuation during the year.

7e Non Domestic Rates (NDR) – Virgin Media RV Reduction

Following an appeal by Virgin Media, their Rateable Value was reduced from £5.9m to £4.13m by the Valuation Office with effective from 24 June 2012. This resulted in a refund of £0.73m which was paid in November 2014.

7f Transfer of Properties from HRA to the General Fund

With effect from 1st April 2014, the Commercial Properties and the majority of Garages were transferred from the Housing Revenue Account to the General Fund at a value of £9.4m. This resulted in a net saving of £0.7m to the General Fund.

7g No Recourse to Public Funds Clients

There was a major overspending in the year of £6.3m in respect of clients with 'no recourse to public funds', including bed & breakfast temporary accommodation and section 17 payments. These are families who seek support under section 17 of the Children's Act because they claim they have no financial means of supporting themselves whilst they are in the process of attempting to regularise their stay in the UK with the Home Office. The client numbers reached a peak in June 2014 when there were 286 clients. Since this time the numbers have been reduced and at the end of the year support was being provided to a total of 243 clients.

Core Financial Statements

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 and Regeneration.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the statement of accounts.

Responsibility of the Executive Director for Resources and Regeneration

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

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

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

I certify that I have also:

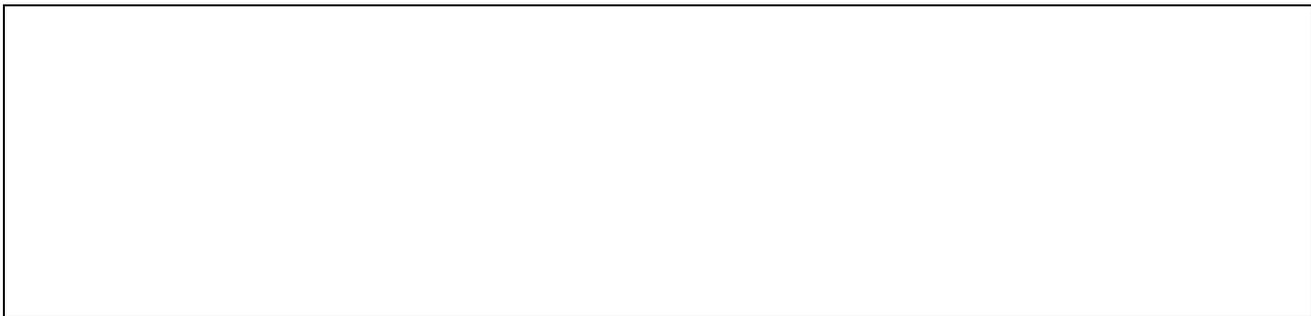
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts 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 2014.

Janet Senior CPFA

Executive Director for Resources and Regeneration

30th June 2015



Core Financial Statements

SECTION 1 - CORE FINANCIAL STATEMENTS

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2015

| YEAR ENDING 31ST MARCH 2015 | General Fund Balance £000 | Earmarked Gen Fund Reserves £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 |
|---|------------------------------------|---|---------------------------------------|-------------------------------------|--|--|-------------------------------------|------------------------------|--------------------------------------|
| Balance at 31 March 2014 Brought Forward | 12,000 | 137,524 | 26,546 | 19,787 | 19,446 | 11,777 | 227,080 | 903,861 | 1,130,941 |
| Movement in Reserves during 2014/15 | | | | | | | | | |
| Surplus or (Deficit) on the provision of services | (175,594) | 0 | 26,291 | 0 | 0 | 0 | (149,303) | 0 | (149,303) |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 63,040 | 63,040 |
| Total Comprehensive Income and Expenditure | (175,594) | 0 | 26,291 | 0 | 0 | 0 | (149,303) | 63,040 | (86,263) |
| Adjustments between accounting basis and funding basis under regulations (see note 7) | 180,590 | 0 | 32,876 | (40,225) | 28,745 | (818) | 201,168 | (201,168) | 0 |
| Net Increase / (Decrease) before Transfers to Earmarked Reserves | 4,996 | 0 | 59,167 | (40,225) | 28,745 | (818) | 51,865 | (138,128) | (86,263) |
| Transfers to / (from) Earmarked Reserves | (3,996) | 3,996 | (49,802) | 49,802 | 0 | 0 | 0 | 0 | 0 |
| Increase / (Decrease) in 2014/15 | 1,000 | 3,996 | 9,365 | 9,577 | 28,745 | (818) | 51,865 | (138,128) | (86,263) |
| Balance at 31 March 2015 Carried Forward | 13,000 | 141,520 | 35,911 | 29,364 | 48,191 | 10,959 | 278,945 | 765,733 | 1,044,678 |

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2014

| YEAR ENDING 31ST MARCH 2014 | General Fund Balance £000 | Earmarked Gen Fund Reserves £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 |
|---|--|---|---|---|--|--|---|---------------------------------------|--|
| Balance at 31 March 2013 Brought Forward | 12,000 | 125,171 | 22,898 | 12,719 | 20,277 | 7,962 | 201,027 | 717,117 | 918,144 |
| Movement in Reserves during 2013/14 | | | | | | | | | |
| Surplus or (Deficit) on the provision of services | (25,696) | 0 | 56,846 | 0 | 0 | 0 | 31,150 | 0 | 31,150 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 181,647 | 181,647 |
| Total Comprehensive Income and Expenditure | (25,696) | 0 | 56,846 | 0 | 0 | 0 | 31,150 | 181,647 | 212,797 |
| Adjustments between accounting basis and funding basis under regulations (see note 7) | 38,049 | 0 | 5,153 | (51,283) | (831) | 3,815 | (5,097) | 5,097 | 0 |
| Net Increase / (Decrease) before Transfers to Earmarked Reserves | 12,353 | 0 | 61,999 | (51,283) | (831) | 3,815 | 26,053 | 186,744 | 212,797 |
| Transfers to / (from) Earmarked Reserves | (12,353) | 12,353 | (58,351) | 58,351 | 0 | 0 | 0 | 0 | 0 |
| Increase / (Decrease) in 2013/14 | 0 | 12,353 | 3,648 | 7,068 | (831) | 3,815 | 26,053 | 186,744 | 212,797 |
| Balance at 31 March 2014 Carried Forward | 12,000 | 137,524 | 26,546 | 19,787 | 19,446 | 11,777 | 227,080 | 903,861 | 1,130,941 |

Core Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31ST MARCH 2015

| 2013/14 | | | SERVICE | 2014/15 | | | Note |
|----------------------------|-----------------------|--------------------------|---|----------------------------|-----------------------|--------------------------|------|
| Gross Expenditure £000s | Gross Income £000s | Net Expenditure £000s | | Gross Expenditure £000s | Gross Income £000s | Net Expenditure £000s | |
| 8,639 | (3,835) | 4,804 | Central services to the public | 9,499 | (4,463) | 5,036 | |
| 21,782 | (3,320) | 18,462 | Cultural and related services | 42,378 | (3,615) | 38,763 | |
| 34,009 | (6,252) | 27,757 | Environmental and regulatory services | 37,906 | (6,441) | 31,465 | |
| 14,662 | (3,804) | 10,858 | Planning services | 13,464 | (3,905) | 9,559 | |
| 510,003 | (312,516) | 197,487 | Children's and education services | 617,690 | (324,799) | 292,891 | |
| 25,233 | (15,060) | 10,173 | Highways and transport services | 18,327 | (4,201) | 14,126 | |
| 271,748 | (374,561) | (102,813) | Housing services | 358,068 | (396,985) | (38,917) | |
| 115,142 | (22,196) | 92,946 | Adult social care | 116,184 | (26,763) | 89,421 | |
| 19,651 | (20,327) | (676) | Public Health | 20,396 | (20,592) | (196) | |
| 5,158 | (350) | 4,808 | Corporate and democratic core | 16,269 | (12,086) | 4,183 | |
| 7,766 | (80) | 7,686 | Non distributed costs | 6,116 | (17) | 6,099 | |
| 1,033,793 | (762,301) | 271,492 | Cost of Services | 1,256,297 | (803,867) | 452,430 | 21 |
| | | | Other Operating Expenditure | | | | |
| 98 | 0 | 98 | (Gain) / Loss on the disposal of non-current assets | 0 | (73) | (73) | |
| 1,527 | 0 | 1,527 | Levies | 1,646 | 0 | 1,646 | 6 |
| 1,886 | 0 | 1,886 | Contribution of housing capital receipts to Government Pool | 1,727 | 0 | 1,727 | 17 |
| 3,511 | 0 | 3,511 | | 3,373 | (73) | 3,300 | |
| | | | Financing and Investment Income and Expenditure | | | | |
| 35,667 | 0 | 35,667 | Interest payable and similar charges | 24,626 | 0 | 24,626 | |
| 0 | (4,329) | (4,329) | Changes in fair value of Investment Properties | 0 | 0 | 0 | |
| 0 | 0 | 0 | (Gain) / loss on disposal of Investment Properties | 0 | 0 | 0 | |
| 447 | (1,981) | (1,534) | Interest and Investment Income | 0 | (1,345) | (1,345) | |
| 63,840 | (39,329) | 24,511 | Net interest on the net defined benefit liability | 64,639 | (36,002) | 28,637 | 37 |
| 99,954 | (45,639) | 54,315 | | 89,265 | (37,347) | 51,918 | |
| | | | Taxation and non-specific Grant Income | | | | |
| 0 | (77,737) | (77,737) | Income from Council Tax | 0 | (80,738) | (80,738) | |
| 0 | (130,262) | (130,262) | General Government Grants | 0 | (117,250) | (117,250) | 29 |
| 0 | (69,345) | (69,345) | Recognised Capital Grants and Contributions | 0 | (75,613) | (75,613) | |
| 0 | (83,124) | (83,124) | Non-Domestic Rates redistribution | 0 | (84,744) | (84,744) | |
| 0 | (360,468) | (360,468) | | 0 | (358,345) | (358,345) | |
| | | | Deficit/(Surplus) on provision of services | | | 149,303 | |
| | | | Surplus on revaluation of non-current assets | | | (161,315) | 19 |
| | | | Remeasurement of the net defined benefit liability | | | 98,275 | 37 |
| | | | Other Comprehensive Income and Expenditure | | | (63,040) | |
| | | | Total Comprehensive Income and Expenditure | | | 86,263 | |

Core Financial Statements

BALANCE SHEET AS AT 31ST MARCH 2015

| 31/03/2014 £000 | | 31/03/2015 £000 | Note |
|--------------------|---|--------------------|---------------|
| | Property, Plant & Equipment | | |
| 882,033 | Council Dwellings | 1,057,360 | 9b, HRA 1a, 9 |
| 882,010 | Other Land and Buildings | 650,214 | 9b |
| 31,757 | Vehicles, Plant, Furniture and Equipment | 29,872 | 9b |
| 89,138 | Infrastructure | 95,039 | 9b |
| 9,364 | Community Assets | 8,850 | 9b |
| 38,319 | Surplus Assets not held for Sale | 61,381 | 9b |
| 26,327 | Assets under Construction | 33,186 | 9b |
| 1,958,948 | | 1,935,902 | |
| 257 | Heritage Assets | 257 | 42 |
| 25,658 | Investment Property | 28,894 | 10 |
| 2,442 | Long Term Investments | 2,044 | |
| 17,397 | Long Term Debtors | 17,774 | 13a |
| 2,004,702 | Total Long Term Assets | 1,984,871 | |
| 165,415 | Short Term Investments | 230,650 | 11 |
| 25 | Assets Held for Sale | 0 | |
| 174 | Inventories | 313 | |
| 56,922 | Debtors | 83,940 | 13b |
| 121,032 | Cash and Cash Equivalents | 82,155 | 14 |
| 2,009 | Prepayments | 2,018 | |
| 345,577 | Current Assets | 399,076 | |
| 4,603 | Bank Overdraft | 0 | 14 |
| 43,053 | Short Term Borrowing | 76,897 | 11 |
| 2,380 | Provisions (Less than 1 year) | 2,971 | 16 |
| 82,106 | Creditors | 92,694 | 15 |
| 80,258 | Receipts in Advance | 75,750 | 30 |
| 8,281 | PFI Liabilities due within one year | 8,751 | 34d |
| 220,681 | Current Liabilities | 257,063 | |
| 2,129,598 | Total Assets less Current Liabilities | 2,126,884 | |
| 154,719 | Long Term Borrowing | 115,560 | 11 |
| 9,841 | Provisions (More than 1 year) | 9,721 | 16 |
| 244,703 | Deferred PFI Liabilities | 239,002 | 34d |
| 1,304 | Capital Grants Receipts in Advance | 1,201 | |
| 588,090 | Liability related to defined benefit pension scheme | 716,722 | 18, 37 |
| 998,657 | Long Term Liabilities | 1,082,206 | |
| 1,130,941 | NET ASSETS | 1,044,678 | |
| | Usable Reserves | | |
| 12,000 | General Fund Balance | 13,000 | |
| 137,524 | Earmarked Revenue Reserves | 141,520 | 8 |
| 26,546 | Housing Revenue Account | 35,911 | HRA 15 |
| 19,787 | Major Repairs Reserve | 29,364 | HRA 14 |
| 19,446 | Usable Capital Receipts Reserve | 48,191 | 17 |
| 11,777 | Capital Grants Unapplied | 10,959 | |
| 227,080 | | 278,945 | |
| | Unusable Reserves | | |
| 437,280 | Revaluation Reserve | 585,040 | 19 |
| 1,063,942 | Capital Adjustment Account | 906,634 | 20 |
| 132 | Deferred Capital Receipts | 113 | |
| (6,185) | Financial Instruments Adjustment Account | (5,407) | |
| (588,090) | Pensions Reserve | (716,722) | 18, 37 |
| 3,057 | Collection Fund Adjustment Account | 1,583 | Coll Fd 3 |
| (6,275) | Short Term Compensated Absences Account | (5,508) | |
| 903,861 | | 765,733 | |
| 1,130,941 | TOTAL EQUITY | 1,044,678 | |

Core Financial Statements

CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2015

| 2013/14 £000s | | 2014/15 £000s | Note |
|------------------|--|------------------|------|
| 31,150 | Net surplus or (deficit) on the provision of services | (149,303) | |
| 53,792 | Adjustment to surplus or deficit on the provision of services for non-cash movements | 259,686 | 43 |
| (60,104) | Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (84,478) | 44 |
| 24,838 | Net Cash flows from Operating Activities | 25,905 | |
| (121,701) | Net Cash flows from Investing Activities | (46,627) | 46 |
| (7,283) | Net Cash flows from Financing Activities | (13,552) | 47 |
| (104,146) | Net Increase or (decrease) in Cash and Cash Equivalents | (34,274) | |
| 220,575 | Cash and Cash Equivalents at the beginning of the reporting period | 116,429 | 14 |
| 116,429 | Cash and Cash Equivalents at the end of the reporting period | 82,155 | 14 |

Statement of Accounting Policies

SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which requires them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the SeRCOP 2014/15, both published by CIPFA, and based on IFRS and statutory guidance under Section 12 of the Local Government Act 2003 (see Glossary for definitions). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Prior period adjustments may arise from a change in an accounting policy or to correct a material error. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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 accounted for when they are used. When there is a significant gap between the date on which supplies are received and the date of their use, and the value is material, they are carried as stocks on the Balance Sheet. Expenditure on services received (including those provided by employees) is accounted for when the services are received rather than when payments are made. Where income and expenditure have been recognised in the accounts, but cash has not been received or paid, a debtor or creditor for the amount is recorded in the Balance Sheet. Where it is likely that debts may not be settled, a charge is made to revenue for the income that might not be collected and the debtor is impaired.

4. EXCEPTIONAL ITEMS

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

5. FOREIGN CURRENCY TRANSLATION

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

6. VALUE ADDED TAX (VAT)

Income and Expenditure excludes any amounts related to VAT, unless it is 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.

Statement of Accounting Policies

7. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

8. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to the services that benefit from the supply or service in accordance with the total absorption costing principles of the SeRCOP. The exceptions below are defined in SeRCOP and accounted for separately as part of the Cost of Services in the CIES.

- 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.

9. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

10. LEASES

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

a) The Council as Lessee

i) Finance Leases

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. Contingent rents are charged as expenses in the periods in which they are incurred. The

Statement of Accounting Policies

lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment, which is applied to write down the lease liability, and a finance charge to the Financing and Investment Income and Expenditure line in the CIES. They are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, an annual contribution is made from revenue to the deemed capital investment in accordance with statutory requirements. Depreciation, 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 MiRS for the difference between the two.

ii) Operating Leases

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

b) The Council as Lessor

i) Finance Leases

When the Council grants a finance lease over a property or item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any gain, representing the Council's net investment in the lease, is credited to the same line in the CIES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset (long-term debtor) in the Balance Sheet. The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt.

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

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

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 CIES).

ii) Operating Leases

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

11. INVENTORIES (STOCK)

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

12. LONG TERM CONTRACTS

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

Statement of Accounting Policies

13. EMPLOYEE BENEFITS**a) Benefits Payable During Employment**

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

b) Termination and Discretionary Benefits

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

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

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

c) Post-Employment Benefits

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

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

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

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

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

(ii) London Pension Fund Scheme

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

Statement of Accounting Policies

(iii) Local Government Pension Scheme

This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets are attributable to individual Local Authorities. The Council's attributed liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method – 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.

The assets of the Scheme are included in the Balance Sheet at their fair value as follows;

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

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

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

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

The detailed accounting policies followed in preparing the pension fund accounts are disclosed separately in the Council's Pension Fund Accounts in Section 5 of the Statement of Accounts.

14. INTERESTS IN COMPANIES

The Council has two wholly owned subsidiary companies, Lewisham Homes and Catford Regeneration Partnership Ltd. It also has a minority interest (significantly lower than 50%) in a number of other companies. The transactions between the Council and all of these companies are included in the Council's accounts. An annual review of the necessity of preparing Group Accounts is undertaken and has again concluded that the Group's entities are immaterial to the financial statements and therefore there is no requirement under the Code to produce Group Accounts. They have therefore not been prepared for 2014/15. Note 25 - Interest in Companies includes information about the companies.

15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES**a) Provisions**

The Council has set aside amounts from revenue as provisions which will be used to cover future expenditure. Provisions are made where an event has taken place that gives the Council a legal or

Statement of Accounting Policies

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

b) Impairment Allowances

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

16. RESERVES

The Council has set aside specific amounts as reserves to cover future expenditure for contingencies or policy purposes, which fall outside the definition of provisions, and are shown in Note 8 of Section 3. The reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then credited back to the General Fund Balance in the MiRS so that there is no net charge against Council Tax. Statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and are not available for the Council to use to finance services.

17. CONTINGENT LIABILITIES AND ASSETS

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

18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

19. CASH AND CASH EQUIVALENTS

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

20. FINANCIAL INSTRUMENTS

a) Financial Liabilities

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

There has been no repurchase or early settlement of borrowing in the year, nor in the previous year. Premiums and discounts from previous year's settlements are charged to the CIES in accordance with regulations requiring the impact on the General Fund and the HRA to be spread over future years. The Council's policy is to spread the gain or loss over the remaining term of the loan repaid on which the premium was payable or discount receivable. Premiums and discounts are split between the General Fund and HRA pro rata to their respective Capital Financing Requirements as at 1 April of the year in which the loan was repaid. As required by statute, the amounts charged to the CIES are adjusted to the required charge against Council Tax or Housing Rents by a transfer to or from the Financial Instruments Adjustment Account in the MiRS. This account holds the accumulated difference between the financing costs charged to the CIES and the accumulated financing costs required to be charged to the General Fund Balance in accordance with regulations.

b) Financial Assets**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 initially at fair value and subsequently at their amortised cost, and include short term investments and sundry debtors. The credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by its effective rate of interest. For loans that the Council has made, this means that the amount shown on the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year for the loan. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

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.

21. INTANGIBLE NON CURRENT ASSETS

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

22. NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

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

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it adds value, increases its ability to deliver future economic benefits or service potential, or can be capitalised as a component and exceeds the Council's de minimus limit of £40,000. Expenditure financed from the government's Devolved Formula Capital Grant is also capitalised

Statement of Accounting Policies

on the basis that it increases the school's service potential. Expenditure that only maintains an asset's value (i.e. repairs and maintenance) and does not increase its ability to deliver benefits or services is charged as revenue expenditure when it is incurred.

b) Measurement and Valuation

Non-current assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Council does not capitalise costs incurred whilst assets are under construction. Non-current assets are carried on the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – 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.

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

The cost of an asset acquired other than by purchase is deemed to be its fair value. Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the CIES. Where the donation has been made conditionally, the gain is held in the Donated Assets Account until conditions are satisfied. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MiRS. The Council did not receive any donated assets in 2014/15 (it received one donated asset in 2013/14, Glass Mill Leisure Centre, at a value of £24m).

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

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

c) Charges to Revenue for Non-Current Assets

All services are charged with the following amounts to reflect the cost of using property, plant and equipment assets during the year:

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

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

d) Impairment

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

Statement of Accounting Policies

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

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

e) Depreciation

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

- 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 the useful life of the asset.
- infrastructure – straight-line allocation over 25 years, unless advised by a suitably qualified officer.

The Council's policy is to charge depreciation on the assets value at 1 April each year. It is charged from the year following the date of purchase or completion of construction, and is not adjusted for disposals or additions of assets during the year. Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

f) 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 set out 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 CIES. 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.

g) Disposals of Non-Current Assets

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

Amounts received in excess of £10,000 are classified as capital receipts. A proportion of receipts from housing disposals (as per the relevant regulations) are payable to the Government. The retained receipts are required to be credited to the Usable Capital Receipts Reserve, and can only be used to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the

Statement of Accounting Policies

MiRS. The written-off value of disposals is not a charge against Council Tax. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

h) Deferred Capital Receipts

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

23. HERITAGE ASSETS

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

24. INVESTMENT PROPERTIES

These are assets which are used solely to earn rentals and/or for capital appreciation, and are not used in any way for the delivery of services or production of goods or being 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. They 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 CIES. These are not statutorily allowed to have an impact on the Council Tax and are therefore reversed out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and the Capital Receipts Reserve if relevant.

25. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

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

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

26. ACCOUNTING FOR SCHOOLS

Schools accounting policies are the same as the Council's, with their income and expenditure being attributed to the appropriate service line in the CIES and their assets, liabilities and balances being included on the Balance Sheet. The schools reserves are held separately within Usable Reserves.

Notes to the Core Financial Statements

SECTION 3 - NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2013/14 ACCOUNTS

The Code of Practice requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- IFRS 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It applies to assets and liabilities covered by those IFRS standards that require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. The value of the Council's Surplus Assets at the end of the year is £61m, so this standard may have an impact on the Statement of Accounts, although an assessment has not been carried out yet.
- IFRIC 21 Levies. This standard concerns provides guidance on levies imposed by the government in the financial statements of entities paying the levy. This standard will not have a material impact on the Statement of Accounts and so is not detailed further.
- Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally proving clarification and will not have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is uncertainty about future levels of funding for local government, however the Council has concluded that there is no indication that the assets of the Council will be impaired as a result of the actions required to achieve the necessary savings, including closing facilities and reducing services.
- A number of judgements have been made under the IFRS concerning the classification of and the accounting for Non-Current Assets, Investment Properties, Leases, PFI and other major contracts, Capital and Revenue Grants and other miscellaneous items. There are no material changes to these judgements for the 2014/15 accounts to those followed in 2013/14.
- In accordance with the provisions of the Code of Practice, an accounting judgement has been made for the 2014/15 Accounts as to whether schools' land and buildings should be included within its Balance Sheet. Included are the land and buildings of 45 Community Primary Schools, 4 Community Secondary Schools, 3 Community Special Schools and 2 Nursery Schools. Land and buildings relating to 4 Foundation Schools, 24 Voluntary-aided Schools and 4 Academies have been excluded. An exception to this is that land and buildings relating to schools PFI schemes have been included on the Balance Sheet on the basis that the Council has a greater degree of control over the use and condition of these schools' land and buildings since the contract with the PFI provider is with the Council rather than the schools concerned.
- When Lewisham Homes was set up as an ALMO it was agreed that all of the pension costs of transferred staff would be indemnified by the Council. The Council's judgement is that this

Notes to the Core Financial Statements

indemnity is most accurately represented by accounting for the liability under IAS19, rather than as an accrual, provision, reserve or contingent liability. The 2014/15 accounts therefore include the full costs of the Lewisham Homes IAS19 liability and are consistent with the Council's 2013/14 accounts and Lewisham Homes' accounts for both years

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

These Accounts contain a number of estimated figures that are based on assumptions made about the future or that are otherwise uncertain, and take into account historical experience, current trends and other relevant factors. Because of this, actual results could be materially different from the assumptions and estimates made. The areas in the Council's Accounts at 31 March 2015 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

a) Property, Plant and Equipment

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

b) Insurance Provisions

The insurance provision is made up of contributions to cover liabilities arising over a number of years. It is split between less than and greater than one year, estimating what proportion of the monies held relate to each of the years, what has been paid in each of those years and what remains outstanding. An annual review is commissioned from insurance advisors to inform this split. An increase over the forthcoming year of 10% in the total number of claims or the average settlement could add £0.24m to the provision needed.

c) Non National Domestic Rates - Appeals

Since the introduction of the Business Rates Retention Scheme from 1 April 2013, Councils are liable for successful appeals against NDR charged to businesses in 2014/15 and earlier financial years in their proportionate share. Therefore, a provision has been raised for the estimate of the amount that businesses have been overcharged up to 31 March 2015, using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date.

d) Arrears of Significant Debtors

The Council had balances of sundry debtors, Council Tax, NDR and Housing Rents of £145m as at 31st March 2015. All of the significant balances have been reviewed and impairment allowances for doubtful debts have been set at appropriate levels, with an overall impairment allowance of £61m. Although the current economic climate, including the Government's welfare benefits reform initiative, has been taken into account, it is not certain that these allowances will be sufficient, as the judgements made are mainly based on historical trends. If collection rates were to deteriorate, an increase of 10% in the amount of the impairment allowance would require just over £6m to be set aside.

e) Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured and are outlined in the Defined Benefits note.

Notes to the Core Financial Statements

4. MATERIAL ITEMS OF INCOME AND EXPENDITURE

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

5. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration on 30 June 2015. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31 March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. There are no significant events which have occurred after 31 March 2015 which will affect the 2015/16 accounts, but have no effect on the 2014/15 accounts.

6. 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.

| | 2014/15 | 2013/14 |
|------------------------------------|----------------|----------------|
| | £000 | £000 |
| London Pension Fund Authority | 1,243 | 1,120 |
| Lee Valley Regional Park Authority | 233 | 237 |
| Environment Agency | 170 | 170 |
| Total Levies Paid | 1,646 | 1,527 |

7. ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASIS UNDER REGULATIONS

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

Notes to the Core Financial Statements

| 2014/15 | Usable Reserves | | | | | | Movement in Unusable Reserves £'000 |
|---|-------------------------------------|--------------------------------------|--|--------------------------------------|---|---|--|
| | General Fund Balance £'000 | Earmarked GF Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | |
| Adjustments primarily involving the Capital Adjustment Account: | | | | | | | |
| Reversal of items credited or debited to the CIES | | | | | | | |
| Charges for depreciation and impairment of non-current assets | 214,484 | | 24,205 | | | | (238,689) |
| Movements in the market value of Investment Properties | | | | | | | 0 |
| Capital grants and contributions applied | (50,108) | | | | | | 50,108 |
| Revenue expenditure funded from capital under statute | 10,013 | | | | | | (10,013) |
| Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES | (30,823) | | 4,127 | | | | 26,696 |
| Income in relation to donated assets | | | | | | | 0 |
| Insertion of items not debited or credited to the CIES | | | | | | | |
| Statutory provision for the financing of capital investment | (15,303) | | (3,094) | | | | 18,397 |
| Capital expenditure charged against the General Fund and HRA balances | (7,791) | | | | | | 7,791 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | | | | |
| Capital Grants and contributions unapplied credited to the CIES | | | | | | (818) | 818 |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES | | | | | 34,806 | | (34,806) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | | | (4,315) | | 4,315 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 1,727 | | | | (1,727) | | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | | | | (19) | | 19 |
| Adjustments primarily involving the Major Repairs Reserve: | | | | | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | (4,482) | | | 4,482 |
| Reversal of Major Repairs Allowance credited to the HRA | | | 23,470 | (23,470) | | | 0 |
| Difference between Major Repairs Allowance and HRA depreciation | | | 12,273 | (12,273) | | | 0 |
| Adjustments primarily involving the Financial Instruments Adj Account: | | | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | (300) | | (478) | | | | 778 |
| Adjustments primarily involving the Pensions Reserve: | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 55,752 | | 7,428 | | | | (63,180) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (13,450) | | (19,373) | | | | 32,823 |

Notes to the Core Financial Statements

| 2014/15 continued | Usable Reserves | | | | | | Movement in Unusable Reserves £'000 |
|---|----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|--|
| | General Fund Balance £'000 | Earmarked GF Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | |
| Adjustments primarily involving the Collection Fund Adjustment Account: 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 | 1,474 | | | | | | (1,474) |
| Adjustments primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (767) | | | | | | 767 |
| Other Adjustments | 15,682 | | (15,682) | | | | 0 |
| Total Adjustments | 180,590 | 0 | 32,876 | (40,225) | 28,745 | (818) | (201,168) |

| 2013/14 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 CIES Charges for depreciation and impairment of non-current assets | 79,372 | | (31,295) | | | | (48,077) |
| Movements in the market value of Investment Properties | (4,006) | | | | | | 4,006 |
| Capital grants and contributions applied | (40,839) | | | | | | 40,839 |
| Revenue expenditure funded from capital under statute | 13,256 | | | | | | (13,256) |
| Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES | 4,622 | | (5,390) | | | | 768 |
| Income in relation to donated assets | (24,065) | | | | | | 24,065 |
| Insertion of items not debited or credited to the CIES Statutory provision for the financing of capital investment | (3,341) | | (2,946) | | | | 6,287 |
| Capital expenditure charged against the General Fund and HRA balances | (9,427) | | | | | | 9,427 |
| Adjustments primarily involving the Capital Grants Unapplied Account: Capital Grants and contributions unapplied credited to the CIES | (3,815) | | | | | 3,815 | 0 |

Notes to the Core Financial Statements

| 2013/14 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 Capital Receipts Reserve: | | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES | | | | 15,450 | | | (15,450) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | | (14,437) | | | 14,437 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 1,886 | | | (1,886) | | | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | | | 42 | | | (42) |
| Adjustments primarily involving the Major Repairs Reserve: | | | | | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | | (3,276) | | 3,276 |
| Reversal of Major Repairs Allowance credited to the HRA | | | 30,585 | | (30,585) | | 0 |
| Difference between Major Repairs Allowance and HRA depreciation | | | 17,422 | | (17,422) | | 0 |
| Adjustments primarily involving the Financial Instruments Adj Account: | | | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | (301) | | (751) | | | | 1,052 |
| Adjustments primarily involving the Pensions Reserve: | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 52,850 | | 4,471 | | | | (57,321) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (26,978) | | (6,944) | | | | 33,922 |
| Adjustments primarily involving the Collection Fund Adjustment Account: | | | | | | | |
| 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 | (1,179) | | | | | | 1,179 |
| Adjustments primarily involving the Accumulated Absences Account: | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 15 | | | | | | (15) |
| Other Adjustments | (1) | | 1 | | | | 0 |
| Total Adjustments | 38,049 | 0 | 5,153 | (831) | (51,283) | 3,815 | 5,097 |

8. EARMARKED RESERVES

The Council has a number of earmarked reserves on its Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up to earmark resources for future spending plans. This note shows the amounts used to meet General Fund expenditure in 2014/15 and amounts set aside in the year to finance future expenditure plans. The use of HRA earmarked reserves is shown in the notes to the HRA in Section 4a.

Notes to the Core Financial Statements

a) General Earmarked Reserves

This comprises a number of specific reserves which are earmarked for particular purposes.

b) PFI and BSF Schemes Reserves

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

c) Capital Expenditure Reserve

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

d) School Reserves and School External Funds

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

| Name of Reserve | Balance 31/03/14 £000 | 14/15 Transfers | | Balance 31/03/15 £000 | |
|-------------------------------------|-----------------------------|-----------------|-----------------|-----------------------------|-----|
| | | In £000 | Out £000 | | |
| Specific Revenue Earmarked | 68,107 | 15,009 | (13,445) | 69,671 | (a) |
| PFI and BSF Schemes | 19,560 | 2,691 | (1,631) | 20,620 | (b) |
| Insurance | 15,327 | 0 | (860) | 14,467 | |
| New Homes Bonus Reserve | 6,888 | 6,619 | 0 | 13,507 | |
| Capital Programme Expenditure | 8,593 | 0 | (3,055) | 5,538 | (c) |
| | 118,475 | 24,319 | (18,991) | 123,803 | |
| Schools Reserves and External Funds | 19,049 | 19 | (1,351) | 17,717 | (d) |
| | 19,049 | 19 | (1,351) | 17,717 | |
| Total | 137,524 | 24,338 | (20,342) | 141,520 | |

9. NON CURRENT ASSETS**a) Non-Current Assets Revaluations**

Assets are valued at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value, to ensure that the Council's assets are valued in accordance with RICS and CIPFA guidance. The valuations this year were undertaken and signed off by the Valuation Office Agency.

| | Council Dwellings £000 | Other Land & Buildings £000 | Surplus Assets £000 | Total £000 |
|--------------------------------|------------------------------|-----------------------------------|---------------------------|------------------|
| Valued at Historic Cost | | 18,253 | 865 | 19,118 |
| Valued at Current Value | | | | |
| 2014/15 | 1,057,699 | 419,851 | 6,671 | 1,484,221 |
| 2013/14 | | 77,482 | 28,584 | 106,066 |
| 2012/13 | | 49,344 | 10,223 | 59,567 |
| 2011/12 | | 46,297 | 13,569 | 59,866 |
| 2010/11 | | 42,588 | 1,469 | 44,057 |
| Total Net Book Value | 1,057,699 | 653,815 | 61,381 | 1,772,895 |

Notes to the Core Financial Statements

b) Movements in Non-Current Assets

The movements in non-current assets during 2014/15 were as follows:

| 2014/15 | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equipment | Infra-structure Assets | Comm. Assets | Surplus Assets | Assets under Construction | TOTAL |
|--|--------------------------|-----------------------------------|--|-------------------------------|---------------------|-----------------------|----------------------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Gross Book Value b/fwd at 1st April 2014 | 883,366 | 900,362 | 75,927 | 145,899 | 9,364 | 39,148 | 26,327 | 2,080,393 |
| Post Audit Adjustment | 333 | 112 | (19) | 2 | 0 | (301) | 0 | 127 |
| Additions | 1,239 | 19,998 | 4,120 | 10,577 | 12 | 7,852 | 27,848 | 71,646 |
| Revaluations (recognised in Revaluation Reserve) | 190,342 | (20,672) | 0 | 0 | 0 | 0 | 0 | 169,670 |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | (9,561) | (191,536) | 0 | 0 | 0 | 0 | 0 | (201,097) |
| Total Revaluations | 180,781 | (212,208) | 0 | 0 | 0 | 0 | 0 | (31,427) |
| Impairments (recognised in Revaluation Reserve) | 0 | (7,246) | 0 | 0 | (2) | (7) | (7,255) | (14,510) |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | (25,024) | (24,297) | (18,599) | (564) | (628) | 7,255 | (61,857) |
| Total Impairments | 0 | (32,270) | (24,297) | (18,599) | (566) | (635) | 0 | (76,367) |
| Disposals | (6,485) | (881) | 0 | 0 | 0 | (1,498) | 0 | (8,864) |
| Transfers | 996 | (7,241) | (548) | 570 | 44 | 18,439 | (20,989) | (8,729) |
| Assets reclassified to/from Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Book Value c/fwd at 31st March 2015 | 1,060,230 | 667,872 | 55,183 | 138,449 | 8,854 | 63,005 | 33,186 | 2,026,779 |
| Depreciation b/fwd at 1st April 2014 | (1,333) | (18,352) | (44,170) | (56,761) | 0 | (829) | 0 | (121,445) |
| Post Audit Adjustment | (163) | (1,286) | (19) | (2) | 0 | 8 | 0 | (1,462) |
| Depreciation for year | (25,562) | (14,600) | (4,544) | (5,242) | (4) | (558) | 0 | (50,510) |
| <u>Depreciation written back on:</u> | | | | | | | | |
| Transfers | 3 | 48 | 196 | 0 | 0 | (247) | 0 | 0 |
| Assets Revalued | 24,492 | 15,143 | 0 | 0 | 0 | 0 | 0 | 39,635 |
| Assets Impaired | 0 | 4,894 | 23,226 | 18,595 | 0 | 1 | 0 | 46,716 |
| Assets Sold | 32 | 96 | 0 | 0 | 0 | 1 | 0 | 129 |
| Depreciation c/fwd at 31st March 2015 | (2,531) | (14,057) | (25,311) | (43,410) | (4) | (1,624) | 0 | (86,937) |
| Net Book Value at 31st March 2015 | 1,057,699 | 653,815 | 29,872 | 95,039 | 8,850 | 61,381 | 33,186 | 1,939,842 |

Notes to the Core Financial Statements

The movements in non-current assets during 2013/14 were as follows:

| 2013/14 | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equipment | Infra-structure Assets | Comm. Assets | Surplus Assets | Assets under Construction | TOTAL |
|---|-------------------|------------------------|-----------------------------|------------------------|--------------|-----------------|---------------------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Gross Book Value b/fwd at 1st April 2013 | 657,950 | 937,559 | 72,427 | 131,324 | 9,325 | 36,207 | 28,510 | 1,873,302 |
| Additions | 1,553 | 43,857 | 4,929 | 13,843 | 0 | 3,625 | 17,736 | 85,543 |
| Write Back of Decent Homes Capital Expenditure | 3,813 | 0 | 10 | 0 | 0 | 14 | 0 | 3,837 |
| Revaluations (recognised in Revaluation Reserve) | 147,529 | 60,311 | 0 | 0 | 0 | 2,365 | 0 | 210,205 |
| Revaluations (recognised in Surplus/Deficit on the Provision of Services) | 82,796 | (111,396) | 0 | 0 | 0 | (767) | 0 | (29,367) |
| Total Revaluations | 230,325 | (51,085) | 0 | 0 | 0 | 1,598 | 0 | 180,838 |
| Impairments (recognised in Revaluation Reserve) | (111) | (924) | 0 | 0 | 0 | (6,327) | 0 | (7,362) |
| Impairments (recognised in Surplus/Deficit on the Provision of Services) | (439) | (33,771) | (919) | 0 | 0 | (4,235) | 0 | (39,364) |
| Total Impairments | (550) | (34,695) | (919) | 0 | 0 | (10,562) | 0 | (46,726) |
| Disposals | (3,739) | 0 | (630) | 0 | 0 | (11,081) | 0 | (15,450) |
| Transfers | (5,986) | 3,926 | 110 | 732 | 39 | 19,347 | (19,919) | (1,751) |
| Assets reclassified to/from Held for Sale | 0 | 800 | 0 | 0 | 0 | 0 | 0 | 800 |
| Gross Book Value c/fwd at 31st March 2014 | 883,366 | 900,362 | 75,927 | 145,899 | 9,364 | 39,148 | 26,327 | 2,080,393 |
| Depreciation b/fwd at 1st April 2013 | (16,042) | (28,290) | (39,388) | (52,203) | 0 | (598) | 0 | (136,521) |
| Depreciation for year | (20,957) | (12,955) | (5,758) | (4,558) | 0 | (289) | 0 | (44,517) |
| Depreciation written back on: | | | | | | | | |
| Transfers | 173 | 1,047 | 346 | 0 | 0 | (1,566) | 0 | 0 |
| Assets Revalued | 35,357 | 21,671 | 0 | 0 | 0 | 413 | 0 | 57,441 |
| Assets Impaired | 0 | 175 | 0 | 0 | 0 | 1,208 | 0 | 1,383 |
| Assets Sold | 136 | 0 | 630 | 0 | 0 | 3 | 0 | 769 |
| Depreciation c/fwd at 31st March 2014 | (1,333) | (18,352) | (44,170) | (56,761) | 0 | (829) | 0 | (121,445) |
| Net Book Value at 31st March 2014 | 882,033 | 882,010 | 31,757 | 89,138 | 9,364 | 38,319 | 26,327 | 1,958,948 |

Notes to the Core Financial Statements

c) Capital Programme Commitments

At 31 March 2015, the Council had no construction contracts in progress with a remaining contract value of over £8m. The assessment of the value of the work completed as at 31 March 2015 has been established using a stage of completion methodology based on architects' certificates obtained at periodic times during the year. As at 31 March 2014, there was one contract with a remaining contract value of £18.4m

10. INVESTMENT PROPERTIES

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| a) In Comprehensive Income and Expenditure Statement | | |
| Operating Expenses | 296 | 197 |
| Rents - Shops | (1,031) | (1,049) |
| Rents - Industrial and Commercial Properties and Aerial Sites | (953) | (686) |
| Net Income from Investment Properties | (1,688) | (1,538) |
| b) Movement in fair value in the Balance Sheet | | |
| Balance at Beginning of Year | 25,658 | 21,876 |
| Disposals | (336) | (323) |
| Net Gains / (Losses) from fair value adjustments | 3,572 | 4,329 |
| Transfers to / from PPE | 0 | (224) |
| Balance at End of Year | 28,894 | 25,658 |

11. FINANCIAL INSTRUMENTS

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

a) Financial Instruments Balances

| | Long-Term | | Current | | |
|--|--------------------|--------------------|--------------------|--------------------|---|
| | 31/03/2015 £000 | 31/03/2014 £000 | 31/03/2015 £000 | 31/03/2014 £000 | |
| Financial Liabilities (Principal) | 125,376 | 154,534 | 65,000 | 40,910 | 1 |
| Accrued Interest | 198 | 184 | 1,883 | 2,143 | 1 |
| Total Borrowings | 125,574 | 159,822 | 66,883 | 41,003 | |
| PFI and Finance Lease liabilities | 239,002 | 244,703 | 8,751 | 8,281 | |
| Total Other Liabilities | 239,002 | 235,900 | 8,751 | 7,549 | |
| Financial Liabilities at contract amount | - | - | 87,821 | 64,254 | 2 |
| Total Creditors | - | - | 87,821 | 62,132 | |

Notes to the Core Financial Statements

| | Long-Term | | Current | | |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|---|
| | 31/03/2015 £000 | 31/03/2014 £000 | 31/03/2015 £000 | 31/03/2014 £000 | |
| Loans and Receivables (Principal) | - | - | 325,270 | 281,109 | 1 |
| Accrued Interest | - | - | 688 | 734 | 1 |
| Total Investments | - | - | 325,958 | 251,087 | |
| Loans and Receivables | 17,774 | 17,397 | - | - | 2 |
| Financial Assets at contract amounts | - | - | 60,561 | 43,688 | 2 |
| Total Debtors | 17,774 | 12,854 | 60,561 | 42,703 | |

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

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

Other Required Declarations

There were no reclassifications of financial instruments in the year or the previous year.

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

The Council provided no financial guarantees in the year and has none outstanding from previous years.

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

No de-recognition is expected to impact where the Council has transferred financial assets to a third party.

The Council did not hold and did not obtain any collateral for third party debts or other credit enhancements in the year or the previous year.

No allowance for credit losses were made during the year or the previous year.

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

b) Financial Instruments Gains / (Losses)

The gains and losses recognised in the CIES in relation to financial instruments are as follows (there were no revaluations on financial instruments in 2014/15 or 2013/14, or assets classified as Available for Sale.):

| | 2014/15 | | | 2013/14 |
|---|---------------------------------|-----------------------------------|----------------|----------------|
| | Liabilities - Amortised Cost | Assets - Loans and Receivables | Totals | Totals |
| | £000 | £000 | £000 | £000 |
| Interest Expense | 9,193 | - | 9,193 | 9,937 |
| Total Expense in Surplus or Deficit on Provision of Services | 9,193 | - | 9,193 | 9,937 |
| Interest Income | - | (2,009) | (2,009) | (1,743) |
| Total Income in Surplus or Deficit on Provision of Services | - | (2,009) | (2,009) | (1,743) |
| Net (Gain) / Loss for the Year | 9,193 | (2,009) | 7,184 | 8,194 |

Notes to the Core Financial Statements

c) Fair Values of Assets and Liabilities

Financial liabilities and 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:

- Borrowing rates from the PWLB have been applied to PWLB loans using their own 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 values for loans and receivables have been assessed by reference to published prices in an active market where available, or by using a valuation technique. These give a reasonable estimate for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken 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.

The following table shows the carrying amount of assets and liabilities on the balance sheet compared to the fair value amounts (undisclosed on the balance sheet). The differences are due to fixed interest loans held by the Council whose interest rate is lower than the prevailing rate estimated to be available at 31 March. This reduces the fair value of financial liabilities and raises the value of loans and receivables.

| | 31 March 2015 | | 31 March 2014 | |
|---------------------------------|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| PWLB Debt | 78,858 | 103,535 | 85,025 | 92,941 |
| Non-PWLB Debt | 113,599 | 137,308 | 112,747 | 109,374 |
| Total Debt / Liabilities | 192,457 | 240,843 | 197,772 | 202,315 |
| Money Market Loans | 311,647 | 167,794 | 286,372 | 286,183 |
| Long Term Debtors | 17,774 | 17,774 | 17,397 | 17,397 |
| Total Assets | 329,421 | 185,568 | 303,769 | 303,580 |

12. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**a) Key Risks**

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

Credit Risk - The possibility that other parties might fail to pay amounts due to the Council;

Liquidity Risk - The possibility that the Council might not have funds available to meet its commitments to make payments;

Re-financing Risk - The possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market Risk - The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

b) Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the uncertainty of financial markets, and are structured to implement suitable controls to minimise these risks. They set out a legal framework based on the *Local Government Act 2003* and associated regulations, and require the Council to do the following:

Notes to the Core Financial Statements

- formally adopt the requirements of the CIPFA Treasury Management Code of Practice;
- adopt a Treasury Policy Statement and include treasury management clauses within its financial regulations/standing orders/constitution;
- approve annually in advance prudential and treasury indicators for the following three years.
- approve an investment strategy for the forthcoming year setting out its criteria for investing and selecting investment counterparties in compliance with Government guidance.

These procedures are required to be reported and approved at Council before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year. The annual treasury management strategy which incorporates the prudential indicators was last approved by Council in February 2015 and is available on the Council website. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These are a requirement of the Code of Practice and are reviewed periodically.

c) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. This also considers maximum amounts and time limits in respect of each financial institution. The Council uses the creditworthiness service provided by Sector which uses a sophisticated modeling approach with credit ratings from all three rating agencies forming the core element. It also uses some other criteria as well.

The Council's maximum exposure to credit risk in respect of its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to that institution. It is rare for institutions to be unable to meet their commitments and a risk applies to all of the Council's deposits, however at the 31 March 2015 there was no evidence that this was likely to happen.

d) Liquidity Risk

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

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. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments over one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within these parameters.

f) Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments and these impact according to how variable and fixed interest rates move across differing financial instrument periods. The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy includes expected interest rate movements. A treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure, and this is monitored regularly.

If variable interest rates had been 0.1% higher (with all other variables held constant) the financial effect would be a net increase in income of £0.19m. The impact of a 0.1% fall in interest rates would be a net decrease in income of £0.19m.

Notes to the Core Financial Statements

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

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

| | 31/03/2015 £000 | 31/03/2014 £000 |
|---|--------------------|--------------------|
| Catford Regeneration Partnership Ltd - Loan | 11,431 | 11,568 |
| Street Lighting PFI Sinking Fund | 3,245 | 2,634 |
| Lewisham Gateway Development - Loan | 2,000 | 2,000 |
| Land Charges Debts | 389 | 445 |
| Mortgages | 175 | 210 |
| Other Long Term Debtors | 534 | 540 |
| Total Long Term Debtors | 17,774 | 17,397 |

a) Street Lighting PFI Sinking Fund

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

b) Lewisham Gateway Development

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

b) Current Debtors

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

| | 31/03/2015 £000 | 31/03/2014 £000 |
|---|--------------------|--------------------|
| Government and Other Public Bodies: | | |
| HM Revenue & Customs - VAT | 6,869 | 7,501 |
| Education Recoupment | 2,083 | 2,416 |
| Central Government bodies | 17,087 | 271 |
| Other Local Authorities | 1,089 | 9,172 |
| NHS bodies | 7,123 | 124 |
| Other Public bodies | 2,944 | 511 |
| Council Tax Payers | 25,160 | 22,728 |
| Council Tax Court Costs | 6,096 | 5,560 |
| Housing Benefit Overpayments | 18,869 | 14,748 |
| Housing Rents (inc PSL, B & B, Hostels, Commercial) | 9,815 | 9,947 |
| Leaseholders Services Charges | 5,810 | 5,597 |
| Parking | 5,839 | 4,760 |
| General Debtors due for Supplies and Services | 35,899 | 26,316 |
| Total Current Debtors | 144,683 | 109,651 |
| Impairment Allowances | (60,743) | (52,729) |
| Total Net Current Debtors | 83,940 | 56,922 |

Notes to the Core Financial Statements

c) Impairment Allowances

| | Balance at 31/03/2014 £000 | Movement in 2014/15 £000 | Balance at 31/03/2015 £000 |
|---|----------------------------------|--------------------------------|----------------------------------|
| Council Tax Payers | (20,624) | (2,550) | (23,174) |
| Council Tax Court Costs | (4,891) | (528) | (5,419) |
| Housing Benefit Overpayments | (11,127) | (2,722) | (13,849) |
| Housing Rents (inc PSL, B & B, Hostels, Commercial) | (6,913) | 28 | (6,885) |
| Leaseholders Services Charges | (1,255) | (243) | (1,498) |
| Parking | (3,151) | (1,688) | (4,839) |
| General Debtors due for Supplies and Services | (4,768) | (311) | (5,079) |
| Total Impairment Allowances | (52,729) | (8,014) | (60,743) |

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

14. CASH AND CASH EQUIVALENTS

| | Balance 31/03/2014 £000 | Movement in 2014/15 £000 | Balance 31/03/2015 £000 |
|--|-------------------------------|--------------------------------|-------------------------------|
| Cash Equivalents | | | |
| Short Term Deposits | 30,025 | (20,018) | 10,007 |
| Cash | | | |
| Money Market Funds | 70,665 | 325 | 70,990 |
| Call Accounts with Banks | 20,267 | (20,267) | 0 |
| | 90,932 | (19,942) | 70,990 |
| Other Cash and Bank Balances | 75 | 143 | 218 |
| Total Cash and Cash Equivalents | 121,032 | (39,817) | 81,215 |
| Bank Accounts Overdrawn | | | |
| Main Bank Accounts | (2,271) | 6,827 | 4,556 |
| Schools Bank Accounts | (2,332) | (1,284) | (3,616) |
| | (4,603) | 5,543 | 940 |
| Net Cash and Cash Equivalents | 116,429 | (34,274) | 82,155 |

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

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

c) The Schools Bank Accounts are an integral part of the Council's overall cash management arrangements, and are therefore included under Cash and Cash Equivalents. They 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 £11.4m (13/14 £10.4m) and overdrawn £15.0m (13/14 overdrawn £12.7m) respectively.

Notes to the Core Financial Statements

15. CREDITORS

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

| | 31/03/2015 £000 | 31/03/2014 £000 |
|--|--------------------|--------------------|
| Government and other public bodies: | | |
| HM Revenue & Customs | 5,691 | 5,427 |
| Education Recoupment | 1,100 | 1,049 |
| Central Government bodies | 7,032 | 6,987 |
| Other Local Authorities | 4,281 | 3,110 |
| NHS bodies | 13,635 | 7,312 |
| Other Public bodies | 1,038 | 2,002 |
| | 32,777 | 25,887 |
| Short Term Compensated Absences | 5,508 | 6,275 |
| General Creditors (amounts owed for supplies and services) | 54,409 | 49,944 |
| Total Creditors | 92,694 | 82,106 |

16. PROVISIONS

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

| | Balance | 14/15 Transfers | | Balance |
|-----------------------------------|------------------|-----------------|----------------|------------------|
| | 31/03/14 £000 | In £000 | Out £000 | 31/03/15 £000 |
| Current (less than 1 year) | | | | |
| Insurance Provision | 1,870 | 3,307 | (2,805) | 2,372 |
| Other Provisions | 510 | 130 | (41) | 599 |
| | 2,380 | 3,437 | (2,846) | 2,971 |
| Non Current (Over 1 year) | | | | |
| Insurance Provision | 6,467 | 0 | (30) | 6,437 |
| Other Provisions | 3,373 | 41 | (130) | 3,284 |
| | 9,840 | 41 | (160) | 9,721 |
| Total - Provisions | 12,220 | 3,478 | (3,006) | 12,692 |

Insurance Provisions

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

Notes to the Core Financial Statements

17. USABLE CAPITAL RECEIPTS

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

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Balance brought forward at start of year | 19,446 | 20,277 |
| Amounts Received | 34,787 | 15,492 |
| Poolable to Central Government | (1,727) | (1,886) |
| Amounts applied to finance new capital investment | (4,315) | (14,437) |
| Total increase/(decrease) in capital receipts in year | 28,745 | (831) |
| Balance carried forward at end of year | 48,191 | 19,446 |

18. PENSION RESERVE

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

| | 2014/15 £000 | 2013/14 £000 |
|--|------------------|------------------|
| Opening balance at start of year | (588,090) | (548,230) |
| Actuarial gains or losses on pensions assets and liabilities | (98,275) | (16,461) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES | (63,180) | (57,321) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 32,823 | 33,922 |
| Balance carried forward at end of year | (716,722) | (588,090) |

Notes to the Core Financial Statements

19. 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.

| | 2014/15 £000 | 2013/14 £000 |
|--|-------------------------------|-------------------------------|
| Balance brought forward at start of year | 437,280 | 254,978 |
| Revaluation of Assets | 169,662 | 205,470 |
| Impairment Losses | (8,347) | (7,362) |
| Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | 161,315 | 198,108 |
| Difference between fair value and historic cost depreciation | (9,049) | (5,978) |
| Accumulated gains on assets sold or scrapped | (4,506) | (9,828) |
| Amount written off to the Capital Adjustment Account | (13,555) | (15,806) |
| Balance carried forward at end of year | 585,040 | 437,280 |

Notes to the Core Financial Statements

20. CAPITAL ADJUSTMENT ACCOUNT

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

| | 2014/15 £000 | 2013/14 £000 |
|--|------------------|------------------|
| Balance brought forward at start of year | 1,063,942 | 1,021,814 |
| <u>Reversal of capital expenditure items debited or credited to the CIES</u> | | |
| Charges for depreciation and impairment of non-current assets | (238,689) | (48,077) |
| Revenue expenditure funded from capital under statute | (10,013) | (13,256) |
| Non-current assets written off on disposal - gain/loss to the CIES | (4,620) | (4,854) |
| Donated Asset written onto the Balance Sheet | 0 | 24,065 |
| | (253,322) | (42,122) |
| Adjusting amounts written out of the Revaluation Reserve | 10,104 | 5,978 |
| Net amount written out of the cost of non-current assets consumed in the year | (243,218) | (36,144) |
| <u>Capital Financing applied in the year:</u> | | |
| Use of Capital Receipts to finance new capital expenditure | 4,315 | 14,437 |
| Use of Major Repairs Reserve to finance new capital expenditure | 4,481 | 3,276 |
| Capital grants and contributions credited to the CIES | 50,926 | 40,839 |
| Statutory Provision for the financing of capital investment | 8,548 | 8,417 |
| Repayment of Principal on PFI schemes | 9,849 | (2,130) |
| Capital expenditure charged to General Fund and HRA | 7,791 | 9,427 |
| | 85,910 | 74,266 |
| Movements in the value of Investment Properties debited or credited to the CIES | 0 | 4,006 |
| Balance carried forward at end of year | 906,634 | 1,063,942 |

Notes to the Core Financial Statements

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

SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2015

| | CYP £000s | Community Services £000s | Customer Services £000s | Resources and Regeneration £000s | HRA £000s | Total £000s |
|---|------------------|--------------------------------|-------------------------------|--|------------------|------------------|
| Fees, charges & other service income | (14,477) | (31,933) | (46,569) | (14,002) | (88,622) | (195,603) |
| Government grants | (306,005) | (25,334) | (238,930) | (1,019) | (46,353) | (617,641) |
| Total Income | (320,482) | (57,267) | (285,499) | (15,021) | (134,975) | (813,244) |
| Employee expenses | 221,848 | 34,902 | 37,827 | 24,250 | 2,409 | 321,236 |
| Other operating expenses | 162,526 | 130,209 | 293,104 | 20,940 | 132,566 | 739,345 |
| Total operating expenses | 384,374 | 165,111 | 330,931 | 45,190 | 134,975 | 1,060,581 |
| Net Cost of Services | 63,892 | 107,844 | 45,432 | 30,169 | 0 | 247,337 |
| Net Budgets | 53,947 | 110,069 | 41,873 | 32,305 | 0 | 238,194 |
| Variation | 9,945 | (2,225) | 3,559 | (2,136) | 0 | 9,143 |
| Less: Corporate Items | | | | | | (3,900) |
| General Fund Underspend reported to Members | | | | | | 5,243 |
| Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement | | | | | | £000s |
| Cost of Services in Service Analysis | | | | | | 247,337 |
| Add services not included in main analysis | | | | | | 8,211 |
| Add amounts not reported to management (Technical Accounting adjustments) | | | | | | 231,960 |
| Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement | | | | | | (35,078) |
| Net Cost of Services in Comprehensive Income and Expenditure Statement | | | | | | 452,430 |

| 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 | (195,603) | 0 | 0 | 0 | (195,603) | 0 | (195,603) |
| Surplus or deficit on associates and joint ventures | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest and investment income | 0 | 0 | (26,327) | 0 | (26,327) | (1,345) | (27,672) |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | (80,738) | (80,738) |
| Government grants and contributions | (617,641) | 0 | (35,971) | 0 | (653,612) | (277,607) | (931,219) |
| Total Income | (813,244) | 0 | (62,298) | 0 | (875,542) | (359,690) | (1,235,232) |
| Employee expenses | 321,236 | 10,245 | 33,369 | (35,078) | 329,772 | 0 | 329,772 |
| Other service expenses | 739,345 | (2,034) | 21,899 | 0 | 759,210 | 0 | 759,210 |
| Depreciation, amortisation, impairment & write-ons | 0 | 0 | 238,689 | 0 | 238,689 | 0 | 238,689 |
| Interest Payments | 0 | 0 | 301 | 0 | 301 | 53,263 | 53,564 |
| Precepts & Levies | 0 | 0 | 0 | 0 | 0 | 1,646 | 1,646 |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 1,727 | 1,727 |
| Gain or Loss on Disposal of non-current assets | 0 | 0 | 0 | 0 | 0 | (73) | (73) |
| Total operating expenses | 1,060,581 | 8,211 | 294,258 | (35,078) | 1,327,972 | 56,563 | 1,384,535 |
| Surplus or deficit on provision of services | 247,337 | 8,211 | 231,960 | (35,078) | 452,430 | (303,127) | 149,303 |

Notes to the Core Financial Statements

SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2014

| | CYP £000s | Community Services £000s | Customer Services £000s | Resources and Regeneration £000s | HRA £000s | Total £000s |
|--|------------------|--------------------------------|-------------------------------|--|------------------|------------------|
| Fees, charges & other service income | (15,083) | (36,305) | (48,208) | (18,724) | (109,856) | (228,176) |
| Government grants | (296,322) | (24,872) | (237,275) | (419) | (34,353) | (593,241) |
| Total Income | (311,405) | (61,177) | (285,483) | (19,143) | (144,209) | (821,417) |
| Employee expenses | 214,885 | 33,867 | 37,962 | 28,410 | 2,018 | 317,142 |
| Other operating expenses | 159,827 | 140,590 | 281,615 | 34,837 | 142,191 | 759,060 |
| Total operating expenses | 374,712 | 174,457 | 319,577 | 63,247 | 144,209 | 1,076,202 |
| Net Cost of Services | 63,307 | 113,280 | 34,094 | 44,104 | 0 | 254,785 |
| Net Budgets | 59,160 | 118,420 | 32,494 | 46,465 | 0 | 256,539 |
| Variation | 4,147 | (5,140) | 1,600 | (2,361) | 0 | (1,754) |
| Less; HRA Variation | | | | | | 0 |
| General Fund Underspend reported to Members | | | | | | (1,754) |

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

| | £000s |
|---|-----------------|
| Cost of Services in Service Analysis | 254,785 |
| Add services not included in main analysis | 8,783 |
| Add amounts not reported to management (Technical Accounting adjustments) | 46,012 |
| Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement | (38,088) |
| Net Cost of Services in Comprehensive Income and Expenditure Statement | 271,492 |

| 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 | (228,176) | 0 | 0 | 0 | (228,176) | 0 | (228,176) |
| Surplus or deficit on associates and joint ventures | | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest and investment income | | 0 | 237 | 0 | 237 | (1,534) | (1,297) |
| Income from council tax | | 0 | 0 | 0 | 0 | (77,737) | (77,737) |
| Government grants and contributions | (593,241) | 0 | (5,314) | 0 | (598,555) | (282,731) | (881,286) |
| Total Income | (821,417) | 0 | (5,077) | 0 | (826,494) | (362,002) | (1,188,496) |
| Employee expenses | 317,142 | 7,564 | 36,991 | (38,088) | 323,609 | 0 | 323,609 |
| Other service expenses | 759,060 | 1,219 | (4,492) | 0 | 755,787 | 0 | 755,787 |
| Depreciation, amortisation, impairment & write-ons | | 0 | 36,697 | 0 | 36,697 | (4,329) | 32,368 |
| Interest Payments | | 0 | (18,107) | 0 | (18,107) | 60,178 | 42,071 |
| Precepts & Levies | | 0 | 0 | 0 | 0 | 1,527 | 1,527 |
| Payments to Housing Capital | | 0 | 0 | 0 | 0 | 1,886 | 1,886 |
| Receipts Pool | | 0 | 0 | 0 | 0 | 98 | 98 |
| Gain or Loss on Disposal of non-current assets | | 0 | 0 | 0 | 0 | 98 | 98 |
| Total operating expenses | 1,076,202 | 8,783 | 51,089 | (38,088) | 1,097,986 | 59,360 | 1,157,346 |
| Surplus or deficit on provision of services | 254,785 | 8,783 | 46,012 | (38,088) | 271,492 | (302,642) | (31,150) |

Notes to the Core Financial Statements

22. 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.

| | 2014/15 | | | 2013/14 |
|-----------------------------------|---------------------|----------------|-------------------------------|-------------------------------|
| | Expenditure £000 | Income £000 | (Surplus)/ Deficit £000 | (Surplus)/ Deficit £000 |
| Markets | 1,499 | (1,498) | 1 | 2 |
| Industrial Estates | 296 | (611) | (315) | (227) |
| Theatre | 926 | (531) | 395 | 359 |
| Total - Trading Operations | 2,721 | (2,640) | 81 | 134 |

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 2015, the accumulated surplus is £382k.

23. AGENCY SERVICES AND POOLED BUDGETS

The Council did not carry out any agency services, construction work or any other work for any other Local Authorities, public bodies or entities in 2014/15 (or 2013/14).

The Council did not operate any pooled budgets as defined by the terms of a Section 75 Agreement (National Health Service Act 2006) in 2014/15 (or 2013/14).

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

Lewisham Homes is an arms-length management organisation (ALMO) which is responsible for managing and providing housing related services such as repairs and maintenance of Council dwellings. It is a wholly owned subsidiary of the Council and is limited by guarantee. Councillors Bell and John Paschoud sat on the board throughout the year and Councillor Wise replaced Councillor Nisbet on the board after the May 2014 Council elections. The majority of Lewisham Homes' income is a management fee paid by the Council to the company. In 2014/15 this was £18.6m (£18.9m in 2013/14).

Lewisham Homes Limited's Accounts for 2013/14 received an unqualified audit opinion and their Audited Accounts can be obtained from Lewisham Homes Limited, 9 Holbeach Road, Catford, London, SE6 4TW. Its auditors are KPMG LLP, 2 Cornwall Street, Birmingham, B3 2DL, United Kingdom.

ii) Catford Regeneration Partnership Limited

Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council and the Head of Financial Services and the Head of Public Services are its board members and directors. The Council made a loan of £12m to CRPL in February 2010, and CRPL repaid principal of £109k and made interest payments of £0.630k during 2014/15 to the Council (in 2013/14, these payments were £98k and £0.659k respectively). CRPL purchased the Catford Centre in February 2010 which is included on its balance sheet as an investment property at £12.8m, and receives approximately £1m per annum in rent from its tenants.

Notes to the Core Financial Statements

Catford Regeneration Partnership Limited's Accounts for 2013/14 received an unqualified audit opinion and their Audited Accounts can be obtained from Catford Regeneration Partnership Limited, 3rd Floor, Laurence House, Catford, London, SE6 4RU. Its auditors are ACF Auditing Services Limited, Plaza Building, Lee High Road, London, SE13 5PT.

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

The Council has a minority stake of 10% in Lewisham Schools for the Future LEP Limited which is the Local Education Partnership company. It comprises a consortium made up of Costain Engineering & Construction Limited, Babcock Project Investments Limited and Building Schools for the Future Limited and was established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish the secondary schools within the Borough.

The Council also has a 10% stake in four Special Purpose Vehicles set up in relation to those schools which were being newly built within this BSF Programme. These are known as Lewisham SPV Limited, Lewisham SPV 2 Limited, Lewisham SPV3 Limited and Lewisham SPV4 Limited, and 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 CYP Head of Resources is the Council's Director on the LEP, the SPV's and the Hold Co's.

| | 2014/15 £m | 2013/14 £m |
|---|---------------|---------------|
| Lewisham Schools for the Future LEP Ltd | 1.1 | 10.3 |
| Lewisham Schools for the Future SPV1 Ltd | 8.9 | 8.9 |
| Lewisham Schools for the Future SPV2 Ltd | 3.0 | 3.0 |
| Lewisham Schools for the Future SPV3 Ltd | 4.3 | 4.3 |
| Lewisham Schools for the Future SPV 4 Ltd | 12.8 | 7.9 |
| Total | 30.1 | 34.4 |

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 £5.3m were made in 2014/15 to the company (£4.9m in 2013/14).

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.

25. MEMBERS' ALLOWANCES

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

| | 2014/15 £000 | 2013/14 £000 |
|----------------------------------|-----------------|-----------------|
| Allowances (inc. NI) | 951 | 1,022 |
| Other Expenses | 46 | 61 |
| Total Expenditure in Year | 997 | 1,083 |

Notes to the Core Financial Statements

26. OFFICERS' REMUNERATION

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

| Remuneration Band | Non-Schools | | | Schools | | Totals | |
|----------------------|-------------|------------|------------|------------|------------|------------|------------|
| | Scale | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| £50,000 to £54,999 | SMG1 | 52 | 58 | 167 | 145 | 219 | 203 |
| £55,000 to £59,999 | SMG2 | 20 | 22 | 69 | 71 | 89 | 93 |
| £60,000 to £64,999 | SMG3 | 13 | 19 | 50 | 45 | 63 | 64 |
| £65,000 to £69,999 | SMG3 | 13 | 12 | 39 | 29 | 52 | 41 |
| £70,000 to £74,999 | CO Band 4 | 4 | 5 | 19 | 20 | 23 | 25 |
| £75,000 to £79,999 | CO Band 4 | 1 | 2 | 12 | 12 | 13 | 14 |
| £80,000 to £84,999 | CO Band 4 | 1 | 0 | 11 | 13 | 12 | 13 |
| £85,000 to £89,999 | CO Band 3 | 0 | 5 | 10 | 6 | 10 | 11 |
| £90,000 to £94,999 | CO Band 3 | 4 | 6 | 4 | 2 | 8 | 8 |
| £95,000 to £99,999 | CO Band 3 | 9 | 3 | 3 | 3 | 12 | 6 |
| £100,000 to £104,999 | CO Band 2 | 0 | 2 | 4 | 5 | 4 | 7 |
| £105,000 to £109,999 | CO Band 2 | 3 | 2 | 4 | 3 | 7 | 5 |
| £110,000 to £114,999 | CO Band 2 | 1 | 0 | 0 | 0 | 1 | 0 |
| £115,000 to £119,999 | CO Band 2 | 1 | 1 | 0 | 0 | 1 | 1 |
| £120,000 to £124,999 | | 0 | 0 | 0 | 1 | 0 | 1 |
| £130,000 to £134,999 | CO Band 1 | 0 | 1 | 0 | 0 | 0 | 1 |
| £135,000 to £139,999 | CO Band 1 | 1 | 0 | 1 | 1 | 2 | 1 |
| £140,000 to £144,999 | CO Band 1 | 3 | 3 | 0 | 0 | 3 | 3 |
| Total | | 126 | 141 | 393 | 356 | 519 | 497 |

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

b) Disclosure of Senior Employees' Remuneration

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

| Financial Year 2014/15 | Salary (inc fees and allowances) | Employer's Pension Contributions | Total (inc. Pension Contributions) |
|---|----------------------------------|----------------------------------|------------------------------------|
| | £ | £ | £ |
| Senior Employees - Salary below £150,000 | | | |
| Executive Director for Children and Young People | 141,123 | 30,341 | 171,464 |
| Executive Director for Resources and Regeneration | 141,123 | 30,341 | 171,464 |
| Executive Director for Community Services | 141,123 | 30,341 | 171,464 |
| Executive Director for Customer Services | 135,867 | 29,211 | 165,078 |
| Chief Executive (Part time) | 115,432 | 0 | 115,432 |
| Director of Children's Social Care and Health | 111,386 | 23,948 | 135,334 |
| Director of Regeneration and Asset Management | 107,538 | 23,121 | 130,659 |
| Director of Public Health | 107,057 | 14,988 | 122,045 |
| Head of Law and Monitoring Officer (Part time) | 64,523 | 13,872 | 78,395 |
| Totals | 1,065,172 | 196,163 | 1,261,335 |

Notes to the Core Financial Statements

Financial Year 2013/14

Senior Employees - Salary below £150,000

| |
|---|
| Executive Director for Children and Young People |
| Executive Director for Resources and Regeneration |
| Executive Director for Community Services |
| Executive Director for Customer Services |
| Chief Executive (Part time) |
| Director of Children's Social Care and Health |
| Director of Regeneration and Asset Management |
| Director of Public Health |
| Head of Law and Monitoring Officer (Part time) |

| Salary (inc fees and allowances) | Employer's Pension Contributions | Total (inc. Pension Contributions) |
|----------------------------------|----------------------------------|------------------------------------|
| £ | £ | £ |
| 141,123 | 30,341 | 171,464 |
| 141,123 | 30,341 | 171,464 |
| 141,123 | 30,341 | 171,464 |
| 130,400 | 28,036 | 158,436 |
| 115,432 | 0 | 115,432 |
| 107,538 | 23,121 | 130,659 |
| 107,538 | 23,121 | 130,659 |
| 101,460 | 14,204 | 115,664 |
| 64,523 | 13,872 | 78,395 |
| 1,050,260 | 193,377 | 1,243,637 |

Totals

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made to any of these employees in 2014/15 (or 2013/14).

c) Termination Benefits - Exit Packages agreed in year

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

| Cost Band (inc Pension Fund Contributions) | Total Number of Exit Packages | | Total Cost of Exit Packages | |
|--|-------------------------------|------------|-----------------------------|--------------|
| | 2014/15 | 2013/14 | 2014/15 £ | 2013/14 £ |
| £0 - £20,000 | 140 | 168 | 1,253 | 1,297 |
| £20,001 to £40,000 | 103 | 73 | 2,881 | 2,101 |
| £40,001 to £60,000 | 10 | 20 | 477 | 925 |
| £60,001 to £80,000 | 12 | 6 | 842 | 437 |
| £80,001 to £100,000 | 1 | 3 | 83 | 251 |
| £100,001 to £120,000 | 2 | 1 | 233 | 111 |
| Total | 268 | 271 | 5,769 | 5,122 |

27. EXTERNAL AUDIT COSTS

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| External Audit Services | 255 | 255 |
| Certification of Grant Claims and Returns | 40 | 37 |
| Other services provided by the appointed auditor | 0 | 0 |
| Total | 295 | 292 |

These fees exclude those payable for the audit of the Pension Fund for 2014/15 (£21,000). The Council's external auditors are Grant Thornton.

Notes to the Core Financial Statements

28. DEDICATED SCHOOLS' GRANT

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

| | 2014/15 | | | 2013/14 | | |
|--|-----------------------------|---|----------------|-----------------------------|---|----------------|
| | Central Expenditure £000 | Individual Schools Budget (ISB) £000 | Total £000 | Central Expenditure £000 | Individual Schools Budget (ISB) £000 | Total £000 |
| Final DSG before academy recoupment | 43,054 | 226,563 | 269,617 | 41,369 | 208,992 | 250,361 |
| Academy figure recouped | (1,149) | (18,901) | (20,050) | (303) | (5,842) | (6,145) |
| Total DSG after academy recoupment | 41,905 | 207,662 | 249,567 | 41,066 | 203,150 | 244,216 |
| Brought forward from previous year | 0 | 0 | 0 | 0 | 0 | 0 |
| Carry forward to next year agreed in advance | 0 | 0 | 0 | 0 | 0 | 0 |
| Agreed initial budgeted distribution | 41,137 | 226,563 | 267,700 | 45,674 | 203,088 | 248,762 |
| In year adjustments | 2,044 | (127) | 1,917 | 1,537 | 62 | 1,599 |
| Final Budget Distribution | 43,181 | 226,436 | 269,617 | 47,211 | 203,150 | 250,361 |
| Actual Central Expenditure | 43,181 | | 43,181 | 47,211 | | 47,211 |
| Actual ISB deployed to schools | | 226,436 | 226,436 | | 203,150 | 203,150 |

29. GRANT AND TAXATION INCOME

The Council credited the following taxation and general grant income to the CIES during the year.

| | 2014/15 £000 | 2013/14 £000 |
|---|------------------|------------------|
| Income from Council Tax | (80,738) | (77,737) |
| Recognised Capital Grants and Contributions | (75,613) | (69,345) |
| Non-Domestic Rates redistribution | (84,744) | (83,124) |
| <u>General Government Grants</u> | | |
| Formula Revenue Grant | (101,706) | (124,948) |
| Other Grants (non-service specific) | (15,544) | (5,314) |
| Total | (358,345) | (360,468) |

Notes to the Core Financial Statements

The following grants were credited to services during the year.

| | 2014/15 £000 | 2013/14 £000 |
|---------------------------------------|-------------------------------|-------------------------------|
| Dedicated Schools Grant | (249,579) | (244,514) |
| Housing Benefit | (231,995) | (233,821) |
| Housing Subsidy/ Decent Homes Backlog | (46,353) | 0 |
| Public Health Grant | (20,088) | (19,541) |
| Other Grants | (84,228) | (66,087) |
| Total | (632,243) | (563,963) |

30. REVENUE RECEIPTS IN ADVANCE

| | 31/03/2015 £000 | 31/03/2014 £000 |
|----------------------------------|----------------------------------|----------------------------------|
| Capital Contributions Unapplied | 29,602 | 41,387 |
| Council Tax | 6,837 | 5,867 |
| PFI Schemes | 20,192 | 19,041 |
| Revenue Grants and Contributions | 6,311 | 8,276 |
| Other Receipts in Advance | 12,808 | 5,687 |
| Total | 75,750 | 80,258 |

The Council has received a number of revenue 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 shown in the table above.

31. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties, which are bodies or individuals that have the potential to control or influence the Council or to be controlled by the Council. The purpose of this note is to disclose this information in order to demonstrate fairness and openness in the Accounts.

(a) Central Government and Other Local Authorities

Central government exerts significant influence over the Council through legislation and grant funding. The general government grants received are shown in Note 29 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 24 to the Core Financial Statements.

(c) Elected Members (Councillors) and Chief Officers

Councillors have direct control over the Council's financial and operating policies, and their total cost is shown in Note 25. They are required to declare all related party transactions which they have with an organisation in which they have a controlling interest. This information is recorded on the Council's Register of Members and Chief Officers' Declarations of Interests and is open to public inspection at the Civic Suite at Lewisham Civic Suite during office hours. The information is also published on the Council's website. The Council is compliant with the Localism Act 2012.

(d) Lewisham Pension Fund

The Pension Fund Accounts are included in Section 7 of this document.

Notes to the Core Financial Statements

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Opening Capital Financing Requirement | 235,850 | 241,477 |
| Capital Investment | | |
| Property, Plant and Equipment | 60,984 | 57,513 |
| Revenue Expenditure Funded from Capital under Statute | 10,013 | 13,256 |
| | 70,997 | 70,769 |
| Resources Used for Financing | | |
| Capital Receipts | (4,315) | (14,437) |
| Government Grants and Other Contributions | (50,925) | (40,839) |
| Sums set aside from Revenue: | (12,273) | (12,703) |
| | (67,513) | (67,979) |
| Increase in the underlying need to borrowing | 3,484 | 2,790 |
| Debt Redeemed - Minimum Revenue Provision | (8,548) | (8,417) |
| Increase/ (decrease) in Capital Financing Requirement | (5,064) | (5,627) |
| | | |
| Closing Capital Financing Requirement | 230,786 | 235,850 |

33. LEASES**a) Council as a Lessee**

The Council has operating leases in the areas of Council Dwellings, School Plant and Equipment and Refuse Vehicles. The expenditure charged to services in the CIES during the year in relation to these leases was £2.3m (£3.4m in 2013/14). The future minimum lease payments due under non-cancellable leases in futures are:

| | 31/03/15 £000 | 31/03/14 £000 |
|---|------------------|------------------|
| Not later than one year | 1,276 | 2,091 |
| Later than one year and not later than five years | 3,511 | 3,837 |
| Later than five years | 17,799 | 17,276 |
| | 22,586 | 23,204 |

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

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

The Council leases out a small number of commercial properties and 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

Notes to the Core Financial Statements

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 Council in future years whilst the debtor remains outstanding. The gross income (Finance Lease Debtor) was £0.07m in 2014/15 (£0.09m in 2013/14). The gross investment and the minimum lease income will be received over the following periods;

| | Gross Investment in the Lease | | Minimum Lease Income | |
|---|----------------------------------|------------------|-------------------------|------------------|
| | 31/03/15 £000 | 31/03/14 £000 | 31/03/15 £000 | 31/03/14 £000 |
| Not later than one year | 30 | 36 | 30 | 36 |
| Later than one year and not later than five years | 120 | 120 | 120 | 120 |
| Later than five years | 146 | 176 | 146 | 176 |
| | 296 | 332 | 296 | 332 |

ii) Operating Leases

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

| | 31/03/15 £000 | 31/03/14 £000 |
|---|------------------|------------------|
| Not later than one year | 1,973 | 2,020 |
| Later than one year and not later than five years | 5,979 | 6,051 |
| Later than five years | 4,966 | 10,353 |
| | 12,918 | 18,424 |

34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

a) Summary of PFI Schemes

| PFI Scheme | Brockley HRA | Downham Lifestyles | Grouped Schools | BSF 1 | BSF 2 | BSF 3 | BSF 4 | Street Lighting |
|----------------------|-----------------|-----------------------|--------------------|-------|-------|-------|-------|--------------------|
| Start of Contract | 2007 | 2007 | 2007 | 2009 | 2011 | 2012 | 2012 | 2011 |
| End of Contract | 2027 | 2039 | 2036 | 2035 | 2037 | 2037 | 2038 | 2036 |
| Total Estimated Cost | £288m | £77m | £229m | £241m | £86m | £119m | £225m | £95m |

b) Payments made under PFI contracts

| | Brockley HRA | Downham Lifestyles | Grouped Schools | BSF 1 | BSF 2 | BSF 3 | BSF 4 | Street Lighting | 14/15 Total |
|---------------------|-----------------|-----------------------|--------------------|--------------|--------------|--------------|--------------|--------------------|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| 2014/15 | | | | | | | | | |
| Service Charges | 5,928 | 425 | 2,771 | 2,657 | 730 | 808 | 1,390 | 1,197 | 15,906 |
| Interest | 5,406 | 1,635 | 3,596 | 4,586 | 1,879 | 2,787 | 5,474 | 926 | 26,289 |
| Liability Repayment | 3,094 | 238 | 797 | 1,262 | 309 | 581 | 969 | 987 | 8,237 |
| Unitary Charge | 14,428 | 2,298 | 7,164 | 8,505 | 2,918 | 4,176 | 7,833 | 3,110 | 50,432 |
| 2013/14 | | | | | | | | | |
| Service Charges | 5,703 | 414 | 2,747 | 2,547 | 722 | 777 | 1,359 | 1,171 | 15,440 |
| Interest | 5,661 | 1,632 | 3,661 | 4,684 | 1,902 | 2,808 | 5,885 | 521 | 26,754 |
| Liability Repayment | 2,946 | 210 | 739 | 1,198 | 280 | 539 | 529 | 1,088 | 7,529 |
| Unitary Charge | 14,310 | 2,256 | 7,147 | 8,429 | 2,904 | 4,124 | 7,773 | 2,780 | 49,723 |

Notes to the Core Financial Statements

c) 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.

| | 2014/15 | | 2013/14 | |
|---|-----------------|-----------------|---------|----------------|
| | £000 | £000 | £000 | £000 |
| Gross Book Value B/fwd | | 345,133 | | 308,785 |
| Prior Year Adjustment | | 18,184 | | 0 |
| Additions | | 4,734 | | 5,588 |
| Revaluations (recognised in Revaluation Reserve) | (13,479) | | 20,268 | |
| Revaluations (recognised in Provision of Services) | (38,875) | | 11,197 | |
| Total Revaluations | | (52,354) | | 31,465 |
| Impairments (recognised in Revaluation Reserve) | 3,665 | | | |
| Impairments (recognised in Provision of Services) | (3,781) | | (375) | |
| Total Impairments | | (116) | | (375) |
| Disposals | | (556) | | (330) |
| Gross Book Value at End of the Year | | 315,025 | | 345,133 |
| Depreciation Balance B/fwd | | (5,257) | | (9,615) |
| Prior Year Adjustment | | (807) | | 0 |
| Depreciation for year | | (7,690) | | (6,206) |
| Depreciation written back - Assets Impaired | | 10,265 | | 10552 |
| Depreciation written back - Assets Sold | | 1 | | 12 |
| Depreciation Balance c/fwd to following year | | (3,488) | | (5,257) |
| Net Book Value at End of the Year | | 311,537 | | 339,876 |

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 will pay whilst the capital expenditure remains to be reimbursed. The Council's total outstanding liability to the contractors is shown in the following table. The liabilities included on the Balance Sheet for Street Lighting represents the completions to date on the updating work, and not the full expected cost. The full cost is included in note e).

| | Liabilities Due within 1 Year | | Deferred Liabilities | |
|---|-------------------------------|-----------------|----------------------|-----------------|
| | 2014/15 £000 | 2013/14 £000 | 2014/15 £000 | 2013/14 £000 |
| Balance outstanding at start of year | 8,281 | 7,549 | 244,703 | 235,900 |
| Balance outstanding at end of year | 8,751 | 8,281 | 239,002 | 244,703 |

Notes to the Core Financial Statements

e) Payments due under PFI contracts in future years

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 3.1% 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.

| Payments due | Brockley HRA | Downham Lifestyles | Grouped Schools | BSF 1 | BSF 2 | BSF 3 | BSF 4 | Street lighting | Total |
|-------------------------------|-----------------|-----------------------|--------------------|----------------|---------------|----------------|----------------|--------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| In 2015/16 | | | | | | | | | |
| Service charges | 6,131 | 220 | 2,522 | 2,381 | 731 | 830 | 1,429 | 1,222 | 15,466 |
| Interest | 5,164 | 1,637 | 3,489 | 4,508 | 1,840 | 2,754 | 5,414 | 1,270 | 26,076 |
| Repayment of liability | 3,409 | 270 | 729 | 1,444 | 258 | 635 | 1,065 | 941 | 8,751 |
| Planned lifecycle replacement | 86 | 217 | 580 | 285 | 124 | 1 | 0 | 0 | 1,293 |
| | 14,790 | 2,344 | 7,320 | 8,618 | 2,953 | 4,220 | 7,908 | 3,433 | 51,586 |
| within 2 to 5 years | | | | | | | | | |
| Service charges | 32,039 | 935 | 10,820 | 10,260 | 3,089 | 3,741 | 6,744 | 3,292 | 70,920 |
| Interest | 16,918 | 6,346 | 13,097 | 16,344 | 7,091 | 10,559 | 20,746 | 9,401 | 100,502 |
| Repayment of liability | 10,934 | 658 | 3,041 | 5,301 | 1,475 | 2,775 | 4,261 | 2,199 | 30,644 |
| Planned lifecycle replacement | 1,807 | 965 | 3,270 | 3,596 | 428 | 267 | 684 | 0 | 11,017 |
| | 61,698 | 8,904 | 30,228 | 35,501 | 12,083 | 17,342 | 32,435 | 14,892 | 213,083 |
| within 6 to 10 years | | | | | | | | | |
| Service charges | 47,523 | 1,306 | 15,341 | 14,652 | 4,293 | 5,708 | 10,017 | 4,407 | 103,247 |
| Interest | 14,208 | 8,069 | 14,396 | 17,142 | 7,877 | 11,843 | 23,833 | 10,855 | 108,223 |
| Repayment of liability | 18,497 | 974 | 4,932 | 8,526 | 2,212 | 4,401 | 7,180 | 4,135 | 50,857 |
| Planned lifecycle replacement | 3,096 | 1,375 | 5,570 | 6,572 | 1,390 | 856 | 1,478 | 0 | 20,337 |
| | 83,324 | 11,724 | 40,239 | 46,892 | 15,772 | 22,808 | 42,508 | 19,397 | 282,664 |
| within 11 to 15 years | | | | | | | | | |
| Service charges | 20,975 | 1,477 | 17,649 | 16,987 | 4,857 | 7,177 | 12,313 | 4,987 | 86,422 |
| Interest | 3,289 | 8,021 | 11,710 | 12,730 | 6,513 | 9,663 | 19,951 | 9,070 | 80,947 |
| Repayment of liability | 11,452 | 1,721 | 8,730 | 13,470 | 3,566 | 5,795 | 10,244 | 6,229 | 61,207 |
| Planned lifecycle replacement | 1,217 | 1,572 | 4,780 | 6,841 | 1,668 | 1,583 | 2,452 | 0 | 20,113 |
| | 36,933 | 12,791 | 42,869 | 50,028 | 16,604 | 24,218 | 44,960 | 20,286 | 248,689 |
| within 16 to 20 years | | | | | | | | | |
| Service charges | 0 | 1,672 | 20,314 | 19,701 | 5,496 | 9,074 | 15,038 | 5,642 | 76,937 |
| Interest | 0 | 7,382 | 7,252 | 5,200 | 4,264 | 6,385 | 14,054 | 6,179 | 50,716 |
| Repayment of liability | 0 | 2,733 | 14,760 | 19,900 | 5,916 | 7,735 | 14,993 | 9,394 | 75,431 |
| Planned lifecycle replacement | 0 | 1,785 | 3,978 | 6,026 | 1,871 | 2,620 | 3,646 | 0 | 19,926 |
| | 0 | 13,572 | 46,304 | 50,827 | 17,547 | 25,814 | 47,731 | 21,215 | 223,010 |
| within 21 to 25 years | | | | | | | | | |
| Service charges | 0 | 1,494 | 4,960 | 0 | 2,913 | 4,787 | 10,731 | 1,659 | 26,544 |
| Interest | 0 | 4,995 | 595 | 0 | 771 | 1,871 | 4,079 | 955 | 13,266 |
| Repayment of liability | 0 | 3,817 | 4,353 | 0 | 4,064 | 5,608 | 12,249 | 3,230 | 33,321 |
| Planned lifecycle replacement | 0 | 1,596 | 959 | 0 | 1,126 | 1,314 | 3,060 | 0 | 8,055 |
| | 0 | 11,902 | 10,867 | 0 | 8,874 | 13,580 | 30,119 | 5,844 | 81,186 |
| within 26 to 30 years | | | | | | | | | |
| Service charges | | | | | | | | | 0 |
| Interest | | | | | | | | | 0 |
| Repayment of liability | | | | | | | | | 0 |
| Planned lifecycle replacement | | | | | | | | | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Payments Due | 196,745 | 61,237 | 177,827 | 191,866 | 73,833 | 107,982 | 205,661 | 85,067 | 1,100,218 |

Notes to the Core Financial Statements

35. LONG TERM CONTRACTS

a) Leisure Centre Management

In October 2012 the Council started a 15 year contract with Fusion Lifestyles for the operation of all of its leisure centres plus Bellingham Leisure & Lifestyle Centre. The contract also covers Forest Hill Leisure Centre and Glass Mill Leisure Centre. The total contract cost in 2014/15 was £0.8m.

b) Parks and Open Spaces

On 1st March 2010 the Council began a 10 year Green Space contract with Glendale Grounds Management with a 5 year break clause which covers parks and open spaces, highways enclosures and grounds maintenance on Lewisham Homes sites. The contract value is £3.3m per year.

c) Networks and Telecommunications and Primary ICT Services

On 1st April 2011 Lewisham and Bromley Councils started a joint contract to procure services from Capita for 5 years, with options to extend for up to 4 more years. The cost to the Council is £2.6m per year.

d) IT Licenses and Support Contract

In May 2012 the Council renewed its existing contract with Oracle for a further 4 years until August 2016 for licenses and support on the financial information system. The total contract value is £1m.

e) Data Centre Provision

The Council's servers are housed in a Data Centre provided by Logicalis. The contract began in April 2011 and runs for 5 years with options to extend by up to 5 more years. The cost is £0.4m per year.

f) Multi-Functional Device Contract

The Council's contract with Siemens Financials was replaced in July 2014 by a new contract with Xerox to lease multi-functional devices (printers / faxes / copiers) for 3 years with a total cost across the life of the contract of £1.2m.

g) Voice & Data Network (Line usage and rental)

This contract runs until March 2016 and is provided by Capita, principally using Azzurri Communications as the line provider, at a cost of £0.8m per year.

h) Parking Contract

On 1 August 2013 a 6 year contract for the provision of parking management services was awarded to NSL at a cost of up to £1.9m per year.

i) Highway Maintenance Contract

A new contract was agreed with FM Conway for 5 years from 1st April 2014 with an option to extend by two years at a cost of £3.7m per year.

j) School Meals Catering Contract

In February 2015 the Council awarded the school meals contract to Compass Group (trading as Chartwells). This provides a centrally managed school meals service for 67 schools and for civic service provision inclusive of the management of the Wearside canteen. The value of the contract varies with the number of meals but is around £9m. The contract is for 5 years with a option to extend it for a further 2 years.

k) Corporate Cleaning Contract

This 5 year contract for the cleaning of all the corporate and operational sites started in 2010 with ISS Facility Services with an option to extend for a further two years. The annual contract value is £1.3m and is subject to London Living Wage (and all subsequent annual increases).

l) Premises Maintenance (Planned and Statutory Maintenance)

This 5 year contract was awarded to Interserve Facilities Services in 2010 with an option to extend for a further two years. The annual value is £1.26m and provides a Planned Preventative Maintenance Programme to the Councils Corporate Estate.

Notes to the Core Financial Statements

m) Corporate Security Contract

A 3 year contract was awarded to CIS Security Services in March 2011 with an option to extend for a further two years. The annual value is £0.9m and is subject to London Living Wage (and all subsequent annual increases) and provides Manned Guarding and associated services to the Operational Estate.

n) Statutory Compliance - Asbestos, Fire, Water

A 3 year contract was awarded to Graham Environmental Services in September 2013 with an option to extend for a further two years. The annual value of all three contracts is £0.3m.

36. DEFINED CONTRIBUTION PENSION SCHEMES

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

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is run by the Department for Education (DfE). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DfE use a notional fund to set a national employers contribution rate based on a percentage of members pensionable pay (14.1% for 2014/15 and 2013/14). In 2014/15 the Council paid £12.6m to the DfE in respect of teachers' pension costs (£12.3m in 2013/14).

Public Health staff employed by the Council are members of the NHS Pension Scheme, which is run by the Department of Health (DoH). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DoH use a notional fund to set a national employers contribution rate based on a percentage of members pensionable pay (14% for 2014/15 and 2013/14). In 2014/15 the Council paid £0.148m to the DoH in respect of employees' pension costs (£0.164m in 2013/14).

37. DEFINED BENEFIT PENSION SCHEMES**a) Participation in Pension Schemes**

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

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

These are assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. They have been prepared by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on IAS19 assumptions and calculations for the year and the latest triennial valuations as at 31st March 2013.

c) Transactions relating to Retirement Benefits

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

Notes to the Core Financial Statements

Comprehensive Income and Expenditure Statement**Cost of Service**

Current Service Cost

33,586

30,616

Past Service Cost (inc.settlements and curtailments)

957

920

34,543

31,536

Financing and Investment Income and ExpenditureNet Interest on the Net Defined Benefit Liability

Interest Income on Scheme Assets

(36,002)

(39,329)

Interest Cost on Defined Benefit Obligation (Liabilities)

64,639

63,840

28,637

24,511

Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services

63,180

56,047

Remeasurements of the Net Defined Benefit Liability

Return on Assets excluding amounts included in Net Interest

(97,268)

9,708

Actuarial Losses from changes in Demographic Assumptions

0

448

Actuarial Losses from changes in Financial Assumptions

217,512

52,079

Other Gains and Losses

(21,969)

(45,774)

98,275

16,461

Total Remeasurements recognised in CIES**Total Post Employment Benefits Charged to the CIES**

161,455

72,508

Movement in Reserves Statement

Reversal of Net Charges made to the the Surplus or Deficit on the Provision of Services

(63,180)

(56,047)

Employers' Contributions Payable to the Scheme

32,823

33,922

Return on Assets excluding amounts included in Net Interest

97,268

(9,708)

Actuarial Gains and Losses

(195,543)

(6,753)

Pensions Reserve adj to opening bal (re Lewisham Homes)

0

(1,274)

Net Movement in Pensions Reserve

(128,632)

(39,860)

d) Pensions Assets and Liabilities Recognised in the Balance Sheet

Fair Value of Plan Assets

1,053,518

923,298

Present Value of Defined Benefit Liability (Obligation)

(1,688,924)

(1,429,682)

(635,406)

(506,384)

Present Value of Unfunded Liabilities

(81,316)

(81,706)

Pensions Reserve - Year End Balance

(716,722)

(588,090)

Notes to the Core Financial Statements

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

| | 31/03/2015 £000 | 31/03/2014 £000 |
|---|--------------------|--------------------|
| Opening Fair Value of Scheme Assets | 923,298 | 891,487 |
| Interest Income on Scheme Assets | 36,002 | 39,329 |
| Administration | (106) | (93) |
| <u>Remeasurement Gains / Losses</u> | | |
| Return on Assets excluding amounts included in Net Interest | 97,268 | (9,708) |
| Employer Contributions | 27,668 | 28,579 |
| Contributions in respect of Unfunded Benefits | 5,155 | 5,343 |
| Contributions from Scheme Participants | 8,479 | 8,291 |
| Benefits Paid | (47,291) | (43,809) |
| Unfunded Benefits Paid | (5,155) | (5,343) |
| Other Gains and Losses | 8,200 | 9,222 |
| Closing Fair Value of Scheme Assets | 1,053,518 | 923,298 |

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

| | 31/03/2014 £000 | 31/03/2014 £000 |
|--|--------------------|--------------------|
| Opening Present Value of Scheme Liabilities (Obligations) | (1,511,388) | (1,440,991) |
| Current Service Cost | (33,586) | (30,616) |
| Interest Cost on Defined Benefit Obligation (Liabilities) | (64,533) | (63,747) |
| Contributions from Scheme Participants | (8,479) | (8,291) |
| <u>Remeasurement Gains / Losses</u> | | |
| Benefits Paid | 47,291 | 43,809 |
| Unfunded Benefits Paid | 5,155 | 5,343 |
| Actuarial Losses from changes in Demographic Assumptions | 0 | (448) |
| Actuarial Losses from changes in Financial Assumptions | (217,512) | (52,079) |
| Other Gains and Losses | 13,769 | 36,552 |
| Past Service Costs / Curtailments / Settlements | (957) | (920) |
| Closing Present Value of Scheme Liabilities (Obligations) | (1,770,240) | (1,511,388) |

g) Pension Scheme Assets

| | 31/03/2015 | | | 31/03/2014 | | |
|--------------------------------|--------------------------|----------------------------------|----------------|--------------------------|----------------------------------|----------------|
| | Active Market £000 | Not in Active Markets £000 | Total £000 | Active Market £000 | Not in Active Markets £000 | Total £000 |
| LGPS (LBL and LH) | | | | | | |
| Equities | 74,194 | | 74,194 | 14,919 | | 14,919 |
| Debt Securities | 94,621 | | 94,621 | 78,999 | | 78,999 |
| Real Estate | | 79,649 | 79,649 | | 70,137 | 70,137 |
| Investment Funds / Unit Trusts | 652,103 | 60,534 | 712,637 | 607,833 | 69,645 | 677,478 |
| Derivatives | | (52) | (52) | | | 0 |
| Cash and Cash Equivalents | | 20,655 | 20,655 | 948 | 10,364 | 11,312 |
| Total LGPS Assets | 820,918 | 160,786 | 981,704 | 702,699 | 150,146 | 852,845 |

Notes to the Core Financial Statements

| | 31/03/2015 | | | 31/03/2014 | | |
|--------------------------|-----------------------|-------------------------------|---------------|-----------------------|-------------------------------|---------------|
| | Active Market £000 | Not in Active Markets £000 | Total £000 | Active Market £000 | Not in Active Markets £000 | Total £000 |
| LPFA | | | | | | |
| Equities | 17,446 | 13,712 | 31,158 | 37,340 | | 37,340 |
| LDI Cashflow matching | | 5,390 | 5,390 | 4,227 | | 4,227 |
| Target Return Portfolio | 15,319 | 5,441 | 20,760 | 21,136 | | 21,136 |
| Infrastructure | | 3,558 | 3,558 | | 2,818 | 2,818 |
| Commodities | 223 | 445 | 668 | 705 | | 705 |
| Properties | | 2,035 | 2,035 | | 2,114 | 2,114 |
| Cash | | 8,245 | 8,245 | | 2,114 | 2,114 |
| Total LPFA Assets | 32,988 | 38,826 | 71,814 | 63,408 | 7,046 | 70,454 |

h) Basis for Estimating Assets and Liabilities

| | Local Government Pension Scheme | | LPFA | |
|--|---------------------------------|---------|---------|---------|
| | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| Rate of Inflation – CPI | | 2.8% | 2.2% | 2.6% |
| Salary Increase Rate * | 4.3% | 4.6% | 4.0% | 4.4% |
| Pensions Increases | 2.4% | 2.8% | 2.2% | 2.6% |
| Rate for discounting scheme liabilities | 3.2% | 4.3% | 3.0% | 4.2% |
| Mortality assumptions | | | | |
| Longevity at 65 for current pensioners - Men | 21.7yrs | 21.7yrs | 21.5yrs | 21.4yrs |
| Longevity at 65 for current pensioners - Women | 24.0yrs | 24.0yrs | 24.3yrs | 24.2yrs |
| Longevity at 65 for future pensioners - Men | 24.4yrs | 24.4yrs | 23.9yrs | 23.7yrs |
| Longevity at 65 for future pensioners - Women | 26.7yrs | 26.7yrs | 26.6yrs | 26.5yrs |

Note – Salary increases in the LGPS forecast are assumed to be 1% p.a. until 31 March 2016 reverting to the long term assumption shown thereafter.

i) Sensitivity Analysis

| Change in Assumption at 31st March 2015 | Approximate % Increase in Employer Liability | Approximate Monetary Amount (£000) |
|--|--|------------------------------------|
| LGPS - LB Lewisham | | |
| 0.5% Decrease in Real Discount Rate | 10% | 152,054 |
| 1 Year Increase in Member Life Expectancy | 3% | 47,194 |
| 0.5% Increase in the Salary Increase Rate | 2% | 39,246 |
| 0.5% Increase in the Pension Increase Rate | 7% | 110,084 |
| LGPS - Lewisham Homes | | |
| 0.5% Decrease in Real Discount Rate | 12% | 13,826 |
| 1 Year Increase in Member Life Expectancy | 3% | 3,426 |
| 0.5% Increase in the Salary Increase Rate | 4% | 4,884 |
| 0.5% Increase in the Pension Increase Rate | 8% | 8,586 |
| LPFA | | |
| 0.5% Decrease in Real Discount Rate | n/a | 1,615 |
| 1 Year Increase in Member Life Expectancy | n/a | 308 |
| 0.5% Increase in the Salary Increase Rate | n/a | 1,590 |
| 0.5% Increase in the Pension Increase Rate | n/a | 1,565 |

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

Notes to the Core Financial Statements

i) Future Contributions

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve an increased funding level over the next 3 years. Funding levels are monitored on an annual basis and the next triennial valuation is due at 31st March 2016. The Council anticipates paying £24.7m in contributions to the scheme in 2015/16.

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

38. CONTINGENT LIABILITIES

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

On 31 March 2015 the Council were advised by the Valuation Office Agency (VOA) that Virgin Media had put forward a proposal to merge the Virgin Media network that appears in councils rating lists countrywide into a single national assessment appearing with effect from 1 April 2010. There is no indication whether the proposal will be accepted or rejected yet. Given this uncertainty, it is disclosed as a contingent liability and will be reviewed in January 2016 as part of the 2016/17 NDR data assessment when the outcome may be clearer. The estimated effect of this proposal on the Collection Fund is approximately £10m.

39. CONTINGENT ASSETS

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

40. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances.

| | Balance 31/03/2015 £000 | Movement in 14/15 £000 | Balance 31/03/2014 £000 |
|-------------------------------|--|---------------------------------------|--|
| Children and Young People | 34 | 5 | 29 |
| Community Services | 593 | (147) | 740 |
| Cemeteries Graves Maintenance | 18 | 0 | 18 |
| Total Trust Funds | 645 | (142) | 787 |

The fund balances as at 31 March 2015 were invested as follows:

| | 31/03/2015 £000 | 31/03/2014 £000 |
|--------------------------|----------------------------|----------------------------|
| External Investments | 27 | 27 |
| Cash | 618 | 760 |
| Total Trust Funds | 645 | 787 |

Notes to the Core Financial Statements

42. HERITAGE ASSETS

These assets comprise Lewisham Clock Tower and the Civic Regalia. Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31st March 2015 is £257,000 (£257,000 as at 31st March 2014).

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

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

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Depreciation, Impairment & Downward Valuations | 238,689 | 48,077 |
| Increase/decrease in impairment for bad debts | 0 | 0 |
| Increase/decrease in creditors | 3,745 | (2,242) |
| Increase/decrease in debtors | 27,588 | (2,762) |
| Increase/decrease in inventories (stock) | 139 | (4) |
| Movement in pension liability | 30,357 | 33,107 |
| Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 0 | 4,854 |
| Other non-cash items charged to the net surplus or deficit on the provision of services | (40,832) | (27,238) |
| Total Adjustment to net surplus or deficit on the provision of services for non-cash movements | 259,686 | 53,792 |

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

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 398 | 0 |
| Proceeds from the sale of property plant and equipment, investment property and intangible assets | (34,768) | (15,450) |
| Any other items for which the cash effects are investing or financing cash flows. | (50,108) | (44,654) |
| Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (84,478) | (60,104) |

Notes to the Core Financial Statements

45. CASH FLOW STATEMENT - OPERATING ACTIVITIES

| | 2014/15 £000 | 2013/14 £000 |
|--------------------------|-----------------|-----------------|
| Interest Received | 1,156 | 1,985 |
| Interest Paid | (24,872) | (36,014) |
| Net interest paid | (23,716) | (34,029) |

46. CASH FLOW STATEMENT - INVESTING ACTIVITIES

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|------------------|
| Purchase of Property, Plant and Equipment, investment property and intangible assets | (66,775) | (43,583) |
| Purchase of short and long term investments | (395,000) | (384,818) |
| Other payments for Investing Activities | 0 | (4,767) |
| Proceeds from the sale of property plant and equipment, investment property and intangible assets | 34,787 | 15,492 |
| Proceeds from short-term and long-term investments | 330,000 | 249,334 |
| Other Receipts from Investing Activities | 50,361 | 46,641 |
| Net cash flows from investing activities | (46,627) | (121,701) |

47. CASH FLOW STATEMENT - FINANCING ACTIVITIES

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Cash receipts of short and long term borrowing | 0 | 5,125 |
| Other receipts from financing activities | 0 | 3,071 |
| Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (8,237) | (7,529) |
| Repayment of Short-Term and Long-Term Borrowing | (5,315) | (7,950) |
| Other payments for financing activities | 0 | 0 |
| Net cash flows from investing activities | (13,552) | (7,283) |

Housing Revenue Account

SECTION 4 - HOUSING REVENUE ACCOUNT

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

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

| | 2014/15 £000 | 2013/14 £000 | Note |
|---|------------------|------------------|------|
| INCOME | | | |
| Gross Rent - Dwellings | (71,829) | (69,679) | 1 |
| Gross Rent - Other Housing Properties | (3,362) | (4,690) | 1 |
| Charges for Services and Facilities | (9,793) | (9,476) | 1 |
| Housing Subsidy and Government Grants | (46,353) | (34,353) | 2 |
| Contribution towards Expenditure | (3,951) | (2,696) | 4 |
| Total Income | (135,288) | (120,894) | |
| EXPENDITURE | | | |
| Supervision and Management - General Expenses | 30,174 | 30,656 | 5 |
| Supervision and Management - Special Expenses | 6,366 | 6,723 | 5 |
| Repairs and Maintenance | 62,875 | 56,845 | 6 |
| Rent, Rates and Other Charges | 296 | 457 | 8 |
| Rent Rebate Subsidy Shortfall | 242 | 152 | 3 |
| Contribution to Doubtful Debts Provision | 730 | 756 | 7 |
| Depreciation - Dwellings | 25,530 | 20,959 | 10 |
| Depreciation - Other Housing Assets | 801 | 836 | 10 |
| Impairment of Non Current Assets | (2,126) | (53,090) | |
| Debt Management Expenses | 26 | 29 | |
| Total Expenditure | 124,914 | 64,323 | |
| Net Cost of Services included in the Council's Income and Expenditure Account | (10,374) | (56,571) | |
| HRA Services share of Corporate and Democratic Core Costs | 134 | 134 | |
| Net Cost of HRA Services | (10,240) | (56,437) | |
| HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement | | | |
| (Gain) / Loss on Sale of HRA Non Current Assets | (4,127) | (5,390) | |
| Interest Payable and Similar Charges | 8,584 | 9,385 | 11 |
| Interest and Investment Income | (422) | (238) | |
| Pension Interest Cost and Expected Return on Pension Assets | (20,086) | (4,166) | 12 |
| (Surplus) / Deficit for the Year on HRA Services | (26,291) | (56,846) | |

Housing Revenue Account

HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

| | 2014/15 £000 | 2013/14 £000 |
|---|-------------------------|-------------------------|
| Balance on the HRA at the End of the Previous Year | 26,546 | 22,898 |
| Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement | 26,291 | 56,846 |
| Adjustments between Accounting Basis and Funding Basis under Statute | 32,876 | 5,153 |
| Net Increase or (Decrease) before Transfers (To) / From Reserves | 59,167 | 61,999 |
| Transfers (To) / From Reserves | (49,802) | (58,351) |
| Increase or (Decrease) in Year on the HRA | 9,365 | 3,648 |
| Balance on the HRA at the End of the Year | 35,911 | 26,546 |

An analysis of the amounts included within the figures for "Adjustments between Accounting Basis and Funding Basis under Statute" can be found within Note 7 to the Core Financial Statements.

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

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 2015, 0.61% of lettable property was empty (0.74% at 31 March 2014). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £95.97 per week in 2014/15 and £91.03 per week in 2013/14. Service charges have been disaggregated from rents and are now shown under charges for services and facilities.

a) Housing Stock

There were no stock transfers during 2014/15 or 2013/14.

| | 31/03/2015 | 31/03/2014 |
|----------------------------------|---------------|---------------|
| <u>Stock Numbers at year end</u> | | |
| Houses and Bungalows | 2,423 | 2,432 |
| Flats and Maisonettes | 12,214 | 12,325 |
| Stock at 31 March | 14,637 | 14,757 |

| | 2014/15 | 2013/14 |
|--|---------------|---------------|
| <u>Change in Stock Numbers during the year</u> | | |
| Stock at 1 April | 14,757 | 15,080 |
| Less Sales, Demolitions, etc. | (128) | (327) |
| Add Re-purchases, Conversions etc. | 8 | 4 |
| Stock at 31 March | 14,637 | 14,757 |

b) Rent Arrears

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Rent Arrears due from Current Tenants | 3,331 | 3,822 |
| Rent Arrears due from Former Tenants | 1,813 | 1,774 |
| Total Arrears | 5,144 | 5,596 |
| Total Arrears as % of Gross Rent of Dwellings Due | 8.0% | 8.0% |

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

c) Rent – Other Housing Property

| | 2014/15 £000 | 2013/14 £000 |
|--------------------------------------|-----------------|-----------------|
| Aerial Sites | 342 | 262 |
| Garages | 322 | 981 |
| Reception Hostels | 2,455 | 2,340 |
| Commercial Property | 184 | 1,049 |
| Ground Rents | 59 | 58 |
| Total Other Rents and Charges | 3,362 | 4,690 |

Housing Revenue Account

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

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £7.72 in 2014/15 (£7.55 in 2013/14).

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Heating Charges | 730 | 744 |
| Leasehold Service Charges | 4,430 | 4,163 |
| Tenants Service Charges | 4,633 | 4,569 |
| Total Charges for Services and Facilities | 9,793 | 9,476 |

2. GOVERNMENT HOUSING GRANTS AND SUBSIDY

From 1st April 2012 HRA accounts were prepared under the Government's HRA self-financing regime. Under this system no further housing subsidy transactions are made between government and stock owning Councils. This is in recognition that all rent collected will be retained by the Council and not contributed into the national rent pool.

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

In addition, the Council also received a £36.0m grant towards the costs of meeting the decent homes obligations.

| | 2014/15 £000 | 2013/14 £000 |
|---------------------------------|-----------------|-----------------|
| Charges for Capital | 0 | 15 |
| PFI Credit | 10,353 | 10,353 |
| Decent Homes Grant | 36,000 | 24,000 |
| Total Grants and Subsidy | 46,353 | 34,368 |

3. REBATES

Assistance with rents is available under the Housing benefits scheme for those on low income. The scheme is administered by the Council and approximately 56% of tenants received help in 2014/15 (57% in 2013/14). Rent rebates are chargeable to, and the corresponding subsidy is credited to the General Fund.

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

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

| | 2014/15 £000 | 2013/14 £000 |
|----------------------------------|-----------------|-----------------|
| Rent Rebates Given (GF) | 45,197 | 44,646 |
| Subsidy Received on Rebates (GF) | (45,197) | (44,494) |
| Net cost to the HRA | 0 | 152 |

Housing Revenue Account

4. CONTRIBUTION TOWARDS EXPENDITURE

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Commission on insurance and water rates | 650 | 661 |
| Recharges of repairs | 2,225 | 1,185 |
| Recharge to Capital Receipts | 618 | 561 |
| Hostels: Heat, Light and Water Charges | 95 | 194 |
| Other miscellaneous income | 363 | 95 |
| Total Other Income | 3,951 | 2,696 |

5. SUPERVISION AND MANAGEMENTGeneral expenses

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

Special expenses

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

6. REPAIRS AND MAINTENANCE

This includes day-to-day repairs to Council housing stock and cyclical external decoration. Void properties prior to re-letting and certain tenants' properties are eligible for internal decoration. Gross repairs and maintenance expenditure for 2014/15 was £14.602m (2013/14 - £15.423m).

7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE

A contribution of £0.730m (2013/14 £0.756m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Housing Tenants | 4,207 | 4,518 |
| Leaseholders | 1,946 | 1,875 |
| Commercial Properties, Miscellaneous Debts | 989 | 844 |
| Total Impairment Allowance | 7,142 | 7,237 |

8. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)

Under the current HRA self-financing system, which began on 01 April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31 March 2014 was £74.8m

Housing Revenue Account

9. NON CURRENT ASSETS VALUATION

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

| | 31/03/15 £000 | 31/03/14 £000 |
|---|------------------|------------------|
| Operational Assets: | | |
| Dwellings (Existing Use Value - Social Housing) | 1,057,633 | 882,033 |
| Other Land and Buildings | 26,267 | 42,693 |
| Infrastructure | 0 | 102 |
| Vehicles, Plant and Equipment | 5,792 | 5,613 |
| | 1,089,692 | 930,441 |
| Investment Properties | 20,949 | 18,406 |
| Total Housing Assets | 1,110,641 | 948,847 |
| Full Valuation of Council Dwellings | 4,230,532 | 3,528,132 |

10. DEPRECIATION

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

| | 2014/15 £000 | 2013/14 £000 |
|-------------------------------|-----------------|-----------------|
| Operational Assets | | |
| Dwellings | 25,320 | 20,957 |
| Other Land and Buildings | 614 | 502 |
| Vehicles, Plant and Equipment | 337 | 311 |
| | 26,271 | 21,770 |

Depreciation is not charged on Non Operational Assets.

11. INTEREST PAYABLE AND SIMILAR CHARGES

This line includes the charge of £3.2m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2014/15 (£3.7m in 2013/14). It also includes £0.477m for the net cost of amortised loan redemption premiums and discounts (£0.751 2013/14).

12. PENSIONS COSTS – IAS 19

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

Housing Revenue Account

13. HOUSING CAPITAL EXPENDITURE

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

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Expenditure: | | |
| Dwellings | 4,694 | 3,361 |
| Revenue Expenditure Funded from Capital under Statute | 0 | 0 |
| | 4,694 | 3,361 |
| Financed by: | | |
| Capital Receipts | 213 | 85 |
| Major Repairs Reserve | 4,481 | 3,276 |
| Total Capital Expenditure Financed | 4,694 | 3,361 |

The total capital receipts from the disposal of housing assets (including stock transfer) were £18.6m in 2014/15 (£10.7m in 2013/14).

14. MAJOR REPAIRS RESERVE

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Balance B/fwd as at 1 April | (19,787) | (12,719) |
| Transferred in (depreciation dwellings) | (26,331) | (21,795) |
| Financing of capital expenditure on housing assets | 4,481 | 3,276 |
| Financing Major Revenue Repairs | 12,273 | 17,422 |
| Contributions from Revenue (Capital) | 0 | (5,971) |
| Balance C/fwd as at 31 March | (29,364) | (19,787) |

15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

| | Balance at 31/03/2014 £000 | Transfers In £000 | Transfers Out £000 | Balance at 31/03/2015 £000 |
|-------------------------------------|----------------------------------|-------------------------|--------------------------|----------------------------------|
| Property and Stock Related Reserves | 4,616 | 157 | 0 | 4,773 |
| Staff Related Reserves | 750 | 0 | 0 | 750 |
| Other Earmarked Reserves | 21,180 | 9,208 | 0 | 30,388 |
| Total | 26,546 | 9,365 | 0 | 35,911 |

Collection Fund

SECTION 5 - THE COLLECTION FUND

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

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

The Council's share of the year end balances of the Collection Fund 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

| | 2014/15 | | | 2013/14 | | | Note |
|---|----------------|---------------|----------------|----------------|---------------|----------------|------|
| | Council Tax | NDR | Total | Council Tax | NDR | Total | |
| | £000 | £000 | £000 | £000 | £000 | £000 | |
| INCOME | | | | | | | |
| Income from Council Tax (net) | 105,674 | | 105,674 | 105,006 | | 105,006 | 4 |
| Income from Non-Domestic Rates (net) | | 55,702 | 55,702 | | 53,245 | 53,245 | 5 |
| TOTAL INCOME | 105,674 | 55,702 | 161,376 | 105,006 | 53,245 | 158,251 | |
| EXPENDITURE | | | | | | | |
| Precepts and Demands upon Fund | | | | | | | |
| - London Borough of Lewisham | 78,404 | | 78,404 | 76,555 | | 76,555 | |
| - Greater London Authority | 22,767 | | 22,767 | 21,876 | | 21,876 | |
| Non-Domestic Rates | | | | | | | |
| - Payment to National Pool | | 52,843 | 52,843 | | 50,485 | 50,485 | 5 |
| - Cost of Collection Allowance | | 306 | 306 | | 306 | 306 | 5 |
| Business Rate Supplement | | | | | | | |
| - Paid to Greater London Authority | | 1,459 | 1,459 | | 1,291 | 1,291 | 5 |
| - Administrative Costs | | 5 | 5 | | 5 | 5 | 5 |
| Bad and Doubtful Debts | | | | | | | |
| - Net adj to Impairment Allowance | 2,004 | | 2,004 | 2,460 | | 2,460 | 6a |
| - Net adj to Impairment Allowance | | 546 | 546 | | 675 | 675 | 6b |
| - Amounts Written Off | 605 | | 605 | 322 | | 322 | |
| - Amounts Written Off | | 543 | 543 | | 486 | 486 | 5 |
| Contributions from previous year | | | | | | | |
| - London Borough of Lewisham | 2,334 | | 2,334 | 4 | | 4 | |
| - Greater London Authority | | | 0 | 1 | | 1 | |
| Provision for Appeals | | | | | | | |
| - London Borough of Lewisham | | 38 | 38 | | 2,248 | 2,248 | |
| TOTAL EXPENDITURE | 106,114 | 55,740 | 161,854 | 101,218 | 55,496 | 156,714 | |
| Deficit / (Surplus) for the year | 440 | 38 | 478 | (3,788) | 2,251 | (1,537) | 3 |
| Deficit / (Surplus) at start of year | (6,236) | 2,251 | (3,985) | (2,448) | 0 | (2,448) | 3 |
| Deficit / (Surplus) at end of year | (5,796) | 2,289 | (3,507) | (6,236) | 2,251 | (3,985) | |

Collection Fund

NOTES TO THE COLLECTION FUND

1. 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 2014/15 assumed a collection rate of 95.5% (95.0% for 2013/14).

The table below sets out the original tax base calculation for 2014/15 and has been prepared in accordance with The Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme (CTRS) with effect from 01 April 2013.

| Council Tax Band | Property Value £000 | 2014/15 | | Band D Ratio | 2014/15 | | 2013/14 | |
|---------------------------------|------------------------|----------------------|------------------------|--------------|--|-------------------------|--|-------------------------|
| | | No. of Properties | | | Band D Equivalents as per Ratio No. | Council Tax Charge £ | Band D Equivalents as per Ratio No. | Council Tax Charge £ |
| | | Actual Number (1) | Adjusted Number (2) | | | | | |
| A | up to 40 | 7,238 | 3,631 | 6/9 | 2,421 | 906.23 | 2,010 | 908.90 |
| B | 40 - 52 | 32,737 | 19,905 | 7/9 | 15,482 | 1,057.28 | 14,430 | 1,060.39 |
| C | 52 - 68 | 42,008 | 29,504 | 8/9 | 26,226 | 1,208.31 | 25,704 | 1,211.86 |
| D | 68 - 88 | 25,146 | 20,059 | 1 | 20,059 | 1,359.35 | 20,335 | 1,363.35 |
| E | 88 - 120 | 7,145 | 6,017 | 11/9 | 7,354 | 1,661.42 | 7,557 | 1,666.31 |
| F | 120 - 160 | 2,734 | 2,479 | 13/9 | 3,581 | 1,963.51 | 3,631 | 1,969.29 |
| G | 160 - 320 | 1,286 | 1,196 | 15/9 | 1,994 | 2,265.58 | 2,020 | 2,272.25 |
| H | over 320 | 168 | 155 | 18/9 | 310 | 2,718.70 | 311 | 2,726.70 |
| Totals | | 118,462 | 82,946 | | 77,427 | | 75,998 | |
| Add: Contributions in lieu | | | | | 0 | | 0 | |
| Total Band D Equivalents | | | | | 77,427 | | 75,998 | |
| Estimated Collection Rate | | | | | 95.50% | | 95.00% | |
| NET COUNCIL TAX BASE | | | | | 72,198 | | 72,198 | |

(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

2. COLLECTION FUND SURPLUS OR DEFICIT

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

3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

| | Balance | (Surplus) / Deficit | Balance | (Surplus) / Deficit | Balance |
|-----------------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
| | As at 31/03/13 | For 2013/14 | As at 31/03/14 | For 2014/15 | As at 31/03/15 |
| | £000 | £000 | £000 | £000 | £000 |
| London Borough of Lewisham | (1,878) | (1,179) | (3,057) | 368 | (2,689) |
| Greater London Authority | (570) | (358) | (928) | 110 | (818) |
| | (2,448) | (1,537) | (3,985) | 478 | (3,507) |

Collection Fund Adjustment Account

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

4. COUNCIL TAX INCOME

| | 2014/15 | | 2013/14 |
|--|-----------------|-----------------|-----------------|
| | £000 | £000 | £000 |
| Gross Council Tax Income Due | | 149,144 | 147,656 |
| Less: Adjustments to charge | 915 | | 1,073 |
| Exemptions | (3,807) | | (3,727) |
| Disabled Relief | (65) | | (66) |
| Discounts | (15,156) | | (15,368) |
| Adjustment for Council Tax Reduction Scheme | (25,357) | | (24,562) |
| | | (43,470) | (42,650) |
| Total Due from Council Tax payers | | 105,674 | 105,006 |
| Transfers from General Fund for Council Tax Benefits | | 0 | 0 |
| Net Amount of Council Tax Receivable | | 105,674 | 105,006 |

Collection Fund

5. NON-DOMESTIC RATES

The Council is responsible for collecting the Non-Domestic Rates (NDR) (often referred to as Business Rates) which are payable within its area. The amount payable is based upon the rateable value of commercial properties multiplied by the NDR multiplier, which is set annually by the Government. The amount due is paid over to the Government and an amounts is then redistributed back to the Council via the formula grant mechanism. The Council's share of this redistributed money is paid into the General Fund.

| | 2014/15 | | 2013/14 |
|---|---------|---------------|---------------|
| | £000 | £000 | £000 |
| Gross NDR Collectable (after voids and exemptions) | | 62,701 | 59,130 |
| Reductions and Relief: | | | |
| Mandatory Relief | (6,777) | | (5,735) |
| Discretionary Relief | (222) | | (150) |
| Interest on Refunds and Other Adjustments | | (6,999) | |
| Total Receivable from Business Rates | | 55,702 | 53,245 |
| Irrecoverable Amounts Written Off | | (543) | (486) |
| Net Adjustment to Impairment Allowance | | (546) | (675) |
| Net Amount Collectable from Business Ratepayers | | 54,613 | 52,084 |
| Business Rate Supplement | | | |
| Payment to Greater London Authority | (1,459) | | (1,291) |
| Administrative Costs | (5) | | (5) |
| | | (1,464) | |
| NDR | | | |
| Cost of Collection Allowance transfer | | (306) | (306) |
| Amount Payable to NDR Pool | | 52,843 | 50,482 |

| | 2014/15 | 2013/14 |
|------------------------------------|--------------|--------------|
| | £m | £m |
| Non-Domestic Rateable Value | 138.7 | 139.5 |

| | 2014/15 | 2013/14 |
|--|-------------|-------------|
| | pence | pence |
| Non-Domestic Rate Multiplier | 48.2 | 47.1 |
| Non-Domestic Rate Multiplier (Small Business) | 47.1 | 46.2 |

Collection Fund

6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

a) Council Tax

| | 31/03/2015 £000 | 31/03/2014 £000 |
|----------------------------|--------------------|--------------------|
| Council Tax Arrears | 31,365 | 29,330 |
| Impairment Allowance | (28,888) | (26,884) |
| As a Percentage of Arrears | 92.1% | 91.7% |

| | 2014/15 | | 2013/14 | |
|-----------------------|----------------|-----------------|----------------|-----------------|
| | Amount £000 | Percentage % | Amount £000 | Percentage % |
| Age of Arrears | | | | |
| Year of Accounts | 5,982 | 19 | 6,177 | 21 |
| Under 2 Years old | 4,443 | 14 | 3,830 | 13 |
| Under 3 Years old | 3,323 | 11 | 3,377 | 12 |
| Under 5 Years old | 5,889 | 19 | 6,359 | 22 |
| Over 5 Years old | 11,729 | 37 | 9,587 | 32 |
| Total | 31,366 | 100 | 29,330 | 100 |

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

b) Non-Domestic Rates

| | 31/03/2015 £000 | 31/03/2014 £000 |
|----------------------------|--------------------|--------------------|
| NDR Arrears | 5,015 | 4,778 |
| Impairment Allowance | (3,101) | (2,555) |
| As a Percentage of Arrears | 61.8% | 53.5% |

| | 2014/15 | | 2013/14 | |
|-----------------------|----------------|-----------------|----------------|-----------------|
| | Amount £000 | Percentage % | Amount £000 | Percentage % |
| Age of Arrears | | | | |
| Year of Accounts | 1,297 | 26 | 1,518 | 32 |
| Under 2 Years old | 974 | 19 | 1,203 | 25 |
| Under 3 Years old | 876 | 17 | 897 | 19 |
| Under 5 Years old | 1,373 | 27 | 938 | 20 |
| Over 5 Years old | 494 | 10 | 222 | 4 |
| Total | 5,014 | 100 | 4,778 | 100 |

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

Glossary

SECTION 6 - GLOSSARY OF TERMS USED IN THE ACCOUNTS

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

Glossary

| | |
|---|--|
| 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. Lease classification is made at the inception of the lease.</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. 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 (MRP) | <p>The prudent amount which must be charged to the Council's revenue account each year for the principal repayment of debt.</p> |
| NON-DOMESTIC RATES (NDR) | <p>These are set by the Government and collected by the Council and paid into a central pool. The Government pays back to the Council a share of the pool as part of the grant allocation system.</p> |
| PRIVATE FINANCE INITIATIVE (PFI) | <p>This is an scheme whereby contracts for specified services are let to private sector suppliers by the Council which may include capital investment as well as the provision of the service. Payments are made to the supplier in return, which are reduced if performance targets are not met.</p> |
| PRECEPTS | <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>This represents the gains on the revaluation of non-current assets which have not yet been realised through sales.</p> |
| REVENUE SUPPORT GRANT (RSG) | <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> |

Annual Governance Statement

COMMON 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 on Local Authority Accounts in the United Kingdom |
| DSG | Dedicated Schools Grant |
| DfE | Department for Education |
| HRA | Housing Revenue Account |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| LEP | Local Education Partnership |
| LGPS | Local Government Pension Scheme |
| LPFA | London Pensions Fund Authority |
| LSP | Local Strategic Partnership |
| MiRS | Movement in Reserves Statement |
| MRP | Minimum Revenue Provision |
| NDC | Non Distributed Costs |
| NDR | Non-Domestic Rates |
| PFI | Private Finance Initiative |
| RICS | Royal Institution of Chartered Surveyors |
| SeRCOP | Service Reporting Code of Practice |
| SPV | Special Purpose Vehicle |
| SSAP | Statement of Standard Accounting Practice |
| TPS | Teacher's Pensions Scheme |
| VAT | Value Added Tax |

Pension Fund Accounts

**PENSION
FUND
ACCOUNTS**

2014/15

Pension Fund Accounts

INSERT AUDIT LETTER

Pension Fund Accounts

PENSION FUND ACCOUNTS**FOREWORD**

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2014/15.

The Pension Fund's value rose over the year by £141m, mainly due to an increase in stock valuation during the year.

INTRODUCTION

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

ORGANISATION

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transition Provisions, Savings and Amendment) Regulations 2014 (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 appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. The investment managers also have to consider the PIC's views on socially responsible investments. Details of the Socially Responsible Investment policy are contained in the Statement of Investment Principles (see web address below).

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

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:

<http://www.lewishampensions.org/>

ACCOUNTING POLICIES

Pension Fund Accounts

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Local Government Pension Scheme (Administration) Regulations 2008 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 Regulations summarise the Pension Code and the minimum disclosure requirements.

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

A summary of the significant 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, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2014/15 Local Authority Code of Practice 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 the sale of investments during the year.
- (d)** Income - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund

Pension Fund Accounts

as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.

- (e) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2015 is the actual fair value using the latest available valuation on or after 31st December 2014, plus an estimated valuation for the period up to 31st March 2015.
- (f) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schrodgers, to invest in pooled property funds. The Schrodgers funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards on the basis of their open market value (OMV).
- The only non UK fund is the Continental European Fund 1. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the 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. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2015 is the actual fair value using the latest available valuation on or after 31st December 2014, plus an estimated valuation for the period up to 31st March 2015.
- (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 Investec's valuation techniques.
- (i) Contributions – These represent the total amounts received from the employers and employers within the scheme. From 1st April 2015 the employee contribution bands (revised annually in line with inflation) increased to nine ranging from 5.5% for members earning up to £13,500 a year to 12.5% for members earning over £150,001 a year.

| Full time pay for the post | Contribution rate |
|----------------------------|-------------------|
| Up to £13,500 | 5.5% |

Pension Fund Accounts

| | |
|----------------------|--------|
| £13,501 to £21,000 | 5.8% |
| £21,001 to £34,000 | 6.5% |
| £34,001 to £43,000 | 6.8% |
| £43,001 to £60,000 | 8.5% |
| £60,001 to £85,000 | 9.90% |
| £85,001 to £100,000 | 10.5% |
| £101,000 to £150,000 | 11.40% |
| More than £150,001 | 12.50% |

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.

- (j) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.
- (k) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (l) Taxation – The fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (m) VAT – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (n) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2013.

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

| Financial assumption | March 2013 % | March 2010 % |
|----------------------|-----------------|-----------------|
| Discount Rate | 4.6 | 6.1 |

| Pension Fund Accounts | | |
|---------------------------------|-----|------|
| Price Inflation | 3.3 | 3.3 |
| Pay Increases | 4.3 | 5.3* |
| Pension Increase: | | |
| Pension in excess of GMP | 2.5 | 3.3 |
| Post -88 GMP | 2.5 | 2.8 |
| Pre-88 GMP | 0.0 | 0.0 |
| Revaluation of Deferred Pension | 2.5 | 3.3 |
| Expenses | 0.7 | 0.6 |

* The assumption for 2010 was actually 1% p.a for 2010/11 and 2011/12 and 5.3% thereafter.

With effect from the 1 April 2014, the actuarial review carried out for 31 March 2013 resulted in no increase to the Council's contribution rate of 21.5% for 2014/15 and annual increases of 0.5% for the subsequent two years (2015/16 and 2016/17). The next actuarial valuation of the Fund will be carried out as at 31 March 2016, with new employer contribution rates taking effect from 1 April 2017.

The triennial valuation on the 31st March 2013 revealed that the Fund's assets, which at 31 March 2013 were valued at £868 million, were sufficient to meet 71.4% (75.4% in 2010) of the current liabilities valued at £1,216 million (£949 in million 2010) accrued up to that date. The resulting deficit at the 2013 valuation was £348million (£234 million in 2010).

Actuarial Present Value of Promised Retirement Benefits

- (o) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,683 million as at 31st March 2015 (£1,416 million 31st March 2014).
- (p) 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
- (q) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
 - Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

Pension Fund Accounts

(r) 2014/15 Financial Year Summary of the Fund's Market Value

| Fund Manager | Assets | Assets | Assets | Proportion of Fund 2014/15 (%) |
|-------------------------------|--------------------------------|---------------------------|---------------------------|--------------------------------------|
| | | Value 2014/15 £'000 | Value 2013/14 £'000 | |
| Schroders Property | Property | 88,262 | 76,179 | 8.4 |
| HarbourVest | Private Equity | 44,167 | 39,136 | 4.2 |
| UBS | Passive Equity and Bonds | 433,053 | 371,042 | 41.4 |
| Blackrock | Passive Equity and Bonds | 433,791 | 369,472 | 41.5 |
| Investec | Commodities | 31,784 | 33,651 | 3.0 |
| M&G | Credit | 14,447 | 13,981 | 1.4 |
| Securities Lending | Securities Lending | 100 | 93 | - |
| Unallocated Funds | Cash | 224 | 1,202 | - |
| Lewisham | Cash and Net Current Assets | 2,490 | 38 | - |
| Total Fund | | 1,045,801 | 904,794 | 100.0 |

- (s) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year, the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts, please see note 13.
- (t) Financial Instruments –
Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
Fair value through profit or loss – assets that are held for trading.
- (u) Critical Judgements in Applying Accounting Policies and Assumptions made about the Future and other Major Sources of Estimation Uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the

Pension Fund Accounts

future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund’s qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
- Private Equity and M&G valuations – the value of the Fund’s private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for distributions and capital calls up to 31 March.

(v) Additional Voluntary Contributions (“AVCs”)

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed within transfers-in. Further details about the AVC arrangements are disclosed in note 15 to the financial statements.

FUND ACCOUNT FOR THE YEAR

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

| Pension Fund Accounts | | | |
|--|----------------|----------------|-------------|
| <u>FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2015</u> | 2014/15 | 2013/14 | |
| | £000s | £000s | Note |
| <u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u> | | | |
| <u>DIRECTLY INVOLVED WITH THE SCHEME</u> | | | |
| Contributions Receivable: | | | |
| - from Employer | 30,517 | 29,147 | 1 |
| - from Employees | 9,705 | 9,095 | 1 |
| - Reimbursement for Early Retirement | 1,604 | 1,380 | |
| Transfer Values In | 1,572 | 1,407 | |
| Other Income | 3 | 11 | |
| Sub-Total: Income | 43,402 | 41,039 | |
| Benefits Payable: | | | |
| - Pensions | 35,494 | 33,841 | 2 |
| - Lump Sums: Retirement allowances | 8,599 | 6,539 | |
| - Lump Sums: Death grants | 528 | 368 | |
| Payments to and on account of leavers: | | | |
| - Refunds of Contributions | 52 | 3 | |
| - Transfer Values Out | 3,190 | 2,012 | |
| Administrative and other expenses borne by the scheme | 1,011 | 836 | 3 |
| Sub-Total: Expenses | 48,874 | 43,599 | |
| Total Net additions (withdrawals) from Dealings with Scheme Members | (5,473) | (2,560) | |
| <u>RETURNS ON INVESTMENTS</u> | | | |
| Investment Income | 6,978 | 5,477 | 4 |
| Change in market value of investments (Realised and Unrealised) | 137,859 | 36,147 | |
| Investment Expenses: | | | |

| Pension Fund Accounts | | |
|---|------------------|----------------|
| - Investment Management Fees | (1,372) | (1,467) |
| - Tax on Dividends | (389) | (353) |
| Total Net Returns on Investments | 143,076 | 39,804 |
| NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD | 137,603 | 37,245 |
| OPENING NET ASSETS OF THE SCHEME | 904,794 | 867,549 |
| CLOSING NET ASSETS OF THE SCHEME | 1,042,397 | 904,794 |

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 2015.

| Pension Fund Accounts | | | |
|--|-----------|----------|----------|
| <u>NET ASSETS STATEMENT AT 31 MARCH 2015</u> | 2014/15 | 2013/14 | Note |
| | £000s | £000s | |
| - | | | |
| EQUITIES | | | |
| Equities: UK | 8,777 | 6,505 | 5 |
| Equities: Global | 11,228 | 10,389 | 5 |
| | 20,005 | 16,894 | |
| MANAGED FUNDS | | | |
| Property | 82,286 | 75,732 | |
| Equity | 662,070 | 558,575 | |
| Fixed Interest | 159,838 | 142,268 | |
| Index Linked | 32,410 | 28,476 | |
| Other Assets | 65,028 | 71,689 | |
| | 1,001,633 | 876,740 | |
| CASH DEPOSITS | 23,775 | 10,651 | 8 |
| DERIVATIVE CONTRACTS | | | 6 |
| Assets | 324 | 83,152 | |
| Liabilities | (324) | (83,152) | |
| OTHER INVESTMENT BALANCES | | | 7 |
| Debtors: Investment Transactions | 387 | 491 | |
| Creditors: Investment Transactions | (0) | (20) | |
| TOTAL INVESTMENTS | 1,045,800 | 904,756 | |
| NET CURRENT ASSETS AND LIABILITIES | | | 7 |
| Debtors | 629 | 1,107 | |
| Creditors | (4,303) | (1,222) | |
| Cash in Hand | 272 | 153 | 8 |
| TOTAL NET ASSETS | 1,042,397 | 904,794 | |

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2015. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

Employer Contributions

2014/15

2013/14

| Pension Fund Accounts | | |
|--|----------------|----------------|
| | £000s | £000s |
| Administering | 24,974 | 24,400 |
| Admitted | 1,079 | 826 |
| Scheduled | 4,465 | 3,921 |
| | <u>30,518</u> | <u>29,147</u> |
| Employee Contributions | 2014/15 | 2013/14 |
| | £000s | £000s |
| Administering | 7,867 | 7,521 |
| Admitted | 381 | 317 |
| Scheduled | 1,457 | 1,257 |
| | <u>9,705</u> | <u>9,095</u> |
| <u>2. BENEFITS PAYABLE</u> | 2014/15 | 2013/14 |
| | £000s | £000s |
| Administering | 22,670 | 20,278 |
| Admitted | 383 | 262 |
| Scheduled | 1,174* | 1,000 |
| Dependants Pensions | 0 | 1,328 |
| Pensions Increases | 11,267 | 10,973 |
| | <u>35,494</u> | <u>10,973</u> |
| * includes Dependents Pensions | | |
| <u>3. ADMINISTRATION COSTS</u> | 2014/15 | 2013/14 |
| | £000s | £000s |
| Lewisham Administration | 614 | 581 |
| Advisory Costs Incl. Audit and Custodian Fees | 278 | 283 |
| Other Costs | 40 | 14 |
| Bank Charges | 8 | 6 |
| | <u>940</u> | <u>884</u> |
| <u>4. INVESTMENT INCOME</u> | 2014/15 | 2013/14 |
| | £000s | £000s |
| Cash | 184 | 67 |
| Equity | 1,536 | 570 |
| Fixed Interest | 0 | 1,869 |
| Index Linked | 277 | 0 |
| Managed Funds Incl Property | 4,930 | 2,962 |
| Securities Lending | 7 | 9 |
| Other* | (60) | 0 |
| | <u>6,874</u> | <u>5,477</u> |

5. INVESTMENT ANALYSIS

Pension Fund Accounts

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

| Asset | Manager | 31 st March 2015 | |
|---|-----------|-----------------------------|------|
| | | Value £'000 | % |
| Aquila Life US Equity Index Fund | Blackrock | 140,178 | 14.1 |
| UBS GBL Asset Life North America Equity Tracker | UBS | 134,844 | 13.6 |
| Aquila Life UK Equity Index Fund | Blackrock | 90,028 | 9.1 |
| UBS Global Life UK Equity Tracker Fund | UBS | 86,977 | 8.8 |

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

| Asset | Manager | 31 st March 2015 | |
|--|-------------|-----------------------------|------|
| | | Value £'000 | % |
| UK Equities | | | |
| Harbourvest GE PE Shares | Harbourvest | 8,782 | 100 |
| Global Equities | | | |
| Commonwealth Bank of Australia | UBS | 708 | 6.6 |
| Westpac BKG Corp | UBS | 564 | 5.2 |
| Property | | | |
| Standard Life Pooled property Fund | Schroder | 10,762 | 13.1 |
| Schroder Uk Prop. | Schroder | 12,575 | 15.3 |
| Hermes Property UT | Schroder | 8,439 | 10.3 |
| Legal and General Property Fund | Schroder | 11,440 | 13.9 |
| Blackrock UK Fund | Schroder | 12,173 | 14.8 |
| Real Income Fund | Schroder | 8,170 | 9.9 |
| Hercules Unit Property | Schroder | 4,790 | 5.8 |
| Managed Equities | | | |
| UBS Global AM Life Equity Tracker | UBS | 86,978 | 13.1 |
| UBS Global Life North America | UBS | 134,844 | 20.4 |
| Aquila Life European Equity Index Fund | Blackrock | 41,335 | 6.2 |
| UBS Global Life European EX UK Equity Tracker Fund | UBS | 37,417 | 5.6 |
| Aquila Life US Equity Index Fund | Blackrock | 140,031 | 21.1 |
| Aquila Life UK Equity Index Fund | Blackrock | 89,930 | 13.6 |

| Pension Fund Accounts | | | |
|---|-------------|---------------|-------------|
| Fixed Interest | | | |
| UBS Global Asset Management Corporate Bond Fund | UBS | 32,510 | 20.3 |
| Blackrock Am Uk Corporate Bond Index | Blackrock | 31,576 | 19.8 |
| Aquila Life over 5 yrs Index Fund | Blackrock | 31,226 | 19.5 |
| Barclays Global Aquila Life over 15 yrs | Blackrock | 31,689 | 19.8 |
| | | | |
| Index Linked | | | |
| UK(GOVT OF) 0.375% I/L GILT | UBS | 1,734 | 5.3 |
| UK(GOVT OF) 0.5% IDX/LKD | UBS | 1,662 | 5.1 |
| UK(GOVT OF) 0.75% I/L STK | UBS | 1,729 | 5.3 |
| UK(GOVT OF) 1.125% I/L STK | UBS | 1,804 | 5.5 |
| UK(GOVT OF) 1.25% IDX-LKD | UBS | 1,828 | 5.6 |
| UK(GOVT OF) 1.25% IDX-LKD | UBS | 2,061 | 6.3 |
| UK(GOVT OF) 1.875% I/L STK | UBS | 1,795 | 5.5 |
| UK(GOVT OF) 2.5% I/L GILT | UBS | 1,773 | 5.4 |
| UK(GOVT OF) 2.5% I/L STK | UBS | 1,690 | 5.2 |
| Others | | | |
| Global Commodities and Resources | Investec | 31,784 | 48.9 |
| Cayman Partnership Fund | Harbourvest | 8,244 | 12.7 |
| UK Companies Financing Fund | M&G | 9,425 | 14.5 |
| Cayman Buyout Fund | Harbourvest | 8,075 | 12.4 |
| Cayman Venture Fund | Harbourvest | 5,608 | 8.6 |

An analysis of investment movements is set out below:

| <u>5. INVESTMENT ANALYSIS</u> | Value at 31/03/14 | Purchases At Cost | Sales Proceeds | Change in Capital Value | Change in Market Value | Value at 31/03/15 |
|--------------------------------------|--------------------------|--------------------------|-----------------------|--------------------------------|-------------------------------|--------------------------|
|--------------------------------------|--------------------------|--------------------------|-----------------------|--------------------------------|-------------------------------|--------------------------|

| Pension Fund Accounts | | | | | | |
|------------------------------|----------------|---------------|-----------------|----------------|----------------|------------------|
| Investments | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| UK Equities | 6,505 | 0 | 0 | (152) | 2,428 | 8,781 |
| Global Equities | 10,389 | 17 | (1) | (73) | 895 | 11,227 |
| Property | 75,732 | 12,059 | (9,991) | (3,965) | 8,451 | 82,286 |
| Managed Equities | 558,575 | 13,627 | (850) | | 90,713 | 662,065 |
| Fixed Interest Securities | 142,268 | 3,728 | (12,436) | | 26,278 | 159,838 |
| Index Linked Securities | 28,476 | 3,515 | (5,265) | | 5,684 | 32,410 |
| Other* | 71,689 | 1,356 | (11,266) | | 3,248 | 65,027 |
| Derivatives | 0 | 0 | 0 | | | |
| | 893,634 | 34,302 | (39,809) | (4,190) | 137,697 | 1,021,634 |
| Cash deposits | 10,651 | | | | | 23,775 |
| Other Investment Balances | 471 | | | | | 387 |
| | 904,756 | | | | | 1,045,796 |

* Includes Commodities, Venture Capital, Credit Mandates and Private equity.

The Pension Fund's bond investments are held with UBS and Blackrock 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.

Apart from Global Equities and bonds, the only other overseas investments held by the Fund, fall under the 'Other' category and are namely Private Equity £23.8M and Commodities £31.7m.

The total value of unquoted securities held by the fund as at 31st March 2015 was £743m, this includes equities, bonds and other assets.

The total value of quoted securities held by the fund as at 31st March 2015 was £197m, this includes equities and bonds.

As at 31st March 2014:

| <u>5. INVESTMENT ANALYSIS</u> | Value at 31/03/13 | Purchases At Cost | Sales Proceeds | Change in Capital Value | Change in Market Value | Value at 31/03/14 |
|--------------------------------------|--------------------------|--------------------------|-----------------------|--------------------------------|-------------------------------|--------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Investments | | | | | | |

| Pension Fund Accounts | | | | | | |
|------------------------------|----------------|---------------|-----------------|----------------|---------------|----------------|
| UK Equities | 5,861 | 0 | 0 | (150) | 794 | 6,505 |
| Global Equities | 11,499 | 0 | (3) | 13 | (1,120) | 10,389 |
| Property | 68,794 | 8,760 | (4,933) | (871) | 3,982 | 75,732 |
| Managed | 510,346 | 12,280 | (3,500) | (6) | 39,455 | 558,575 |
| Equities | | | | | | |
| Fixed Interest | 130,160 | 17,983 | (2,822) | 0 | (3,053) | 142,268 |
| Securities | | | | | | |
| Index Linked | 26,496 | 6,079 | (2,791) | 0 | (1,308) | 28,476 |
| Securities | | | | | | |
| Other* | 80,290 | 1,917 | (7,915) | 0 | (2,603) | 71,689 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 |
| | 833,446 | 47,019 | (21,964) | (1,014) | 36,147 | 893,634 |
| Cash deposits | 33,502 | | | | | 10,651 |
| Other Investment | 644 | | | | | 471 |
| Balances | | | | | | |
| | 867,592 | | | | | 904,756 |

5A. FINANCIAL INSTRUMENTS

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

| 31 st March 2015 | Financial Assets | 31 st March 2014 |
|-----------------------------|------------------|-----------------------------|
|-----------------------------|------------------|-----------------------------|

Pension Fund Accounts

| Fair Value through Profit and Loss | Loans and Receivables | Financial Liabilities at Amortised Cost | | Fair Value through Profit and Loss | Loans and Receivables | Financial Liabilities at Amortised Cost |
|------------------------------------|-----------------------|---|-------------------------------|------------------------------------|-----------------------|---|
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| 20,005 | | | Equities | 16,894 | | |
| | | | Managed Funds | | | |
| 82,286 | | | Property | 75,732 | | |
| 662,070 | | | Managed Equity | 558,575 | | |
| 159,838 | | | Fixed Interest | 142,268 | | |
| 32,410 | | | Index Linked | 28,476 | | |
| 65,028 | | | Other Assets | 71,689 | | |
| 0 | | | Derivative contracts | 0 | | |
| | 23,775 | | Cash deposits | | 10,651 | |
| | 0 | | Pending Trades | | 326 | |
| | 387 | | Dividends & Income | | 165 | |
| | 570 | | Contributions Due | | 611 | |
| | 272 | | Cash Balances | | 153 | |
| | 35 | | Other Current Assets | 0 | 496 | |
| | | | Total Financial Assets | 893,634 | 12,402 | |
| | | | Financial Liabilities | | | |

| | | | | | | |
|--|--|---------|------------------------------------|----------|----------|----------------|
| | | 0 | Derivative Contracts | 0 | | |
| | | 0 | Pending Trades | | | (20) |
| | | (574) | Unpaid benefits | | | (955) |
| | | (2,792) | Other current Liabilities | | | (267) |
| | | | Total Financial Liabilities | 0 | 0 | (1,242) |

Pension Fund Accounts

| | | | | | | |
|-----------|--------|---------|----------------------|---------|--------|---------|
| 1,021,637 | 25,039 | (3,366) | Net Financial Assets | 893,634 | 12,402 | (1,242) |
|-----------|--------|---------|----------------------|---------|--------|---------|

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

| 31 March 2015 | | 31 March 2014 |
|----------------|------------------------------------|---------------|
| £'000 | Financial Assets | £'000 |
| 137,859 | Fair Value through Profit and Loss | 36,147 |
| 0 | Loans and Receivables | 0 |
| | | |
| | Financial Liabilities | |
| 0 | Fair Value through Profit and Loss | 0 |
| | | |
| 137,859 | Total | 36,147 |

The fund also received bank interest totalling £377 during the year.

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

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

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active).

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

| Values as at 31 st March 2015 | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | Total |
|--|---------------------|-------------------------|--------------------------------------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | |
| Financial Assets at Fair Value through | 20,005 | 966,243 | 35,390 | 1,021,638 |

| Pension Fund Accounts | | | | |
|---|----------------|----------------|---------------|------------------|
| Profit and Loss | | | | |
| Loans and Receivables | 25,039 | | | 25,039 |
| Total Financial Assets | 45,044 | 966,243 | 35,390 | 1,046,677 |
| Financial Liabilities | | | | |
| Fair Value through Profit and Loss | | | | |
| Financial Liabilities at Amortised Cost | (3,366) | | | (3,366) |
| Total Financial Liabilities | (3,366) | | | (3,366) |
| Net Financial Assets | 41,678 | 966,243 | 35,390 | 1,043,311 |

| Values as at 31 st March 2014 | Quoted Market Price Level 1 £'000 | Using Observable Inputs Level 2 £'000 | With Significant Unobservable Inputs Level 3 £'000 | Total £'000 |
|--|---|---|--|----------------|
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 16,894 | 844,109 | 32,631 | 893,634 |
| Loans and Receivables | 12,402 | | | 12,402 |
| Total Financial Assets | 29,296 | 844,109 | 32,631 | 906,036 |
| Financial Liabilities | | | | |
| Fair Value through Profit and Loss | | | | |
| Financial Liabilities at Amortised Cost | (1,242) | | | (1,242) |
| Total Financial Liabilities | (1,242) | | | (1,242) |
| Net Financial Assets | 28,054 | 844,109 | 32,631 | 904,794 |

5B. FINANCIAL RISK MANAGEMENT

The Funds primary long term risk is that the fund's assets will fall short of its liabilities.(i.e promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), 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.

Pension Fund Accounts

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

The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its revised investment strategy.

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 strategic risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes made to the portfolio.

i) Market Risk

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

a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity analysis

Pension Fund Accounts

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 2015/16 reporting period.

| Asset Type | Potential Market Movement +/- (%p.a.) |
|-------------------|--|
| UK Equities | 10.26 |
| Overseas Equities | 8.96 |
| Total Bonds | 8.41 |
| Cash | 0.02 |
| Alternatives | 7.03 |
| Property | 2.61 |

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 as at 31/3/2015 £'000 | Percentage Change % | Value on Increase £'000 | Value on Decrease £'000 |
|---------------------|---|----------------------------|------------------------------------|------------------------------------|
| UK Equities | 388,664 | 10.26 | 428,541 | 348,788 |
| Overseas Equities | 293,472 | 8.96 | 319,767 | 267,177 |
| Total Bonds | 192,551 | 8.41 | 208,744 | 176,357 |
| Other Assets | 65,051 | 7.03 | 69,624 | 60,478 |
| Property | 82,286 | 2.61 | 84,434 | 80,139 |
| Cash | 23,777 | 0.02 | 23,782 | 23,773 |
| | | | | |
| Total Assets | 1,045,801* | 6.19** | 1,110,536 | 981,066 |

* This figure excludes derivatives and other investment balances.

**This is the average variance in proportion to the value of asset type held.

b) Interest Rate Risk is the risk the Pension Fund is exposed to from changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds and cash held by investment managers, a 0.5% change in interest rates would result in an approximate annualised change in income of £918. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

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

Pension Fund Accounts

instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund was exposed to the following significant foreign currency levels (i.e.£2m and over) as at the 31st March 2015 with the previous year in brackets:

| | |
|--------------------|---------------|
| Australian Dollars | £9.6m (£15m) |
| Euro | £22.4m (£37m) |
| Hong Kong Dollars | £4.9m (£4m) |
| Singapore Dollars | £2.1m (£2m) |
| US Dollars | £127m (£130m) |

The remaining exposures arise from smaller investments relating to other European currencies such as the Swiss Franc and New Zealand Dollar.

d) Currency risk – sensitivity analysis

The fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2015, there were no derivative contracts held. 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 6.58%. This volatility is applied to the fund's overseas assets as follows:

| Asset Type | Asset Value @ 31/3/2015 £'000 | % Change | Value on Increase £'000 | % Change | Value on Decrease £'000 |
|-----------------------|--|---------------------|--|---------------------|--|
| Overseas Equities | 293,472 | +6.58 | 312,782 | -6.58 | 274,162 |
| Other Assets | 64,086 | +6.58 | 68,303 | -6.58 | 59,869 |
| Other Alternatives | 55,552 | +6.58 | 59,208 | -6.58 | 51,897 |
| Total | 413,110 | +6.58% | 440,292 | +6.58% | 385,928 |

ii) Credit Risk

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

The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust. Northern Trust assign four different risk management oversight committees to control counterparty risk,

Pension Fund Accounts

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

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

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the benefits payable costs and capital commitments. The fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2015 these assets totalled approximately £874m, with a further £23.7m held in cash by the custodian on behalf of the Fund and fund managers.

6. INVESTMENT MANAGEMENT FEES

| | 2014/15 £'000 | 2013/14 £'000 |
|---------------------|--------------------------------|--------------------------------|
| Fund Managers' Fees | 874 | 1,389 |
| Custodian Fees | 44 | 48 |
| Advisory Costs | 33 | 30 |
| | 951 | 1,467 |

*These fees included the cost of transition management from active to passive.

7. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

8. DERIVATIVE CONTRACTS

As at 31 March 2014, there were no foreign exchange contracts held.

| Asset Type | 31st March 2015 | 31st March 2014 |
|--|---|---|
| Foreign Exchange Gains | | |
| Total Gains | 0 | 0 |
| Foreign Exchange Losses | | |
| Total Losses | 0 | 0 |
| Total Unrealised Gains/(Losses) | 0 | 0 |

Pension Fund Accounts

9. DEBTORS & CREDITORS

These comprise the following amounts:

| Debtors | 2014/15 £'000 | 2013/14 £'000 |
|---|--------------------------|--------------------------|
| Contributions due from Admitted / Scheduled Employers | 410 | 474 |
| Contributions due from Admitted / Scheduled Employees | 160 | 137 |
| Equity Dividends / Income from Managed Funds | | 4 |
| Interest and Other Income | | 161 |
| LB Lewisham | | 496 |
| Tax Refunds | 35 | 0 |
| Pending Trades | 387 | 326 |
| | 992 | 1,598 |
| | | |
| Creditors | 2014/15 £'000 | 2013/14 £'000 |
| Fund Manager and Custody Fees | (243) | (267) |
| Consultancy / Advisory Fees | (56) | 0 |
| Pension Payments Due to Employees | (574) | (955) |
| Pending Trades | 0 | (20) |
| LB Lewisham | (2,493) | 0 |
| | (3,366) | (1,242) |

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.

10. CASH AND BANK**Cash Held With Custodian**

The Northern Trust Company is the fund's global custodian and the cash is held to meet the cash flow requirements of the fund and its managers. The total cash held as at 31st March 2015 was £23.7m (£10.7m as at 31st March 2014). Approximately £11.5m of the cash held was from Harbourvest, £5.0m from M&G, £6.0M of cash held was from Schroder. Approximately £0.9m was being held on behalf of the other managers.

Pension Fund Bank Account

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31st March 2015.

Pension Fund Accounts

11. TRANSACTION COSTS

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

| | 2014/15 £'000 | 2013/14 £'000 |
|---------------------------|------------------|------------------|
| Total Purchases | | 1 |
| Total Sales | | 2 |
| Total transactions | | 3 |

12. POST YEAR END EVENTS

In April 2015 the Council agreed to two new Funds with HarbourVest Partners: HIPEP VII (AIF) Partnership Fund L.P and HarbourVest Partners X (AIF) L.P. A total of £40 million has been committed over a 10 year cycle. As at 31st April 2015 Lewisham paid £1.3 million (\$1.97 million).

13. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2015

Harbourvest

| Fund | Amount | Translated £'000 |
|---|---------|---------------------|
| Harbourvest Partners VIII – Cayman Venture Fund L.P | \$522.5 | 351 |
| Harbourvest Partners VIII – Cayman Buyout Fund L.P | \$2,313 | 1,558 |
| Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P | €1,225 | 886 |
| Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P | €180 | 130 |
| Total | | 2,925 |

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2015. This compares to the total Harbourvest commitments at 31st March 2014 £4.2m.

14. 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. Seven Councillors of this Committee were members of the pension scheme as at 31st March 2015. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are minuted at the meeting.

During the year the following declarations were made:

Pension Fund Accounts

- Councillor John Muldoon declared personal interests as a holder of preserved benefits in the Lewisham scheme which elected members had been able to join until May 2014 and as an independently selected substitute member on the Shadow Advisory Board of the LGPS scheme nationally.
- Councillor Muldoon declared a personal interest as a member of the Local Government Pensions Scheme Shadow Advisory Board.

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2015.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £613k (see note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.
- The salary of the Executive Director for Resources and Regeneration is disclosed in the Council's full set of accounts.

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 53 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

| | Total | Equitable | Clerical Medical |
|--------------------------------------|--------------|------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| 2014/15 | | | |
| Value at 1 April 2014 | 1,570 | 496 | 1,074 |
| Contributions and Transfers Received | 290 | 4 | 285 |
| Investment Return | 77* | 18 | 59* |
| Paid Out | (373) | (47) | (326) |
| Value at 31 March 2015 | 1,564 | 472 | 1,092 |

*estimate await final figure

| | Total | Equitable | Clerical Medical |
|----------------|--------------|------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| 2013/14 | | | |

| Pension Fund Accounts | | | |
|--------------------------------------|--------------|------------|--------------|
| Value at 1 April 2013 | 1,493 | 527 | 966 |
| Contributions and Transfers Received | 335 | 5 | 330 |
| Investment Return | 74 | 21 | 53 |
| Paid Out | (332) | (57) | (275) |
| Value at 31 March 2014 | 1,570 | 496 | 1,074 |

16. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2015:

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

17. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2015:

| |
|---|
| National Car Parks Ltd |
| Excalibur Tenant Management Project |
| PLUS |
| Housing 21 |
| Lewisham Nexus Services |
| SAGE Educational Trust |
| Wide Horizons |
| Phoenix |
| INSPACE |
| T Brown & Sons |
| Quality Heating |
| Blenheim CDP |
| Crime Reduction Initiatives (CRI) |
| Skanska |
| One Housing |
| Fusions Leisure Management |
| 3 C's Support |
| Children's Society |
| Pre-School Learning Alliance |
| Chequers Contract Services – Lee Manor |
| Tower Services Started 1 July 2014 |
| Blenheim |
| Chartwells Started 1.9.2014 |

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. Equities and fixed income assets held in segregated accounts in custody may be

Pension Fund Accounts

lent. The Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

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

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

As at the 31st March 2015, the value of aggregate stock on loan was £1.9m (£1.3m as at 31st March 2014). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £100k net of direct expenses (compared to £93k in 2013/14). The value of collateral held as at 31 March 2015 was £2.1m (£1.4m as at 31st March 2014).

Pension Fund Accounts

19. MEMBERSHIP

| | Active Members 2014/15 | Active Members 2013/14 | Deferred Benefits 2014/15 | Deferred Benefits 2013/14 | Retired Former Members 2014/15 | Retired Former Members 2013/14 |
|-----------------------------|---------------------------------------|---------------------------------------|--|--|---|---|
| Admin. Authority | 6147 | 5,961 | 8370 | 7,837 | 6805 | 6,687 |
| Scheduled Bodies | 855 | 705 | 588 | 385 | 180 | 147 |
| Admitted Bodies | 140 | 151 | 103 | 84 | 65 | 56 |
| Totals | 7142 | 6,817 | 9061 | 8,306 | 7050 | 6,890 |

20. These accounts were authorised on the XX XXX 2015 by the Executive Director for Resources and Regeneration.

Lewisham
Annual Governance Statement
2014/15

What is Corporate Governance?

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; and for having a governance framework that comprises of the culture, values, systems and processes by which this is achieved. It must make sure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively to meet its strategic objectives.

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It also has a duty, through the establishment of internal control measures, to manage risk to a reasonable level by identifying, prioritising, evaluating and managing the risks to the achievement of its policies, aims and objectives. Finally, it has a duty to secure continuous improvement in the way in which its functions are exercised.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives and Senior Managers) Framework Delivering Good Governance in Local Government. This statement explains how the authority has complied with the code and also how it meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

“Corporate governance is about making sure the Council is run properly. It is about ensuring the Council does the right things, at the right time and in the right way.”

How has this statement been prepared?

Every year a review of the effectiveness of the Council's governance framework is conducted by the Annual Governance Statement working party which comprises a team of policy, legal and audit officers with expertise in governance and internal control matters.

The group meets quarterly to collate and evaluate governance evidence and identify areas requiring action; and is responsible for analysing CIPFA/SOLACE guidance in relation to the development of this statement and ensuring that the statement is approved via the Council's key control mechanisms.

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The governance review process includes:

- The consideration of the Annual Governance Statement Action Plan by the Council's Internal Control Board (ICB) on a quarterly basis.
- The consideration of the Accounts, the Head of Audit and Risk's Annual Report and

the Annual Governance Statement by the Council's Audit Panel.

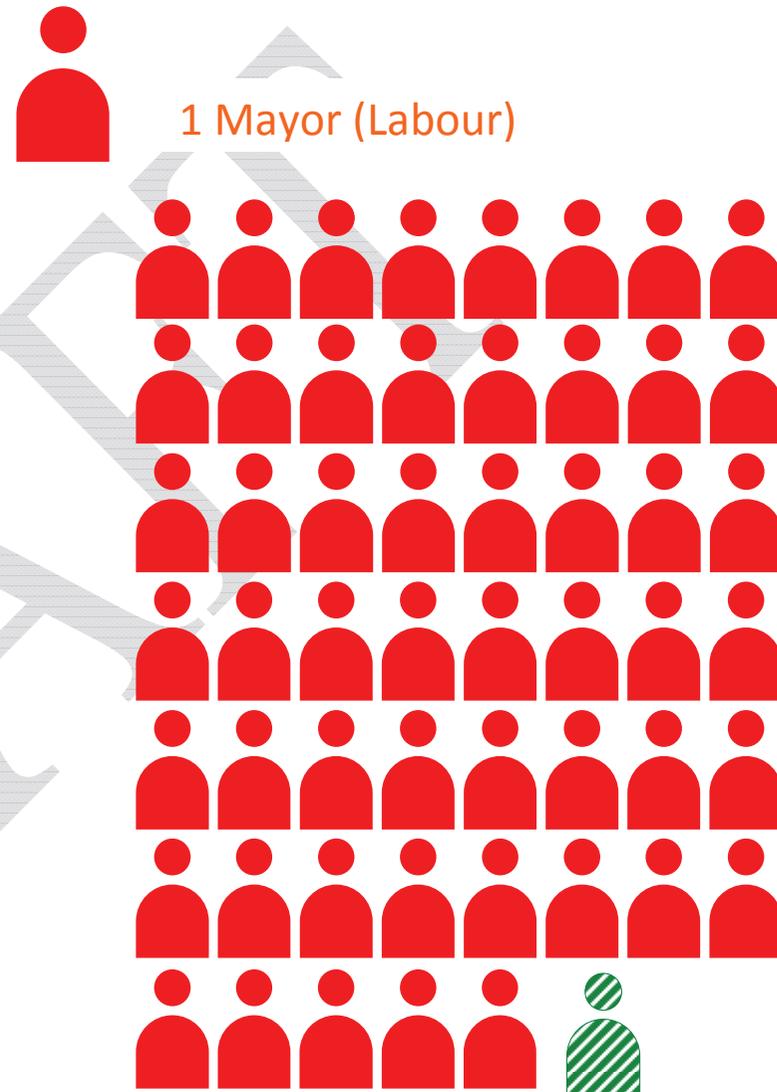
- A review of the Council's Local Code of Corporate Governance by the Standards Committee, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts.
- Sign off by the Chair of the Council and Chief Executive, once approved.
- This year no significant gaps or governance issues have been identified and the actions outlined at the end of this statement summarise the areas of governance focus needed to maintain an effective governance framework.

What are the Council's governance arrangements?

The Council's governance arrangements aim to foster effective leadership and high standards of behaviour; a culture based on openness and honesty; and an external focus on the needs of service users and the public. The diagram on page 5 shows the Council's external facing governance structure, as set out in the Council's constitution.

Lewisham's directly elected Mayor provides the Council with clear strategic direction and effective leadership but the Council also benefits from the perspectives and contributions of its 54 Councillors. The Council's constitution clearly defines the roles of councillors and officers, and this clarity contributes to effective working relationships across the Council. The Constitution Working Party, the Standards Committee and the Audit Panel monitor and challenge the governance arrangements and ensure their robustness.

The Council has worked closely with its partners, both strategic and operational, primarily through the newly established Lewisham Congress, which had its first annual meeting in October 2014. The Council has two statutory partnership boards: the Safer Lewisham Partnership which works to protect the community from crime and help people feel safer; and the Health and Wellbeing Board which works to identify local health challenges and lead on the activity necessary to address them.



Mayor and Cabinet

The Mayor

- Is elected by the whole borough to lead and speak up for the whole borough;
- chooses up to nine councillors to form the Cabinet with specific areas of responsibility;
- sets out major decisions to be taken in a Forward Plan published monthly;
- proposes budget and key policy proposals to Council
- takes decisions to implement policy with agreed policy framework;
- considers recommendations for actions with officer advice.

The Cabinet

- Provide advice to the Mayor;
- jointly with the Mayor takes decisions relating to contracts.

Council

- Consists of 54 elected councillors, three for each of the 18 wards.
- Appoints the overview & scrutiny committee and other committees.
- Approves the policy framework and budget.

Overview and Scrutiny

- Meets at least once a year and is ultimately responsible for overview and scrutiny;
- Delegates work to other scrutiny bodies – six select committees, two business panels all of which are formally subcommittees of overview and scrutiny;
- The Business Panel co-ordinates the select committees work programmes.
- The six select committees draw up work programmes each year to:
 1. Hold the Mayor and senior officers to account for decisions and check performance.
 2. Examine issues in depth and make recommendations for policy development.

To find out what each of the Select Committees does please click the links below

- ### Statutory Committees
- Standards Committee**
 - promotes high standards of conduct.
 - Pension Board**
 - secures compliance with Local Government Pension Scheme.

Regulatory Committees

- Licensing committees (x2)**
 - responsible for all entertainment licensing and the provision of late night refreshment.
- Planning committees(x4)**
 - consider planning matters across the whole borough. The Strategic Planning Committee consider strategic regeneration proposals.

- ### Other Committees & Working Parties
- Audit Panel
 - Appointments
 - Elections
 - Health & Safety
 - Pensions Investment
 - Constitution

Internal Control Board:

- Manages the approach to risk.

Business Panel & Education Business Panel

Healthier Communities Select Committee

Housing Select Committee

Safer Stronger Communities Select Committee

Children & Young People Select Committee

Public Accounts Select Committee

Sustainable Development Select Committee

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‘Together we will make Lewisham the best place in London to live, work and learn’

Communicating and reviewing the Council’s Vision

The Council has an overarching vision for the borough which is shared by its key partners and which was developed following extensive consultation with the community: **‘Together we will make Lewisham the best place in London to live, work and learn’**.

The Sustainable Community Strategy (SCS) outlines how all partners will work towards the vision by contributing to six key priorities:

Ambitious and achieving – where people are inspired and supported to fulfil their potential.

Safer – where people feel safe and live free from crime, antisocial behaviour and abuse.

Empowered and responsible – where people are actively involved in their local area and contribute to supportive communities.

Clean, green and liveable – where people live in high quality housing and can care for and enjoy their environment.

Healthy, active and enjoyable – where people can actively participate in maintaining and improving their health and well-being.

Dynamic and prosperous – where people are part of vibrant communities and town centres, well connected to London and beyond.

The Council, in turn, has developed **ten corporate priorities** which articulate its contribution.

Delivering Quality Services

The Council seeks to use its resources efficiently and effectively to provide quality services which help deliver its vision for the borough. In the 2013/14 Annual Audit Letter Grant Thornton, the Council's external auditors, commented that:

*“we are satisfied that in all significant respects the Council put in place proper arrangements to secure **economy, efficiency and effectiveness** in its use of resources”*

The Council's performance is monitored via a monthly management report which tracks **58 performance indicators**, grouped according to the Council's ten corporate priorities, and associated risks. The report uses Red exception reporting to focus attention on areas of poor performance or high risk and is a critical tool for supporting decisions across the organisation. The report is seen by the Executive Management Team (EMT) monthly and the Public Accounts Select Committee and Mayor & Cabinet quarterly and is published on the Council website. The quality of services for users is also measured through satisfaction surveys and information from the complaints and management resolution process. A recent

Peer Challenge by the Local Government Association found Lewisham Council to be:

*“a **strongly performing Council, which approaches local government delivery and practice in an innovative way**”*

The *Lewisham Future Programme* has been established to spearhead how the Council can move forward in the face of reduced government funding. A number of thematic and cross-cutting reviews are being carried out. This work is underpinned by **four core values**:

*We put service to the **public first***

*We respect **all people and all communities***

We invest in employees

*We are **open, honest and fair** in all we do*

Roles and responsibilities

The Council's constitution sets out the roles and responsibilities of the Mayor, the Chair of Council, the Council as a whole, the Executive, Statutory Officers, Overview and Scrutiny committees, Standards committees and other committees to help ensure that all decision making activity is lawful and transparent. Decisions are taken and scrutinised in accordance with the Council and Mayoral scheme of delegation, the procedure rules set out in the constitution and on the basis of professional officer advice, as part of an annual programme of regular meetings.

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Embedding Roles and Responsibilities

The Local Code of Corporate Governance and the Codes of Conduct for Members and Officers, set out in the constitution, demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely. The Standards Committee received its annual report on Member compliance with the Code of Conduct in December 2014 and considered that there was a high level of compliance. Following the elections in May 2014, training on the Member Code of Conduct was delivered to all Councillors in June 2014, as part of a comprehensive induction programme to enable them to understand and access all appropriate support and development to undertake their role.

'The Mayor is elected to lead the Council. They serve for a period of four years. They must act in the interests of the borough as a whole. They are responsible for taking most of the main decisions, and for giving the power to others to do so.'

'Councillors are elected for a term of four years. Councillors who are elected to represent local wards must both represent the people of the ward that elected them and act in the interest of the whole area. They are all expected to contribute to the good governance of the area and to encourage community participation. They must respond to their constituents' enquiries fairly and without prejudice.'

‘The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly’

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Decision making

The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. This includes declaring if they have a personal interest in the matters under discussion and, if required, withdrawing from the room whilst the decision is taken. Reports are produced in a standard format to ensure that report authors address all significant considerations such as the legal, financial and equalities implications of decisions. The minutes of every formal meeting are published on the Council website.

The constitution requires Executive decisions to be published within two working days of being taken and they may be **called-in** (referred to the Mayor for reconsideration) by the Overview and Scrutiny Business Panel and the Education Business Panel. Two matters were called in by the Education Business Panel in the 2014/15 period. The Council has a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements but in practice, the procedure rules set out in the constitution are under constant review to reflect changing needs.

Internal Audit

The role of internal audit is to provide an independent and objective opinion on the internal control environment within the Council. Its work is set out in an annual internal audit plan that covers the activities where internal audit and management perceive there are risks to achieving objectives. A number of audits take place each year to analyse relevant controls and following each audit an assurance statement indicating the level of assurance that management can place on the adequacy and effectiveness of the internal controls is produced. In 2014/15 75 assurance reviews were commissioned. There were 11 in the Resources and Regeneration Directorate, 13 in the Customer Services Directorate, 9 in the Community Services Directorate, 11 in the Children and Young People Directorate and 31 for Schools.

External audit

The Council's governance, risk and control management arrangements are subject to an annual independent review by Grant Thornton, the Council's external auditors. The last review took place in October 2014 and it was noted that

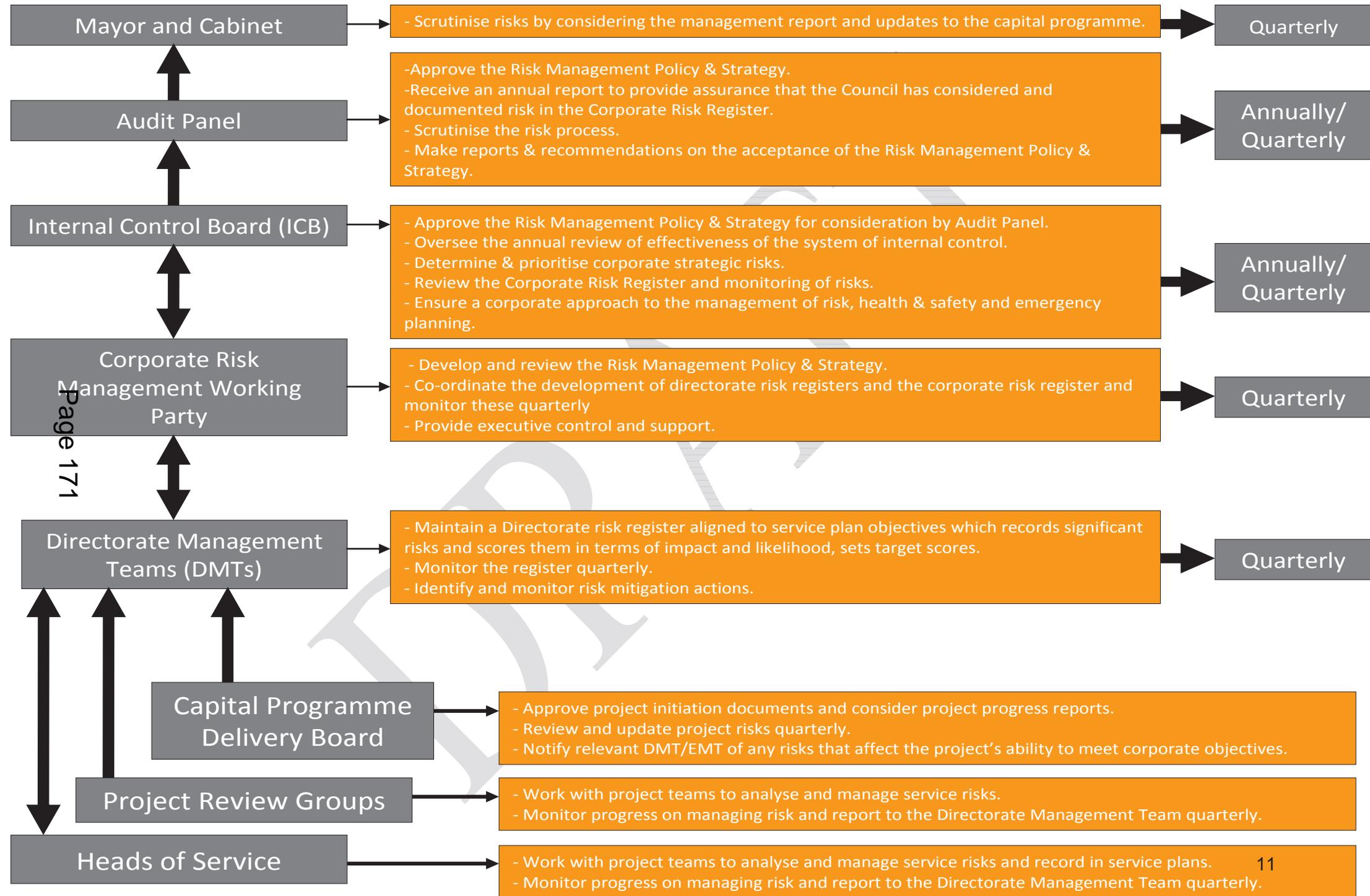
"... we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources..."

Audit Panel

The Council's Audit Panel meets quarterly and is made up of a mixture of Councillors and independent advisors. The key roles of the Panel are to:

- Review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports, summarising the audit reports issued, management's progress on implementing any recommendations and the performance of the Internal Audit function, are received by the Panel on a quarterly basis.
- Consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Consider the external auditor's annual plan and other relevant external reports which contribute to the level of assurance.
- Consider the Council's annual Statement of Accounts and this statement and make comments to Full Council when it considers the accounts.

Risk and Strategy Framework



Compliance

The Monitoring Officer is central to ensuring compliance with the rules and procedures set out in the constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, councillors and relevant staff on corporate legislative developments; and legal advice is incorporated in every council report. Where gaps or non-compliance are identified, appropriate action is taken. The financial management of the authority is conducted in accordance with financial regulations set out in the constitution and the Council has designated the Executive Director of Resources and Regeneration as its Chief Finance Officer, who advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. The Council has a [whistle-blowing policy](#) in place which is publicised on the Council's website. Complaints made under this policy are handled by the Monitoring Officer and an annual review is considered by the Standards Committee.

Training and Development

The Council runs a Member Development Programme, focussed on the period following local elections, which ensures that all Councillors have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. The development needs of senior officers are the responsibility of the Head of Personnel and Development and the Monitoring Officer ensures that they are aware of their statutory duties and any changes in relevant legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors which are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

Engaging the community and partners

The Council's engagement activity is overseen by the Strategy Performance and Communications Board (SPCB) which operates at Executive Director level and provides a strategic steer on the communication and consultation agendas within the Council. It is supported by the Strategy, Performance and Communications Board Delivery Group (SPCBDG), which has representation from across the Council and supports effective resident engagement at an operational level.

The Council promotes e-Participation through its online engagement system which provides a platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Ward-level Local Assemblies are an opportunity for residents to work with their ward councillors to shape the future of their neighbourhood; and the Young Citizens Panel gives young people aged 11 – 18 the chance to feed into council policy and spending decisions, including the use of the Young Mayor's budget.

The Council website includes a page on open data and transparency, which gives information on spending; wages of senior managers; Freedom of Information requests; the annual audit of accounts; the pay policy; and Council decisions. The arrangements for strategic partnership working are set out earlier in this statement. Periodically the Council also engages in wide consultation and communication activities. In 2014/15 it ran the Big Budget Challenge which provided local people the chance to find out what we currently spend, where the

money comes from, what services it provides for the community, and to choose their own way to trim the budget using the online budget simulator.

How do we know our arrangements are working?

Throughout the year, the Council regularly reviews the effectiveness of its governance framework, including its system of internal control. Activity undertaken includes:

- Consideration of governance issues by the ICB – including risk registers, counter-fraud updates and internal audit reports.
- Preparation of a rolling plan of audit coverage to be achieved in the forthcoming year by the Head of Audit and Risk, primarily based on an assessment of the Council's risk profile, and review of the plan by ICB.
- Receipt of the Internal Audit Strategy by the Audit panel and approval of the annual audit plan.
- Preparation of the annual assurance report by the Head of Audit & Risk, setting out his opinion

on the Council's overall control environment and approval of the report by the Audit Panel.

- Annual updates to the Public Accounts Select Committee on the work of the Audit Panel
- Consideration by EMT of a full range of governance and performance issues throughout the year, including issues relating to the improvement of the Internal Audit Service and scrutiny of performance and risk (ensuring management action is taken where necessary).
- Consideration of the following reports by the Standards Committee:
 - Council's annual complaints report (December 2014)
 - Compliance with the Member Code of Conduct (December 2014)
 - Review of the Council's Code of Corporate Governance (July 2014)
- Consideration of external audit reports by Mayor and Cabinet, Audit Panel and relevant Select Committees.

- Changes made by the Constitution Working Party such as the introduction of the Pension Board

No governance concerns were raised by the Council's external auditors in the 2013/14 Annual Audit letter.

What are our governance priorities going forward?

Our priorities include:

- Managing change across Council services in light of the further budget reductions the Council faces, whilst at the same time maintaining internal control;
- Responding to policy and priority changes for Lewisham, following the General Election in May 2015.

Signed

Agenda Item 7

| | | | |
|--------------|--|----------|---------------------|
| Committee | Audit Panel | Item No. | |
| Report Title | Head of Corporate Resources Draft - Annual Assurance Report for 2014/15 | | |
| Contributors | Head of Corporate Resources | | |
| Class | Information | Date | 18 June 2014 |

Reasons for urgency and lateness

Urgency: While the internal audit year now ends in June and the final annual assurance statement will be presented to the Audit Panel in September, the audit work on the key financial controls areas is now complete and the conclusions therefore relevant to the financial statements being considered by the Audit Panel at this meeting before they are passed over for external audit.

Lateness: The report is late to allow the fullest position of work completed to date to be reflected in this update.

1. Purpose

- 1.1. The purpose of this report is to present members of the Audit Panel with the current position on the annual assurance opinion and statement on the effectiveness of the Council's system of internal control from the Head of Corporate Resources, in his capacity as Head of Internal Audit (HIA).

2. Recommendation

- 2.1. Members are asked to note this update in advance of the annual assurance opinion for the 2014/15 internal audit programme to June 2015 which will be presented in September.

3. Background

- 3.1. The Accounts and Audit (England) Regulations 2011 states, "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". In addition, the Council, "must at least once in each year, conduct a review of the effectiveness of its Internal Audit".
- 3.2. This report details the Head of Internal Audit's annual assurance opinion on the adequacy and effectiveness of the London Borough of Lewisham's internal control arrangements for the year from April 2014 to May 2015. This opinion contributes to the Council's Annual Government Statement.
- 3.3. The contract with Baker Tilly ended in June 2014. As such, for 2014/15 the audits were conducted by an number of sources both internal, private and public internal audit services
- 3.4. The Council's Head of Internal Audit is the Head of Corporate Resources who is also responsible for managing the in-house Anti-Fraud and Corruption Team (A-FACT), Insurance and Risk Management, Corporate Health &

Safety, Strategic Finance, and Procurement teams and is also the deputy s151 officer.

4. Introduction

4.1. The PSIAS states that the Head of Internal Audit must deliver an Annual Assurance report that can feed into the Council's Annual Governance Statement. The annual report must provide an opinion on the overall adequacy and effectiveness of risk management and control. In addition, the report must also include:

- a summary of the work that supports the opinion,
- the timeframe to which the opinion relates to,
- statement on conformance with the PSIAS,
- any scope limitations,
- disclosure and details of any qualification/s,
- consideration of related projects and other assurances providers,
- the risk / control framework used for the basis of the opinion, and
- any other issues that they are relevant to the governance statement.

4.2. For 2014/15 it was agreed to extend the audit year to June. This report is based on core / key financial reports (at final or draft) and school audits. The final report will be presented to the Audit Panel in September to support the final Annual Governance Statement in the Financial Statements.

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 for the audit year 2014/15 completed to date. In my opinion, based on those areas reviewed, **satisfactory assurance** can be placed on the adequacy and effectiveness of internal controls framework in place.

5.3. This is the same assurance level as last year. However, the assurance opinion this year, while Satisfactory, is closer to Limited. This negative direction of travel arises from the weaker assurance levels for some of the core financial audits. There are some one of mitigations for this (e.g. change of finance system, change of bank, organisation restructures etc..).

5.4. I have also considered the approach to risk management in operation throughout the organisation.

5.5. The Risk Management Working Party (RMWP), which consists of officers from each of the Directorates, meets quarterly to discuss the directorate and corporate risk registers. They make recommendations for the Executive Management Team (EMT) on which risks should be included in the corporate risk register. The risks are then reported to the Internal Control Board (ICB) quarterly.

5.6. Directorate Management Teams (DMT) and the EMT meet regularly to discuss risk, review the finances and monitor performance. Thereby enabling

urgent matters to be escalated for action promptly outside the formal risk reporting cycle. I am satisfied the Council had an established risk management process in operation for the financial year 2014/15.

- 5.7. I was part of the Annual Governance Statement (AGS) working party through 2014/15, a group of officers chaired by the Head of Law responsible for preparing and reviewing the Council's AGS.
- 5.8. The AGS has been updated and actions monitored through 2014/15 and 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, where necessary, included.

6. Qualifications to the opinion

Internal Audit

- 6.1. As reported to the Audit Panel in 2014/15 this year has been a transitional year for the internal audit service. The scope of the audit plan was reduced at the beginning of the year in line with reduced resources.
- 6.2. There was a change from the previous single outsourced service arrangements to a mixed provision model. In year internal audits were provided by:
 - The Royal Borough of Greenwich - who agreed to complete the schools audit plan from September 2014.
 - An independent auditor's services - who agreed to complete the majority of the IT audits from October 2014.
 - In-house team – who completed grants, follow-ups and an ad hoc review.
 - Croydon Internal Audit Framework (Mazars) – who were to complete the rest of the non-school audits.
- 6.3. Internal audit joined the Croydon Framework contract late in December which limited the time available to complete the plan. The focus has therefore been on completing the core financial audits. The remaining non-schools audit fieldwork are underway and will be completed in June and reported on to the September Audit Panel. At which stage the Audit Plan to June 2015 will have been delivered and the key risks reviewed.
- 6.4. This slippage and the reduced scale of internal audit work in 2014/15 are both areas for improvement in 2015/16 and the plans to improve this are reported to the Audit Panel in the separate quarterly up date report.

Risk Management

- 6.5. The work of the RMWP continued through the year. There were changes to some of the Directorate representatives and a degree of organisational knowledge lost. The Council has not undertaken a formal service planning exercise for 2015/16 which risks weakening the identification and monitoring of operational risk going forward. These circumstances are recognised by ICB and work to consider possible changes to the risk management approach to mitigate these impacts initiated.

Key Staff Resources

- 6.6. In 2014/15, a large number of staff left the Council through either the voluntary severance scheme or restructuring. There have also been a number of reorganisations with some activities moved or reallocated between teams. This has necessarily resulted in some officers taking on more responsibility and a number of processes becoming more self-service. While not in itself is not an issue, where officers have to take on more responsibility for key controls without clear process changes or sufficient training it has become apparent that some key controls were not always being adhered to.

For example:

- The number of recommendations and areas where reconciliations are either not done, not performed in a timely manner, or variances are not investigated has increased,
 - Areas where only one officer has the knowledge to complete a process, increasing the risk of delay or failure if they are absent, and
 - Systems slow down or workarounds are found that create additional manual work and risk of error where training in the right approach is not available.
- 6.7. These examples have contributed to the increase of negative assurance reports issued. For 2014/15, there were six key financial reports with a limited assurance opinion. Of the 17 key financial audits, ten audits have had their assurance level reduced from the previous year.

Finance System Upgrade

- 6.8. The Council's finance and transactions teams were restructured in June 2014, the finance system (shared with six other Councils) upgraded to OneOracle in August 2014, and the banking contract changed in February 2015. These changes have created a number of issues that have taken time to resolve. These include:

- Governance, Risk and Control (GRC) modules included in the upgrade not being made available at go live.
- Difficulties with the OBIEE (financial reporting tool) preventing the timely extraction of financial information from the OneOracle finance system.
- Previously individual cost codes lumped together in the new coding structure.

7. Summary of assurance work from which opinion is derived

Delivery of Audit Plan

- 7.1. The Internal Audit plan agreed for 2014/15 was to complete 70 pieces of audit work, (32 schools and 38 non-school), not including follow-up reviews. By the end of the year, this increased to 72 pieces of work.
- 7.2. Changes to the audit plan are expected throughout the year, as risks emerge or decrease within services areas. Additional reviews are requested or if applicable deferred or cancelled. The reasons for these changes are reported to the ICB and the Audit Panel throughout the year. The additional review agreed were:
- Troubled Families Claim 5 (Grant Certification)
 - Troubled Families Claim 7 (Grant Certification)

- Troubled Families Claim 8 (Grant Certification)
- Adoption Reform Grant (Grant Certification)
- Rogue Landlord Grant (Grant Certification)
- Rangefield School – Procurement Audit – Requested by Governors

The agreed deferred or cancelled reviews were:

- Forster Park School – deferred as full follow-up including testing undertaken following a limited review. Next audit now due in 2015/16.
- Pathway Training – cancelled as the contract was ended before the audit.
- Pathway Framework Assessment – cancelled as due after the training of officers but the training did not take place so unable to proceed.
- Chelwood Nursery – Deferred as both key members of the finance team were off at the time of the audit (February / March). Now set for September 2015.

7.3. The breakdown of the 72 reviews and the 632 productive days are as follows:

- 41 Non-School reviews with 481 days of internal audit work, and
- 31 School reviews with 151 days of internal audit work.

7.4. These audits were conducted by:

- The in-house team conducted 12, (six school and six non-school reviews).
- Baker Tilly conducted 7 school audits,
- RB of Greenwich conducted 18 school audits,
- IT Auditor conducted 4 audits, and
- Mazars are completing 31 audits.

7.5. In summary the:

- non-schools work position is that 15 reviews are finalised, 13 are at draft report (and will therefore be finalised within three weeks), and 13 reviews at fieldwork stage (all having been started).
- schools position is that the 30 planned reviews have been completed and the one additional piece of work requested is at draft report stage (pending completion of a separate investigation running in parallel).

7.6. In addition, due to restructures of service areas some reviews are transferred between directorates, and show as 'added' and 'cancelled'. These changes are reported to the ICB and Audit Panel during the year.

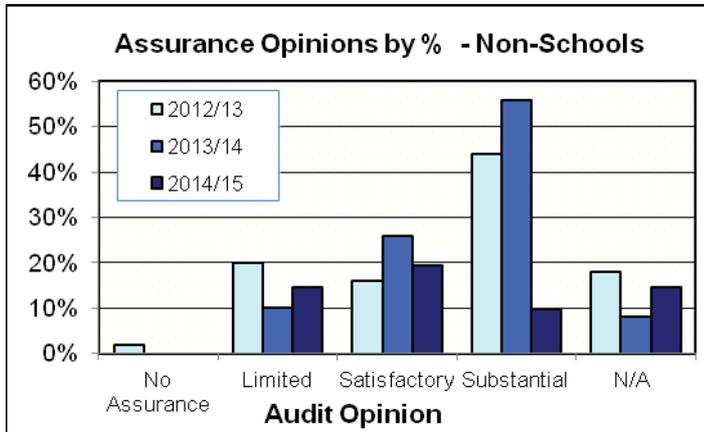
7.7. The 2014/15 audit plan, along with the opinion, number of recommendations made, final report date and the areas that were reviewed can be found in Appendix 1. For completeness, the table in the appendix includes those audits from the 2013/14 audit plan that were not finalised at the time of the last annual report.

7.8. For those reports with either a 'No Assurance' assurance, 'Limited' assurance opinion and consultancy reviews the executive summaries are presented to the Audit Panel throughout the year.

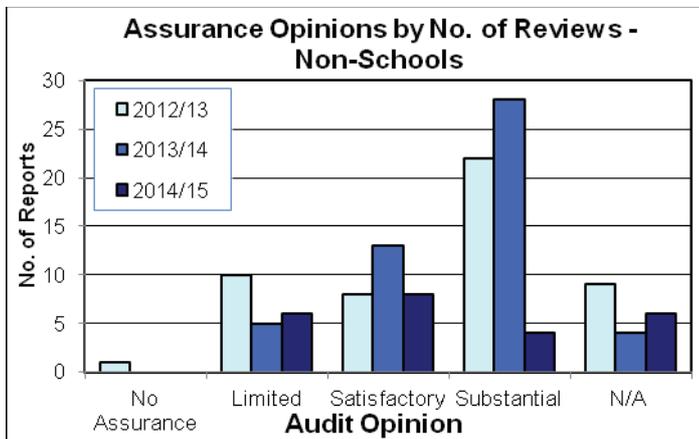
7.9. The graphs below present the comparison of audit opinions for the last three years, for non-school and school audits. The figures for 2014/15 present the position to date and will be updated for September. They show the number of audits with their opinions by both number and percentage.

Key - N/A reflects those reports that were consultancy or advisory work

Non-Schools

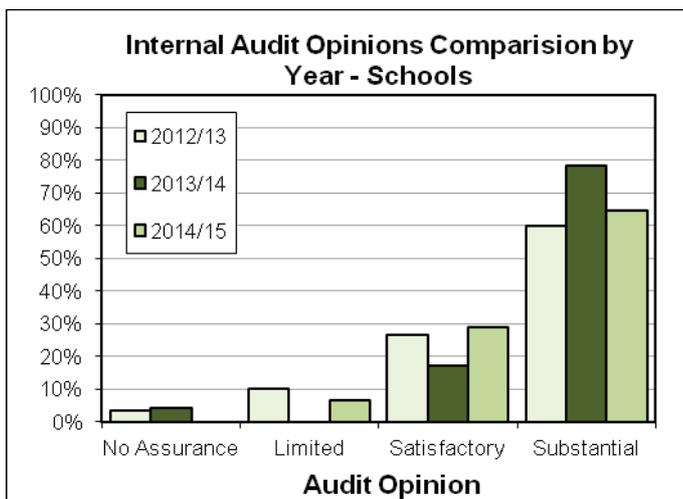


There has been a fall in the number of substantial opinions in 2014/15 and rise in the limited and N/A categories. The N/A reflect the additional grant claim work requiring internal audit certification in 2014/15.



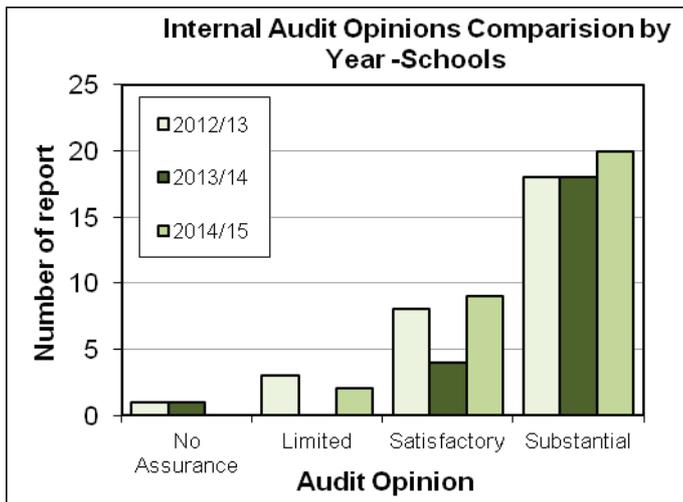
Overall the number of reports referenced here for 2014/15 is down on previous years pending completion of the non core financial non-school audits in the plan.

Schools



Although the percentage of 'Substantial' reports has decreased from the previous year, the percentage of positive opinion reports issued overall remains high.

For the first time in three years, there were no 'No Assurance' opinion reports issued.



2014/15 was a busier year on the schools audit from with 31 reviews completed compared to 23 in the prior year.

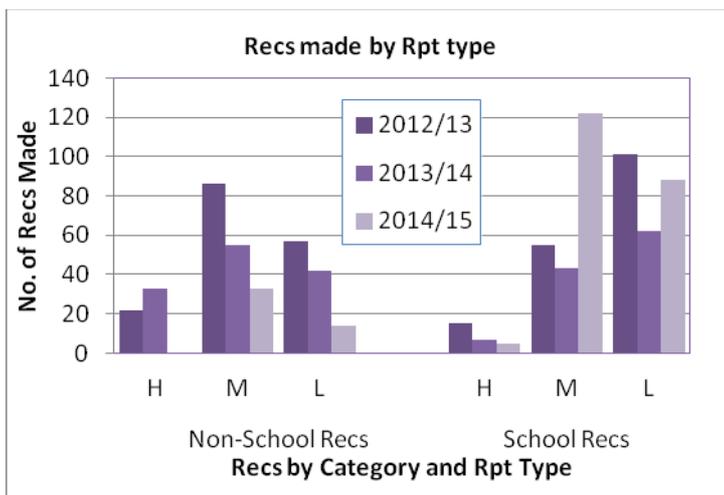
7.10. The definitions of the assurance opinions are in the table below.

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

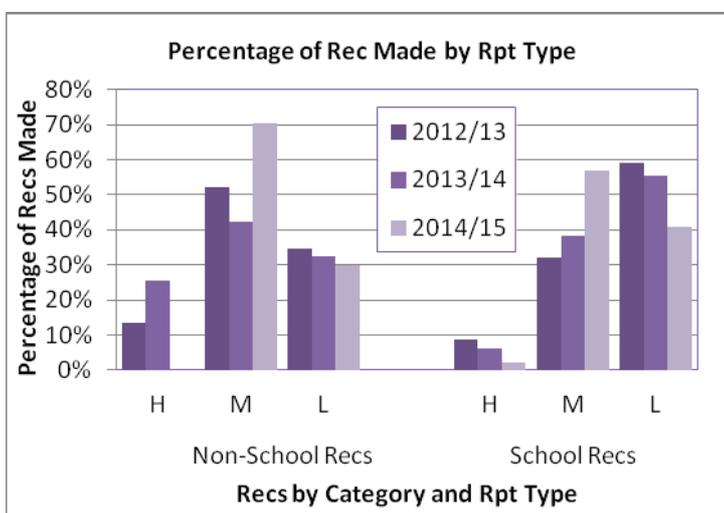
7.11. In addition to the assurance opinion, for each recommendation made a category of importance is given. The table below provides the definitions of these categories.

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

7.12. The graphs below show the number of recommendations made for non-schools and school audits for the last three years. The graph includes recommendations from consultancy reports.



For non-school audits there has been a steady rise in the proportion of medium recommendations, which while not business critical, does underline the direction of travel in respect of the internal control framework explained in the assurance opinion.



For schools recommendations, there was a marked increase in 2014/15 in the number of recommendations made, particularly medium and low.

Recommendations

7.13. Internal audit upload all High and Medium recommendations from internal audit reviews onto the Council's intranet site. Responsible officers can update the progress on implementation of their recommendations directly to this site (with the exception of school recommendations updated by the CYP directorate on the schools behalf).

7.14. As at the 31 May there are 148 open recommendations open (58 non-school and 91 school recommendations). Internal audit reports to the Audit Panel and the Internal Control Board (ICB) on the status of recommendations at each meeting. The status includes:

- No. of recommendations overdue,
- No. of recommendations with two or more changes of due date,
- No. of recommendations reopened at the follow-up review, and
- No. of recommendations closed since the final report.

7.15. If they have concerns about non-school audits, the Audit Panel call in the relevant audit sponsor for an update on progress with the implementation of the agreed internal audit recommendations. They did this in respect of two

areas in 2014/15 and have raised their concerns with the rise in schools audit recommendations remaining open and becoming overdue.

Follow-ups

- 7.16. Internal audit follow-up on all non-school High and Medium recommendations, normally nine months after the final report. The exceptions to this are for the core financial reviews (and annual reviews), which are reviewed at the next annual audit. For schools only those reports with a negative opinion (i.e. Limited or No Assurance) are followed-up. There were 23 non-school follow-up reviews completed for the period.
- 7.17. The table below shows the number of recommendations reviewed and their status at the time of the follow-up review.

| Implemented | In Progress | Superseded | Not Implemented | Total Recs |
|-------------|-------------|------------|-----------------|-------------|
| 55 | 15 | 5 | 3 | 78 |
| 71% | 19% | 6% | 4% | 100% |

- 7.18. Internal Audit reports the progress of implementing these recommendations to the Audit Panel and the Internal Control Board (ICB) on a regular basis. A list of follow-up reviews can be found in Appendix 2. Overall the position is good and similar to that reported in previous years.

Core financial systems

- 7.19. Core financials systems are fundamental to the operation of the Council, so it is important that these systems have robust internal controls that are effective and complied with. The internal audit plan reviews these key core financial systems on an annual basis.
- 7.20. In 2014/15 sixteen core financial systems audits were completed. Below is a summary of this year's outcomes, with prior year comparisons, and direction of travel.

| Core financial system | 2014/15 | 2013/14 | 2012/13 | DoT |
|--|---------------------|-------------|--------------|-----|
| 1. Budget control and monitoring | Satisfactory | Substantial | Substantial | ↘ |
| 2. Capital programme and expenditure | Satisfactory | Substantial | Satisfactory | ↘ |
| 3. Banking | Limited | Substantial | Substantial | ↘ |
| 4. Client contributions for residential & domiciliary care | Limited | Substantial | Substantial | ↘ |
| 5. Council tax | Substantial | Substantial | Substantial | → |
| 6. Accounts payable | Limited | Substantial | Substantial | ↘ |
| 7. Accounts receivable | Limited | Substantial | Substantial | ↘ |
| 8. Housing benefit | Satisfactory | Substantial | Substantial | ↘ |

| Core financial system | 2014/15 | 2013/14 | 2012/13 | DoT |
|--|---------------------|--------------|-------------|-----|
| 9. Main accounting (general ledger) | Satisfactory | Substantial | Substantial | ↘ |
| 10. NNDR (Business Rates) | Substantial | Substantial | Substantial | → |
| 11. Non-current (fixed) assets | Limited | Limited | Limited | → |
| 12. Payments for looked after children | Satisfactory | Substantial | Substantial | ↘ |
| 13. Payments to residential & domiciliary care providers | Satisfactory | Substantial | Substantial | ↘ |
| 14. Payroll | Satisfactory | Satisfactory | Substantial | → |
| 15. Pensions | Satisfactory | Substantial | Substantial | ↘ |
| 16. Treasury management | Substantial | Substantial | Substantial | → |
| 17. Direct payments | Limited | Substantial | - | ↘ |

Key – bold italic identifies those audits at draft at the time of this report and therefore indicative assurance opinions only.

Anti-fraud and corruption

- 7.21. Corporate Resources 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 ICB and the Audit Panel quarterly through the year.
- 7.22. 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.
- 7.23. The proportion of investigations concluded resulting in action and number of tenancies recovered is summarised in the table below. The reasons for the changes identified are discussed regularly with the Internal Control Board and Audit Panel.

| A-FACT | 2014/15 | 2013/14 | 2012/13 | DoT |
|----------------------------|---------|---------|---------|-----|
| Special | 50% | 35% | 18% | ↗ |
| Benefits | 15%* | 42% | 38% | ↘ |
| Housing | 65% | 47% | 32% | ↗ |
| Tenancies recovered | 38 | 33 | 26 | ↗ |

* at the end of 2014/15 the benefit investigation team transferred to the Department for Work and Pensions (DWP). This meant that an exercise was undertaken to clear down the number of open cases to effect a clean handover of staff and casework to DWP. Hence the fall in % with action.

Risk management

- 7.24. Corporate Resources 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 2013/14 and approved by the Internal Control Board and Audit Panel.
- 7.25. 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.
- 7.26. The Council continues to build on its approach to risk management, seeking to improve the quality of reporting on risks. In 2014/15 the requirement to identify key operational risks in all service business plans was continued and internal audit routinely assessed whether service procedures are complete and update to date.
- 7.27. Evidence for the effective mitigation of identified risks and related focus on improving 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, Information Commissioners Office),
 - 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. Issues relevant to the Annual Governance Statement (AGS)

- 8.1. Progress in the seven areas of governance risk tracked by the AGS working party includes:
- 8.2. Legislative change
- new members inducted following May 2014 local elections.
 - individual election register went live on time for May 2015 general elections.
 - constitution comprehensively reviewed.
- 8.3. Procurement
- reinstated and refreshed corporate contract register.
 - Commissioning and Procurement Board focused on embedding three gate gateway process of challenge and monitoring.
- 8.4. Partnership working
- scaling up of work from pilot with Lambeth, Southwark and DWP to extend offering in respect of employment and skills.
 - undertook big budget challenge consultation with residents.
- 8.5. Internal control

- move to new finance system completed.
 - IT strategy launched.
 - Local Government Association Peer Review completed.
- 8.6. Performance management
- management report comprehensively reviewed with new administration.
- 8.7. Financial management
- work of Lewisham Future Programme Board continued with savings of £40m agreed for 2015/16 to 2017/18. The budget for 2015/16 was set using £5m of New Homes Bonus money and £5m from reserves.
 - unqualified external audit opinion on 2013/14 financial statements received.
- 8.8. Business as usual
- consultation on housing strategy 2015 to 2020 undertaken.
 - number of housing schemes progressed to deliver committed 500 new homes by 2018.
 - continued to meet pressure for more school places, bringing this to 4,300 additional places since 2008.
- 8.9. Looking forward, the Council again drew on reserves to set a balanced budget for 2015/16. The continuing requirement on management to identify and implement a further £45m of savings by 2017/18, and possibly more pending the July 2015 budget and 2015 Comprehensive Spending Review still to come will place a huge strain in all the Council's control frameworks. The AGS also highlights the some specific challenges for 2015/16. These are:
- further legislative change,
 - partnership working, and
 - new procurement regulations.
- 8.10. 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. The performance of the internal audit service and delays in delivering planned audit work on time has been raised.
- 8.11. Work to continue to monitor assurances for the above areas of risk are included in the audit plan for 2015/16.

9. Statement of compliance with Public Sector Internal Audit Standards (PSIAS)

- 9.1. The standards require an external review of the services at least every five years. The Audit Panel have agreed this will take place in 2015/16 by the NHS Barts internal audit service. For 2014/15, the internal audit service is assessing itself against the standards.

- 9.2. In 2014/15 we have refreshed the internal audit charter to reflect the range of sources from which internal audit assurance is being obtained. However, overall there has been no change in the fundamentals in respect of providing independent professional assurance on the Council's internal controls.
- 9.3. As such the service, in my opinion, remains compliant with the PSIAS although there are, as reported last year and agreed by the Audit Panel, some areas where the standards are partially rather than fully met. They are:
- Independence of the HIA
 - Feedback from the Audit Panel Chair on the performance of the HIA
 - Audit Panel inclusion on the appointment / removal of the HIA
 - Conducting reviews where the HIA has operational responsibilities
 - External Assessments (by 2015/16 and at least every five years thereafter)
 - Risk communication (including available resources).
- 9.4. Appendix 3, shows these areas and the proposed mitigating actions taken.

10. Quality improvement Plan (QIP) for Internal Audit.

- 10.1. As the restructure is taking place, the QIP will remain focused on ensuring that the move to an in-house led service is fit for purpose. This will be assessed independently during 2015/16 and recommendations for improvement from that review will also help drive continuous improvement.

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 2014/15

For queries on this report please contact the Head of Corporate Resources on 020 8314 9114 or by email at david.austin@lewisham.gov.uk

Appendix 1 – Internal Audit Opinions, category of recommendations, and areas reviewed for 2014/15

Non-School- By Lead Directorate

Resources and Regeneration

| Lead Dir. | Auditable area | Assurance level given | H | M | L | Risks / Area tested during the review | Date of final report |
|--|---|-----------------------|----------|---|---|---|----------------------|
| RRE | Non-Current Assets 14-15 (Core Financial Audit) | Limited | At draft | | | | |
| RRE | Budget Monitoring 14-15 (Core Financial Audit) | Satisfactory | - | 6 | 1 | Budget Setting, Control and Variance Analysis, Loading and Virements and Management Reporting | 29/04/15 |
| RRE | Payroll 14-15 (Core Financial Audit) | Satisfactory | - | 8 | - | Legislation, Starters & Leavers, Payments and Deductions, Reconciliations and Exception Reporting | 12/05/15 |
| RRE | Pensions for LGPS and TPS 14-15 (Core Financial Audit) | Satisfactory | - | 8 | 5 | Regulatory, Contributions and Benefits, | 31/03/15 |
| RRE | Procurement Card | Satisfactory | - | 5 | 1 | Issuing and Use of Cards | 05/03/15 |
| RRE | Capital Expenditure 14-15 (Core Financial Audit) | Satisfactory | 1 | 3 | 2 | Maintenance of the register re additions, disposals, valuations and accounting treatment | 10/06/15 |
| RRE | Main Accounting 14-15 (Core Financial Audit) | Satisfactory | Draft | | | | |
| RRE | Insurance - In house processes | Substantial | 0 | 3 | 0 | Policies & procedures, claims handling, payments | 08/06/15 |
| RRE | Treasury Management 14-15 (Core Financial Audit) | Substantial | Draft | | | | |
| RRE | Procurement | | | | | | |
| RRE | Programme and Project Management | | | | | | |
| From 2013/14 audit plan but not finalised in the last annual assurance report | | | | | | | |
| RRE | Capital Programme, Monitoring and Expenditure 13-14 | Substantial | - | 1 | - | Project management, capital expenditure, authorisation and management reporting, | 09/07/14 |
| RRE | Project Management | Satisfactory | - | 5 | 2 | Compliance with corporate project management approach, Project Review Group and use of previous lessons learnt. | 16/07/14 |

Appendix 1 – Internal Audit Opinions, category of recommendations, and areas reviewed for 2014/15

Customer Services

| Lead Dir. | Auditable area | Assurance level given | H | M | L | Areas / Risks tested during the review | Date of final report |
|--|---|-----------------------|-------|---|---|---|----------------------|
| CUS | Accounts Payable 14-15 (Core Financial Audit) | Limited | 4 | 5 | 2 | Supplier set up, processing payments, reconciliations, performance monitoring | 09/06/15 |
| CUS | Banking 14-15 (Core Financial Audit) | Limited | 1 | 1 | 2 | Processing controls, accurate financial records, reconciliations | 10/06/15 |
| CUS | Accounts Receivable 14-15 (Core Financial Audit) | Limited | Draft | | | | |
| CUS | Housing Benefit 14-15 (Core Financial Audit) | Satisfactory | Draft | | | | |
| CUS | Council Tax 14-15 (Core Financial Audit) | Substantial | 0 | 0 | 2 | Process controls, compliance with regulations, data security | 08/06/15 |
| CUS | NNDR 14-15 (Core Financial Audit) | Substantial | Draft | | | | |
| CUS | Rogue Landlord Grant | Grant Claim | - | - | - | Certify Grant | 08/12/14 |
| CUS | IT Strategy | Consultancy | - | 4 | - | To advise on the IT Strategy | 27/03/15 |
| CUS | Business Continuity Plans | | | | | | |
| CUS | Decent Homes Contractors / Fire / H&S - Client management | | | | | | |
| CUS | Housing Grants / Council's Housing Assistance Policy | | | | | | |
| CUS | Oracle12 Upgrade | | | | | | |
| CUS | SharePoint 2010 | | | | | | |
| From 2013/14 audit plan but not finalised in the last annual assurance report | | | | | | | |
| CUS | Security and Access to LBL Servers | Limited | 1 | 3 | - | Security and access procedures to LBL servers. | 17/06/14 |

Appendix 1 – Internal Audit Opinions, category of recommendations, and areas reviewed for 2014/15

| | | | | | | | |
|-----|-------------------------------------|--------------|---|---|---|---|----------|
| CUS | Trade waste - contract review | Satisfactory | 1 | 2 | 2 | Performance Management & Reporting, Debt Management & Collection, Staff Behaviour, Communication, Education and Promotion | 27/06/14 |
| CUS | Capita IT Contract management 13-14 | Substantial | - | - | 1 | Contract monitoring arrangements and contract design | 27/06/14 |
| CUS | Parking Contract | Substantial | - | 2 | - | Service Standards and Contract Design, Performance Management, Impact of retaining face to face | 10/07/14 |

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| Lead Dir. | Auditable area | Assurance level given | H | M | L | Areas / Risks tested during the review | Date of final report |
|--|---|-----------------------|---|-------|---|---|----------------------|
| COM | Client Contribution for Care 14-15 (Core Financial Audit) | Limited | | Draft | | | |
| COM | Direct Payments 14-15 (Core Financial Audit) | Limited | | Draft | | | |
| COM | Payments to Adult Care Providers 14-15 (Core Financial Audit) | Satisfactory | | Draft | | | |
| COM | Youth Offending | Satisfactory | | Draft | | | |
| COM | Contract Management (COM / CUS) | | | | | | |
| COM | Pathway framework | | | | | | |
| COM | Public Health Contracts / SLA | | | | | | |
| COM | Quality Assurance Training - Pathway | | | | | | |
| COM | South London and Maudsley (SLAM) | | | | | | |
| From 2013/14 audit plan but not finalised in the last annual assurance report | | | | | | | |
| COM | Ten Day Self-Assessment Cases | Satisfactory | - | 3 | 1 | Use of the Self-ten Say Case audit , management Oversight and Referrals | 06/06/14 |

Appendix 1 – Internal Audit Opinions, category of recommendations, and areas reviewed for 2014/15

| Lead Dir. | Auditable area | Assurance level given | H | M | L | Areas / Risks tested during the review | Date of final report |
|--|--|-----------------------|-------|---|---|--|----------------------|
| CYP | Troubled Families Programme 14-15 | Substantial | - | 2 | 7 | Data Protection, Framework, and Claim Submissions | 05/12/14 |
| CYP | Payments to Care Provider and Foster Carers for Looked After Children 14-15 (Core Financial Audit) | Satisfactory | 1 | 4 | 1 | Allocation of placements, authorisation of spend, budget controls | 09/06/15 |
| CYP | Payments for 2 -4 year olds | Satisfactory | Draft | | | | |
| CYP | Adoption Reform Grant 13-14 | Grant Claim | - | - | - | DCLG requirement | 01/07/15 |
| CYP | Troubled Families Programme Claim 7 (Oct 14) | Grant Claim | - | - | - | DCLG requirement | 30/10/14 |
| CYP | Troubled Families Programme Claim 5 (May 14) | Grant Claim | - | - | - | DCLG requirement | 15/05/14 |
| CYP | Troubled Families Programme Claim 8 (Feb 15) | Grant Claim | - | - | - | DCLG requirement | 17/02/15 |
| CYP | Disclosure and Barring Service (DBS) PT 1 | | | | | | |
| CYP | No recourse to public funds (Pilot Scheme) | | | | | | |
| CYP | Youth Service | | | | | | |
| From 2013/14 audit plan but not finalised in the last annual assurance report | | | | | | | |
| CYP | Leaving Care | Substantial | - | 1 | 1 | Records for Statutory Compliance and Assessment of Pathway Plans | 11/06/14 |
| CYP | Payments to Children with Disabilities – Short Breaks | Substantial | - | 2 | - | Payments, Local Records, Set up and Cessations of Payments, Monitoring and Budget Monitoring | 25/06/14 |
| CYP | Schools' Catering Contract | Satisfactory | - | 5 | 5 | Contract monitoring and Management | 09/07/14 |

Appendix 1 – Internal Audit Opinions, category of recommendations, and areas reviewed for 2014/15

| Lead Dir. | School | Assurance level given | H | M | L | Areas / Risks tested during the review | Date of final report |
|-----------|---|-----------------------|---|----|----|--|----------------------|
| SCH | Elfrida Primary 2014-15 | Limited | 1 | 13 | 2 | Governance, Budget Monitoring, Procurement, Income, Banking, Asset Management, Recruitment, Payroll, and Data Protection | 05/03/15 |
| SCH | St Bartholomew's CE Primary 2014-15 | Limited | 1 | 14 | 6 | As above | 15/09/14 |
| SCH | All Saints Primary 2014-15 | Satisfactory | 0 | 6 | 2 | As above | 11/03/15 |
| SCH | Brent Knoll - Special - 2014-15 | Satisfactory | 1 | 8 | 10 | As above | 19/12/14 |
| SCH | Christ Church CE Primary 2014-15 | Satisfactory | 0 | 10 | 5 | As above | 24/09/14 |
| SCH | Grinling Gibbons Primary 2014-15 | Satisfactory | 1 | 3 | 5 | As above | 31/12/14 |
| SCH | Haseltine Primary 2014-15 | Satisfactory | 0 | 8 | 2 | As above | 22/10/14 |
| SCH | New Woodlands (inc Primary PRU) 2014-15 | Satisfactory | 0 | 10 | 7 | As above | 30/10/14 |
| SCH | St James Hatcham CE Primary 2014-15 | Satisfactory | 1 | 8 | 3 | As above | 26/02/15 |
| SCH | St Winifreds Catholic Infants 2014-15 | Satisfactory | 0 | 5 | 5 | As above | 24/02/15 |
| SCH | Ashmead Primary 2014-15 | Substantial | 0 | 2 | 3 | As above | 24/11/14 |
| SCH | Baring Primary 2014-15 | Substantial | 0 | 1 | 0 | As above | 11/06/14 |
| SCH | Beecroft Garden Primary 2014-15 | Substantial | 0 | 0 | 1 | As above | 12/06/14 |
| SCH | Brindishe Lee Primary 2014-15 | Substantial | 0 | 1 | 0 | As above | 08/12/14 |
| SCH | Childeric Primary 2014-15 | Substantial | 0 | 2 | 5 | As above | 31/10/14 |
| SCH | Coopers Lane Primary 2014-15 | Substantial | 0 | 3 | 2 | As above | 26/02/15 |
| SCH | Downderry Primary 2014-15 | Substantial | 0 | 0 | 2 | As above | 23/05/14 |
| SCH | Eliot Bank Primary 2014-15 | Substantial | 0 | 1 | 4 | As above | 01/04/15 |
| SCH | Gordonbrock Primary 2014-15 | Substantial | 0 | 2 | 1 | As above | 01/04/15 |
| SCH | Greenvale - Special 2014-15 | Substantial | 0 | 4 | 6 | As above | 04/03/15 |

Appendix 1 – Internal Audit Opinions, category of recommendations, and areas reviewed for 2014/15

| Lead Dir. | School | Assurance level given | H | M | L | Areas / Risks tested during the review | Date of final report |
|-----------|---------------------------------------|-----------------------|-------|---|---|--|----------------------|
| SCH | Holy Trinity CE Primary 2014-15 | Substantial | 0 | 3 | 2 | As above | 09/10/14 |
| SCH | John Ball Primary 2014-15 | Substantial | 0 | 1 | 0 | As above | 18/06/14 |
| SCH | Kelvin Grove Primary 2014-15 | Substantial | 0 | 3 | 2 | As above | 24/02/15 |
| SCH | Perrymount Primary 2014-15 | Substantial | 0 | 5 | 2 | As above | 27/03/15 |
| SCH | Sir Francis Drake Primary 2014-15 | Substantial | 0 | 1 | 0 | As above | 25/06/14 |
| SCH | St John Baptist CE Primary 2014-15 | Substantial | 0 | 0 | 0 | As above | 27/06/14 |
| SCH | St Margaret's Lee CE Primary 2014-15 | Substantial | 0 | 2 | 3 | As above | 19/12/14 |
| SCH | St Saviours RC Primary 2014-15 | Substantial | 0 | 3 | 4 | As above | 24/04/15 |
| SCH | St William of York RC Primary 2014-15 | Substantial | 0 | 2 | 3 | As above | 20/01/15 |
| SCH | St Winifred's Catholic Junior 2014-15 | Substantial | 0 | 1 | 1 | As above | 21/05/14 |
| SCH | Rangefield School - Procurement Audit | Satisfactory | Draft | | | Procurement, Governance and Budget Monitoring only | |

Appendix 2 Follow up Reviews Conducted

| Lead Dir | Audit Followed-up | Opinion | Final Rpt | F/up Rpt Date | Implemented | In Progress | Superseded | Not Implemented | Total |
|----------|--|--------------|-----------|---------------|-------------|-------------|------------|-----------------|-------|
| RRE | Budget Monitoring 13-14 | Substantial | 20/01/14 | 29/04/15 | - | 2 | - | - | 2 |
| RRE | Highways Reactive Maintenance Contract | Satisfactory | 18/03/14 | 22/12/14 | 3 | - | 1 | - | 4 |
| RRE | Maintenance of Assets and Premises | Consultancy | 06/11/14 | 30/09/14 | 11 | 2 | 2 | - | 15 |
| RRE | Payroll 13-14 | Satisfactory | 17/06/14 | 12/05/15 | 4 | - | - | - | 4 |
| RRE | Pensions 13-14 | Substantial | 07/01/14 | 31/03/15 | 0 | 1 | - | - | 1 |
| RRE | Reconciliations of bank accounts | Consultancy | 24/02/15 | 03/03/15 | 1 | - | 1 | - | 2 |
| RRE | VAT | Substantial | 18/12/13 | 03/10/14 | 1 | - | - | - | 1 |
| CUS | Data Scanning and Storage | Limited | 13/12/13 | 30/09/14 | 2 | - | - | - | 2 |
| CUS | Housing Options Centre | Limited | 13/12/13 | 02/10/14 | 3 | - | - | - | 3 |
| CUS | Pensions System | Substantial | 12/11/13 | 07/08/14 | 1 | - | - | - | 1 |
| CUS | Security and access to LBL | Limited | 17/06/14 | 23/04/15 | - | 1 | - | 3 | 4 |
| CUS | Trade waste - contract review | Satisfactory | 27/06/14 | 16/03/15 | 1 | 2 | - | - | 3 |
| COM | Block Nursing Contract | Substantial | 06/02/14 | 19/12/14 | 2 | - | - | - | 2 |
| COM | CCTV Contract Management | Satisfactory | 15/10/13 | 04/08/14 | 2 | 2 | - | - | 4 |
| COM | Children Remanded in Custody | Substantial | 27/03/14 | 10/12/14 | 1 | 1 | - | - | 2 |

Appendix 2 Follow up Reviews Conducted

| Lead Dir | Audit Followed-up | Opinion | Final Rpt | F/up Rpt Date | Implemented | In Progress | Superseded | Not Implemented | Total |
|--------------|-----------------------------------|--------------|-----------|---------------|-------------|-------------|------------|-----------------|-------|
| COM | Fusion Leisure Centre | Satisfactory | 11/04/14 | 06/02/15 | 4 | - | - | - | 4 |
| COM | Quality framework for day centres | Substantial | 24/04/14 | 06/02/15 | 1 | - | - | - | 1 |
| COM | Ten day self-assessment cases | Satisfactory | 06/06/14 | 18/05/15 | 3 | - | - | - | 3 |
| CYP | Estates Management | Satisfactory | 06/12/13 | 30/09/14 | 3 | 2 | - | - | 5 |
| CYP | Leaving Care | Substantial | 11/06/14 | 20/03/15 | 4 | | 1 | - | 5 |
| CYP | Management of PbR Contracts | Satisfactory | 11/11/13 | 11/09/14 | 3 | 1 | - | - | 4 |
| CYP | Pathfinder SEND | Satisfactory | 03/03/14 | 13/01/15 | 4 | - | - | - | 4 |
| CYP | TFP Follow-up for 13-14 | Substantial | 25/03/14 | 05/12/14 | 1 | 1 | - | - | 4 |
| Total | | | | | 55 | 15 | 5 | 3 | 78 |

Appendix 3 - Improvements for the IA to fully comply with the code.

| Improvement Required | Proposed Action |
|--|---|
| <p>1. Independence of the Head of Internal Audit (HIA). The HIA is the Head of Corporate Resources. As such has operational responsibilities, including as Deputy S151 officer, which could affect his independence.</p> | <p>To ensure as much independence as possible, the Internal Audit Contract Manager, will oversee all areas of internal audit work in areas that the HIA has responsibility for. In respect of this work, the internal audit contract manager has been given unfettered access to the CEO and Audit Panel Chair as detailed in the Internal Audit Charter.</p> |
| <p>2. The Board must be included in the appointment and removal of the HIA.</p> | <p>In 2014 the lead Cabinet member for Resources was on the recruitment panel for the post of Head of Corporate Resources. Going forward a member of the Audit Panel should also be considered for the recruitment panel when recruiting for the post of Head of Internal Audit.</p> |
| <p>3. The CEO and the Board should contribute to the appraisal of the HIA</p> | <p>This is currently done informally by the Executive Director for Resources and Regeneration who line manages the Head of Corporate Resources. Consideration will be given to incorporating this more formally through the revised performance management process for senior management being introduced and which includes 360 degree appraisals.</p> |
| <p>4. Assurance engagements for areas where the HIA is the responsible manager are conducted with independence.</p> | <p>See actions for 1 above.</p> |
| <p>5. The Quality Assurance and Improvement Programme includes both internal and external assessments.</p> | <p>A fully independent external assessment is arranged to take place 2015/16.</p> |
| <p>6. Risk Communication</p> | <p>Manual and working papers in place and will be assessed as part of independent external assessment in 2015/16.</p> |

Appendix 3 - Improvements for the IA to fully comply with the code.

| Improvement Required | Proposed Action |
|----------------------------|---|
| 7. Internal Audit Resource | Less work planned for 2014/15 as resources reduced and resourcing issue addressed late in year which has resulted in later completion of work than planned. |

Agenda Item 8

| AUDIT PANEL | | |
|--------------|------------------------------|--------------------|
| Report Title | Internal Audit update report | |
| Key Decision | No | Item No. 8 |
| Ward | ALL | |
| Contributors | Head of Corporate Resources | |
| Class | Part 1 | Date: 18 June 2015 |

Reasons for urgency and lateness

Urgency: This is the regular quarterly update and, for this quarter, supports the draft Annual Assurance Opinion being presented to the Audit Panel and cannot therefore wait until the next meeting.

Lateness: The report is late as the Annual Assurance Opinion was delayed to allow the fullest position of work completed to date to be reflected in that update.

1. Purpose of the report

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

- The progress of the 2014/15 internal audit plan,
- The draft internal audit plan for 2015/16,
- The Internal Audit Charter, and
- Progress of implementation of internal audit recommendations.

2. Executive Summary

Section 5 - Internal audit progress update.

With the exception of one school report, the schools plan is now final. With the exception of two core financial audits, all are at least at draft report stage. All the remaining audits are on course to be completed to draft report by the end of June.

Section 6 - Limited, No Assurance and Consultancy reviews.

There was one Limited report (a school) and one consultancy report (IT Strategy) issued since the last meeting.

Section 7 - High and Medium recommendations not agreed.

A recommendation from the pensions report was not agreed. This was subsequently overturned by the Internal Control Board (ICB) and will now need to be implemented.

One school recommendation was not agreed. Governors confirmed that they are satisfied with the controls currently in place.

Section 8 - Progress on the implementation of recommendations.

The number of non-school recommendations overdue remains at a reasonable level. The number of overdue school recommendations is high and has increased.

The status of the recommendations from follow-ups remains good as the majority continue to be either implemented or in progress.

Section 9 – Draft internal audit plan for 2015/16

The draft audit plan is based on 978 days for 17 core financial, 41 audit, 26 school, and the follow-up reviews.

Section 10 - Restructure of the internal audit service

The preparations to strengthen the in-house team are underway and arrangements are in place to secure the necessary audit work and maintain delivery against the 2015/16 plan while this is being done.

Section 11 - Other business.

Picking up on the Panel's feedback, the Audit Charter is resubmitted with an Executive Summary included for Audit Panel to agree..

3. Recommendations

- 3.1. It is recommended that the Audit Panel:
 - 3.1.1. note the content of this report,
 - 3.1.2. approve the 2015/16 audit plan at appendix 5, and
 - 3.1.3. agree the amended internal audit charter for 2015/16 at appendix 6.

4. Background

- 4.1. Internal Audit is a statutory service that provides management and members with independent assurance on control environment within the council.
- 4.2. Currently, internal audit is resourced by both external private and public internal audit services. The in-house team restructure will be completed during 2015/16.
- 4.3. At the time of writing this report, the in-house team consisted of the Head of Corporate Resources and the Internal Audit Contract Manager.

5. Internal audit progress update (to the 31 May 2015)

2014/15

- 5.1. This 2014/15 audit plan is underway to be completed (to draft report stage at least) by the end of June 2015. The schools plan is finalised with the exception of one additional review. The Governors are awaiting an independent report and do not wish to finalise the internal audit report until that is complete.
- 5.2. The table below shows the status of the internal audit plan. Appendix 1, details the full 2014/15 internal audit plan.

| Lead Dir. | Original Plan | Addtnl. Audits | Dropped Audits | Current Plan | Final Reports | Reports at Draft | ToR* Issued | Not Started |
|-----------|---------------|----------------|----------------|--------------|---------------|------------------|-------------|-------------|
| RRE | 13 | - | (2) | 11 | 4 | 2 | 5 | - |
| CUS | 10 | 3 | - | 13 | 2 | 6 | 5 | - |
| COM | 9 | - | (2) | 7 | - | 3 | 4 | - |
| CYP | 6 | 4 | - | 10 | 5 | 1 | 4 | - |
| Sub | 38 | 7 | - | 41 | 11 | 12 | 18 | - |
| SCH | 32 | 1 | (2) | 31 | 30 | 1 | - | - |
| Total | 70 | 8 | (6) | 72 | 41 | 13 | 18 | - |

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

- 5.3. The core financials are all at draft with the exception of two audits. The core financial reports will be finalised by the end of June.
- 5.4. The contractor has confirmed that they have the resources to complete the rest of the non-school audit plan and are currently working towards an end of June deadline to complete these reviews to draft report stage. The full position can then be reported to the September Audit Panel.
- 5.5. Since the last meeting, there were thirteen final reports issued. Please see the table below.

| Dir. | Audit | Date of Final | Audit Opinion | Recs. Made | | |
|------|--|---------------|---------------|------------|---|---|
| | | | | H | M | L |
| RRE | Payroll 2014-15 | 12/05/15 | Satisfactory | - | 8 | - |
| RRE | Budget Monitoring 2014-15 | 29/04/15 | Satisfactory | - | 6 | 1 |
| RRE | Pensions 2014-15 | 31/03/15 | Satisfactory | - | 8 | 5 |
| RRE | Procurement Card | 05/03/15 | Satisfactory | - | 5 | 1 |
| CUS | IT Strategy | 27/03/15 | Consultancy | - | 4 | - |
| CYP | Troubled Families Programme Claim 8 (Feb 15) | 30/10/14 | Grant Claim | n/a | | |
| SCH | St Saviour's RC Primary | 24/04/15 | Substantial | - | 3 | 4 |
| SCH | Gordonbrock Primary | 01/04/15 | Substantial | - | 2 | 1 |
| SCH | Eliot Bank Primary | 01/04/15 | Substantial | - | 1 | 4 |
| SCH | Perrymount Primary | 27/03/15 | Substantial | - | 5 | 2 |

| Dir. | Audit | Date of Final | Audit Opinion | Recs. Made | | |
|------|--------------------------|---------------|---------------|------------|----|---|
| | | | | H | M | L |
| SCH | All Saints Primary | 11/03/15 | Satisfactory | - | 6 | 2 |
| SCH | Elfrida Primary | 05/03/15 | Limited | 1 | 13 | 2 |
| SCH | Greenvale Special School | 04/03/15 | Substantial | - | 4 | 6 |

5.6. There were no additional or deferred audits since the last meeting.

6. Limited , No Assurance and Consultancy reports

6.1. There was one 'Limited' and one Consultancy report issued since the last meeting, see below.

- Elfrida Primary School.
- IT Strategy

6.2. The executive summary for these reports which highlight the key areas for improvement are provided at Appendix 2.

7. High or Medium recommendations not agreed

7.1. Since the last Audit Panel meeting, management have not agreed two medium recommendations, one from the Pensions Audit 2014/15 and the other from Gordonbrock School.

7.2. These were presented to the Internal Control Board, who subsequently agreed the Pensions audit recommendations should be implemented.

7.3. For the other, the School Governing Body chose not to implement the school recommendation. See details below.

| Audit | Recommendation | Comments (IA and Management) |
|-------------------------|---|--|
| Pensions 2014/15 | To maintain document integrity, security and ensure compliance with the Data Protection Act 1998, all documentation relating to pensions administration should be saved electronically with restricted access. The pensions department should intensify efforts to ensure that the faulty scanning machine is repaired and that the backlog of outstanding documents that have not been scanned is cleared. | <p>Management Comment: Not Agreed. I do not think this should be on here as this is not an issue for pensions. I have escalated this as high as I can. This is beyond my control and an issue for the Council</p> <p>Internal Audit Comment The recommendation remains as the risk of breach of the Data Protection Act 1998 as regards this area lies with the pensions</p> |

| Audit | Recommendation | Comments (IA and Management) |
|---|--|---|
| | | team. The pensions team should intensify escalation efforts or seek alternative arrangements. |
| Gordonbrock Primary School 2014/15 | Payments should not be authorised on the authority of a single signature. In the event that a PO has not been completed, a second signature should be added to the invoice when authorising payment. | <p>Management Comment</p> <p>The Governing Body did not agree to this. Where there is no PO, because of recurring items or SLAs, these have either been signed off by the Governors (SLAs) or are seen by the 2nd signatories before payment is made, as they have to sign the cheque or authorise the BACS when this system is introduced.</p> <p>Audit comment</p> <p>Separation of duties requires that at least 2 people should vet any item of expenditure. This was not evident in the testing. If items are already vetted by the 2nd signatories, this should be easy to record.</p> <p>The principle is important, it is up to the School to decide whether to accept the risk</p> |

8. Progress on the implementation of recommendations.

Follow-ups

- 8.1. Non-school reviews with High or Medium recommendations are followed-up within nine months of the final report. School audits with a negative assurance opinion (i.e. 'Limited' or 'No assurance') also receive a follow-up review.
- 8.2. There were seven follow-up reviews completed since the last Audit Panel meeting (all non-schools). The summary status of the recommendations followed up since the last meeting to 31/05/15 is shown in the table below:

| Implemented | In Progress | Superseded | Not Implemented | Total Recs |
|-------------|-------------|------------|-----------------|-------------|
| 10 | 5 | 1 | - | 16 |
| 53% | 31% | 6% | 0% | 100% |

- 8.3. Those recommendations found to be 'In Progress' or 'Not Implemented' are held open or reopened. Management will continue to update the progress of implementation

and internal audit report on this progress. Details of the reviews followed-up are in Appendix 5.

Superseded

8.4. Since the last Audit Panel no recommendations have been superseded.

Implementation of recommendations

8.5. The table below shows the status of high and medium recommendations made by Internal Audit as at the 31/05/15.

| Lead Dir. | Previous o/due recs. | Current o/due recs at 31/05/15 | Current recs with 2+ changes | Previous no. of open recs at 28/02/15 | Recs re-opened since 28/02/15 | New recs since 28/02/15 | Rec closed since 28/02/15 | Current open recs at 31/05/15 |
|-----------|----------------------|--------------------------------|------------------------------|---------------------------------------|-------------------------------|-------------------------|---------------------------|-------------------------------|
| RRE | 1 | 7 | 2 | 7 | 4 | 39 | (14) | 36 |
| CUS | 4 | - | 5 | 12 | - | 4 | - | 16 |
| COM | - | 1 | - | 2 | - | - | (1) | 1 |
| CYP | 1 | 3 | 1 | 7 | - | - | (3) | 4 |
| Tot | 6 | 11 | 8 | 28 | 4 | 43 | (18) | 57 |
| SCH | 47 | 78 | 1 | 73 | - | 34 | (16) | 91 |
| Tot | 53 | 89 | 9 | 101 | 4 | 77 | (34) | 148 |

8.6. The percentage of overdue recommendations to open recommendations is 60%, up from 52%.

8.7. This position is driven by the schools overdue recommendations, where the percentage of overdue recommendations to open recommendations is 86%. This position continues to worsen.

8.8. The non-school percentage is 19%, which is a slight improvement from the 21% reported at the last meeting.

8.9. The number of recommendations with two or more changes to the due date continues to be low.

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

9. Draft Internal Audit Plan for 2015/16

9.1. The table below summarises the number of proposed internal audit plan by Directorate. This identifies the key financial audits, general audits (including IT), and follow up work. Please see Appendix 5 for the detail of the draft internal audit plan for

2015/16, including areas to be considered when audit scoped with the service manager.

| Lead Dir. | Key Audit | General Audit (incl. IT) | Follow up audits | Total |
|-----------|-----------|--------------------------|------------------|-------|
| RRE | 7 | 10 | 2 | 19 |
| CUS | 6 | 12 | 2 | 20 |
| COM | 3 | 10 | 2 | 15 |
| CYP | 1 | 10 | 2 | 13 |
| Sub | 17 | 42 | 8 | 67 |
| SCH | 0 | 26 | 1 | 27 |
| Total | 17 | 68 | 9 | 94 |

- 9.2. The plan covers the annual key financial systems, with the remaining of the risk-based plan made up of the key risks and controls identified in the corporate and divisional risk registers. In addition, information on changes and risks from the budget savings for 15/16, star service plans, and known changes to legislation were also included.
- 9.3. The draft plan has been reviewed at the Internal Control Board and discussed at Departmental Management Teams. Progress and any changes to the plan will be reported on throughout the year to the Audit Panel.
- 9.4. In terms of resources to deliver the plan, the Royal Borough of Greenwich will continue to conduct the schools and the plan for 2015/16 has already started.
- 9.5. Mazars, via the London Borough of Greenwich framework contract, and the new in-house team will complete the non-school plan. Any contingency will be resourced from finance CIPFA trainees seconded to internal audit during the year.
- 9.6. Most of the audits in the plan are 'assurance' internal audit control focused pieces of work. However, some around the risks of managing change highlighted in the risk registers maybe better scoped as consultancy reviews. For these we will also assess the best way of approaching the resourcing of this work as the skills may lie outside of internal audit.
- 9.7. The plan consists of 978 productive days (excluding contingency). This includes the follow-up audits. The table below show how the plan will be resourced. This is based on the in-house team being fully resourced by September.
- 9.8. As the plan stands currently, the in-house team (when recruited) will resource 36% of the days / 31% of the audits, which is a significant increase of previous years.

| Type of Resource | In-house | Mazars/ Other | RB of Greenwich |
|----------------------------------|----------|---------------|-----------------|
| Percentage of resource by Days | 36% | 49% | 15% |
| Percentage of resource by Audits | 31% | 45% | 24% |

9.9. There has been one piece of work completed for the 2015/16 plan, a grant certification. This is the last certification due for phase 1 of the programme.

| Dir. | Audit | Date of Final | Audit Opinion | Recs. Made | | |
|------|--|---------------|---------------|------------|---|---|
| | | | | H | M | L |
| CYP | Troubled Families Programme – Final Claim for phase 1 (no.9) | 22/05/15 | Grant Claim | n/a | | |

10. Restructure of the Internal Audit Service

- 10.1. The provision of internal audit services is currently operating under a mixed model drawing on the Royal Borough of Greenwich, London Borough of Croydon internal audit framework, an independent IT auditor, and the in-house team.
- 10.2. With the exception of the IT audits which will be asked of the London Borough of Croydon framework auditors, these arrangements have been confirmed for 2015/16. It is still the intention to recruit and strengthen the in-house team and the preparations for this are underway. In the meantime, the service is in a position to continue the momentum now achieved into 2015/16 and cover delivery of the internal audit plan through these mixed supplier arrangements.

11. Other business

- 11.1. The draft Head of Audit Annual Assurance Report for 2014/15 is in a separate report to this Audit Panel. The final position will be reported to the September Audit Panel for the internal audit year ending June 2015.
- 11.2. At the March meeting the Audit Panel reviewed the draft Internal Audit Charter for 2015/16. This is not a strategy for internal audit but a statement of how internal audit will be approached by the Council. The Audit Panel requested that the Internal Audit Charter include an executive summary to the document. Appendix 6, shows the revised charter for the Audit Panel's approval.

12. Legal Implications

- 12.1. There are no legal implications arising directly from this report.

13. Financial Implications

- 13.1. There are no financial implications arising directly from this report.

14. Equalities Implications

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

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

15. Crime and Disorder Implications

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

16. Environmental Implications

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

17. Background Papers

17.1. There are no background papers.

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

Appendix 1 - 2014/15 Audit Plan

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|---|---|-----------------------|----------------------|--------------|
| RRE | Payroll 14-15 (Core Financial Audit) | Key financial controls | Jan 15 | 12/05/15 | Satisfactory |
| RRE | Budget Monitoring 14-15 (Core Financial Audit) | Key financial controls | Jan 15 | 29/04/15 | Satisfactory |
| RRE | Pensions for LGPS -15 (Core Financial Audit) | Key financial controls | Jan 15 | 31/03/15 | Satisfactory |
| RRE | Procurement Card (IT Audit) | Key financial controls | Oct 15 | 09/02/15 | Satisfactory |
| RRE | Non-Current Assets 14-15 (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| RRE | Main Accounting 14-15 (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| RRE | Treasury Management 14-15 (Core Financial Audit) | Key financial controls | Apr 15 | | |
| RRE | Capital Expenditure 14-15 (Core Financial Audit) | Key financial controls | May 15 | | |
| RRE | Insurance – In house processes | To review the procedures for in-house claims handing process for efficiency and effectiveness. | May 15 | | |
| RRE | Procurement | Review the procurement process and monitoring of contracts, the governance and administration of the Commissioning and Procurement board. To include how the evaluation of business continuity plans at the award stage is conducted and approved. To include how the Public Services (Social Value) Act is enforced. | May 15 | | |

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Appendix 1 - 2014/15 Audit Plan

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|--|--|-----------------------|----------------------|-------------|
| RRE | Programme and Project Management | To review the programme management process to establish if they are fit for purpose. Also, look at PRG in COM, CYP, RRE to see if they comply with Council's management approach. To include a review of the processes relating to projects that has concerns. | Apr 15 | | |
| CUS | IT Strategy (IT Audit) | Review the IT strategy. | Nov 14 | 27/03/15 | Consultancy |
| CUS | Rogue Landlord Grant | To review the adherence to the grant conditions | N/A | 08/12/14 | Grant Claim |
| CUS | Accounts Payable 14-15 (Core Financial Audit) | Key financial controls | Feb 15 | At draft | |
| CUS | Accounts Receivable 14-15 (Core Financial Audit) | Key financial controls | Feb 15 | At draft | |
| CUS | Banking 14-15 (Core Financial Audit) | Key financial controls | Feb 15 | At draft | |
| CUS | Housing Benefit / Council Tax Reduction Scheme (CTRS) 14-15 (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| CUS | Council Tax 14-15 (Core Financial Audit) | Key financial controls | Jan 15 | At draft | |
| CUS | NNDR 14-15 (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| CUS | Business Continuity Plans (IT Audit) | To review the council's continuity plans for: Telephony / IT Systems (including servers - corporate and local / 3rd party) to see if they are reviewed regularly, feasible and officers know where they are and what to do. | Mar 15 | | |
| CUS | SharePoint 2010 - (IT Audit) | Look at local security and usability. | Mar 15 | | |

Appendix 1 - 2014/15 Audit Plan

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|---|--|-----------------------|----------------------|---------|
| CUS | Decent Homes Contractors / Fire / H&S - Client management | To review the management of 'Decent Homes' expenditure, objectives and outcomes. To include the monitoring of recommendations from Fire Brigade and other agencies. | Apr 15 | | |
| CUS | Housing Grants / Council's Housing Assistance Policy | To review the controls surrounding the handy-person service and disabled facilities grants. | Apr 15 | | |
| CUS | Oracle12 Upgrade -(IT Audit) | Post implementation review of the new Oracle upgrades system | May 15 | | |
| COM | Payments to Care Providers for Older Adults 14-15 (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| COM | Client Contribution for Care Provision 14-15 (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| COM | Direct Payments (Core Financial Audit) | Key financial controls | Mar 15 | At draft | |
| COM | South London and Maudsley (SLAM) | Review the governance and operational management in respect of LBL interest in relation to SLAM | May 15 | | |
| COM | Public Health Contracts | To review the management of Public Health Contracts for general process, decision making, scrutiny, length of contracts / renewal monitoring etc | May 15 | | |
| COM | Contract Management (Specialist) | Review the monitoring of contracts within the Community and CYP directorate. | May 15 | | |
| COM | Youth Offending Service (YOS) | To review the objective and outcomes of the service | May 15 | | |

Appendix 1 - 2014/15 Audit Plan

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|--|---|-----------------------|----------------------|-------------|
| CYP | Troubled Families Programme (TFP) Annual Review | To review of the new system for gathering information and submission. | 05/09/14 | 05/12/14 | Substantial |
| CYP | TFP - Claims submissions Check (non-assurance) claim 7 | To review the criteria for the Troubled Families Programme for each claim. Expected 2-4 times a year. | n/a | 30/10/14 | Grant Claim |
| CYP | TFP - Claims submissions Check (non-assurance) claim 8 | To review the criteria for the Troubled Families Programme for each claim. Expected 2-4 times a year. | n/a | 17/02/15 | Grant Claim |
| CYP | Adoption Reform Grant | To review the expenditure against the grant conditions | n/a | 01/07/14 | Grant Claim |
| CYP | TFP - Claims submissions Check (non-assurance) claim 5 | To review the criteria for the Troubled Families Programme for each claim. Expected 2-4 times a year. | n/a | 15/05/14 | Grant Claim |
| CYP | Payments to Care Provider and Foster Carers for Looked After Children (Core Financial Audit) 14-15 | Key financial controls | Mar 15 | | |
| CYP | Disclosure and Barring Service (DBS) PT 1 | Review the framework of DBS in relation to schools / CYP. Review the DBS board and actions. | May 15 | | |
| CYP | Youth Service | Review the governance , procedures and processes, reporting and scheme of management | May 15 | | |
| CYP | Payments for 2 -4 year olds | Review the returns and payments to and from providers (private, voluntary and independent sectors). Potentially look at DBS compliance too. | May 15 | | |
| CYP | No recourse to public funds (Pilot Scheme) | Review the framework / guidance / policy on no recourse to public funds | May 15 | | |
| SCH | Brindishe Lee Primary | Standard School Programme | Nov 14 | 08/12/14 | Substantial |
| SCH | Childeric Primary | Standard School Programme | Sep 14 | 31/10/14 | Substantial |

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Appendix 1 - 2014/15 Audit Plan

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|-------------------------------|---------------------------|-----------------------|----------------------|--------------|
| SCH | Ashmead Primary | Standard School Programme | Oct 14 | 24/11/14 | Substantial |
| SCH | Eliot Bank Primary | Standard School Programme | Jan 15 | 01/04/15 | Substantial |
| SCH | Gordonbrock Primary | Standard School Programme | Jan 15 | 01/04/15 | Substantial |
| SCH | Perrymount Primary | Standard School Programme | Jan 15 | 27/03/15 | Substantial |
| SCH | All Saints Primary | Standard School Programme | Feb 15 | 11/03/15 | Satisfactory |
| SCH | Elfrida Primary | Standard School Programme | Feb 15 | 05/03/15 | Limited |
| SCH | Greenvale - Special | Standard School Programme | Jan 15 | 04/03/15 | Substantial |
| SCH | Coopers Lane Primary | Standard School Programme | Nov 14 | 26/02/15 | Substantial |
| SCH | St James Hatcham CE Primary | Standard School Programme | Nov 14 | 26/02/15 | Satisfactory |
| SCH | Kelvin Grove Primary | Standard School Programme | Dec 14 | 24/02/15 | Substantial |
| SCH | St Winifreds Catholic Infants | Standard School Programme | Dec 14 | 24/02/15 | Satisfactory |
| SCH | St William of York CE Primary | Standard School Programme | Dec 14 | 20/01/15 | Substantial |
| SCH | Brent Knoll – Special | Standard School Programme | Nov 14 | 19/12/14 | Satisfactory |
| SCH | St Margarets Lee CE Primary | Standard School Programme | Nov 14 | 19/12/14 | Substantial |
| SCH | Grinling Gibbons Primary | Standard School Programme | Oct 14 | 31/12/14 | Satisfactory |
| SCH | Christ Church CE Primary | Standard School Programme | Jul 14 | 24/09/14 | Satisfactory |
| SCH | St Bartholomews CE Primary | Standard School Programme | Jun 14 | 07/08/14 | Limited |
| SCH | St John Baptist CE Primary | Standard School Programme | Jun 14 | 27/06/14 | Substantial |
| SCH | Sir Francis Drake Primary | Standard School Programme | Jun 14 | 27/06/14 | Substantial |

Appendix 1 - 2014/15 Audit Plan

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|---|--|-----------------------|----------------------|--------------|
| SCH | John Ball Primary | Standard School Programme | Jun 14 | 18/06/14 | Substantial |
| SCH | Beecroft Garden Primary | Standard School Programme | May 14 | 12/06/14 | Substantial |
| SCH | Baring Primary | Standard School Programme | Jun 14 | 11/06/14 | Substantial |
| SCH | Downderry Primary | Standard School Programme | May 15 | 23/05/14 | Substantial |
| SCH | St Winifreds Catholic Junior | Standard School Programme | Apr 14 | 21/05/14 | Substantial |
| SCH | Holy Trinity CE Primary | Standard School Programme | Sep 14 | 09/10/14 | Substantial |
| SCH | New Woodlands (inc PRU) | Standard School Programme | Sep 14 | 30/10/14 | Satisfactory |
| SCH | Haseltine Primary | Standard School Programme | Sep 14 | 22/10/14 | Satisfactory |
| SCH | St Saviours RC Primary | Standard School Programme | Feb 15 | 24/04/15 | Substantial |
| SCH | Rangefield Primary School (Additional – requested by Governors) | Procurement, Budget Monitoring and Governance only | Dec 14 | At draft | |

Appendix 2 – Executive Summary for Limited, No Assurance and Consultancy Reports

Executive Summary for Elfrida Primary School 2014/2015



Internal Audit Assurance Opinion

▲ Limited

Direction of travel



Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. See glossary for definitions

Introduction

Elfrida Primary School came together with Athelney school to form the King Alfred Federation that formally began on 3rd June 2013. A Governing Body, an Executive Head Teacher and a Federation Business Manager work across both schools that have their own budgets. Elfrida Primary School does not yet have a comprehensive scheme of delegation or financial procedure manual that has been authorised by the Governing Body. Finance staff are doing their best to carry out day to day financial operations effectively but some key controls in relation to reconciliations of income and separation of duties were found to be lacking.

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 12. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

Key Findings that Need Attention

- An amount in excess of £9,000 is owed for school dinner monies.
- The school has not yet adopted a Finance Manual or a Scheme of Delegation.
- The procedure for processing payments does not clearly evidence the authorisation of invoices prior to payment or separation of duties.
- A procedure is not in place to allow easy reconciliation of income received to records held, i.e. for dinner money and invoiced income.
- Reconciliation of monthly payroll charges was not evident from records held.
- The school does not currently hold a comprehensive asset register.
- Cheques raised in 2011 still appear on the un-reconciled items listing on the schools bank account with one item over £1,000.
- Personnel files are not all complete with document to support appointments, i.e. references.
- The cheque book was not kept in the safe, but in a public area.
- A comprehensive record of virements between budgets was not available.
- Orders were not consistently raised

| Risk Headings | | H | M | L |
|---------------|------------------------------|---|----|---|
| ● | 1 - Governance | - | 1 | - |
| ▲ | 2 - Purchasing and Contracts | - | 5 | - |
| ● | 3 - Assets | - | 1 | 1 |
| ● | 4 - Banking | - | 2 | - |
| ▲ | 5 - Income | 1 | 1 | 1 |
| ● | 6 - HR / Recruitment | - | 1 | - |
| ● | 7 - Payroll | - | 1 | - |
| ★ | 8 - Data Security | - | - | - |
| ● | 9 - Budget Monitoring | - | 1 | - |
| Total | | 1 | 13 | 2 |

- An overpayment of an invoice was made and invoices were amended manually rather than sent back to the supplier to amend.
- The safe had cash in that was not accounted for.
- Payment had been made to an individual.

Areas of where controls worked well

No weaknesses identified in the area of Data Security. It should be noted that the majority of control weaknesses that were identified during this review, had occurred due to a lack of agreed procedures.

Follow-up Review

A follow up review will take place within nine months of the final report being issued.

Changes to Scope

The internal audit review has been conducted in line with the ToR that Baker Tilly, the Council's former internal audit contractors, issued in March 2014. The audit review has been undertaken by the RB of Greenwich's in-house Internal Audit and Anti-Fraud Team.

Appendix 2 – Executive Summary for Limited, No Assurance and Consultancy Reports



Executive Summary for IT Strategy – 2014/15

| | | | |
|---|------------------|----------------------------|-----|
| Internal Audit Assurance Opinion | N/A -Consultancy | Direction of travel | N/A |
|---|------------------|----------------------------|-----|

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. See glossary for definitions

Introduction

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 07

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

Conclusion

It was found that since the previous internal audit of IT Strategy during 2012/13, management had formulated a strategy for future progress in this area. This included the modernisation of the IT infrastructure within the Council, the rationalisation of IT provision & support, the optimisation of channels of client interaction & communication and, the provision of tools for the analysis of corporate information.

Key Findings that Need Attention

Management acknowledge substantial work is still required:

- to obtain a detailed understanding of the aspirational strategic direction of each of the council's significant business areas,
- in pulling together the various work strands of strategic thinking with respect to IT into a detailed, harmonised strategy,
- in defining and formalising the mechanisms for the ongoing engagement of the service areas and the management of their expectations,
- to produce a plan detailing how the strategy will be delivered within the desired timescales and costs including a clear statement of the assumptions being made and the perceived threats to effective implementation.

| Risk Headings | | H | M | L |
|---------------|--|---|---|---|
| ★ | 1 – IT Strategy in place | - | - | - |
| ★ | 2 - Corporate objectives | - | - | - |
| ★ | 3 – Documentation | - | - | - |
| ● | 4 – How objectives are to be implemented | - | 4 | - |
| Total | | - | 4 | - |

Changes to Scope

This audit was conducted in line with the agreed Terms of Reference.

Appendix 2 – Executive Summary for Limited, No Assurance and Consultancy Reports

Key to Assurance Opinions and Recommendations Categories.

Explanations for Assurance Opinion

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

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

Definition of Category of Recommendation

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

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

Appendix 3 - Status of recommendations

| Dir. | Name of Audit | Opinion | Final Report Date | Recs Overdue | 2+ chgs | Re-opened at F/up | Comment |
|------|---|--------------|-------------------|--------------|---------|-------------------|--|
| RRE | Budget Monitoring 12-13 | Substantial | 30/11/12 | - | 2 | 2 | Reopened again due to same rec being made in 2014-15 |
| RRE | Budget Setting 2014-15 | Satisfactory | 29/04/15 | 1 | | | |
| RRE | Payroll 14-15 | Satisfactory | 12/05/15 | 1 | | | |
| RRE | Pensions Fund 13-14 | Substantial | 07/01/14 | | | 1 | |
| RRE | Pensions Fund 14-15 | Satisfactory | 31/03/15 | | | 1 | (Reopened as ICB wanted not agreed rec implemented) |
| RRE | Project Management –Governance & Project Review Group | Satisfactory | 16/07/14 | 5 | | | |
| CUS | Banking | Substantial | 28/05/14 | | 1 | | |
| CUS | Commercial Waste Service | Satisfactory | 27/06/14 | | 2 | | Due date changed twice |
| CUS | Parking Contract | Substantial | 10/07/14 | | 1 | | Due date changed twice |
| CUS | Payment Centre | Satisfactory | 26/09/13 | | 1 | 1 | Re-opened 12/06/14. Three changes to due date |
| COM | Personal and Individual Budgets 13/14 | Substantial | 11/04/14 | 1 | | | No updates since August 14 |
| CYP | Estate Management Statutory Maintenance | Satisfactory | 06/12/13 | | 1 | | Date changed four times. |
| CYP | School Catering Contract – Client Monitoring | Satisfactory | 09/07/14 | 3 | | | |
| SCH | Adamsrill Primary School | Substantial | 04/10/12 | 1 | 1 | | Due date changed twice. |
| SCH | All Saints | Satisfactory | 11/03/15 | 1 | | | |
| SCH | Brent Knoll Special School | Satisfactory | 19/12/14 | 5 | | | |

Appendix 3 - Status of recommendations

| Dir. | Name of Audit | Opinion | Final Report Date | Recs Overdue | 2+ chgs | Re-opened at F/up | Comment |
|--------------|------------------------------|--------------|-------------------|--------------|----------|-------------------|-----------------------|
| SCH | Childeric Primary School | Substantial | 31/10/14 | 2 | | | |
| SCH | Christ Church CE School | Substantial | 29/04/15 | 2 | | | |
| SCH | Coopers Lane Primary School | Substantial | 26/02/15 | 3 | | | |
| SCH | Elfrida Primary School | Limited | 05/03/15 | 12 | | | Follow-up due Dec 15. |
| SCH | Greenvale Special School | Substantial | 04/03/15 | 1 | | | |
| SCH | Grinling Gibbons | Satisfactory | 31/12/14 | 1 | | | |
| SCH | Haseltine Primary School | Satisfactory | 23/10/14 | 4 | | | |
| SCH | Kelvin Grove Primary School | Substantial | 25/02/15 | 1 | | | |
| SCH | Lucas Vale School | Satisfactory | 22/11/13 | 2 | | | |
| SCH | New Woodlands Special School | Satisfactory | 31/10/14 | 8 | | | F-up due June 15 |
| SCH | Perrymount Primary | Substantial | 27/03/15 | 4 | | | |
| SCH | St Bartholomew's CE School | Limited | 15/09/14 | 10 | | | F-up due June 15. |
| SCH | St Margret's Lee CE School | Substantial | 19/12/14 | 2 | | | |
| SCH | St Saviour's RC Primary | Substantial | 30/04/15 | 2 | | | |
| SCH | St William of York | Substantial | 20/01/15 | 3 | | | |
| SCH | St Winifred's Infant School | Satisfactory | 24/02/15 | 4 | | | |
| SCH | Torridon Junior School | Substantial | 07/04/14 | 1 | | | |
| SCH | Turnham Primary School | No Assurance | 31/07/14 | 9 | | | |
| Total | | | | 89 | 9 | 5 | |

Appendix 4 – Follow-up Reviews

| Lead Dir. | Audit | Opinion | Final Rpt Date | F/up Rpt Date | Impl'd | In Progress | Supers'd | Not Impl'd | Total |
|--------------|----------------------------------|--------------|----------------|---------------|-----------|-------------|----------|------------|-----------|
| RRE | Payroll F/up 2014/15 | Satisfactory | 17/06/15 | 12/05/15 | 4 | - | - | - | 4 |
| RRE | Budget Monitoring | Substantial | 30/11/12 | 29/04/15 | - | 2 | - | - | 2 |
| RRE | Pensions F/up 2013/14 | Substantial | 07/01/14 | 31/03/15 | - | 1 | - | - | 1 |
| RRE | Reconciliations of Bank Accounts | Consultancy | 25/04/15 | 03/03/15 | 1 | - | 1 | - | 2 |
| CUS | Trade Waste | Satisfactory | 27/06/15 | 16/03/15 | 1 | 2 | - | - | 3 |
| COM | Ten day Self-Assessment Cases | Satisfactory | 06/06/14 | 19/05/15 | 3 | - | - | - | 3 |
| CYP | Leaving Care | Substantial | 11/06/14 | 20/03/15 | 1 | - | - | - | 1 |
| Total | | | | | 10 | 5 | 1 | - | 16 |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|---|--|-----------|---|
| RRE | Budget Monitoring 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Budget monitoring of individual budget holders •Virements •Budget setting •DEP / CEP Controls | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |
| RRE | Capital Expenditure 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Project management of capital projects / programmes •Payments accuracy / authorisation etc •Budget monitoring •Governance of corporate project board, •Expenditure monitored for closed projects. | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |
| RRE | Main Accounting 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations •Feeder systems •Suspense / holding accounts •Access / separation / limits etc. of the financial system. •Journals •Changes to budgets •Exception reports •Virements •Final Accounts reconciliation | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |
| RRE | Non-Current Assets 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations •Additions, depreciations, valuation and Verification of assets •Right to buy and other disposals •Leases •Transfer of assets to community | Qrt 3 | 15. Loss of a strategic asset or premises through failure to maintain it in a safe and effective condition to include all horizontal and vertical assets. |
| RRE | Payroll 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations •Benefits (maternity, paternity) entitlement, payments, sick •Statutory regulations (i.e. P60, P45) •Deductions from salaries for third parties, council purposes and statutory purposes. •Overpayments •Payments - including amendments, honorarium, petty cash claims •BACS and non-BACS payment controls •Starters / Leavers •Exception reports / Monitoring | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |

Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|---|---|-----------|---|
| RRE | Pensions for LGPS 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations •Contributions (including AVC) •Benefits payable (including abroad and benefits paid to dependents) •Auto enrolment •Transfers in or out of the scheme •Investments •Management Fees •Governance of the Scheme (PSP Act 2013) including the pension board •DPA | Qrt 3 | 8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams. |
| RRE | Treasury Management 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations to GL •Review investment transactions for completeness, accuracy, compliance etc. •Forecasting •Cash flow •Borrowing •Investments •Performance monitoring •Monitoring of broker contract •Strategy | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |
| RRE | Anti-fraud and Corruption Team (AFACT) | To review the fraud strategy, data security, reporting of cases (internally and externally), adherence to the public transparency act, PIs' / targets, RIPA use if applicable. | TBC | 7 – Adequacy of Internal Control. |
| RRE | Risk Management | To review the risk framework for the council including the monitoring of corporate and director risks to establish if it is fit for purpose. To include partnership risk register. | TBC | 7 – Adequacy of Internal Control. |
| RRE | Savings proposals v's results | To review the savings proposals to establish if they are monitored, achievable, realistic, how they are calculated and can be traced back to the council plan / strategy. To include the monitoring of the statutory duties for CYP / COM (i.e. No Recourse, Section 17) to ensure that proposed savings are not adversely affecting these. | TBC | 8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams. |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|---|-----------|--|
| RRE | Corporate Health and Safety audit framework | To review the audits and adherence to statutory regulations after the restructure of the corporate H&S after the budget cuts, including any training courses availability, | TBC | 4. Non-compliance with Health & Safety Legislation |
| RRE | Cultural Change and Managing Resistance (Consultancy Review) | To look at the tone at the top to establish if the right tone to move the council forward, communication and general behaviours of the council. | TBC | 30. Strategic programme to develop and implement transformational change does not deliver |
| RRE | Commissioning and Procurement Board | To review the governance of the board. To include review the reporting, monitoring and adhering on the OGC (Office of Government Commerce) gateway process, category and client management. | TBC | 13. Failure to manage strategic suppliers and related procurement programmes. |
| RRE | Procurement Process and Contract Register | To review the new framework of procurement process from tendering notices to award, including adherence to the new framework for the new EU regs. To include a review the framework for the new contract register. | TBC | 13. Failure to manage strategic suppliers and related procurement programmes. |
| RRE | Dedicated Transformation Team / Lewisham Future Board | To review the framework for the corporate dedicated transformation team to help support changes within the council, to include Lewisham's Futures Programme governance, targets, monitoring and outcomes. | TBC | 24. Failure to maintain sufficient management capacity & capability to deliver business as usual and implement transformational changes. |
| RRE | Adherence to the Local Government Transparency Code 2014 | To review how LBL adheres to the new GTC 2014 | TBC | 5. Failure to anticipate and respond appropriately to legislative change. For example: Localism Act, Public Services Act, Welfare Reform Bill, Health & Social Care Act. |
| RRE | PFI monitoring | To review the monitoring and framework of the PFI arrangements for Facilities Management, including H&S, complaints and issues solving. | TBC | 6. Financial Failure and inability to maintain service delivery within a balanced budget |
| RRE | RRE – key financial 14/15 follow-ups | To follow-up the High & Medium recs from the key financial 14/15 audits | TBC | n/a |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|---|--|-----------|---|
| RRE | RRE non key follow-ups | To review any High & Medium recs made in non-key audits | TBC | n/a |
| CUS | Accounts Payable 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations •New suppliers and bank amendments •Payment of invoices (both PO and Non PO) •Late interest payments •Monitoring of Pis •Exception Reports •Queries, complaints monitoring and processes •BACS and Non BACS payments •Authorisation / separation of duties / cash limits •DEP adherence (Local Expenditure Panel) | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |
| CUS | Accounts Receivable 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliations •Raising of accounts / invoices •Recovery of debts, including debt collection agencies, legal process, charges, reminders, •Write off / statute of limitations use •Access to system | Qrt 3 | 9. Loss of income to the Council |
| CUS | Banking 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Bank Reconciliations •Reconciliations of Paye.net, PayPoint, internet card payments, Bar-coded post office payments, SMS card payments and pre-paid cards. •Review process for non-cash payments coming in by post / in person •Suspense / holding accounts •Cheque printing and security •Access to the receipting / recording feeder system. •Direct Debit Payments and Authorisation | Qrt 3 | 6 – Financial Failure and inability to maintain service delivery within a balanced budget |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|---|-----------|---|
| CUS | Council Tax 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Calculations of bills •Arrears procedures and adherence, including summons, arrears collections / arrangements, bailiff action and court processes, attachment of earnings, probate cases •Setting of the council tax •Discounts / Reductions / Disregards (if not included in HB & CTRS audit) •Valuation Office List •Liability •Voids •DPA •Write offs and Refunds | Qrt 3 | 9. Loss of income to the Council |
| CUS | Housing Benefit and CTRS 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Reconciliation •Review applications and assessments in relation to, calculating to agreed rates, evidence / ID obtained, general compliance with legislation / Local procedures and approving payments. To include, claimants who work, self-employed, students with dependents or are on benefits •Monitoring of exception reports. •Separation of duties from assessing to approving and authorising payments. •Overpayment recovery. •Quality Assurance •Appeal Processes •Discretionary housing payments •DPA compliance •BACS - approving and amending bank details. •Amendments to local procedures etc. | Qrt 3 | 8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams. |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|---|-----------|---|
| CUS | NNDR 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Calculations of bills •Arrears procedures and adherence, including summons, arrears collections / arrangements, bailiff action and court processes, etc •Setting of the NNDR rate •Exemptions / discounts / reductions / relief (including empty properties / charity / hardship / small business / community amateur sports clubs /) •Deferment •Valuation Office List •Liability •Voids •DPA •Write offs and Refunds | Qrt 3 | 9. Loss of income to the Council |
| CUS | Mobile / home working access (IT audit) | To review the security of access to LBL via VPN and use of 2FA fobs. To include members connections via VPN | TBC | 2. ICT infrastructure is not fit for purpose and/or does not meet business needs. |
| CUS | Monitoring of breaches, spam mail, malware and denial of service attacks (IT Audit) | To review the security arrangements when dealing with external breaches of data / IT system. | TBC | 2. ICT infrastructure is not fit for purpose and/or does not meet business needs. |
| CUS | Registrars | Review adherence of the National Checking Service and Registration, income generation and promotion, Statutory returns, Pls. (Issuing of licences for marriage ceremonies if applicable), adherence to the death certification process and coroner reforms (medical examiner services) | TBC | 5. Failure to anticipate and respond appropriately to legislative change. For example: Localism Act, Public Services Act, Welfare Reform Bill, Health & Social Care Act |
| CUS | Housing Register and offers | To review the process of applying to go on the register for all members of society, bidding process, and the controls in place to check the eligibility of potential new tenants / offers of housing. | TBC | 5. Failure to anticipate and respond appropriately to legislative change. For example: Localism Act, Public Services Act, Welfare Reform Bill, Health & Social Care Act |

Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|---|-----------|--|
| CUS | Private Sector Housing Agency (PHSA) | To review monitoring of private landlords, providing advice to landlords, supporting vulnerable people, and enforcement action against persistent non-compliant landlords. | TBC | 18. Failure of safeguarding arrangement. |
| CUS | Housing - Bed and Breakfast, Hostels and temporary accommodation | To review the processes including checks around allocation, charging and recovery or rents for tenant's and payments to landlords. | TBC | 18. Failure of safeguarding arrangement. |
| CUS | DPA and FOI compliance audit | To review adherence to policies, progress on ICO recommendations, DPA requests, and Data quality (Branding / how to enter data consistently on major data bases). Review of the confidential bin contract. Adherence to the code of connection / PSN, relating to DBS or CRB clearance for use gcsx. | TBC | 21. Information governance failure. |
| CUS | Disaster Recovery / BCP | To review the BCP returns from departments for completeness and general BCP / DR framework, property inspections including Wearside. Review lessons learnt from London wide EP exercise in Oct 14. | TBC | 1. Failure to maintain minimum service continuity during and quickly recover from a disaster |
| CUS | Private Sector Network Compliance | To review the framework for PSN compliance. | TBC | 2. ICT infrastructure is not fit for purpose and/or does not meet business needs. |
| CUS | In-house bailiff service / Enforcement Agency | To review the controls surrounding: transfer of debts to the team from ctax / NNDR / debtors / PCN. The recovery process. Transfer of cases to outside bailiffs (i.e. complex or difficult cases in-house team discover they can't deal with). DPA controls / access to data bases including licences / agreements. Complaints process, seizing and selling of goods Dealing with cash payments. | TBC | 9. Loss of income to the Council |
| CUS | Waste Recycling Contract and Landfill Arrangements | To review the new contract if in place / tendering if in progress / or contract monitoring if applicable and compliance with the waste regs 2012 . To include a review of the landfill contract / in-house arrangements. | TBC | 10. Failure to manage performance leads to service failure. |

Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|---|-----------|--|
| CUS | CUS– key financial 14/15 follow-ups | To follow-up the High & Medium recs from the key financial 14/15 audits | TBC | n/a |
| CUS | CUS non key follow-ups | To review any High & Medium recs made in non-key audits | TBC | n/a |
| CUS | Appointeeships, deputyships and safeguarding of clients assets (both physical and financial) | Review the framework of Appointeeships, Deputyship and safeguarding clients' assets. | TBC | 18. Failure of safeguarding arrangement. |
| COM | Client Contribution for Care Provision 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Calculations/ Assessment/ Authorisation / Recording / Amendments / Annual review / of contributions. •DPA compliance and Border Agency Checks. Evidence of Power of Attorney/ Third Party Agreements (or similar). •Recovery of Client contributions. •Information about help with contributions (i.e... Publications), how the resident is informed about the charges. Easiness of how to complete and read the form. •Deferred contribution scheme - how it is implemented and monitored (if applicable). •Legal Charges on Properties. •Access to system. | Qrt 3 | 6. Financial Failure and inability to maintain service delivery within a balanced budget |
| COM | Direct Payments (was Personalisation) 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Review the assessing, monitoring, allocation of payments, recovery of overpayments, to clients for personalisation (personal / individual budget etc). •Review the monitoring by the council on behalf of clients who received personalisation (i.e. the cash part). •DPA compliance between the client and council. •Budget monitoring | Qrt 3 | 6. Financial Failure and inability to maintain service delivery within a balanced budget |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|---|---|-----------|--|
| COM | Payments to Adult Care Providers 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Processing of invoices - ensuring calculations/ Annual assessments of clients reflects invoices / Authorisation / Recording / Amendments / are correct and have taken place and invoices are paid in time. •DPA Compliance between the council and care providers •Monitoring of exception reports (invoices). •Budget monitoring •Information about help with payments to clients in homes. | Qrt 3 | 6. Financial Failure and inability to maintain service delivery within a balanced budget |
| COM | Public Health - Statutory services and providing services back to the NHS and CCG | To review the provision of sexual health services (TBC), NHS Health Checks (adults), Child measuring programme (done via schools), health promotion and prevention, with Lambeth, Southwark and Greenwich (TBC). To include the statutory support to NHS and CCG to ensure data provided is accurate and strategies are in place. | TBC | 6. Financial Failure and inability to maintain service delivery within a balanced budget |
| COM | Voluntary and Community Sector Contracts | To review the £20m contracts awarded to voluntary and community sectors, including youth activities, children's centres, supported housing and Public health initiatives. | TBC | 13. Failure to manage strategic suppliers and related procurement programmes. |
| COM | Safeguarding and Assurance Adults - Proactive monitoring of referrals | To review the framework of the referral process in relation to institutional abuse (historic and present). To include linking back to the strategy, complaints process, assessment process of the referrals, monitoring of the referrals and action plans and complaints process. | TBC | 18. Failure of safeguarding arrangement. |
| COM | Better Care Fund Framework | To review the pooled budget (with NHS) and how it has supported the integration of Health and Social Care services, including conditions of the fund. | TBC | 6. Financial Failure and inability to maintain service delivery within a balanced budget |
| COM | Multi Agency Partnership Working | To review the controls and governance around working with external multiple agencies and internal departments (i.e. CYP) to confirm area / scope. | TBC | 10. Failure to manage performance leads to service failure. |
| COM | BCP for Adult Social Care System | To review the BCP arrangements if the Adult Social Care goes down including backup of data and. | TBC | 1. Failure to maintain minimum service continuity during and quickly recover from a disaster |
| COM | Contract Management - Community Services | Review contract management for both new and old contracts. | TBC | 13. Failure to manage strategic suppliers and related procurement programmes. |

Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|--|-----------|--|
| COM | Anti-Social Behaviour service | To review the response to community triggers , working with charities / communities including retailers , multiagency working together (including DPA), | TBC | 12. Multi-agency governance failure leads to ineffective partnership working |
| COM | Environmental Health | <ul style="list-style-type: none"> • Food safety • Advice given to public / business on H&S, food safety, air quality, noise matters • removal of vehicles - including selling. • relationship with Public Health, • Enforcement intervention | TBC | 4. Non-compliance with Health & Safety Legislation |
| COM | The Care Act 2014 - changes to strategy and processes | To review the changes and controls that the council has put into place to meet the requirements of The Care Act 2014. Including deferred payment scheme coming into place (if not included in the core financial audit). | TBC | 5. Failure to anticipate and respond appropriately to legislative change. eg Localism Act, Public Services Act, Welfare Reform Bill, Health & Social Care Act. |
| COM | COM– key financial 14/15 follow-ups | To follow-up the High & Medium recs from the key financial 14/15 audits | TBC | n/a |
| COM | COM non-key follow ups | To review any High & Medium recs made in non-key audits | TBC | n/a |
| CYP | Payments to Care Provider and Foster Carers for Looked After Children 15-16 (Core Financial Audit) | <ul style="list-style-type: none"> •Calculations/ Assessment/ Authorisation / Recording / Amendments / Annual review (if applicable) / of invoices - payments •Budget monitoring •DPA Compliance between the council and care providers (both foster parents and care providers in the framework. •Monitoring of exception reports (invoices). | Qrt 3 | 6. Financial Failure and inability to maintain service delivery within a balanced budget |
| CYP | Children's Social Care - Children Centre Contracts | To review contract monitoring including any Pis. DBS checks for non LBL staff. DPA / transfer of data etc | TBC | 13. Failure to manage strategic suppliers and related procurement programmes. |
| CYP | Troubled Families Programme - grant claims for phase 2 | To review the claim prior to submission. | TBC | 12. Multi-agency governance failure leads to ineffective partnership working |

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Corporate Risk |
|-----------|--|---|-----------|---|
| CYP | Monitoring of ad-hoc payments to children in care and providers (non-key controls) | Review ad hoc payments for consistency , and monitoring etc | TBC | 9. Loss of income to the Council |
| CYP | School Policies - thematic review | To take a sample of school and sample and check whistleblowing , H&S and other high risk policies are in place, fit for purpose and are accessible to staff and governors have approved them. | TBC | 19. Loss of Constructive employee relations |
| CYP | Safe guarding board - CYP - Serious case review framework | To review the framework for serious case reviews and the CYP safe guarding board monitoring of recommendations made. | TBC | 18. Failure of safeguarding arrangement. |
| CYP | Archiving | To review the statutory requirement on archiving CYP historic data. | TBC | 21. Information governance failure. |
| CYP | Contract Management - CYP | Review contract management for both new and old contracts, including the monitoring of safeguarding in contracts. | TBC | 13. Failure to manage strategic suppliers and related procurement programmes. |
| CYP | School Improvement Inspection Reports | Review the framework, reports, recommendations and monitoring of recommendations relating to school inspections | TBC | 10. Failure to manage performance leads to service failure. |
| CYP | Special Educational Needs and Disability Service - post reorganisation | To review the new framework that joins four old teams into one. | TBC | 30. Strategic programme to develop and implement transformational change does not deliver |
| CYP | CYP– key financial 14/15 follow-ups | To follow-up the High & Medium recs from the key financial 14/15 audits | TBC | n/a |
| CYP | CYP non key follow-ups | To review any High & Medium recs made in non-key audits | TBC | n/a |

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Source (i.e. risk register) | Corporate Risk |
|-----------|---------------|-------|-----------|-----------------------------|----------------|
|-----------|---------------|-------|-----------|-----------------------------|----------------|

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Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Source (i.e. risk register) | Corporate Risk |
|-----------|---|---------------------------|-------------|-----------------------------|----------------|
| SCH | Abbey Manor College | Standard School Programme | Qrt 2 - Jul | Rolling Schools' Programme. | Various. |
| SCH | Adamsrill Primary | Standard School Programme | Qrt 1 - Jun | Rolling Schools' programme. | Various. |
| SCH | Addey and Stanhope Secondary | Standard School Programme | Qrt 1 - Jun | Rolling Schools' programme. | Various. |
| SCH | Athelney Primary | Standard School Programme | Qrt 3 - Nov | Rolling Schools' programme. | Various. |
| SCH | Bonus Pastor Catholic College | Standard School Programme | Qrt 3 - Nov | Rolling Schools' programme. | Various. |
| SCH | Conisborough College | Standard School Programme | Qrt 2 - Sep | Rolling Schools' programme. | Various. |
| SCH | Deptford Green Secondary | Standard School Programme | Qrt 2 - Sep | Rolling Schools' programme. | Various. |
| SCH | Edmund Waller Primary | Standard School Programme | Qrt 2 - Sep | Rolling Schools' programme. | Various. |
| SCH | Fairlawn Primary | Standard School Programme | Qrt 2 - Jul | Rolling Schools' programme. | Various. |
| SCH | Forest Hill Secondary | Standard School Programme | Qrt 2 - Sep | Rolling Schools' programme. | Various. |
| SCH | Forster Park Primary | Standard School Programme | Qrt 4 - Jan | Rolling Schools' programme. | Various. |
| SCH | Holbeach Primary | Standard School Programme | Qrt 3 - Dec | Rolling Schools' programme. | Various. |
| SCH | Kender Primary | Standard School Programme | Qrt 2 - Sep | Rolling Schools' programme. | Various. |
| SCH | Kilmorie Primary | Standard School Programme | Qrt 1 - May | Rolling Schools' programme. | Various. |
| SCH | Launcelot Primary | Standard School Programme | Qrt 1 - Apr | Rolling Schools' programme. | Various. |
| SCH | Prendergast Hilly Fields College (Secondary) | Standard School Programme | Qrt 3 - Oct | Rolling Schools' programme. | Various. |
| SCH | Prendergast Ladywell Fields College (Secondary) | Standard School Programme | Qrt 4 - Jan | Rolling Schools' programme. | Various. |

Appendix – 5 Draft Internal audit Plan for 2015/16

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Source (i.e. risk register) | Corporate Risk |
|-----------|--------------------------------------|--|-------------|-----------------------------|----------------|
| SCH | Prendergast Vale College (Secondary) | Standard School Programme | Qrt 4 - Feb | Rolling Schools' programme. | Various. |
| SCH | Sedgehill Secondary | Standard School Programme | Qrt 4 - Mar | Rolling Schools' programme. | Various. |
| SCH | St Joseph's Catholic Primary | Standard School Programme | Qrt 4 - Feb | Rolling Schools' programme. | Various. |
| SCH | St Mary Magdalen's Catholic | Standard School Programme | Qrt 4 - Jan | Rolling Schools' programme. | Various. |
| SCH | St Michael's CE Primary | Standard School Programme | Qrt 1 - May | Rolling Schools' programme. | Various. |
| SCH | Sydenham Secondary | Standard School Programme | Qrt 3 - Oct | Rolling Schools' programme. | Various. |
| SCH | Trinity CE Through School | Standard School Programme | Qrt 3 - Nov | Rolling Schools' programme. | Various. |
| SCH | Watergate Special | Standard School Programme | Qrt 3 - Oct | Rolling Schools' programme. | Various. |
| SCH | Chelwood Nursery | Standard School Programme | Qrt 1 - Jun | Rolling Schools' programme. | Various. |
| SCH | SCH follow up | To review the H & M recommendations in applicable school reports for 2014/15 | | Rolling Schools' programme. | Various. |

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Internal Audit Charter

2015 - 2016

Last Reviewed: March 2015
Next Review : March 2016
V2

Executive Summary

The main purpose of this charter is to set out for members and management how the internal audit service will function in the coming year. It includes the roles and responsibilities of internal audit, including members and management responsibilities in relation to the council's control environment. It is split into sections six sections.

1. Public Sector Internal Audit Standards (PSIAS)

This section explains how the PSIAS, which came in to force in April 14, evolved and what its objectives are. All public bodies' internal audit services have to adhere to these statutory set of standards. A definition of internal audit and the reason for the charter are also included.

2. Statutory Framework

Internal audit is a statutory function that all public bodies are required to have. It is supported by various legislation, which this section details.

3. Internal Audit Structure

For 2015/16, the internal audit structure will consist of an in-house team supported by the Head of Audit and an Internal Audit Manager. External resources will support the team. The Head of Audit (HIA) is the Head of Corporate Resources and forms of the Senior Management team.

4. Accountability

Internal audit are required to report their findings to individual managers, Internal Control Board (ICB) and the Audit Panel. The Audit Panel reports to the Public Select Accounts Committee, who in turn report to the Mayor and Cabinet and Full Council. This section also covers the current relationship between Internal Audit and External Audit.

5. Internal Audit Framework

Independence and Objectivity - Internal auditors are required to be independent and objective. The Internal Audit Manager monitors and controls the conflicts of interests of the team (including contractors) and those of the Head of Internal Audit who has other operational responsibilities.

Resourcing Internal Audit – this will be the first year where an in-house team will formally be resourced and form a significant part of the internal audit service. External resources, from both public and private internal audit sectors, will support them in the delivery of the internal audit plan. The productive days have also increased to around 950, up from 620 in 2014/15.

Types of Audit Reports – in addition to the individual audit reports, internal audit reports quarterly to the (ICB) and Audit Panel. The Schools Forum receives an annual report on the schools audited during the year. The HIA produces an annual assurance report that is presented to ICB and the Audit panel, which provides an opinion on the overall control environment.

Types of Work Conducted – Assurance work, which provides an opinion on the controls, is the most common type of work, with Consultancy (advisory) and grant certification taking a small part of the plan. Advice is provided to management when requested including attending project meetings.

Authorisation and Management Responsibilities – the Executive Director of Resources and Regeneration has given internal auditors and AFACT investigators the authority to access all council areas, including records and premises. Management are responsible for the control environment and have a duty to ensure that the audit process runs smoothly.

6. Professional Codes of Conduct and Whistleblowing

All internal auditors are required to adhere to their own professional body's code of conduct, including being mindful of the seven principles of public life. Internal audit annually review the compliance with the CIPFA guidance on the Role of the Head of Internal Audit.

The Whistleblowing policy and details on how to report fraud or suspected fraud are found in this section.

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1. The Charter and Public Sector Internal Audit Standards

PSIAS

- 1.1. The Public Sector Internal Audit Standards (PSIAS), developed in collaboration by a number of bodies, including Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance and Accounting (CIPFA), came into effect on the 1 April 2013. The statutory standards were developed to create consistency in the practice of internal audit and establish the basis for quality assurance across the public sector.
- 1.2. The objectives of the PSIAS are to:
 - Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.3. The charter is one of the major changes from the 'CIPFA Code of Practice for Internal Audit', which previously internal audit was guided by. It requires that internal audit establish an audit charter to replace the Terms of Reference and the Strategy and combine into one document.
- 1.4. The PSIAS state that an independent external assessment of the Internal Audit Service is to be conducted at least every five years. However, an assessment (whether internal or review by a peer) should be done annually and results reported in the annual assurance report. Lewisham's first formal independent external assessment will take place in 2015/16.

Internal Audit Definition

- 1.5. The Global Institute of Internal Auditors definition is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Anti-Fraud and Corruption Team (A-FACT)

- 1.6. In Lewisham, A-FACT conduct the investigational side of Internal Audit. They are responsible for developing anti-fraud policies and procedures, promoting a counter fraud culture, and undertaking investigations of potential fraudulent activity committed against the Council. A-FACT also ensures that appropriate sanctions, including prosecution and the recovery of assets, are sought where fraud is proven. The Council's A-FACT policy and strategy is separate to this internal audit charter.

Purpose of Internal Audit and A-FACT

- 1.7. Internal Audit and A-FACT are council resources that assist management in the achievement of the Council's corporate and service objectives. While management are responsible for risk management and the control environment, internal audit assists management in providing advice on how to mitigate these risks and how to improve the control environment.

2. Statutory Framework

- 2.1. As defined by the following acts and guidance listed below, Internal Audit is a statutory function of the Council (and other public bodies). This means that the Council is required to have an internal audit function, whether it is in-house, outsourced or a combination.

The Accounts and Audit (England) Regulations 2011

- 2.2. This Act 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’.

Local Audit and Accounts Act 2014 – Section 32 (g),

- 2.3. “The Secretary of State may by regulations applying to relevant authorities other than health service bodies make provision about— (g) the maintenance by relevant authorities of systems of internal control (including arrangements for the management of risk).

Section 151 of the Local Government Act 1972

- 2.4. This act states that every local authority in England and Wales should “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

The Council’s Chief Financial Officer (CFO)

- 2.5. This role is fulfilled by the Executive Director for Resources and Regeneration. The CIPFA Statement on the Role of the CFO in Local Government states that they “must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively”.

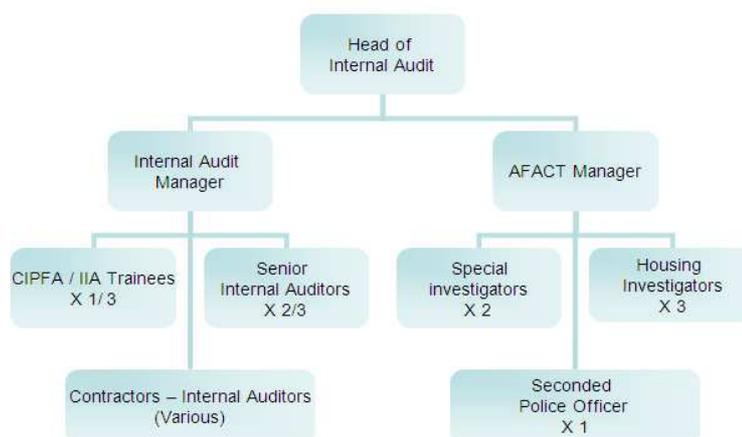
3. Internal Audit and Organisational Structures

- 3.1. Internal Audit and A-FACT are part of the Corporate Resources service area that sits within the Resources and Regeneration Directorate. The Head of Internal Audit (HIA) is also the Head of Corporate Resources. The HIA reports directly to the Executive Director of Resources and Regeneration, who is also the Section 151 officer and the CFO.

Internal Audit Structure Chart

- 3.2. During 2014/15, the internal audit service went through a transition phase from being fully outsourced to building up an in-house team supported public and private sector internal audit services. The internal audit structure for 2015/16 will be similar to chart shown below.

Proposed Internal Audit and AFACT Structure Chart for 2015/16.



Senior Management Structure

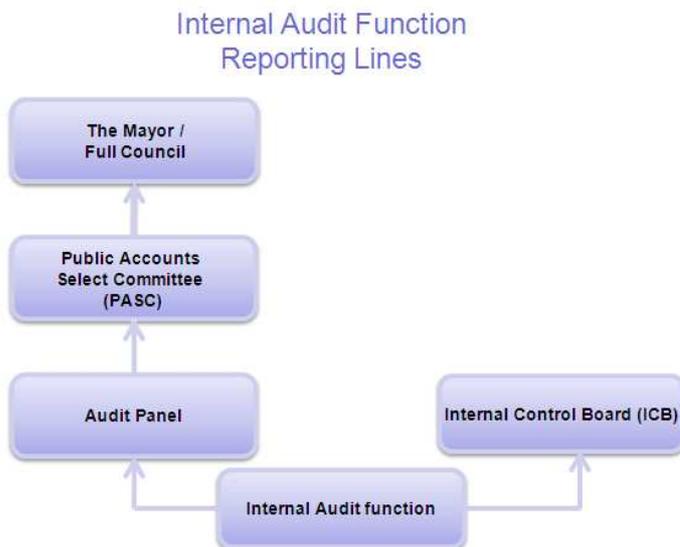
- 3.3. The top tier management for Resources and Regeneration chart shows where the HIA (Head of Corporate Resources) sits within the senior management structure of the Council. The Council’s senior management structure charts can be accessed via the link below.
<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/council-structure/Pages/management-structure-charts.aspx>

4. Accountability

- 4.1. In addition to reporting to the Section 151 Officer, the HIA reports directly to the Internal Control Board (ICB) and the Audit Panel on a quarterly basis.

Internal Audit Reporting Lines

- 4.2. Please see a simple structure showing the reporting lines for internal audit in relation to management and members.



- 4.3. A link to Council's Constitution is provided below, which details the whole governance of the Council.

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/TheConstitutionSeptember2014.pdf>

Internal Control Board (ICB).

- 4.4. The HIA reports to the ICB quarterly and reports on:
- Progress of the internal audit plan, including follow-up reports
 - Limited, No Assurance and Consultancy reports.
 - High and Medium Recommendations not agreed by management
 - Managements engagement with internal audit
 - Progress by management of the implementation of recommendations made
And annually
 - Proposed annual audit plan
 - Annual Assurance report and
 - Audit Charter
- 4.5. Membership of this board consists of an Independent Non-Executive Chair (external person), the Executive Directors, the Chief Executive Officer, the Head of Law, and the Group Manager of Insurance and Risk. The HIA reports quarterly to ICB. These meetings, where possible, are held before the next Audit Panel Meeting. Please see Appendix 1 for the ICB terms of reference.

Audit Panel

- 4.6. The HIA also reports to the Audit Panel on a quarterly basis. The Audit Panel report has the same points as the ICB report. The Audit Panel consists of six Non-Executive Councillors, one of which serves as the Chair. In addition, there are up to four Independent Members.

- 4.7. In addition, the remit of the Audit Panel (in terms of internal audit), is to receive, review and, where appropriate, advise and make recommendations on the following:
- Review and approve the Internal Audit Strategy / Charter, Plans and Resources;
 - Review the progress reports on the Internal Audit Function;
 - Review the HIA Annual Assurance report;
 - Review the progress of implementation of recommendations; and
 - Monitor the effectiveness of Risk Management and associated Anti-Fraud and Corruption arrangements.

The Audit Panel reports to the Public Accounts Select Committee (PASC) where appropriate.

Public Accounts Select Committee (PASC)

- 4.8. PASC consists of at least seven and no more than 11 non-Executive Councillors. The remit in terms of Internal Audit is to:
- Receive reports from the Audit Panel; and
 - Scrutinise the effectiveness of the Audit Panel.

For the full terms of references for the PASC and ICB, please refer to the link below to the Council's Constitution.

- 4.9. <http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/TheConstitutionSeptember2014.pdf>.

External Audit

- 4.10. Although external audit no longer place reliance on internal audits work, they still receive all final reports and where applicable. Internal audit working files are also available to view if required. Internal audit now meet with external audit on a quarterly basis.

5. Internal Audit Framework

Independence and Objectivity

- 5.1. A definition of independence (in relation to Auditors') is, "The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".
- 5.2. PSIAS definition of objectivity: "An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors to not subordinate their judgment on audit matters to others".
- 5.3. Internal auditors are mandated by the PSIAS to be independent and objective concerning the business activities they audit. The HIA and Internal Auditors, who may have conflicts of interests either real or perceived, must declare them to the Internal Audit Manager. This is in addition to any declarations that they council may require. The Internal Audit Manager will monitor these conflicts to ensure that they do no impact on the internal audit service.
- 5.4. The Internal Audit Manager will declare any interests to the HIA for him to monitor.
- 5.5. As the HIA has other operational activities, the HIA has delegated the responsibility for agreeing the scope of the audit to the operational manager with the Internal Audit Manager overseeing the work to ensure that it fulfils internal audit requirements.

Resourcing Internal Audit

In-house Internal Audit Team

- 5.6. During this year, 2-3 permanent internal auditors will be recruited to form the new in-house team. CIPFA trainees will also be included in the in-house team throughout the year. The

Internal Audit Manager will manage the in-house team. The in-house team will be responsible for:

- Conducting internal audit and follow-up reviews;
- Monitoring any internal audit contracts and liaising with partners;
- Monitoring and reporting on the progress of management actions (recommendations) to ICB and Audit Panel;
- Assisting the HIA in the annual audit planning process;
- Providing management information as requested;
- Assisting the HIA in preparing the annual assurance report; and
- General management of the internal audit function.

Internal Auditors (Contractors / Outside partners)

5.7. For 2015/16, the following will support the in-house team to complete the audit plan.

- Mazars – (under the London Borough of Croydon Framework)
- Royal Borough of Greenwich conducting the schools audits, and
- Pertinax Consulting Ltd (IT auditor) in reserve.

Head of Internal Audit (HIA)

5.8. In addition to the internal audit and A-FACT, the HIA has operational responsibilities within the Council. They are:

- Insurance;
- Risk Management;
- Corporate Health & Safety;
- Procurement; and
- Strategic Finance, including Treasury and the Pension Fund investments and accounts.

5.9. Insurance, Corporate Health and Safety, and Risk Management have a three-year audit cycle. Procurement and Strategic Finance will continue to be audited on an annual audit basis.

Productive Days

5.10. The restructuring of the internal audit function will be complete in 2015/16. As already stated, the proposed restructure is to have an in-house team, instead of a fully outsourced service, with external contractors supporting the service. The proposed structure is set out at 3.2. When the new structure is in place, the productive internal audit days will increase from 620 to around 950.

5.11. The HIA must ensure that there are enough resources and qualified staff to provide the annual opinion on the control environment of the Council. Where the HIA believes that there are insufficient resources, the HIA will bring this to the attention of the Section 151 officer and the Audit Panel, and a qualification to the annual assurance report may be required.

Anti-Fraud and Corruption Team (A-FACT)

5.12. The team this year is made up of four full time permanent staff, one temporary full time staff, one agency staff and a seconded police officer. The team has two main areas of work:

- Housing, and
- Special Investigations.

5.13. In addition, AFACT are the main point of contact for the National Fraud Initiative (NFI) that is run every two years by the Cabinet Office (previously overseen by the Audit Commission).

Types of Audit Reports

Quarterly and Other Annual Reports

5.14. Internal audit reports to ICB and the Audit Panel on a quarterly basis.

- 5.15. Annually, internal audit reports to the Schools' Forum on the schools' audit plan and control issues found during the year.

Annual Assurance Report

- 5.16. The HIA issues an annual assurance report to the Audit Panel. This informs the Annual Governance Statement (AGS) which incorporates the Statement of Internal Control. The HIA annual assurance report includes:
- An opinion on the overall adequacy and effectiveness of the Council's control environment;
 - Any qualifications to the opinion;
 - Summary of audit work completed that helped form the opinion;
 - Summary of reliance placed on the work by other assurance bodies;
 - Confirmation on compliance with the PSIAS (including role of HIA if applicable); and
 - Internal Audit's quality assurance and improvement plan.

Individual Audit Reports

- 5.17. For each individual review, (whether assurance or consultancy), management receive a report with the following information.
- Audit opinion of the controls in place (for assurance reviews only);
 - Executive Summary;
 - Agreed ToR, including any changes to the original scope;
 - Auditor findings;
 - Recommendations made (ranked high, medium or low) and
 - Management comments made, including the expected date of implementation of recommendations and officer responsible for implementing them.

Types of Work Conducted

Assurance Review

- 5.18. An Assurance review is an objective assessment that provides an opinion on the effectiveness of the controls in place. In addition, internal auditors will recommend actions to management on how to improve controls in their area. Internal audit follows-up on any audits with High or Medium recommendations made, normally after nine months from the final report. For Assurance reviews, internal audit report by exception, which means we only detail those areas where controls need to be improved. This type of review should form the majority of the work in the internal audit plan.

Consultancy Review

- 5.19. A consultancy review is an advisory review that intends to add value and improve the Council's governance, risk management and controls processes. Management agree the scope of the review. Internal audit does not provide an opinion on the effectiveness of the controls in place but does provide recommendations to management to improve the processes. Internal audit follows-up on any audits with High or Medium recommendations made, normally after nine months from the final report.
- 5.20. Consultancy reviews make up a small part of the audit plan. Where management request a large consultancy review the Audit Panel would need to approve the request before the work is committed to.

Advice

- 5.21. It is not always appropriate to conduct an assurance or consultancy review when management just require help and advice. Where internal audit provides advice to management or attends a project meeting to give advice, management will receive an informal memo detailing any advice or recommendations made. An opinion is not provided in these memos and any recommendations made to management are not monitored or followed-up by internal audit.

- 5.22. Where an auditor has provided significant advice to management, they will be prevented from auditing that area for the next 12 months (or longer if applicable), so that internal audit independence and objectivity is retained.

Grant Claims

- 5.23. Central Government Bodies sometime require internal audit to certify a grant claim. In these instances, internal audit will confirm if management have met the qualifying criteria of the grant. A memo type report is issued to management certifying the grant. Any recommendations to management are not normally monitored or followed-up by internal audit.

Authorisation and Management Responsibilities

Authorisation

- 5.24. Both the HIA and the Internal Audit Manager have unrestricted access to the:
- Chief Executive Officer;
 - Executive Director of Resources and Regeneration (Section 151 officer/ CFO); and
 - The Chair of the Audit Panel.
- 5.25. The CFO has given authorisation to all Internal Auditors (both in-house and contractor) and A-FACT staff to:
- Enter Council premises at all reasonable times;
 - Have access to and remove as necessary Council records (paper or electronic);
 - Require explanations from Council officers as necessary; and
 - Require any person holding Council property to produce it for examination.

Responsibility of Management

- 5.26. Management are responsible for the control environment. They also have a responsibility to assist internal audit in the audit process to ensure it runs as smoothly as possible. They should ensure that they:
- Respond to any requests for information promptly;
 - Do not cancel meetings with auditors unnecessarily;
 - Query any findings or recommendations prior to the finalisation of the audit.
 - Update the progress of implementation of their recommendations when required.

Management may be required to attend the Audit Panel to explain to members if they do not comply with any of these requirements.

6. Professional Codes of Conduct and Whistleblowing.

- 6.1. Internal Auditors (both in-house and contractors) must adhere to their professional bodies codes of conduct. In addition, they should adopt the CIIA Code of Ethics, and Seven Principles of Public Life.

IIA Code of Ethics

- 6.2. The CIIA Code of Ethics is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing.
- Integrity - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Confidentiality - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency - Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Seven Principles of Public life

- 6.3. The 'seven principles of public life' apply to anyone who holds a public office or works in the public sector. Internal auditors have adopted these principles in addition to adhering to internal code of conduct. They are: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Role of Head of Internal Audit

- 6.4. CIPFA issued the statement on the role of the Head of Internal Audit in December 2010. Although not a mandatory like the PSIAS, the statement provides the framework to ensure that the HIA role is up to the required standard to run the statutory internal audit function. The framework consists of five principles. The Role of the HIA is reviewed annually and is reported in the Annual Assurance Report. The main principals are:
Principle 1 – Championing best practice in governance,
Principle 2 – Objectivity,
Principle 3 – Governance,
Principle 4 – Leadership, and
Principle 5 – Qualification and Experience.

Whistleblowing Policy

- 6.5. The Whistleblowing policy (see link below) is overseen by Legal, but any fraud or concerns about fraud can also be reported to A-FACT.

Whistleblowing Policy

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/Whistleblowing%20Policy%20Final%202014.pdf>

How to report fraud

Telephone 24hr: 0800 0850 119

Email: reportfraud@lewisham.gov.uk

Website detailing the types of fraud the A-FACT can investigate:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/fraud/Pages/default.aspx>

7. Approval and Contacts

- 7.1. Main Contacts for Internal Audit and A-FACT

Head of Internal Audit – david.austin@lewisham.gov.uk

Internal Contract Audit Manager – julie.hetherington@lewisham.gov.uk

A-FACT Manager – carol.owen@lewisham.gov.uk

- 7.2. Charter Approved by Audit Panel on : June 15 (TBC)

- 7.3. Next Review : March 2016

Corporate Internal Control Board

Membership

- Independent non-executive Chair
- Chief Executive
- Executive Director for Resources & Regeneration
- Executive Director for Children & Young Persons
- Executive Director for Community Services
- Executive Director to Customer Services
- Head of Law
- Group Manager Insurance & Risk
- Head of Corporate Resources (for monitoring and control)

Terms of Reference

1. To identify and manage key strategic risks that could prevent the Council from meeting its objectives
2. To link risks to the corporate priorities and assess the likely impact and consequences of those risks
3. To allocate responsibilities for controlling identified risks
4. To complete the Corporate Risk Register, reviewing and monitoring this on a quarterly basis
5. To receive and review quarterly reports from the Risk Management Working Party (RMWP)
6. To receive regular reports on Internal Control within the Authority
7. To ensure a corporate approach to the management of risk, health and safety and emergency planning
8. To approve the Risk Management Policy and Risk Management Strategy
9. To support the risk management reporting and review framework, detailed in the Risk Management Strategy
10. To oversee the annual review of the System of Internal Control and Annual Governance Statement

Agenda Item 9

| AUDIT PANEL | | |
|--------------|---|--------------------|
| Report Title | ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE | |
| Key Decision | NO | Item No. 9 |
| Ward | ALL | |
| Contributors | Head of Corporate Resources A-FACT Group Manager | |
| Class | | Date: 18 June 2015 |

1. Purpose of the Report

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

2. Recommendations

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

3. Special Investigations

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

| Summary of Special Investigations work | 2014/15 | 2013/14 | Change | | 2012/13 |
|--|---------|---------|--------|------|---------|
| | FY | FY | Number | % | FY |
| b/f | 30 | 41 | -11 | -27% | 32 |
| New | 97 | 79 | 18 | 23% | 103 |
| Closed | -82 | -91 | 9 | -10% | -94 |
| c/f | 45 | 30 | 15 | 50% | 41 |
| Of which | | | | | |
| E'ee cases | 19 | 27 | -8 | -30% | 35 |
| - resulting in action | 10 | 16 | -6 | -38% | 21 |
| Other cases | 63 | 64 | -1 | -2% | 59 |
| - resulting in action | 31 | 22 | 9 | 41% | 13 |

- 3.2. "Other Cases" include applications for support by those who have No Recourse to Public Funds and claims for Direct Payments for Care as well as other non employee related fraud and enquiries to assist other organisations or Boroughs with their investigations. In the last quarter the section has concluded 25 cases including.
 - 13 cases relating to the No Recourse to Public Funds Team to inform assessments.
 - Resolving a query with the identity documents supplied by a school employee.
 - Verifying school admissions cases.

- Established Lewisham Council had been overcharged for the rewiring of a number of properties under the Decent Homes programme. Lewisham Homes who managed the programme of work agreed to repay £66,325.

Employee Related cases

- 3.3. Of the 82 cases closed this year 19 related to employees and 10 of these resulted in action. These cases are included in the year to date figures shown below.

| Analysis of employee fraud | 2014/15 | 2013/14 | Change | | 2012/13 |
|---|-----------|-----------|-----------|-------------|-----------|
| | FY | FY | Number | % | FY |
| Dismissed/resigned & Convicted | 0 | 1 | -1 | -100% | 2 |
| Convicted & rec, disc. Action | 0 | 0 | 0 | 0% | 1 |
| Resigned/Dismissed | 2 | 5 | -3 | -60% | 5 |
| Other disciplinary (incl not employed) | 1 | 6 | -5 | -83% | 3 |
| Monies repaid | 2 | 0 | 2 | 200% | 1 |
| Management action incl review of procedures | 2 | 2 | 0 | 0% | 6 |
| Identity issue cleared | 2 | 2 | 0 | 0% | 3 |
| Fraud committed by 3rd party | 1 | 0 | 1 | 100% | 0 |
| Total | 10 | 16 | -6 | -38% | 21 |

- 3.4. The cases concluded in the last period include
- an employee who resigned whilst our investigation was ongoing into missing monies at a school.
 - Investigation into concerns that a manager may have provided a false reference. Established that reference for employment had been altered by employee at agency and that no Lewisham employee was at fault. Agency taking appropriate action.
- 3.5. Quarterly reports continue to be issued to each Executive Director with a summary of all cases being dealt with by Special Investigations in their Directorate. This ensures that the risk of fraud is considered in the context of the demands of the service, priorities are agreed, and progress on investigations communicated.

Lewisham Homes

- 3.6. A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement which has now been extended for 2015/16. This is just under one full time equivalent member of staff and a proportion of the police officer's time. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

Pre-employment Checks

- 3.7. A-FACT support Human Resources by undertaking part of the Council's recruitment checks. Each potential employee of the Council is required to complete a pre-

employment check focusing on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward.

| Summary of pre-employment checks | 2014/15 | 2013/14 | Change | | 2012/13 |
|----------------------------------|---------|---------|--------|-----|---------|
| | FY | FY | Number | % | FY |
| Checks completed | 270 | 274 | -4 | -1% | 246 |
| Action taken | 25 | 20 | 5 | 25% | 16 |

- 3.8. In the 25 cases where action was required to confirm the declarations all were subsequently resolved satisfactorily. This included 11 issues in relation to interests in companies, two of which had not been declared, three cases where the employee was required to make arrangements to pay arrears of Council Tax, and two cases where the Council Tax single person discount was removed.

4 Benefit Investigations

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

| Summary of benefit investigations work | 2014/15 | 2013/14 | Change | | 2012/13 |
|--|---------|---------|---------|-------|---------|
| | FY | FY | Number | % | FY |
| b/f | 242 | 210 | -32 | 15% | 349 |
| New | 122 | 254 | -132 | -52% | 304 |
| Closed | 364 | 222 | 142 | 64% | 443 |
| c/f | 0 | 242 | -242 | -100% | 210 |
| Sanctions resulting | 55 | 77 | -22 | -29% | 78 |
| Of which | | | | | |
| Admin penalty | 8 | 7 | 1 | 14% | 7 |
| Caution | 33 | 54 | -21 | -39% | 54 |
| Prosecution | 14 | 16 | -2 | -13% | 17 |
| Overpayment value £ | 480,441 | 534,918 | -54,477 | -10% | 616,761 |

- 4.2 Since the beginning of July the Benefit Investigation section has had just two officers (and one seconded to Special Investigations). They have managed to return results that concluded several prosecutions that were in progress before focusing on Admin Penalties and Cautions ahead of the transfer of the service to DWP.
- 4.3 The Benefit Investigation function, three investigators, transferred to the Single Fraud Investigation Service (SFIS) on the 1st April 2015. During the last quarter work was focused on bring cases to a conclusion or preparing them for transfer to SFIS.
- 4.4 Lewisham Council is no longer responsible for the investigation of benefit fraud but is still responsible for identifying fraud and referring suspect cases to SFIS.

5 Housing Investigations

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

| Summary of Housing Application Investigation Work | 2014/15 | 2013/14 | Change | | 2012/13 |
|---|---------|---------|--------|------|---------|
| | FY | FY | Number | % | FY |
| b/f | 38 | 76 | -38 | -50% | 48 |
| New | 46 | 67 | -21 | -31% | 105 |
| Closed | -65 | -107 | -42 | -39% | -77 |
| c/f | 19 | 36 | -17 | -47% | 76 |
| Resulting in action | 42 | 50 | -8 | -16% | 25 |

- 5.1 There have been 42 successful cases this year. These relate to five Housing Register applications, one Homelessness application, one fraudulent decant, and 35 cases that have been removed from the Housing Register as part of a project on Band 2 applications for housing (those considered in High Need of Housing).
- 5.2 The Audit Commission have stated that there is a significant value associated with recovering tenancies and preventing fraudulent applicants from being housed. They estimate that the average cost of temporary accommodation for a family for a year is £18,000. On this basis A-FACT have either recovered and prevented tenancies being wrongly allocated in 42 cases, representing a saving of £756,000.

6 DCLG Housing Bid funding

- 6.1 Since January 2012 the DCLG have funded an investigator based within A-FACT to work with local housing partners to tackle fraud related to social housing. This has recently been extended by a further grant to cover 2015/16 which will focus on working with some of the smaller RSL's who have not previously had assistance to tackle subletting.
- 6.2 In the last year 38 properties have been recovered from this work. An increase of 5 tenancies on the previous year. Lewisham has nomination rights on these properties. There is also a number of live ongoing cases opened as the team work with new partners.

| Summary of DCLG Housing Investigations work | 2014/15 | 2013/14 | Change | | 2012/13 |
|---|-----------|-----------|----------|------------|-----------|
| | P12 | P12 | Number | % | FY |
| b/f | 33 | 9 | 24 | 267% | 19 |
| New | 269 | 111 | 158 | 142% | 158 |
| Closed | -126 | -83 | 43 | 52% | -168 |
| c/f | 176 | 37 | 139 | 376% | 9 |
| Tenancies recovered | 38 | 33 | 5 | 15% | 26 |
| Breakdown by RSL | | | | | |
| L & Q | 20 | 19 | 1 | 5% | 12 |
| Pinnacle | 10 | 6 | 4 | 67% | 8 |
| Decant (Milford Towers) | 0 | 0 | 0 | 0% | 4 |
| Lewisham Homes | 1 | 4 | -3 | -75% | 2 |
| Hexagon | 3 | 2 | 1 | 50% | 0 |

| Summary of DCLG Housing Investigations work | 2014/15 | 2013/14 | Change | | 2012/13 |
|---|---------|---------|--------|-------|---------|
| | P12 | P12 | Number | % | FY |
| Family Mosaic | 3 | 1 | 2 | 200% | 0 |
| Wandle | 0 | 1 | -1 | -100% | 0 |
| Ewart Road Housing Coop | 1 | 0 | 1 | 100% | 0 |

6.3 An example of a recent case was for a tenant allocated a large one bed flat in 1997. Failure to provide access for the annual gas check triggered concerns and the matter was passed for investigation. Enquiries under the Prevention of Social Housing Fraud Act established (PoSHFA) established that the tenancy had been sublet since at least April 2011. Based on the evidence provided the court awarded an outright possession order in February 2015.

6.4 On the basis of the Audit Commission figures for the value of social housing as detailed in para 5.2. The recovery of 38 tenancies equates to £684,000.

7 Publicity

7.1 There have not been any cases suitable for publication in this last period.

8 Fraud Awareness Training

8.1 In this period A-FACT have delivered three Fraud Awareness Sessions. One for the No Recourse to Public Funds Team and two for the Referral & Assessment team who undertake assessments for assistance under the section 17 of the Children's Act.

9 Metropolitan Police Seconded

9.1 Detective Constable Norris is on secondment to A-FACT from the Metropolitan Police.

9.2 As Lewisham A-FACT have become more proficient in securing prosecutions, we have started to uncover more sophisticated frauds which require the powers of arrest and search in order to be addressed effectively. The Police Seconded continues to enable the team to deal with cases that we wouldn't otherwise be able to progress.

10 Legal Implications

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

11 Financial Implications

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

12 Equalities Implication

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

13 Crime and Disorder Implications

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

14 Environmental Implications

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

15 Background Papers

15.1 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, or

Carol Owen at carol.owen@lewisham.gov.uk or on 020 8314 7909