Public Document Pack

# AGENDA
# AUDIT PANEL

## Date: WEDNESDAY, 4 NOVEMBER 2020 at 7.00 pm

**MICROSOFT TEAMS**

**Enquiries to: Sarah Assibey**
**Telephone: 0208 314 8975(direct line)**

**COUNCILLORS**

Councillor James Rathbone
Councillor Paul Maslin
Councillor Joan Millbank
Councillor Susan Wise
Councillor Alan Hall
Councillor Sophie Davis

**Independent Members**

Carole Murray
Ian Pleace
Stephen Warren

### Members are summoned to attend this meeting

**Kim Wright**
**Chief Executive**
**Lewisham Town Hall**
**Catford**
**London SE6 4RU**
**Date: Tuesday 27 October 2020**

INVESTOR IN PEOPLE

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

# ORDER OF BUSINESS – PART 1 AGENDA

| AUDIT PANEL | | | |
|---|---|---|---|
| **Report Title** | **DECLARATIONS OF INTEREST** | | |
| **Key Decision** | | | **Item No. 1** |
| **Ward** | | | |
| **Contributors** | **Chief Executive** | | |
| **Class** | **Part 1** | **Date: 4 November 2020** | |
| | | | |

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

**1 Personal interests**

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

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

**2 Disclosable pecuniary interests** are defined by regulation as:-

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

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

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

(d) Beneficial interests in land in the borough.

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

(f) Corporate tenancies – any tenancy, where to the member's knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.

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

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

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

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

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

**(3) Other registerable interests**

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

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

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

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

**(4) Non registerable interests**

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

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

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

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

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

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

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

**(6) Sensitive information**

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

**(7) Exempt categories**

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

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

# MINUTES OF THE AUDIT PANEL

Thursday 30th September 2020 at 7pm

Present: Carole Murray, Ian Please, Stephen Warren, Councillor Rathbone (Chair), Councillor Davis, Councillor Hall, Councillor Maslin, Councillor Millbank, Councillor Wise

1. **Declarations of Interest**

   No interests were declared

2. **Minutes**

   The minutes of the last meeting were agreed as an accurate record

3. **Annual Accounts Audit Report**

   This updated provided a progress report. The final report will be available at the next meeting.

   Two objections had been outstanding for a few years- both of which have been concluded and reported to Council. There were no further actions to take.

   The Council has responded well to lockdown working and the audit has been done remotely. The standard of assurance that ought to achieve each year has been the same this year.
   The Council's and the Pension Fund's valuers have issued what is known as "material valuation uncertainty". This exists because of the uncertainty in the economy as at 31st March 2020. The Council is addressing in the accounts the disclosures of those uncertainties, which will also be addressed in the final audit account report.

   Testing has gone well. The Council has been asked to provide a surplus of assets which are required to be revalued each year, but had not been. The accounts are expected to be ready before the statutory deadline of 30th November 2020.

   Action: Audit panel to receive the statements before final adoption so there is time to review. This should also be noted for next year's cycle. Officers agreed to circulate after the meeting

4. **Internal Audit Update**

   The Interim Head of Internal Audit presented this report.

   The Internal Audit Plan will be used through the next financial year. The Plan was put together using best practice through a risk based approach, reviewing the Council's risk registers and consulting senior management. The Plan is going deliver 504 audit days which include 20 days of follow up work and the remainder of corporate audits. There are 39 audits which cover all the directorates. The resource is available to cover these audits.

The reduction in audit days is due to the disruption of school audits and some of the wider work which would have been done on the core financials. Additionally, the team was fully redeployed this year to critical services, so there was some delay is work.

The risk was considered lower as individual schools has not been operating as normal. The opportunity has been given to them to reset their processes, and go back to them in the new financial year.

Action: Officers to report on high level and financial impacts on Council due to COVID-19. Members to note that some of these have already been reported to various committees and links will be sent to Members in addition.

RESOLVED the report was noted.

**5. Annual Assurance Report**

The Director of Corporate Resources presented this report.

The opinion on the overall adequacy and effectiveness of the arrangements for governance, risk management and internal control for the financial year 19/20 has been deemed satisfactory. The caveat to this rating is that there was a limitation on work the finance team was able to do. There was already a lack of resourcing which resulted in the late running of the program which COVID-19 further impacted and delayed.

Impact on the delivery of the audit plan was due to lack of resources. The Council's priority to deliver frontline services due to COVID-19, meant there was an impact on managing and closing out some of the planned audits in the period.

The reporting of risk is aligned from service plans, through Directorate risk registers, to the Strategic risk register and are aligned to the corporate priorities. Risks were reviewed quarterly by the Executive Management Team. Their reporting to members has been reviewed as part of a whole revamp of performance reporting aligned to the new corporate strategy.

The Redmond review, recommended that internal audit to take more account of its work. The recommendations aim to improve the working between external and internal audit. It is also the recommendation that the Panel formally become a full Committee. Officers will consider the recommendations and produce a summary for the next Audit Panel meeting.

Timeliness of responses to recommendations was not well structured during this COVID period due to other priorities, but new structures to be adopted should ensure this will improve even in the event of a second wave of COVID.

Action: Relevant officers to report on core financial audits 1, 3 and 4 and progress of recommendations as listed in the report at the next meeting

RESOLVED the report was noted.

**6. Counter Fraud Report**

The Head of Corporate Resources presented this report.

There has been no material change in the way that the work is undertaken by the Anti-Fraud and Corruption Team (A-FACT) in the last financial year.

It continues to help HR with any employment processes and staffing matters, whistleblowing or grievances that require investigation. There is also a significant amount of work with Lewisham Homes on housing matters.

A-FACT undertake proactive exercises jointly with the Blue Badge Team and Parking Enforcement to address misuse and individual cases of misuse.

Internally, the declarations of interests are completed by staff annually and whenever any procurement is being undertaken, in addition to pre-employment checks, it is ensured that nobody in the evaluation has any connection to bidders.

RESOLVED the report was noted.

**7. Risk Register**

The Head of Corporate Resources presented this report.

The risk register is built from the service plans which contain their own risks which create a directorate risk register. The Executive Management Team have asked that risk management reporting be reviewed so that they can be provided with options to see how they may be able to structure and carry out the risk register differently.

There are no new risks and none for deletion in the Strategic Register. The narrative and actions have been updated throughout the register, as detailed in the change log.

The officer stated that cyber security and information and governance issues were most significant, and the relevant officer can attend a meeting to speak further on the matter.

Action: further reporting on the cyber security issues highlighted in the report be added to the agenda at the meeting after next

RESOLVED the report was noted

The meeting finished at 8.25pm

# Audit Panel

## Report title: Final Accounts 2019/20 – Grant Thornton's Audit Findings Reports

**Date:** 04 November 2020

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Executive Director for Corporate Resources

## Outline and recommendations

The purpose of this cover report is to present to the Audit Panel the draft Audit Findings Reports from Grant Thornton on their findings during the external audit of the Council's Main Accounts and Pension Fund Accounts for 2019/20. Also the Letters of Representation and post-audit Statement of Accounts 2019/20.

It is recommended that the Audit Panel consider and note the attached reports from the Council's external auditors, Grant Thornton. Also that the Audit Panel should agree the Letters of Representation and note the post-audit Statement of Accounts 2019/20, making comments and asking any questions as required.

## 1. Summary

1.1 The purpose of this cover report is to present to the Audit Panel the draft audit findings reports from Grant Thornton on their findings during the external audit of the Council's Main Accounts and Pension Fund Accounts for 2019/20. Also the Letters of Representation and post-audit Statement of Accounts 2019/20.

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

## 2. Recommendation

2.1. It is recommended that the Audit Panel consider and note the attached reports from the Council's external auditors, Grant Thornton. Also that the Audit Panel should agree the Letters of Representation and note the post-audit Statement of Accounts 2019/20, making comments and asking any questions as required.

2.2. See Appendices

1 Grant Thornton – Draft Audit Findings for the London Borough of Lewisham (including Value for Money conclusion) – Year Ended 31 March 2020. **Attached**

2 Grant Thornton – The Audit Findings for the London Borough of Lewisham Council Pension Fund – Year Ended 31 March 2020. **Attached**

3 LB Lewisham Group Letter of Representation 2019/20. **Attached**

4 LB Lewisham Pension Fund Letter of Representation 2019/20. **Attached**

5 Post-audit Statement of Accounts 2019/20 (but containing draft Annual Governance Statement – final to follow). **Attached**

## 3. Report author and contact

Selwyn Thompson, Director of Financial Services – Selwyn.Thompson@lewisham.gov.uk 020 8314 6932

Paul Calnan, Acting GFM – Core Accounting – Paul.Calnan@lewisham.gov.uk 020 8314 6167

Grant Thornton

# The Audit Findings for the London Borough of Lewisham

**Year ended 31 March 2020**

**October 2020**



# Contents



**Your key Grant Thornton team members are:**


Paul Grady
Key Audit Partner
T: 020 7728 2301
E: paul.d.grady@uk.gt.com

Paul Jacklin
Senior Manager
T: 020 7728 3263
E: paul.j.jacklin@uk.gt.com

Lakshmi Forster
In Charge
T: 020 7728 3193
E: lakshmi.forster@uk.gt.com

# Headlines

This table summarises the key findings and other matters arising from the statutory audits of the London Borough of Lewisham ('the Council or you') and the preparation of the group and Council financial statements for the year ended 31 March 2020 for those charged with governance.

| | | |
|---|---|---|
| **Covid-19** | The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.<br><br>The Council has faced extensive front-line challenges as a result of the pandemic such as administration of grants to businesses, closure of schools and car parks with additional complexities of reopening services under new government guidelines.<br><br>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020. | We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum to management in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.<br><br>The financial statements were published and provided to the audit team on 29 June 2020.<br><br>Throughout the closedown period we held regular meetings with your key finance staff to discuss the impact of Covid-19 on you. We also discussed the financial implications in terms of asset valuations, going concern and provision for credit losses in advance of your submission of the financial statements.<br><br>Your finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Restrictions for non-essential travel have meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over the completeness and accuracy of information produced by you.<br><br>We made more use of conference calls and emails to resolve audit queries. Both teams utilised a query log to track and resolve outstanding items. Weekly meetings were held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process was as smooth as possible. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion.<br><br>We are please to report that there has been an improvement in the timeliness responses to audit queries and requests for additional information this year despite the challenges of remote working. |

# Headlines continued

| | | |
|---|---|---|
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Group and Council's financial statements:<br>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.<br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our audit work was completed remotely during July-October. Our findings are summarised on pages 6 to 17 . Our findings included the following:<br>• We identified weaknesses in your expenditure cut off arrangements which resulted in expenditure that related to the 2019-20 year being incorrectly coded to the 2020-21 year. This means your expenditure for 2019/20 is understated. Our combined extrapolation of our cut off findings amounted to £6.6m. Management have decided not to adjust the financial statements as the amount is an estimated misstatement and below materiality levels.<br>• The Council had not revalued all of its surplus assets as required by the accounting standards.<br>• The floor areas used in the valuation of 3 schools were incorrect, which led to a decrease in the valuation of these buildings by £11.5m.<br>• Your pension fund IAS19 valuation of investment assets had to be updated due to the impact of Covid-19 reducing year end asset valuations.<br>We continue to identify a number of presentational amendments to your financial statements, which had not been identified and corrected by management's review of the accounts prior to their submission for audit. We would recommend a strengthening of this process to identify and correct such misstatements and enhance the quality of the financial statements submitted for audit in future years. Audit adjustments identified to date are detailed in Appendix C.<br>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendices E) or material changes to the financial statements, subject to the outstanding matters outlined on page 6 of this report.<br>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit opinion for the Council will be unmodified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, and material uncertainties in pension fund investments in property, private equity, infrastructure and private debt. |

# Headlines continued

| | | |
|---|---|---|
| **Value for Money arrangements**<br>**(Council only)** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Lewisham Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br><br>Our findings are summarised on pages 18 to 33. |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• To certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br><br>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we have certified completion of the prior year audits (certificates were previously held open due to prior year objections which have now been determined) and completed our work on the Whole of government Accounts return. |



**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

### Overview of the scope of our audit

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

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

### Audit approach

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

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

We have had to alter our audit plan, to reflect our response to the Covid-19 pandemic.

### Conclusion

We have substantially completed our audit of your financial statements and, subject to outstanding queries being resolved, anticipate issuing unqualified audit opinions following the Audit Panel meeting on 4 November 2020, as detailed in Appendix E. These outstanding items include:

- receipt and review of your updated Annual Governance Statement;
- receipt and review of your workings for your Minimal Revenue Provision calculation;
- receipt and review of your updated exit payments note;
- receipt and review of a bank statement in relation to Beecroft school;
- manager and engagement lead quality review of audit files and resolution of any arising queries;
- updating our review of events after the reporting date;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements, updated for agreed adjustments in a number of areas.

### Our approach to materiality

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

Our materiality levels remain the same as reported in our audit plan.

| | Group (£'000) | Council (£'000) |
|---|---|---|
| Materiality for the financial statements | 16,500 | 16,000 |
| Performance materiality | 10,800 | 10,400 |
| Trivial matters | 800 | 800 |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Covid– 19**<br><br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;<br><br>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation.<br>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates.<br>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen.<br>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.<br><br>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement. | Audit procedures undertaken in response to the identified risk included:<br><br>• working with management to understand the implications of the response to the Covid-19 pandemic on your ability to prepare the financial statements including updating financial forecasts and assessment of the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 29 June 2020;<br>• liaison with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;<br>• evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;<br>• evaluating of whether sufficient audit evidence could be obtained through remote technology;<br>• evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;<br>• evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and<br>• discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.<br><br>The Council's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.<br><br>In addition, the fund managers for the Pension Fund's pooled property, Infrastructure, Private Equity and Private Debt investments declared material valuation uncertainties around the valuation of these investments. This impacts upon the valuation of the net defined benefit liability in the Council's balance sheet.<br><br>Management have disclosed these uncertainties in Note 4 to the Council's financial statements. These disclosures will be referred to in our auditor's report in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **The revenue cycle includes fraudulent transactions (rebutted)** | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we had determined that the risk of fraud arising from revenue recognition could be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including the London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable<br><br>Therefore we did not consider this to be a significant risk for the London Borough of Lewisham. Our assessment remains consistent with that reported in our audit plan. |
| **Management override of controls**<br><br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.<br>In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override. | Audit procedures undertaken in response to the identified risk included:<br>• evaluation of the design effectiveness of management controls over journals<br>• analysis of the journals listing and determine the criteria for selecting high risk unusual journals<br>• testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence<br>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>Subject to the completion of our management reviews, we have not identified any material issues from our work. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings**<br>The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.5 billion) and the sensitivity of this estimate to changes in key assumptions.<br>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.<br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | Audit procedures undertaken in response to the identified risk included:<br>• evaluation of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluation of the competence, capabilities and objectivity of the valuation expert<br>• writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br>• engaging our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation<br>• testing revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• assessing the value of a sample of assets in relation to market rates for comparable properties<br>• testing a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.<br>As discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings and council dwellings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty and a higher degree of caution should be placed on the recorded valuation of these assets than would otherwise be the case. Management have disclosed this uncertainty in Note 4 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.<br>The Council had not obtained a year end valuation for all its surplus assets as required by International Financial Reporting Standards. The Council has since obtained a valuation for the assets that had not been revalued. The financial statements will need updating for these revised revaluations. The Council has calculated the potential change to the Net Book Value of assets is an increase of £25.1m<br>Our testing of the floor area data used in the valuation of the 3 modern schools identified a variance between the floor areas used for these schools as per the valuer workbooks and the floor plans. This error resulted in an overall reduction of the valuations of £11.5m.<br>We also identified the following other amendments in land and buildings revaluations:<br>• Lee Green Depot valuation of £1.3m was omitted from the valuation report<br>• Wearside Depot: the valuation of £188,420 per the accounts should have been £1,888,420<br>• Three school blocks of a combined value of £1.5m had not been included within the revaluation report.<br>The council has agreed to amend the financial statements for the above misstatements.<br>We will review the amended financial statements on receipt of them.<br><br>Subject to the satisfactory completion of the above amendments and outstanding matters set out on page 6, we have not identified any further material misstatements in response to this risk. |

# Significant audit risks

| Risks identified in our Audit Plan | Risks identified in our Audit Plan |
|---|---|
| **Valuation of pension fund net liability**<br>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£752 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. | Audit procedures undertaken in response to the identified risk included:<br>• updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls<br>• evaluation of the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>• assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation<br>• assessment of the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases<br>• assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability<br>• testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary<br>• undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report<br>• obtaining assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements<br>As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled property, Infrastructure, Private Equity and Private Debt investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.<br>As 82% of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet.<br>Management have disclosed this uncertainty in Note 4 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.<br>The pension disclosures within the financial statements were prepared using the actuary estimate of the 31 March 2020 investment balances. Due to Covid-19, there was a significant difference between the estimated value of the investment balances and subsequent actual assets. The Council obtained an updated IAS19 report from their actuary to reflect the year end actual balances. The assets had decreased by £7.4m. The Council has amended the financial statements.<br>Subject to the satisfactory completion of the outstanding matters set out on page 6, we have not identified any further material misstatements in response to this risk. |

# Significant findings – other issues

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

| Issue | Commentary | Auditor view |
|---|---|---|
| **Completeness of non pay operating expenditure and associated short term creditors**<br>Non-pay expenditure on goods and services represents a significant percentage (61%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention. | Audit procedures undertaken in response to the identified risk included:<br>• evaluation of your accounting policies for recognition of non pay expenditure for appropriateness, including the use of any de minimis level set<br>• gained an understanding of your system for accounting for non-pay expenditure and evaluate the design of associated controls<br>• Obtained and tested bank listings and invoices received in April and May 2020 to ensure that they have been charged to the appropriate year | Our testing identified that invoices received and payments made in April and May 2020 that related to 2019/20 had not been appropriately accrued for. The extrapolated error from our testing was £6,653k. This is not material and so management have taken the decision not to adjust the financial statements. |
| **IFRS 16 implementation has been delayed by one year**<br>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. | Management disclosed in Note 2 to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16 implementation.<br>This disclosure also includes a statement that the change to charges to the CIES would increase to £1.6m and the value of leases on the balance sheet would increase to £20m. However, these were not reliable estimates so the Council has decided to remove them. | For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements. |

# Significant findings arising from the group audit

| Component | Component auditor | Findings | Group audit impact |
|---|---|---|---|
| **Lewisham Homes** | KPMG | An unqualified audit opinion of Lewisham Homes Limited was issued by KPMG on 21 August 2020. No significant issues were identified. | No impact on the Group Audit |
| **Catford Regeneration Partnership Limited** | ACF Auditing Services Limited | We have tested the investment property and the Loan with the Council. These are the only material balances within these financial statements. No significant issues were identified. | No impact on the Group Audit |

# Significant findings – key estimates and judgements – Council

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Land and Buildings – Council Housing – £1,283.1m** | The Council owns 13,796 in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.<br>The Council has engaged Wilks, Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £1,283.1m, a net increase of £28.6m from 2018/19 (£1,254.5m). | • We have no concerns over the competence, capabilities and objectivity of your valuation expert Wilks, Head and Eve.<br>• No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.<br>• There have been no changes to the valuation method this year.<br>• The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts.<br>• All properties have been valued as at 31 March 2020. | Green |
| **Land and Buildings – Other – £1,082.6m Surplus Assets £94.7m** | Other land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2020.<br>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4. | • We have no concerns over the competence, capabilities and objectivity of your valuation expert.<br>• No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.<br>• There have been no changes to the valuation method this year.<br>• The Council had not obtained a year end valuation for all its surplus assets as required by International Financial Reporting Standards. The Council has since obtained a valuation for the assets that had not been revalued. The financial statements will need updating for these revised revaluations. The Council has calculated the potential change to the Net Book Value of assets is an increase of £25.1m.<br>• Our testing of the floor area data used in the valuation of the 3 modern schools identified a variance between the floor areas used for these schools as per the valuer workbooks and the floor plans. This error resulted in an overall reduction of the valuations of £11.5m.<br>• We also identified the following other amendments in land and buildings revaluations:<br>• Lee Green Depot valuation of £1.3m was omitted from the valuation report<br>• Wearside depot: the valuation of £188,420 as recorded in the accounts should have been £1,888,420<br>• Three school blocks of a combined value of £1.5m had not been included within the revaluation report | Red |



**Assessment**

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

# Significant findings – key estimates and judgements – Council

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Net pension liability – £511.1m (prior to amendment)** | The Council's total net pension liability at 31 March 2020 is £511.1m (PY £752.4m) comprising liabilities relating to the London Borough of Lewisham Pension Fund and London Pension Fund Authority Local Government Pension Schemes and an immaterial amount of unfunded defined benefit pension scheme obligations. The Council uses Hymans Roberson (Council scheme) and Barnett Waddingham (LPFA scheme)to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. This has led to material experience liabilities arising during 2019/20 as assumptions used were normalised for actual data.<br><br>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £241.3m in the overall pension fund liability in 2019/20. | • We have assessed the actuaries, Hyman Robertson and Barnett Waddingham, to be competent, capable and objective.<br>• We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2019/20 calculation carried out by the actuary.<br>• We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:<br><br>• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.<br>• We have confirmed there were no significant changes in 2019/20 valuation method.<br>• The pension disclosures within the financial statements were prepared using the actuary estimate of the 31 March 2020 investment balances. Due to Covid-19, there was a significant difference between the estimated value of the investment balances and subsequent actual assets. The Council obtained an updated IAS19 report from their actuary to reflect the year end actual balances. The assets had decreased by £7.4m. The Council has amended the financial statements | Amber |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.30% | 2.30% | ● |
| Pension increase rate | 1.90% | 1.80% - 12% | ● |
| Salary growth | 2.60% | 1% above CPI | ● |
| Life expectancy – Males current pensioners / future pensioner | 20.9 / 22.2 | 20.5– 22.2 / 21.6 – 23.3 | ● |
| Life expectancy – Females current pensioners / future pensioners | 23.5 / 24.8 | 22.9 – 24.3 / 24.6 – 26.3 | ● |

**Assessment**

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

# Going concern – Council

### Our responsibility

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

### Going concern commentary

#### Management's assessment process

The Council's financial statements have been prepared on a going concern basis, as disclosed in Note 1.

Management provided a narrative going concern assessment, cash flow forecast and Medium Term Financial Strategy extending to March 2025. Management's assessment acknowledges that the financial outlook for the Council is challenging, with a £40m budget gap having already been identified over the two years from 2021/22-2024/25 prior to the Covid-19 pandemic and its ensuing impact. The Council is implementing an outcomes-based budgeting and service transformation programme to align future spending plans to the Council's strategic priorities with the joint goals of bridging this gap and ensuring better outcomes for residents.

As a result of increased expenditure and diminished income, for instance from parking and commercial rents, due to the Covid-19 pandemic, the original 2020/21 budget is now forecast to overspend by over £25.6m. The majority of this will be offset by government funding, use of the prior year underspend, and use of the corporate contingency which had been set aside for the year. The residual £8.9m overspend will be filled through identification of additional savings opportunities, reductions in spending or, if necessary, use of reserves.

The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment.

#### Work performed

We reviewed management's disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.

We are satisfied that management's assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. We are satisfied that the Council holds sufficient useable reserves to mitigate the risk of any short-term funding shortfalls which may arise throughout the period of management's assessment.

#### Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

# Other matters for communication

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

| Issue | Auditor commentary |
|---|---|
| **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures. |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed. |
| **Matters in relation to laws and regulations** | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| **Written representations** | A Letter of representation have been requested from the Council. |
| **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent. At the time of writing, the majority of these requests have been returned with positive confirmation. We are awaiting one confirmation relating to Beecroft school.<br>We sent letters to those solicitors who worked with the Council during the year and responses were received. |
| **Disclosures** | Our review of disclosures found no material omissions in the financial statements. The changes made to disclosures during the course of the audit are summarised in Appendix C. The most significant omission was in relation to the material uncertainty in relation to the IAS19 pension investments. |
| **Audit evidence and explanations/significant difficulties** | There has been an improvement in the timeliness of information provided to audit this year. We are still identifying quite a few presentational errors that management have corrected. We will need to review the updated set of financial statements |

# Other responsibilities under the Code

| Issue | Commentary |
|---|---|
| **Other information** | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified.<br>We are still awaiting the updated version of the Annual Governance Statement. |
| **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>We have nothing to report on these matters. |
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We plan to complete this work following the completion of the audit of your financial statements. |
| **Certification of the closure of the audit** | We have completed the majority of work under the Code but are unable to issue our completion certificate until:<br>• we have issued our completion certificates for the 2016/17, 2017/18 and 2018/19 audit years. The 2016/17 objection work on LOBOs and PFI schemes has now been completed and we plan to close all these audits at the end of November 2020.<br>• we are yet to completed the required work on the consistency of the pension fund annual report with the audited financial statements. We will complete this work by the end of November 2020 in advance of giving our opinion.<br>• we are yet to complete the work on the Whole of Government Accounts. |

# Value for Money

### Background to our VFM approach

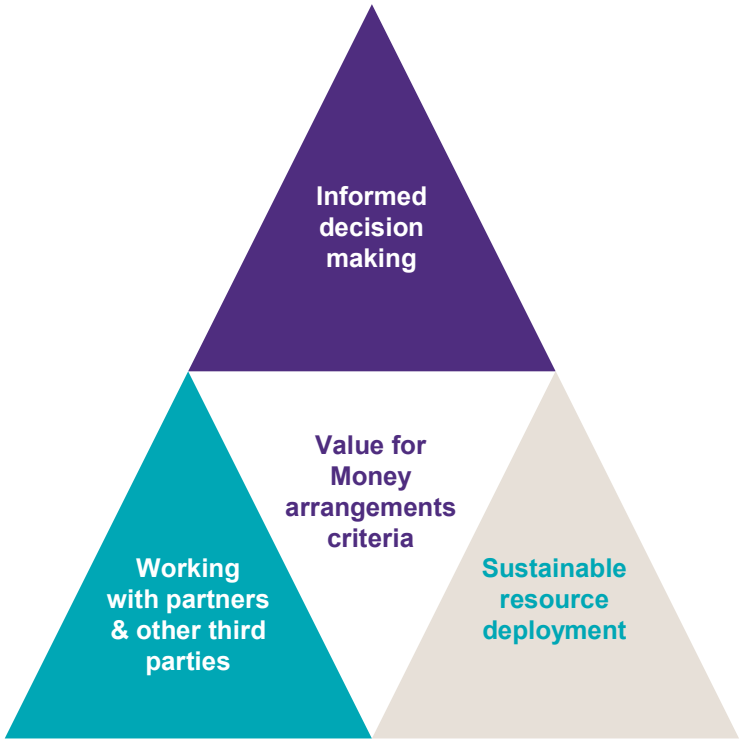
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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






### Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020 and presented to the March Audit Panel.

We have continued our review of relevant documents up to the date of giving our report. We have not identified any new VfM risks in relation to Covid-19, however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the arrangements in place for Medium Term Financial Planning.

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

# Value for Money

### Our work

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

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

- Revenue and capital outturn for 2019/20.
- Approved revenue and capital budget for 2020/21.
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members.
- Medium term financial plan for 2020/21-2024/25.
- Organisational priorities and the need for change report.
- Analysis of reserves position relative to other comparable local authorities.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 to 33.



### Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council has proper arrangements for securing, economy, efficiency and effectiveness in its use of resources.

The text of our report which confirms this can be found at Appendix E.

### Recommendations for improvement

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

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

### Significant difficulties in undertaking our work

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

### Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

# Value for Money – Budget Management

## Key findings

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

| Significant risk | Findings and Conclusions |
|---|---|
| **Budget Management**<br><br>You are currently projecting a £5.4m overspend on the 2019/20 budget. There remain significant pressures in Children & Young Peoples and the Housing, Regeneration and Environment directorates. The anticipated overspend will increase the pressure into 2020/21. | **2019/20 outturn**<br><br>During 2019/20 you issued instructions to budget managers that re-affirmed the importance of controlling expenditure and delivering the Council's budget. Monitoring reports throughout the year forecast an overspent position. The final net revenue overspend of £5.9m is consistent with that being reported throughout the year. The impact of Covid-19 on the revenue outturn for 2019/20 was minimal due to the pandemic arising within the final few weeks of the period. However as explored in the following pages, the impact on the 2020/21 budget is significant in respect of increased expenditure and loss of income. The pandemic may also have a significant impact on the Council's ability to realise planned savings, efficiency programmes and service transformation within planned timeframes.<br><br>The overspend of £5.9m is an improvement in the financial position delivered in 2017/18 and 2018/19, demonstrating that the Council has made some progress in controlling budgets. However, this is the third successive year in that the main element of the overspend has been expenditure on children's social care (£4.3m overspend). The Council is continuing to work at identifying and implementing plans to manage overspending in this area, but this has not been sufficient to balance the budget for 2019-20.<br><br>The Children's Social Care budget for 2019/20 was £41.5m with a further £7m funded from corporate resources making a total resource available of £48.5m. It should be noted that the revised budget was uplifted to align with the 2018/19 outturn position and then reduced by the savings (£1.5m) proposals as agreed with Mayor and Cabinet. The main element within the Children's Social Care budget that has overspent is placements including Residential Care, Leaving Care 18+ and Special Guardianship Orders. The Council continues to have a high rate of Children Looked After (69) compared to statistical neighbours (62). The Council is continuing to work at bringing the rate down. Fewer children came into care this year (179) compared to 2018/19 (196) and the overall number and rate of Children Looked After has fallen from 489, to 475. However, the profile of children in care is shifting and the complexity of the children/young people's situations has intensified. Accordingly, the associated costs (including the need for specialist residential placements) have continued to increase despite a small fall in case loads. Strengthening family support services for children on the edge of coming into care and expansion of in-house Fostering Services to increase the number and diversity of placements continue to be a priority for Children's Social Care to further reduce the overall rate of Children Looked After and reliance on Independent Fostering Agencies.<br><br>During the year, the Children's Social Care budget and coding structure was comprehensively reviewed. The Children's Social Care finance system (Controcc) that connects to the child's record (LCS) is also being redesigned. This work, supplemented by a financial management training package for managers, was finalised in the second quarter of 2020-21. Going forward, the changes are intended to enable more detailed and transparent financial management.<br><br>Other overspends in the Children's Social Care budget were in respect of the Section 17 budget, which includes non-housing No Recourse to Public Funds spend. This is a demand led budget and spend exceeded the budget by £0.6m. The balance of the overspend is in respect of Legal Fees in this area was £0.3m, and the Looked after Children 'additional extras' overspent by £0.6m. |

# Value for Money – Budget Management

### Key findings

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

| Significant risk | Findings and Conclusions |
|---|---|
| **Budget Management**<br><br>Risk continued from previous page | The other main overspends occurred within the Housing, Regeneration and Environment Directorate which overspent by £3.2m. The most significant cost pressures for the directorate are within the Environment Division. Overspends remain on vehicle costs for refuse services, but these are reducing following the purchase of a number of new vehicles. However, at the year end there are still ten hired in vehicles in use, which is creating an overspend. Mayor & Cabinet have approved a report for the acquisition of a fleet of new Euro Low Emission Zone compliant vehicles. Once these vehicles have arrived, there should no longer be a need to hire refuse vehicles. However, there will be a delay in receiving these vehicles due to the Covid-19 outbreak.<br><br>Other pressures still remain due to the hired vans used to deliver and collect bins to and from households and trade waste customers. Staff costs in the environment division exceeded the budget by £615k. Some £75k of this staffing overspend relates to the trade waste service and between £250k - £300k can be attributed to the two additional dry recycling collection rounds as each refuse vehicle has a driver and a crew of three staff. The additional bulk collection rounds adds another £130k staffing pressures. There is also a shortfall of income for trade refuse of £460k. This is £130k worse than the shortfall in 2018/19. The income budget for 2019/20 included an additional £150k savings target, but it has not been possible to achieve this target as numbers of trade customers have reduced. Work is being undertaken to analyse the customer base and develop more streamlined marketing, contract and debt collection processes to increase the income stream from trade waste.<br><br>Overspends in Children and Young People and Housing, Regeneration and Environment were slightly offset by the Community Services directorate, which underspent by £2.5m. This is mainly due to the underspend on adult social care. The budget was increased in 2019/20 by the precept of £2m to fund the rise in London Living Wage costs and a rise in the improved Better Care Fund Grant of £2.8m. In addition, there were resources set aside for IT implementations which have not yet occurred and so the underspend is carried forward into 2020/21.<br><br>The Housing Revenue Account (HRA) final position is a surplus of £14.6m. The HRA had budgeted for a surplus of £2.8m. Therefore, the additional surplus amount is £11.8m, of which £7.2m was received as an unbudgeted grant for fire related works which will be carried forward to 2020/21. The revised additional surplus is therefore £4.6m.<br><br>The Capital Programme final spend for 2019/20 is £121.2m, which is 72% of the revised budget of £169.1m. The Council will need to continue to develop mechanisms to more accurately forecast capital expenditure, and the associated revenue costs and income. This will enable available resources to be identified where possible for investment in service redesign programmes and address the ongoing pressures beyond the current crisis in the medium term, whilst also ensuring timely delivery of capital projects to support better outcomes for residents in accordance with the Council's strategic priorities. |

# Value for Money – Budget Management

## Key findings

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

| Significant risk | Findings and Conclusions |
|---|---|
| **Budget Management**<br><br>Risk continued from previous page | **2019-20 savings programme**<br><br>The Council approved £9.2m of savings in the 2019-20. The Council has monitored these savings programmes throughout the year separately from the budgetary monitoring. This is in line with a previous recommendation we made, and results in increased transparency of your financial reporting. The Council has delivered approximately 69% of the savings programme. Brief explanations are provided within reports that explain the underlying reasons why individual programmes have not delivered. The reports would be further enhanced by explaining the action that the Council is taking to bring the savings back on track and to highlight progress of alternative programs to mitigate the under delivery of the existing programs.<br><br>The savings target of £1,575k for the Children's and Young Peoples directorate was not met with only £25k of the proposed savings delivered. Reasons for the savings not being delivered included insufficient experience within teams to deliver the required efficiencies, delays in implementation of systems to facilitate delivery of savings and an overestimate of the Council's ability to influence the local fostering market. Corporate Services savings were not achieved due to delays in reducing printing, delays in implementation of Payroll and Human Resources element of the Oracle Cloud project and insignificant improvements in housing benefit overpayment recoveries.<br><br>As approximately a third of the proposed savings were not delivered the Council will need to review it's processes for identifying and delivering the proposed savings ensuring that proposals are appropriately scrutinised, risk rated and that the final approved savings are achievable. |

| Directorate | Savings program £000s | Outturn £000s | Variance £000s |
|---|---|---|---|
| Children & Young People | 1,575 | 25 | 1,550 |
| Community services | 3,681 | 3,281 | 400 |
| Housing, Regeneration & environment | 1,500 | 1,226 | 274 |
| Corporate Services | 2,514 | 1,844 | 670 |
| Total | 9,270 | 6,376 | 2,894 |

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>In the context of future funding uncertainty arising from the fairer funding review and longer term settlement decisions, combined with the reduction in your overall General und reserves (including earmarked) over recent years, in Spring 2020 you identified that you would be required to find £40m of savings in the three years to 2023/24 to maintain financial balance. | **2020/21 budget**<br><br>Original budget<br><br>For each of the past six years the Council has used reserves at an average of £3.5m per year to set a balanced budget. The ability to identify, agree, and implement further savings to service budgets has become ever more challenging. In February 2020, Full Council approved a balanced General Fund revenue budget for 2020/21 which incorporated the maximum permissible 1.99% Council Tax increase alongside an additional 2% for the Adult Social Care precept (expected to generate an extra £2.3m for Adult Social Care). The budget included the New Homes Bonus allocation of £6.176m. The business rates retention pool will continue in 2020/21 covering the GLA and the 33 London billing authorities. Although the locally retained share will revert back to the 2017-18 position – a 67% locally retained share split 37% for the GLA and 30% for the Council with the remaining 33% payable to MHCLG. Revenue support grant will be reinstated for the Council.<br><br>Inflationary increases were built into the budget: 2% for pay and 2.5% non pay. Non pay inflation is higher than the forecast CPI inflation rates for 2020 to reflect the underlying commitments in Council contracts. Budget pressures of £6.5m including demographic and market pressures for children and adult services, unachieved savings in the prior year and further potential changes to funding as a result of government legislation and reform. The previous year budget gap of £7.4m was also incorporated into the balanced budget. All services uplifted their fees and charges annually in line with the Council's inflation assumptions, or for full cost recovery if this is higher, to allow for stability in real terms.<br><br>On the 21 November 2018, the Mayor agreed and delegated £8.434m of budget saving proposals for 2020/21 and, on the 30 October 2019, a further £8.175m of budget savings for 2020/21 were agreed. These savings, totalling £16.609m across the directorates, have been included in the 2020/21 budget. This is over double the amount of savings that you were able to deliver in 2019/20 and may be ambitious, based on previous performance.<br><br>The budget maintained the unearmarked General Fund working balance at £20.0 million. The Council holds Specific Earmarked Reserves for various future planned spending and to undertake one-off projects or work that does not happen every year. Examples include the transformation fund, redundancy provisions, elections, replacement of obsolete equipment and contractual claims that may become due (e.g. dilapidations that may become payable on properties we lease from the private sector to provide housing). Total Earmarked reserves as at 1 April 2019 were £147.1m. The Council has added £3.7m to these reserves in 2019/20.<br><br>Management acknowledged in the budget report to members that the 2020/21 forecast had been set against a background of risk and uncertainty in the medium term with regard to future funding mechanisms both for formula grant funding in light of the Fair Funding Review, and one-off allocations which had been made in the 2020/21 settlement to ease demand-led social care pressures faced by local authorities, as well as wider macro-economic uncertainties posed by factors such as the UK's exit from the European Union. As such, the budget setting process had been undertaken with an underlying aim to ensure financial sustainability in the medium term as well as 2020/21. This is something which officers rightly continue to keep sight of in responding to the subsequent challenges faced in light of the Covid-19 pandemic, responding to spending need and reprofiling forecasts accordingly. |

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br>Risk is continued from previous page | Assumed service growth included demographic pressures across demand-led services including housing and homelessness, Children's Services and Adult Social Care. Demand-led service growth assumptions are consistent with an observed increase in complexity in caseload in both Adults' and Children's Services, as well as increasing numbers within Children's Services, the statutory expansion of support to the age of 25 and increasing placement costs, all of which give rise to higher costs. Schools funding assumptions include the Dedicated Schools Grant allocation of £297.4m being based on an uplift of 1.84% for Primary and Secondary Schools. With falling rolls and pay inflation this represents a real term reduction for schools. In regards to special educational needs funding there is an increase of £3.4m following additional funding in this area. Early Years Funding - Increase of 8p per hour in the funding for two to four year olds, and supplementary funding to support the two Lewisham nursery schools will continue for 2020/21 at the current level. Pupil Premium - funding rates will remain the same at £12.1m.<br><br>Concurrently to the General Fund revenue budget for 2020/21, the HRA revenue budget and General Fund and HRA capital programmes were also finalised and approved. In respect of the HRA, the key assumptions underpinning the draft 2020/21 revenue budget include a rent increase of 2.7% (an average of £2.56 per week) in respect of dwelling rents, 2.7% (average £0.94 per week) in respect of hostels, and a range of other proposed changes to service charges. The proposed annual expenditure for the Housing Revenue Account is £225.8m, including the capital and new build programme, for 2020/21.<br><br>Planned capital investment in 2020/21 includes enhancement and expansion of facilities for provision of special education needs which will increase the places to support children. Highways maintenance includes approximately 30 roads (10km of carriageways) planned to be resurfaced plus essential footway replacement works of approximately 25 roads. There is a further £8.1m available to finance the replacement of vehicles in the Council's fleet in order to meet the approaching Low Emissions Zone (LEZ) changes in October 2020. £9m that has been set aside for Edward Street will provide 34 new high-quality temporary accommodation homes for local families in housing need. The majority of capital finance (£97.5m in 2020-21) is allocated to the building for Lewisham Programme. In January 2020, the Mayor and Cabinet approved recommendations to advance and expand the Council's housebuilding programme to meet the Council's corporate objectives. The programme is expected to deliver 1,422 new council homes for the borough. Funding has currently been agreed for the continuation of the former New Homes Better Places programme and for a series of additional sites. In addition, funding for feasibility and preparation of planning and tender information for major strategic projects at Ladywell, Achilles Street Estate and Catford have been allocated, as well as funding for wider feasibility studies for sites across the borough.<br><br>There is a further £37.5m allocated to Lewisham Homes for ensuring council owned stock under their management is brought up to and maintained to a decent homes level, covering both internal and external works. Lewisham Homes is leading on the delivery of the programme (under delegated powers) in consultation and agreement with the Council. A full stock condition survey is being utilised to identify and prioritise the capital works required. There is a significant proposed borrowing increase of £302.5m over the capital program to 2023 to deliver the HRA plans. This is primarily to support the Building for Lewisham programme and will likely extend the HRA to its sustainable financial borrowing and cash flow limits.<br><br>The external borrowing requirement is considered to be affordable and consistent with the Council's Treasury Management Strategy, in particular given that interest rates remain low and this is not expected to change in the short-term given the current economic climate. The General Fund resources available to finance capital projects decrease over the term of the Programme. This reflects the Council's prudent approach to long-term planning, with grants for later years not taken into account until they have been confirmed, and capital receipts only being taken into account when they have been received or are reasonably certain of being received. The Council prudently avoids entering into long-term expenditure commitments until there is more certainty as to how they can be financed. |

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br>Risk is continued from previous page. | Impact of Covid-19<br><br>As a result of the Covid-19 pandemic, the original 2020/21 budget as set in February 2020 is now predicted to overspend by around £24.1 million. As at the end of June 2020, a forecast year-end gross overspend of £49.8m was being reported, where £32.6m is considered Covid-19 related and the balance of £17.2m is classified as service directorate pressures. The pressures are alleviated in part by additional government funding which is being received to provide some financial support to councils to undertake additional activities in recognition of the unplanned costs which have been incurred in responding to Covid-19. The amount received by the Council as at June 2020 totals £25.7m. Once applied to the gross spend projections, this has the effect of reducing the overall pressure down to £24.1m.<br><br>The Executive Management Team working with Directors as the Senior Leadership Team are taking action to ensure that the overspend is reduced to mitigate the likely need to draw down from reserves in 2020/21. These actions include but are not limited to:<br>• holding vacancies where possible and stronger controls on agency recruitment;<br>• ensuring costs are fully recharged and income collected;<br>• reviewing contractual commitments and pricing for the remainder of the year; and<br>• recognising where activity will be less than expected this year so costs are lower<br><br>Once delivered these actions are expected to reduce the non-Covid service variance of £17.2m noted above to £11.8m. These items are one-off in nature and are not considered to be permanent budget reductions but simply cost saving measures instigated during the year to manage down the overspend. From the outset of the pandemic the Council's executive leadership were acutely aware of the need to ensure that spend relating to the Covid-19 response was carefully monitored and recorded in a clear and transparent way within the Council's financial systems. The Council has established two separate cost centres within each directorate plus a central cost centre for capturing the direct and indirect Covid-19 costs. The Council is reporting monthly to MHCLG on both costs as well as income shortfalls and the Council's monthly budget monitoring has now been amended so that service budget reporting separately identifies Covid-19 pressures.<br><br>Central Government has partially recognised the challenges faced by local authorities in respect of Covid-19 and in March and April 2020 allocated two tranches of central funding which totalled £3.2 billion nationwide. On 2 August 2020 a further £500m funding for local authorities was announced as part of a new funding package for councils to address coronavirus pressures. The Council's share of this income amounted to £21.1 million. The Council has allocated the majority of this funding to Adults and Children Social Care, Housing and Public Health budgets. The Council's latest return (August 2020 return to MHCLG) reported a full year general fund impact Covid-19 cost of £27.5m and HRA impact of £0.3m and a total estimated general fund income loss of £32.1m and £0.7m to the HRA. This results in an overall general fund impact of £59.6m and HRA impact of £1m. Without further government support which has not yet been committed the Council will have to use its reserves to get through the immediate challenges. To date some positive sentiments have been expressed, but the hard financial commitments of the scale necessary to match the shortfalls have not yet been confirmed.<br><br>For 2020/21, the most significant areas of projected expenditure pressure relate to increased provision of Children's and Adults social care as a result of anticipated increased demand in these services as well as direct costs associated with response to the pandemic, including inception of the community support hub, acquisition of PPE, allocation of hardship funds and unachieved savings due to delays in implementation of service redesign initiatives. The key point to note is that the directorate overspending areas which, if not reduced in-year, consume reserves and add to future year savings requirements. In respect of income, the Council is forecasting a reduction of £10 million compared to budget for non collection fund income with the largest proportion being £2.6m reduced income from parking enforcement, £1.9m reduction in planning income and £2.0 million reduction in commercial income from rents. |

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>Risk is continued from previous page. | Collectability of both Council Tax and Business Rates is also expected to be significantly hindered as more residents and businesses are likely to face hardship as a result of the pandemic.<br><br>In addition, the Government has announced proposals to fund 75% of 95% of lost budgeted fees and charges income for local authorities, which can unavoidably not be recovered in 2020/21 and are not already offset by other support. The guidance provided by MHCLG makes clear however that this does not include investment income or commercial rents, and only covers income directly related to the provision of services.<br><br>Finally, the Government has also announced the re-phasing of repayments to meet Collection Fund deficits accrued in 2020/21 over three years rather than one. This will be beneficial to the Council in the short-term due to anticipated significant reductions in income, particularly relating to Business Rates in 2020/21. However, in terms of the Council's medium to long-term financial sustainability, this does not alleviate the impact as deficits will still need to be met from available resources by 2023/24.<br><br>The combination of Central Government interventions set out above will potentially reduce the forecast overspend for 2020/21 to £24.1 million, although this is still subject to finalisation and further uncertainty; for instance in the event of a second wave of the pandemic. The Council holds sufficient earmarked useable reserves to cover the remaining shortfalls, whilst maintaining its £20 million General Fund working balance. However excessive use of earmarked reserves would significantly alter the medium-term picture, capacity for investment in more sustainable service delivery models which officers are planning in order to enable them to realise improved outcomes for residents over the years to come, and capacity to manage the impact of any further unforeseen future events which may arise.<br><br>**Medium-term financial planning**<br><br>The Government's intention is to implement new funding baselines for all local authorities. The new baselines will be centred on a review of local needs and resources (the Fair Funding Review) and a review of business rates. However, due to the pandemic, the Government has announced that these changes will be further delayed. The funding changes were expected to include the main local government grant, the Revenue Support Grant being phased out, changes to the business rates regime and associated fair funding assumptions, additional responsibilities transferred to local authorities, the rolling-in of some specific grants, changes to school funding (formula and paid direct to schools), the continuing impact of the move to Universal Credit, and further health and social care integration. All of these therefore remain unresolved and uncertain at the current time. In consequence, the Council is setting its medium term financial plan in the midst of a global pandemic and without any clarity or certainty on the funding which it can expect to receive from government in future years. Further announcements with regards to Covid-19 funding, an autumn Budget by the Chancellor, clarity on the outcomes of the comprehensive spending review and a provisional local government finance settlement will all be key announcements expected later in the year which will hopefully reduce the levels of economic and financial uncertainty facing the Council.<br><br>In light of the extreme uncertainty surrounding government funding and the extraordinary in-year pressures it is incredibly challenging to set a medium term financial plan. The assumptions which this is based on will need to be tested and reviewed in light of future funding announcements and general economic forecasts. |

# Value for Money – Medium Term Financial Planning

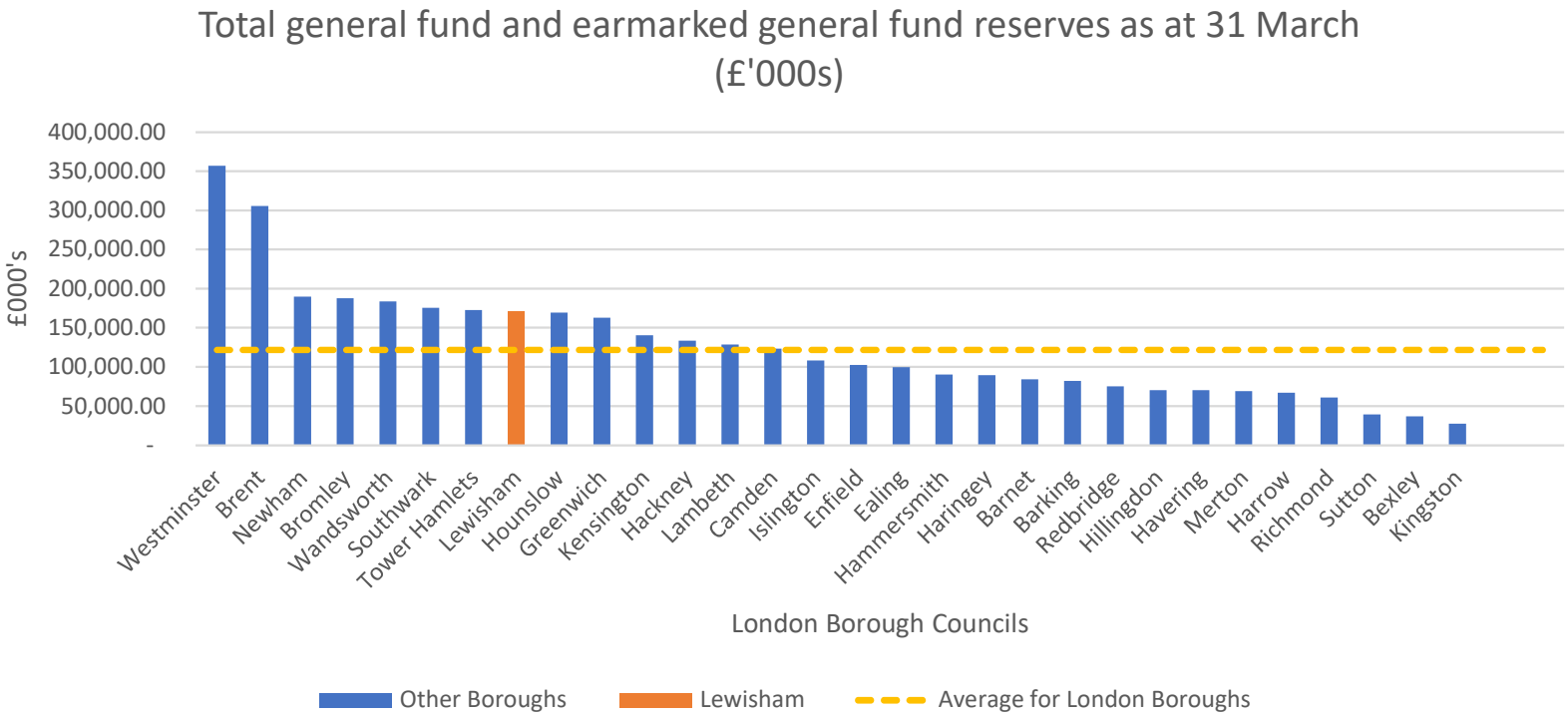
| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>Risk is continued from previous page. | The Council has undertaken a review of the Medium Term Financial Strategy (MTFS) in August 2020. The MTFS shows the annual measures required to bridge the budget gap from 2021/22 to 2024/25 as £24.440m, £12.084m, £11.510m, and £7.398m, respectively in each year. A total of £55m over the four years to 2024/25, with over £40m required in the first three years. The key assumptions in the modelling are:<br><br>• Rather than try and predict a new model of government funding, this MTFS extends the assumptions of the previous (2016 to 2020) four year funding approach, which was extended a further year to 2021.<br>• The forecast assumes the reforms and the business rates reset will be implemented from 2022-23. This has not been confirmed. For this reason, any assumptions beyond 2020 at this stage are officer assumptions, pending confirmation from government on funding allocations.<br>• The MTFS assumes a 1.99% increase in core Council Tax and 1.99% in each year thereafter. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2021/22 and beyond. In addition, the MTFS assumes a 0.75% average increase in the Council Tax base for the four year budget period, based on Planning Service's housing trajectory. In total over the period this will add approximately £14m to the Council Tax income base over the four year period to 2024/25.<br>• Pay awards of 2% per annum and general inflation estimated at 1.5% in 2021/22, rising to 2% by 2024/25.<br>• Fees and charges rise in line with inflation.<br>• Cost pressures from ageing and increased population and government policy are included within the MTFS at an annual provision of £6.5m.<br>• Assumes the Council's cash balances remain consistent.<br><br>The Council has also modelled an optimistic case to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 2024/25 reduces by approximately £7m to £48.5m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2024/25 increases by approximately £7m to £63m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens and the funding cuts are higher and Council Tax base and collection rates are lower than expected, and the future years impact of Covid-19 collection fund do not have support from government.<br><br>In respect of the future budget gap, officers have started work on identifying proposed cuts to meet the 2021/22 budget gap forecast in this MTFS of £24m and for future years where change will take longer to implement but decisions on direction of travel will be needed now to prepare. Sessions of the Senior Leadership Team (SLT), comprising the Chief Executive, Executive Directors and Directors, have taken place in the period June to July, working collaboratively to identify cross-cutting efficiencies and savings that can be implemented in future years. The approach to making the next round of necessary budget cuts is through cross-service collaboration to present ideas around a set of emerging themes (joint working, productivity from new ways of working, service reconfiguration, reducing overspending, release of assets, changes to traded services, better demand management, reducing scope of services, income generation and contract management) intended to focus on solutions and service configuration challenges that first and foremost support the external needs of the community and partners in line with the Council's corporate priorities. This will help avoid the risk of prioritising silo or internal considerations if done solely through management hierarchies. The process is also aimed at ensuring fairness and challenge against the Council's strategic priorities. Cutting over £40m, given most services (some 70% of services whether insourced or delivered under contract or with partners) are people based, may mean job losses. |

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>Risk is continued from previous page. | The themes have been reviewed by the Executive Management Team (EMT) who are also leading on scrutinising the budget to capture possible reductions to in-year spending. They will lead SLT in the work to develop the detailed draft officer proposals for savings to be put to Members for scrutiny and decision in the autumn. All services are part of this process. The objective is to identify savings in a manner that will support the Council's recovery from Covid-19 and transition to delivering future services within the available financial resources on a secure and sustainable basis. The next steps are for EMT to lead SLT, with the support of the change networks in the Council, to develop draft officer proposals. These will be presented to Members in November .<br><br>**Sustainability of reserves**<br><br>It is critical that management continue to look beyond the current crisis and maintain sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and begin to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control. At 31 March 2020 the Council's available reserves were £20m unallocated and £150m earmarked. Of these approximately £60m are available to finance overspends. However, it is important to note that using any of the £60m removes the Council's ability to address any future financial shocks and removes the resources to be able to make investments (e.g. digital, service design) and to meet the costs of change in terms of items such as redundancies. Therefore, any reserves used in addressing Covid-19 or the MTFS gaps should be planned to be replenished as soon as possible and within the period of the MTFS.<br><br>As at 31 March 2020, the Council held useable reserves both in terms of value and in terms of ratio to net revenue expenditure which was just above an average level for London Boroughs, as illustrated by graphs 1 and 2 in the following pages. |

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>Risk is continued from previous page. | Graph 1: total general fund and non-schools earmarked general fund reserves as at 31 March 2020 |



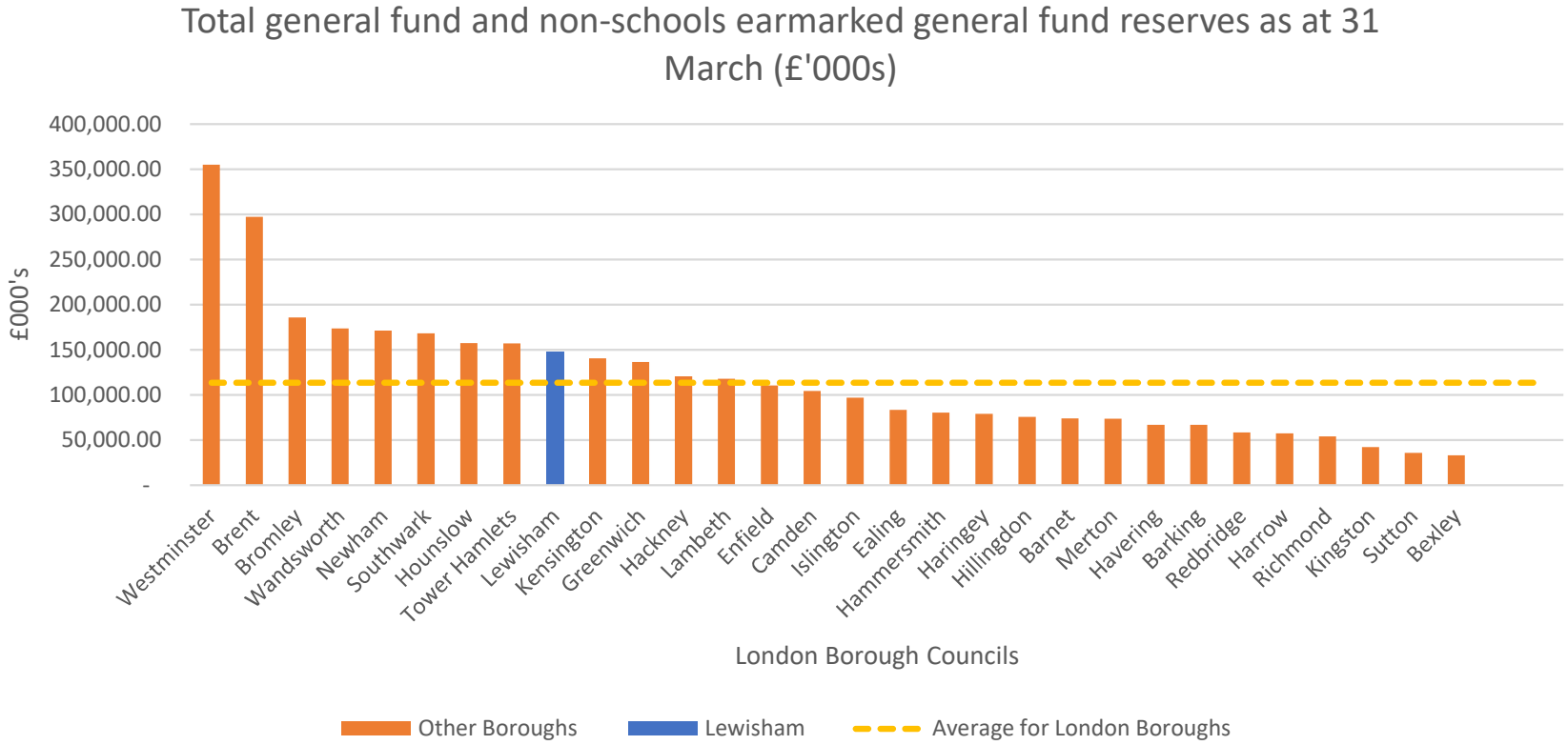

*Population: London Borough Councils which had published draft 2019/20 financial statements*

The Council has plans in place to utilise a significant proportion of its existent reserves over the medium term in accordance with the purposes for which the reserves were designed and funds were originally set aside.

For instance, the specific revenue earmarked reserve is used to fund projects which focuses on service redesign and transformation, with the aim to give rise to significant recurrent efficiencies as invest to save initiatives. The PFI and Building Schools for the Future reserves enable services to make revenue contributions towards their committed PFI and Building Schools for the Future schemes in future years. In addition the Council has a £16.5m reserve which consists of unused grant from central government. The grant is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. Use of the reserve is not ring-fenced.

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>Risk is continued from previous page. | Graph 2: General fund and non-schools earmarked reserves as a percentage of net service revenue expenditure as at 31 March 2020 |




*Population: London Boroughs which had published draft 2019/20 financial statements*

The Council has been able to manage within the parameters set by the Dedicated Schools Grant and has an underspend of £551k as at the year end. The cumulative revenue balances for schools at year-end, including external funds, amounted to £23.5m. However, it should be noted that there were 11 schools with licensed deficit budgets at the year end, totalling £3.8m. There are also eight schools with local authority loans with a total balance of £2.2m, four of which have licensed deficit budgets. Overall the net position for schools has reduced from £21.6m to £19.3m. All schools with deficits have a budget recovery plan and work will continue this year to ensure that plans are delivered and the future position is sustainable.

# Value for Money – Medium Term Financial Planning

| Significant risk | Findings and Conclusions |
|---|---|
| **Medium Term Financial Planning**<br><br>Risk is continued from previous page. | Whilst the Council appears to have a moderately healthy level of useable resources at its disposal, it is critical that members and officers do not become complacent or lose sight of the longer-term challenges in determining an appropriate response to the current crisis. Careful monitoring of realisation of anticipated benefits from change programmes and service transformation initiatives, which are planned to be invested in over the course of the MTFS, will be fundamental to enabling officers to revise and refresh the Council's financial strategy to ensure financial sustainability.<br><br>**Conclusion**<br><br>The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified.<br><br>The outturn position for 2019/20 is in line with expectations. Management have an understanding of the key drivers for income and expenditure relating to core services and their ability to understand the impact of decisions taken is improving. The Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic. The Council is not facing the kinds of immediately challenging decisions to stop delivering services or consider Section 114 notices which comparable local authorities may face.<br><br>In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remains a significant unknown. Management is conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves. |

# Value for Money – Cultural change

## Key findings

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

| Significant risk | Findings and Conclusions |
|---|---|
| Your new Chief Executive has spent her first few months listening to staff across the Council and has identified communication, IT, Inclusivity, People and Leadership as key areas of improvement for the Council. The Change Network has been tasked to develop the detail of programmes identifying "quick wins" and working up projects that will strengthen these key areas across the Council. Finally, you are currently in the process of realigning your directorate structure to better reflect your future service delivery models. | You have identified through staff surveys, Member and staff feedback and various focus groups that you need to increase your efforts to develop and embed a culture that encourages collaboration, creativity and leadership at all levels. Your staff play a critical role in the delivery of your Corporate Strategy and need to be clear on their purpose, priorities and objectives in order to maintain integrity, accountability and deliver better outcomes for your residents and service users.<br><br>You understand that there is a need to enhance your focus on understanding residents' perspectives and shaping your services around their needs. You need to develop your usage of technology to improve online self-serve options so residents can access and use your services at times and places that suit them making this the first choice for residents to interact with you. You will also need to consider that some of your most vulnerable residents and customers may not be able to make use of digital options, irrespective of quality, so you still need to ensure that other channels of communication, including the phone and face-to-face.<br><br>You realise that you need to stabilise and then improve your current ICT services as levels of performance and reliability remain variable. You need to take a firm grip on the current range of ICT-enabled change projects, ensuring resource implications and benefits are fully understood and realised. In undertaking this exercise you need to set expectations about what is realistic, affordable and deliverable with your existing systems and resources. We have raised in prior year Audit Findings Reports that you need to continue to improve the way you manage, monitor, deliver and evaluate your major projects and programmes, ensuring consistency of approach, modelling of good practice and sharing lessons learned. In particular management need a clear line of sight across the range of major projects and programmes in order to reduce duplication, clarify accountability, enable effective and timely reporting and provide assurance of delivery or intervention if projects start to fall behind on delivery. You have paused your approach and halted some of these programmes whilst you complete a thorough review of the existing governance and project management methodologies. You will also need to incorporate your review of service delivery throughout the pandemic to ensure that new ways of working that are delivering efficiencies are maintained with lessons learned and ideas for future delivery shared effectively across all services.<br><br>Along with this you continue to review and update governance processes with the aims of moving to a system that supports swift and effective decision making, where risks are understood and mitigated appropriately. You also need to rationalise internal processes and review structures in order to minimise the levels of bureaucracy and enable more efficient decision-making.<br><br>During the year you have refreshed an expanded and empowered Change Network together with launching your new staff-led programme of improvement based on the responses to the Listen to Learn initiative. Your Change Network is identifying "quick wins" across your areas of improvement. It is clear you are working hard to engage officers at all levels across the Council to develop and implement initiatives to ensure services are delivered efficiently with the resources available, and encourage investment and buy-in from key officers and budget holders.<br><br>You began to build momentum in developing some short term projects prior to the pandemic. It will be a challenge to ensure this momentum is maintained whilst you are still coping with the demands of the pandemic. You will need to retain new methods of working developed during the pandemic which have led to increases in efficiencies without a decline in service delivery. These opportunities will assist you with your delivery of your medium and long-term improvement programme. |

# Value for Money – Cultural change

### Key findings

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

| Significant risk | Findings and Conclusions |
|---|---|
| Risk is continued from previous page | As part of delivering your priorities going forward you have made some structural changes to the Council's senior leadership team. You have created five new Director posts, deleted eight Director posts and realigned some services to help you to focus on and deliver your Corporate Strategy at pace. These changes are aimed at creating a better critical mass of key services to be marshalled together, inject some capacity where it can have most impact and enable different approaches to be adopted, in order to tackle the key issues, so assisting the organisation to modernise and effectively deliver the corporate strategy swiftly.<br><br>This is a net reduction of 2.2 FTE posts from the 2nd tier of the organisation. There is a net annual revenue saving from the proposed deletion/creation of posts of £271,000, including on-costs. Any one-off costs, such as redundancy payments, arising as part of the 'managing for change' process will be borne corporately from provisions.<br><br>**Conclusion**<br><br>You have consulted with your staff and Members and are implementing the building blocks to assist with enhancing your culture and providing the time and space to enable collaboration, creativity and ideas that will assist with transforming your services. At the end of the year you have made structural changes in the leadership model to help to tackle your key issues, that will help the Council to modernise and to deliver your key objectives within the corporate strategy. Like all Councils you have been on the front line in responding to the challenges created by Covid-19. This has, not surprisingly, been the main focus over the last few months. It will be important to ensure that momentum is maintained throughout the pandemic so that the quick wins are implemented and structures and governance arrangements are finalised that will help to modernise the Council. It is important that you continue to communicate your progress to your staff and key stakeholders so that they can see that their ideas and plans are being actioned and are making a difference to service delivery. |

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed in Appendix D

# Independence and ethics

### Audit-related and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Agreed upon procedures relating to pooling of housing capital receipts (Council) | 5,000 | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £182,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.<br>To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports. |
| Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council) | 6,500 | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,500 in comparison to the total fee for the audit of £182,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.<br>To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports. |
| Certification of Housing Benefit Subsidy Claim (Council) | 30,370 | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £30,370 in comparison to the total fee for the audit of £182,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.<br>To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports. |

# Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| High | The draft financial statements provided for audit continued to contain more misstatements than expected. A robust management review may have identified and corrected some of these misstatements prior to submission for audit. | Ensure that sufficient time is built into your closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. |
| Medium | The Council did not request their external valuers to undertake a valuation of all their surplus assets in accordance with International Financial Reporting Standards | Check that the instructions given to your external valuers are in line with the accounting standards. |
| Medium | Our sample cut off testing from bank statements in April and May 2020 identified 4 expenditure items totalling £175k that related to 2019/20 that had not been accrued. This error extrapolated to £1,811k.<br>Similarly our sample testing of invoices received in April and May 2020 identified expenditure items totalling £346k that related to 2019/20 that had not been accrued. We extended our testing and did not find any more errors. This error extrapolated to £4,842k.<br>Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates. | All officers of the Council need to be reminded of the importance of coding expenditure to the year in which it relates. Review processes need to be enhanced to identify any potential unrecorded liabilities. |
| Medium | The Council requires Members to declare any interests at the beginning of meetings and to update their declarations if there are changes to their existing circumstances.<br>These declarations are held in a central database and the Council's website updated accordingly. However, the Council does not have in place an annual declaration form for Members to complete as part of the accounts process.<br>There is a risk that related party disclosures could be missed | All Members should be required to complete a year end declaration of interest form. Nil returns should be mandatory. |



**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| High | Our testing of IT General Controls identified the following findings which have been reported in detail to management:<br>• System Administrator accounts with excessive elevated business responsibilities<br>• End-users with critical IT privileges within Oracle<br>• Lack of defined IT processes for Oracle Fusion<br>• Minimal password security within Oracle<br>• Audit logging is not proactively monitored within Oracle<br>• Lack of Periodic Third-Party Service Assurance Report Review for Oracle, ResourceLink and Academy<br>• End-users, IT managers and leavers with Security Administration Rights within Academy, ResourceLink and Active Directory<br>• Periodic Employee Acknowledgement of Infosec Policy Requirements<br>• Removing Leavers' Access Rights within Academy and Active Directory<br>• Inadequate Minimum Password Length Enforcement within ResourceLink<br>• Lack of Policies, Processes and Security for Batch Processing | Management should implement the recommendations raised in the IT General controls report |
| Medium | Brief explanations are provided within reports, explaining reasons why individual savings programmes have not delivered. The reports would be further enhanced by explaining the action the Council is taking to bring the savings back on track and highlighting progress of alternative programmes to mitigate the under-delivery. | Explain in savings monitoring reports action the Council is taking to bring under performing savings programmes back on trach and the progress of alternative programmes which are mitigating the under-delivery. |
| Medium | A third of the proposed savings were not delivered. This indicates potential weaknesses in the arrangements for identifying suitable and realistic savings schemes and / or arrangements for ensuring effective implementation.<br><br>The need to understand the reason for under delivery is particularly important given the increased savings requirements built into your future financial plans. | Review processes for identifying suitable savings schemes and ensuring proposals are appropriately scrutinised, risk rated and achievable.<br><br>Review processes for effective implementation of approved savings schemes to ensure they can be implemented effectively and within the agreed timescales. |

**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of your 2018/19 financial statements, which resulted in 7 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note 4 are still to be completed.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | The draft financial statements provided for audit contained more misstatements than previous years. A robust management review may have identified and corrected some of these misstatements prior to submission for audit. | We are continuing to identify a high amount of errors in the financial statements. There was limited evidence that senior management had undertaken a robust review of the draft financial statements prior to them being provided to audit.<br>We have re-raised this recommendation in Appendix A. |
| ✓ | You were unable to reconcile your general ledger to your fixed asset register. There is a risk that your assets could be materially misstated. Good practice is that this reconciliation should take place on at least a quarterly basis. | The Council provided a reconciliation between the fixed asset register and the general ledger. |
| ✓ | Responses to queries throughout the audit were generally not provided on a timely basis. This has a significant impact on the ability to progress the audit on a timely basis and carries increased costs for you. Obtaining information from the wider organisation has been difficult and external audit requests have not always been prioritised. Your finance team has been extremely supportive in seeking to overcome these issues, and have sought to expedite and resolve audit queries with the wider organisation, working in partnership with us. However, when information is requested from other departments, we encounter significant delays. | There has been an improvement in the timeliness of audit responses throughout the wider organisation during the post statements audit. This is despite the challenges of working remotely during the pandemic. |
| ✓ | Your financial reporting on the progress of delivery of savings does not give sufficient explanations of the underlying causal factors which prevented the savings from being delivered. | A savings tracker is now contained in the monthly financial monitoring report presented to the Executive Management Team and quarterly to the Public Accounts Select Committee and Mayor and Cabinet. |
| X | Our sample cut off testing from bank statements in April and May 2019 identified expenditure of £97k that related to the 2018/19 year, but the expenditure had not been accrued. The extrapolated error mounts to £378k.<br>Similarly our sample testing of invoices received in April and May 2019 identified £37k of expenditure that related to 2018/19 that had not been accrued. This error extrapolated to £494k.<br>Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates | Our testing continues to identify cut off errors. This year the errors are larger than the previous year.<br>We have re-raised this recommendation in Appendix A. |

**Assessment**

✓ Action completed

X Not yet addressed

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | The Council requires Members to declare any interests at the beginning of meetings and to update their declarations if there are changes to their existing circumstances. These declarations are held in a central database and the Council's website updated accordingly. However, the Council does not have in place an annual declaration form for Members to complete as part of the accounts process.<br>There is a risk that related party disclosures could be missed | An annual declaration has not been performed in 2019-20.<br>We have re-raised this recommendation in Appendix A. |
| X | Our testing of IT General Controls identified the following findings which have been reported in detail to management:<br>• Excessive privileges assigned to default accounts in Oracle<br>• Generic accounts inadequately controlled<br>• Not all key areas are subject to audit logging. Audit logs for high risk areas and key database tables need to be periodically reviewed<br>• There are 11 users who can access SQL forms which could potentially be used for changing bank details and passwords<br>• There are 36 accounts where the password has not been updated for 45 days in line with the policy<br>• A review of users that have unsegregated access across end to end processes<br>• Active Directory user passwords are encrypted rather than hashed making them easily decrypted | We have identified several similar IT General controls issues and we have reported these within Appendix A. |



**Assessment**

✓ Action completed

X Not yet addressed

# Audit adjustments

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

**Impact of adjusted misstatements**

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

| Detail | CIES £'000 | Balance Sheet £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| The Council had not obtained a 31 March 2020 year end valuation for all its surplus assets as required by International Financial Reporting Standards. The Council has since obtained a valuation for those surplus assets that had not been revalued. The financial statements will need updating for these assets. The Council has calculated the potential change to the Net Book Value of assets is an increase of £25,115k. | Nil | Dr Surplus Assets<br>25,115<br>Cr revaluation reserve<br>25,115 | Nil |
| The pension disclosures within the financial statements were prepared using the actuaries estimate of the 31 March 2020 investment balances which were calculated prior to the year end. Due to Covid-19, there was a significant difference between the estimated value of the investment balances and the subsequent actual year end value. The Council obtained an updated IAS19 report from their actuary to reflect the year end actual balances. The total change was an increase in the net pensions Liability of £7,391k | Dr Remeasurement of the net defined benefit liability<br>7,391 | Dr Liability related to defined benefit pension scheme<br>7,391<br>Cr Pensions Reserve<br>7,391 | Nil |
| Our testing of the floor area data used in the valuation of the 3 modern schools identified a variance between the floor areas used for these schools as per the valuer workbooks and the floor plans. This error resulted in an overall reduction of the valuations of £11.,519k. | Nil | Cr Property Plant and Equipment Land and buildings<br>11,519<br>Dr Revaluation Reserve<br>11,519 | Nil |
| Testing identified that Lee Green Depot valuation of £1.3m was omitted from the valuation report and Wearside depot the valuation of £188,420 should have been £1,888,420. Total amendment £3,010k | Nil | Dr Property Plant and Equipment Land and buildings<br>3,010<br>Cr Revaluation Reserve<br>3,010 | |

# Audit adjustments continued

.

| Detail | CIES £'000 | Balance Sheet £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| Three school blocks of a combined value of £1.5m had not been included within the revaluation report | | Dr Property Plant and Equipment Land and buildings<br>1,521<br>Cr Revaluation Reserve<br>1,521 | |
| **Overall impact** | **7,391** | **Net 10,736** | **Nil** |

# Audit adjustments

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

| Disclosure amendment | Detail | Adjusted? |
|---|---|---|
| Note 27c Exit packages agreed in the year | The Exit packages Note 27c was prepared using details from the pensions system. However, this missed some of the exit packages paid in the year. The Council has since redrafted the note from data from the payroll system. The note has been amended. | ✓ |
| Note 10b accumulated depreciation bought forward | The bought forward accumulative depreciation of £95,535k is incorrect and should be £103,028k and agree to last year. The Council has made a casting error. The total bought forward accumulated depreciation has been amended. | ✓ |
| Note 3 to Collection Fund | The Council had re-stated the previous year audited Non Domestic Rates Surplus balances. The adjustment was below materiality levels and should not have been made. The Council has made the adjustment. | ✓ |
| Note 4 to Collection Fund | There was a misclassification error between the Gross Council Tax due and the adjustment to Council tax charge of £677,052k. The Council has amended the note to state Gross Council Tax income of £185,318k and adjustments to charge of £1,036k. | ✓ |
| Note 5 to Collection Fund | The business rates multiplier had not been updated for 2019/20. The multipliers for 2019/20 need amending to 50.4p standard rate and 49.1p small business rate. | ✓ |
| Note 5 to Collection Fund | The prior year comparators for Gross NDR Collectable, Mandatory Relief and Discretionary were the 2017/18 values rather than the 2018/19 audited values. The Council has amended the note. | ✓ |
| Note 29b Disclosure of Senior Employees Remuneration for financial year. | The disclosure note relating to the Director for Children and Young People stated the post was covered by an interim from 01-Jan-20 to 31-Mar-20. However, our review of invoices shows the director worked 2 days in December 2019. The total payment was correct. The Council has updated the disclosure note. | ✓ |
| Note 28 External Audit costs – Certification of Grant claims and Returns | We identified that the £5k external audit fee for pooling of housing and capital receipts was not included within Note 28. The Council have agreed to amend the note to adjust the figure in the note for Grant claims and return fees from £37k to £42k. | ✓ |
| Note 12 Financial instruments | The Council had made some minor changes to the 2018/19 balances which meant that they did not agree to the audited accounts. The Council has now re-stated these balances. | ✓ |
| Note 12 Financial instruments | The Investment balance in note 12 of £381,982k did not agree to supporting working papers and the accrued interest was double counted. The investment balance needs updating to £381,437k. | ✓ |

# Audit adjustments – Council

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

| Disclosure amendment | Detail | Adjusted? |
|---|---|---|
| HRA Note 8 HRA outstanding Debt | The note needed the comparator balance of £57.5m | ✓ |
| Note 33b Council as a lessor | The Lessors schedule included leases that relate to the Council's subsidiary Catford Regeneration Partnership Limited and should therefore not be included within this note. The Council has agreed to amend the note. | ✓ |
| Note 35 Capital Commitments | The note needed a comparator of £19.7m | ✓ |
| Note 2 Accounting standards issued, not adopted in the 2019/20 accounts | The Council had disclosed the potential impact of implementation of the new leases standard was that the current annual charge to the CIES of £1.5m will increase slightly to £1.6m, and the Existing Use Value of the leases would add approximately £20m to the balance sheet. However, the Council are at an early stage with this work and cant fully substantiate these figures so they have since been removed. | ✓ |
| Note 4 Assumptions made about the future and other major sources of estimation uncertainty | An additional disclosure was added to reflect material valuation uncertainties relating to property, private equity, infrastructure and private debt held by the Pension Fund as these impact upon the net defined benefit liability in the Council's balance sheet. | ✓ |
| Note 31b – Related Party transactions | Note 31b - related parties subsidiaries associated companies, expenditure, income, debtor and creditor balances to be revised to agree to disclosures in the group accounts. | ✓ |
| Note 10b classification | PPE Opening balances: Requested amendment of classification of incorrectly classified vehicles, plant and equipment with NBV of £1,601 811 | ✓ |
| Group accounts | A Covid-19 note to be included within the group accounts relating to valuation and potential material uncertainty | ✓ |
| Other presentational and disclosure issues | You have also agreed to amend all other minor and presentational issues highlighted in the audit. | ✓ |

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2018/19 financial statements were made during the audit.

# Audit adjustments – Council

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below

| Detail | CIES £'000 | Balance Sheet £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| Our sample cut off testing from bank statements in April and May 2020 identified 4 expenditure items totalling £175k that related to 2019/20 that had not been accrued. This error extrapolated to £1,811k.<br><br>Similarly our sample testing of invoices received in April and May 2020 identified expenditure items totalling £346k that related to 2019/20 that had not been accrued. We extended our testing and did not find any more errors. This error extrapolated to £4,842k. | Dr Net Cost of Services<br>6,653 | Cr Creditors<br>6,653 | Increase expenditure of 6,653 | This is an extrapolated error of £6,653k which is not material and so management have taken the decision not to adjust the financial statements. |
| Our sample testing of creditor balances identified one item of £9k that had incorrectly included VAT; thus the creditors balance was overstated. This error extrapolated to £167k | Cr Net Cost of services<br>167 | Dr Creditors<br>167 | Reduction of expenditure 167 | This is an extrapolated error of £9k which is not material and so management have taken the decision not to adjust the financial statements. |

# Fees

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

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Council Audit | £182,789 | £TBC |
| **Total audit fees (excluding VAT)** | **£182,789** | **£TBC** |

The proposed fees reconcile to the financial statements. Final fees will be confirmed at the conclusion of the audit.

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services: | | |
| • housing benefit subsidy claim | 30,370 | TBC |
| • Pooling housing capital receipts grant | 5,000 | TBC |
| • Teachers' pensions end of year certificate | 6,500 | TBC |
| **Total non- audit fees (excluding VAT)** | **£41,870** | **TBC** |

# Audit opinion

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

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

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Housing Revenue Account Movement in Reserves statement, the Collection Fund Revenue Account, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

# Audit opinion

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Director of Corporate Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

### Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and pension fund investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property, infrastructure, private equity, and private debt investments] as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's valuation reports. Our opinion is not modified in respect of this matter.

### Other information

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the Authority and group financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# Audit opinion

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

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.



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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts , 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 Director of Corporate Resources . The Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

# Audit opinion

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Responsibilities of the Authority

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



### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Grant Thornton

# The Audit Findings for London Borough of Lewisham Council Pension Fund



**Year ended 31 March 2020**

**October 2020**

# Contents

**Your key Grant Thornton team members are:**

Paul Grady
Key Audit Partner
T: 020 7728 2301
E: paul.d.grady@uk.gt.com

Paul Jacklin
Senior Manager
T: 020 7728 3263
E: paul.j.jacklin@uk.gt.com

Lakshmi Forster
Assistant Manager
T: 020 7728 3193
E: lakshmi.forster@uk.gt.com

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

| | | |
|---|---|---|
| **Covid-19** | The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund including remote working and challenges with the valuation of year end investments. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.<br><br>The Pension Fund were able to provide us with financial statements on the 29 June 2020 in advance of the deadline. | We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 16 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.<br><br>Throughout March and April 2020 we held regular meetings with your key finance staff to discuss the impact of Covid-19 on the Pension Fund. We also discussed the financial implications in terms of Investment valuations and going concern. This assisted you in complying with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20.<br><br>The Pension Fund finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel has meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports ensuing we got assurance over the completeness and accuracy of information produced by the Pension Fund. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible. |

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

# Headlines

| | | |
|---|---|---|
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:<br>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. | Our audit work was completed remotely during July and August 2020. Our findings are summarised on pages 5 to 14. We have identified the following adjustment that impacts on the financial position of the pension fund.<br>• Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration impact on Covid 19. The valuations of the Harbourvest investments had fallen by £2,059k from the balance disclosed in the draft financial statements. Management have agreed the to adjust the pension fund financial statements.<br>Audit adjustments are detailed in Appendix B.<br>Our audit identified that the current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant manual adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.<br>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix D, subject to the following outstanding matters;<br>• receipt of management representation letter;<br>• updated cash flow forecast to November 2021;<br>• review of the Pension Fund Annual Report;<br>• review of the final set of financial statements; and<br>• final manager and engagement lead review<br>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 in the valuation of Pension Fund Private Equity investments held by Harbourvest, Infrastructure investments held by JP Morgan Infrastructure and Property Investments held by Schroders. The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty. |



**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

### Overview of the scope of our audit

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

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



### Audit approach

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

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

We have had to alter our audit plan, as communicated to you on 12 March 2020, to reflect our response to the Covid-19 pandemic. We were able to undertake our testing on the Pension Fund remotely as we had planned.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved and the completion of outstanding points set out on page 4, we anticipate issuing an unqualified audit opinion following the Audit Panel meeting in November 2020, as detailed in Appendix D.

### Our approach to materiality

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

| | Pension Fund (£) |
|---|---|
| Materiality for the financial statements | 13,000,000 |
| Performance materiality | 9,100,000 |
| Trivial matters | 650,000 |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Covid–19**<br><br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;<br><br>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation.<br>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates.<br>• For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.<br>• Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.<br><br>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have undertaken the following work in relation to this risk:<br><br>• worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 29 June 2020;<br>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;<br>• evaluated whether sufficient audit evidence could be obtained through remote technology;<br>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the investment valuations;<br>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and<br>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.<br><br>We were able to gain appropriate audit evidence through working remotely and the pensions team provided timely responses to audit queries. Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Private Equity, Infrastructure and Property investments.<br><br>The material uncertainty impacts on Private Equity investments held by Harbourvest (£46.0m), Infrastructure investments held by JP Morgan Infrastructure (£77.7m), Private Debt held be Pemberton (£34.9m) and Property investments held by Schroders (£106.3m).<br><br>The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Fraudulent revenue and expenditure recognition** | Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition.<br>• Opportunities to manipulate revenue recognition are very limited.<br>• The culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable.<br>Therefore, we do not consider this to be a significant risk for the Fund.<br><br>In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following:<br>• The staff preparing and approving the accounts are consistent with those in previous years.<br>• There have been no changes in accounting processes and controls in the year.<br>• There have been no significant unexplained movements in funding position.<br>• There have been no changes in the methodology for calculation of estimates.<br>• There have been no instances of adjustments being posted by a senior finance officer without independent authorisation. |
| **Management override of controls** | We have undertaken the following work in relation to this risk:<br>• review of entity controls;<br>• review of accounting estimates, judgements and decisions made by management; and<br>• review of unusual significant transactions<br><br>Our audit work has not identified any material issues in respect of management override of controls, subject to the satisfactory completion of outstanding work set out on page 4. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **The valuation of Level 3 investments is incorrect**<br><br>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.<br><br>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£119 million) and the sensitivity of this estimate to changes in key assumptions<br><br>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.<br><br>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. | **Auditor commentary**<br><br>We have undertaken the following work in relation to this risk:<br>• gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;<br>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment;<br>• obtained audited financial statements for all the Harbourvest Private Equity Funds (December 2019) and JP Mogan Infrastructure Fund (December 2019) and compared the audited fund valuation with the Fund Manager capital statements at the same period. We checked any cash movements between December 2019 and March 2020;<br>• considered the competence, expertise and objectivity of any management experts used; and<br>• verified the investment balances to the fund manager and custodian reports.<br><br>Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration the impact of Covid 19 on the year end position. The valuation of the Harbourvest investments has fallen by £2,059k. The Fund has agreed to make the appropriate adjustment.<br><br>Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Private Equity and Infrastructure investments.<br><br>The material uncertainty impacts on private equity investments held by Harbourvest £46.0m and Infrastructure assets of £77.7m held by JP Morgan Infrastructure.<br><br>The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty.<br><br>Subject to the satisfactory completion of outstanding matters set out on page 4, we have not identified any other material issues we need to report to you. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Actuarial Present Value of Promised Retirement Benefits**<br><br>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.<br><br>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2 billion) and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement. | **Auditor commentary**<br><br>We have undertaken the following work in relation to this risk:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated;<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation;<br>• assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;<br>• tested the consistency of disclosures with the actuarial report from the actuary; and<br>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.<br><br>Subject to the satisfactory completion of outstanding matters set out on page 4, we have not identified any other material issues we need to report to you. |
| **Valuation of Level 2 Investments**<br>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.<br><br>We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement. | **Auditor commentary**<br><br>We have undertaken the following work in relation to this risk:<br>• gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;<br>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments;<br>• reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances;<br>• independently obtained year-end confirmations from investment managers and custodian; and<br>• reviewed investment manager service auditor report on design effectiveness of internal controls.<br><br>Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of property and private debt investments.<br><br>Subject to the satisfactory completion of outstanding matters set out on page 4, we have not identified any other material issues we need to report to you. |

# Significant findings – going concern

### Our responsibility

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

| Going concern commentary | Auditor commentary |
|---|---|
| **Management's assessment process**<br>Management have reviewed the Fund’s funding position and cash flows | • The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.<br>• There is no plan by the Ministry of Housing, Communities and Local Government to wind up the London Borough of Lewisham Council Pension Scheme.<br>• The Pension Fund continues to operate as usual in 2020/21. Contributions and investment income continue to be received as expected. |
| **Work performed**<br>Detail audit work performed on management’s assessment | **Auditor commentary**<br>• We have reviewed management’s assessment that the financial statements are prepared on a going concern basis.<br>• We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2019 also demonstrated an improvement in the funding level to 90%.<br>• The cash flow forecast demonstrates that the fund will be able to continue to pay pensions as and when they fall due.<br>• We note that he fund continues to operate as usual. |
| **Concluding comments** | **Auditor commentary**<br>• We have considered management’s assessment and agree it is appropriate that the Pension Fund Financial Statements are prepared on a Going Concern basis. |

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Level 3 investments** | The Pension Fund contains Private Equity Investments<br><br>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements.<br><br>These investments are traded on an open exchange/market, but the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management have reviewed the fund manager statements and year end audited financial accounts dated 31 December 2019.<br><br>The value of the Private Equity investments held by Harbourvest Fund Managers is £46m. | Harbourvest– Private Equity Fund<br><br>• The Harbourvest Private Equity Funds are investments in limited partnerships or other pooled investment vehicles which, in turn, make private equity investments ("Partnership Investments") and to invest directly in private equity investments ("Direct Investments") primarily in venture capital, growth equity and other private equity transactions across the globe. 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.<br>• All the Harbourvest audited accounts as at 31 December 2019 were reviewed and they were unqualified.<br>• We have compared the audited financial statements as at 31 December with the capital statement at the same date which identified only trivial differences. This gives us assurance that the estimation techniques are appropriate.<br>• We reviewed the Harbourvest capital statement as at 31 March 2020 and obtained explanation for the movement in valuations which is caused by combination of drawdowns plus the impact of Covid-19.<br>• We are satisfied that the estimate is fairly stated. The accounting policies are reasonable and the disclosures within the financial statements are appropriate.<br>• Subsequent to receipt of the draft financial statements. The Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration the impact on Covid 19. The valuations of the Harbourvest investments has fallen by £2,059k. The Fund has agreed to make the appropriate adjustment.<br><br>We are therefore satisfied that the estimate of the Habourvest valuation is materially fairly stated. | ● Green |



**Assessment**

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

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Level 3 investments** | The Pension Fund contains investments in JP Morgan Infrastructure Fund £77.7m<br><br>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements dated 31 December 2019..<br><br>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management | JP Morgan Infrastructure Fund<br>• The purpose of the Fund is to invest in a broad range of infrastructure and infrastructure-related assets. These asset include toll roads, bridges, tunnels, oil and gas pipelines, electricity transmission and distribution facilities, contracted power generation assets, water distribution and wastewater collection and processing assets, railway lines and rapid transit links, seaports and airports. The investment in the Holding Companies consists of nonmarketable, limited partnership interests and is reported on the statements of assets and liabilities at estimated fair value. The cost basis increases and decreases through contributions and distributions, respectively, from the Holding Companies as well as through the Fund's share of undistributed earnings.<br>• JP Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice.<br>• The JP Morgan Infrastructure audited accounts as at 31 December 2019 were reviewed and they were unqualified.<br>• We have compared the audited financial statements as at 31 December with the capital statement at the same date which identified a trivial difference. This gives us assurance that the estimation techniques are appropriate.<br>• We reviewed the JP Morgan capital statement as at 31 March 2020 and noted that there had only been a trivial movement since December 2019.<br>• We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations and other infrastructure funds.<br>We are therefore satisfied that the estimate of the JP Morgan valuation is materially fairly stated. |  <br>**Green** |



**Assessment**

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

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Level 2 investment in pooled property** | The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds.<br>The underlying investments are traded on an open exchange/market although the pooled valuation of the investment is subjective.<br>The Fund obtains valuations from the fund manager and an independent confirmation from the custodian to ensure that valuations are materially fairly stated. | • We have reviewed the estimation process for the Level 2 investments and are satisfied that these are in line with industry standards.<br>• We have compared the valuations provided by the fund managers with the custodian and are satisfied that there are no significant differences in the valuations.<br>• The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the Fund has exposure are located in the UK. They are valued in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).<br>• We focussed our attention on the pooled property fund with Schroders. The external valuers have stated that "As at 31st March 2020, RICS (Royal Institute of Chartered Surveyors) have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions". The Fund has disclosed the material uncertainty caused by Covid-19 within the accounting policies (sources of estimation uncertainty section) pension fund financial statements. We have requested the Council to enhance the note in line with best practice we have identified. We have included an emphasis of matter in relation to the uncertainty in valuation of property investments resulting from Covid-19 within our audit opinion.<br>We are satisfied that the estimate of Level 2 investments valuation is materially fairly stated. | Green |



**Assessment**

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

# Other matters for communication

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

| Issue | Auditor commentary |
|---|---|
| **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed. |
| **Matters in relation to laws and regulations** | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| **Written representations** | A letter of representation has been requested from the Pension Fund, which is included in the Audit Panel papers. |
| **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received responses from all third parties. |
| **Disclosures** | Our review found no material omissions. We have requested the fund to strengthen the material uncertainty note in relation to the impact of Covid 19 on property, infrastructure, private equity and private debt investment valuations. |
| **Audit evidence and explanations/significant difficulties** | All information and explanations requested from management was provided. |
| **Matters on which we report by exception** | We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are yet to receive the Pension Fund Annual Report. |

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. No non-audit services were identified which were charged relating to the 2019-20 financial year

Details of fees charged are detailed in Appendix C

# Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur. | Management should reconfigure the ledger so that it is in line with external reporting and minimizes (or eliminates) the need for manual adjustments.<br>**Management response** |



**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Audit adjustments

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

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020. All non trivial misstatements have been adjusted by management.

| Detail | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 |
|---|---|---|---|
| Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration impact on Covid 19. The valuations of the Harbourvest investments had fallen by £2,059k from the balance disclosed in the draft financial statements. Management have agreed the adjust the financial statements. | Debit Change in market value of investments 2,059 | Credit Other assets 2,059 | Reduces the total net assets by 2,059 |
| **Overall impact** | **£2,059** | **£2,059** | **£2,059** |



### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management have agreed to amend in the final set of financial statements.

| Disclosure omission | Detail | Auditor recommendations | Adjustment agreed? |
|---|---|---|---|
| Estimation uncertainty note | The Fund needs to strengthen the material uncertainty resulting from Covid-19 on the private equity, infrastructure and property valuations. | Management has agreed to make the required adjustment. | ✓ |
| Note 1 Contributions received | The Fund had not separately disclosed the deficit funding contributions from normal employer contributions. The Fund has now separately disclosed the £701k deficit contributions. | Management has agreed to make the required adjustment. | ✓ |
| Note 2 Benefits paid | The Benefits paid split by Authority was not completed in the draft financial statements. The Fund has now updated the note. | Management has agreed to make the required adjustment. | ✓ |
| Note 17 Membership numbers | The Fund entered the incorrect parameters to run the 31 March 2020 Membership data. The correct report has since been run and the Membership numbers have been updated by the Fund | Management has agreed to make the required adjustment. | ✓ |

# Audit adjustments

**Disclosure changes continued**.

| Disclosure omission | Detail | Auditor recommendations | Adjustment agreed? |
|---|---|---|---|
| External Audit Fee | The External audit fee needed to be updated to the fee of £25k | Management has agreed to make the required adjustment. | ✓ |
| Other presentational and disclosure issues | The Fund have also amended all other minor and presentational issues highlighted in the audit. | Management have agreed to make the required amendments | ✓ |

# Fees

We confirm below our final fees charged for the audit.

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Pension Fund | 25,000 | TBC |

The proposed fees reconcile to the financial statements. The final fee will be determined at the conclusion of the audit.

There are no fees for non-audit or audited related services have been undertaken for the Pension Fund.

# Audit opinion

**We anticipate we will provide the Pension Fund with an unmodified audit report**

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

### Opinion

We have audited the financial statements of London Borough of Lewisham Pension Fund (the 'pension fund') administered by the London Borough of Lewisham (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Acting Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Acting Chief Finance Officer use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Acting Chief Finance Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

# Audit opinion

In our evaluation of the Acting Chief Finance Officer conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.



**Emphasis of Matter - effects of Covid-19 on the valuation of property and infrastructure investments**

We draw attention to Note W of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's private equity, infrastructure and property investments as at 31 March 2020. As, disclosed in note W to the financial statements, the ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund private equity, property and infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. A material valuation uncertainty was therefore disclosed in the pension fund's property and infrastructure valuation reports. Our opinion is not modified in respect of this matter.

**Other information**

The Acting Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, [the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

# Audit opinion

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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 Acting Chief Finance Officer. Acting Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Acting Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director – Finance and Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.
Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

X November 2020

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

25 November 2020

Dear Sirs

**London Borough of Lewisham**
**Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham and its subsidiary undertakings, Lewisham Homes Limited and Catford Regeneration Partnership Limited for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and ]Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in the Consolidated Income and Expenditure Statement, notes, 12, 32 and 34 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. We have reviewed the Valuer's Report that has included the "material valuation uncertainty" over the valuation of the Council's Property Plant and Equipment caused by the Covid 19 pandemic. The Council has appropriately reflected the disclosure in the Valuers report within the sources of estimation uncertainty section in the financial statements.

xvii. We have reviewed the Fund managers reports that have includec "material valuation uncertainty" over the valuation of pension fund investments in property, infrastructure, private equity and private debt. The Council has appropriately reflected the disclosures within the sources of estimation uncertainty section in the financial statements.

**Information Provided**

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council’s Audit Panel at its meeting on 4 November 2020

Yours faithfully

Name……

Position…….

Date…….

Name……

Position…….

Date…….

**Signed on behalf of the Council**

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

25 November 2020

Dear Sirs

**London Borough of Lewisham Pension Fund**
**Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Fund has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. The prior period adjustments disclosed in Note 6 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xv. We have reviewed the Fund managers reports that have includec "material valuation uncertainty" over the valuation of pension fund investments in property, infrastructure, private equity and private debt. The Fund has appropriately reflected the disclosures within the sources of estimation uncertainty section in the financial statements.

**Information Provided**

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty

xxiv. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Fund's Audit Panel at its meeting on 4 November 2020.

Yours faithfully

Name……

Position…….

Date…….

Name……

Position…….

Date…….

**Signed on behalf of the council as the Adminstering Authority for the Fund**

# LONDON BOROUGH OF LEWISHAM

## POST AUDIT STATEMENT OF ACCOUNTS 2019/ 2020

# LONDON BOROUGH OF LEWISHAM

# 2019/ 2020 POST AUDIT STATEMENT OF ACCOUNTS

# CONTENTS

## INDEX OF SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

# NARRATIVE STATEMENT BY THE DIRECTOR OF CORPORATE RESOURCES

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

## 1. COUNCIL STRUCTURE AND PERFORMANCE

### a) Corporate structure and governance

Lewisham Council is made up of one Mayor, elected by the whole borough, and 54 ward councillors, three elected by each of the 18 wards within the borough. The Mayor is Labour and there were 53 Labour councillors and 1 Independent as at 31 March 2020. Details of the way that the Council governs itself are given in the Annual Governance Statement in section 9 of these accounts.

### b) Management structure

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

- Chief Executive
- Executive Director Children and Young People
- Executive Director Community Services
- Executive Director Housing, Regeneration and Environment
- Executive Director Corporate Services

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

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

### c) Service delivery

Including teachers, Lewisham employs some 5,600 full-time equivalent staff to deliver services.
The demographic composition of the workforce as at 31 March 2020 was:

- 59.63% female
- 44.70% BAME
- 3.75% disabled
- an average age of 47.8

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

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

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

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

**d) The Council's vision**

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

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

**e) Corporate priorities in achieving the vision**

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

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

**f) Core values**

The Council also has the following four core values:

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

**g) Performance management**

In 2019/20 reports from the four directorates have been periodically presented at the directorate Executive Management Team (EMT) meetings, each of which was circulated to the relevant lead Cabinet member.

The Council continues to publish a wide range of performance information on our website. This includes various reports and progress updates, which are presented on a cyclical basis at Committee. The Council is continuing to explore ways to increase transparency and accountability of performance information to the public. This work will be informed by the recovery and transition following Covid-19.

## 2. THE IMPACTS OF COVID-19

### a) The Council's response to the pandemic

The Covid-19 pandemic has had an unprecedented impact on the Council's operations since lockdown was introduced in late March 2020. The Council has adapted to new ways of working, such as remote working for the majority of employees, and a reliance on redeployment and volunteering to support those services where the need is greatest.

Throughout lockdown, the Council has continued to deliver its critical services - keeping schools open for children of key workers and vulnerable families, working with care homes, allowing parks and public spaces to remain open and ensuring bin collections and recycling continue as usual.

At the Mayor and Cabinet meeting on 13 May 2020, the Council agreed a broad package of support to businesses and residents, such as: holding back on reminders due on bills raised; inviting all customers, businesses or residents, to contact the Council early to discuss any financial difficulties they may be facing as a result of Covid-19; deferring commercial rents and annual waste charges for up to three months; cessation of fees and charges for market traders for the same period; and establishing a 'Lewisham backs Business' Task Force, comprising lead Members, representatives from the local business community, industry, and officers to develop and coordinate a whole Council response to supporting business and jobs recovery quickly and inclusively from the disruption of Covid-19. These measures support the delivery of the Council's corporate priorities, in particular the 'building an inclusive local economy' priority.

Now that the easing of lockdown has begun, some Council meetings have resumed in a virtual setting, but demand for critical services and the new responsibilities that Covid-19 has brought will not ease off for some time. New responsibilities are emerging for the Council in support of the nationwide test and trace programme.

The Council's continued focus will be on:

- protecting critical services;
- managing increased demand as a result of lockdown;
- promoting good public health and minimising the spread of infection;
- responding and preparing for the ongoing demands for future waves of Covid-19.

Staff who are working remotely will continue to do so until at least the end of August 2020. Work is underway to make the important and necessary physical changes to office environments so they comply with the new Working Safely during Coronavirus guidelines.

The volunteering effort across the Council has transformed the Council's ability to manage through this crisis and there is a need to continue and build on this successful effort via ongoing support for the volunteer programme.

### b) Government funding

The Council has received some specific funding from the Government regarding Covid-19 – these schemes are focused on support for businesses with a view to future employment. The main elements include:

- £33m of additional business rates relief for the 1,560 retail, hospitality, and leisure sectors in Lewisham;
- £47m of small business grants for the potentially 3,650 businesses identified as eligible in Lewisham; and
- An amount to be confirmed (estimated at £2.3m) of discretionary grant to support small and medium enterprises for guidance is pending from government.

In addition the Council has received £3.2m for residents to be distributed as £150 credits to households of working age in receipt of the council tax reduction scheme and to supplement the Council's hardship support scheme.

In respect of the burden on Council services, the Government has provided some funding to meet the financial impacts. This is via additional funding and early payment of some grants to support cash flow. Of the £3.2bn funding announced nationally, Lewisham has received £18.0m to cover the costs of the Covid-19 response. Monthly monitoring is now in place to the Ministry of Housing, Communities and Local Government (MHCLG) and based on the April returns and analysis by the Local Government Association (LGA) this level of funding is estimated to be only a third or a quarter of what is likely to be needed before Councils return fully to business as usual.

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

The current situation gives rise to a number of risks and uncertainties. There is significant uncertainty in the potential loss of council tax and business rates income. The impact will be unknown until the recovery phase and the impact on the local economy and employment implications are identified. The impact of Covid-19 on the Council's financial plans, if further Government funding support is not available will fall on reserve balances; firstly from the general unallocated reserves and then, the earmarked reserves.

The Council is bearing the cost of additional unplanned work to sustain critical services, including supporting the social care market, distributing Personal Protective Equipment, and providing shielding as critical services. As well as the extra work to run and support services including housing, waste, benefits, and bereavement services with higher levels of activity whilst also maintaining social distancing and safe working practices.

Other uncertainties include:

- Contracts – Some providers may withdraw from the market leaving the Council unable to recover the services due.
- Pooling – The Council will likely not receive a benefit from the pool this year and may in the worst case have to pay in.
- Property – The outcome of the recovery phase in the short and longer term for development, asset valuations, and future commercial and residential occupancy and rents is currently unknown. The Council has a balance sheet with over £2.5bn of assets which will be affected by these uncertainties as the viability of sustaining the Council's asset base impacts future financial plans.
- Service demand – Changes have been made as part of the Covid-19 response in respect of a range of services but particularly social care, housing, education, and community support with Council providing more support during the pandemic - as the full social, health and economic impact of this pandemic is realised. We are expecting further increases in demand in these, and other areas. The Council will have to assess what to continue and what to stop.

The financial impact evaluated from the May monitoring identified a potential £82.7m impact to the 20/21 budget - from additional costs of £22.9m and lost income of £59.8m (before applying government funding received). After applying Government funding received of £33m for business rate reliefs, £18m for Council services, with the assumption the remaining estimated Collection Fund lost income of £11.5m is met by the Government once the full taxation impact becomes clear. The outstanding financial gap for the Council is currently estimated at £20.2m, this represents all the unallocated reserves the Council holds of £20m. This is the current position with the recovery and longer-term impacts to the budget still to be assessed and funded. The Covid-19 response is also materially impacting the Council's financial plans and service income and expenditure budgets for the year 2020/21.

The Council has sufficient reserves to meet these financial commitments at present, including the estimated costs and lost income considerations of the Covid-19 response (taking into account additional support from the Government); while the impact of the Covid-19 response may reduce the Council's financial resilience to face future crises. This requires the Council to be mindful of its financial

sustainability to ensure it does not need to consider issuing a section 114 notice (the effect of which would be to prevent any further expenditure by the authority save with the approval of the s 151 officer, to help control the financial position). The Council is not in this position at this time but is likely to have to make significant changes to the range and scale of services it offers or further put the burden of these costs on local tax payers as a consequence of the financial impact of Covid-19. This situation will be kept under review and will be commented on through the external audit process and their value for money conclusion, in the regular 20/21 monitoring, and as the Medium Term Financial Strategy (MTFS) is refreshed and the budget for 21/22 prepared.

The 20/21 budget was set without the use of reserves and after the funding of growth and pressures of £23.5m to reset service baseline budgets and reduce the risk of the in-year overspending seen in recent years. The budget was also set with the commitment from services to deliver £16.6m of agreed cuts. Some of these plans are now at risk of delay or not being delivered due to the Covid-19 response taking priority. These are the revenue budget impacts and the risks also extend to the expanded capital programme which is currently being reviewed as part of the recovery planning phase.

Nevertheless, in light of the above considerations, the current situation does not alter the Council's position as a going concern.

**d) Impact on 19/20 final accounts**

Whilst most of the financial impacts will be felt in 20/21, there are two important implications worth noting for the 19/20 final accounts:

- The statutory deadlines for the production of the draft accounts and audited accounts have been changed from 31 May to 31 August for the draft, and from 31 July to 30 November 2020 for the audited accounts. It is expected that the Council will meet these deadlines.

- The review of property asset values in the accounts (and any valuations completed during 2019/20) is being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the review/valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, it will be necessary for the Council to keep the valuation of the portfolio under frequent review.

**e) Recovery plans, strategy and objectives**

The Council has been preparing its recovery response which will be underpinned by the following principles:

- Tackling widening social, economic and health inequalities;
- Protecting the most vulnerable;
- Ensuring the Council's continued resilience, stability and sustainability; and
- Enabling residents to make the most of Lewisham the place.

The Council's strategy in this regard is:

- We will work together with our partner agencies to respond to and recover from Covid-19 for our communities, businesses and staff.

The Council's objectives related to this are:

- To provide support to the vulnerable.
- Managing resourcing to meet the needs of emergency and maintain essential public services.
- To provide support to our responding partner agencies who are protecting and preserving life.
- To provide support to Lewisham businesses and communities.
- To inform and reassure through communication and engagement.
- To provide community leadership/reassurance.
- Minimize disruption to infrastructure and business.
- To facilitating recovery and the return to normality.

Also as part of the recovery phase the Council's risk registers – corporate and directorate – are to be reviewed to capture the changes being prepared.

## 3. FINANCIAL PERFORMANCE

### a) 2019/20 Revenue Budget Setting and Funding

The Council set a net budget requirement of £243.0m for 2019/20 at its meeting on 27 February 2019. This was an increase of £1.7m or 0.7% on the previous year's net budget requirement of £241.3m. The main sources of income were Revenue Support Grant (RSG), Business Rates and Council Tax. With central RSG diminishing, Council Tax funds a higher proportion of the budget than it did last year, with bills increasing by 4.99% (3.99% last year). A year on year comparison of revenue budget funding is shown in the following table.

**2019/20 Revenue Budget Funding**

| | 2019/20 £m | 2018/19 £m |
|---|---|---|
| Revenue Support Grant | 27.5 | 36.9 |
| Business Rates | 102.1 | 91.6 |
| Council Tax | 109.5 | 103.1 |
| Social Care Precept | 2.2 | 1.0 |
| Surplus on Collection Fund | 1.7 | 8.7 |
| **Budget Requirement** | 243.0 | 241.3 |

### b) Council Tax

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

For 2019/20 the Council increased the general rate of Council Tax by 2.99% and agreed to levy the 2% Adult Social Care precept resulting in an overall increase of 4.99%. The actual Council Tax charge is determined by dividing the net amount to be met from Council Tax by the tax base, which for Lewisham is 88,405 equivalent Band D properties for 2019/20 (86,457 for 2018/19).

The comparison of Council Tax Band D levels from 2018/19 to 2019/20 for Lewisham is shown in the following table, together with the Greater London Authority precept.

**Band D Council Tax by Tax Raising Body**

| | 2019/20 £ | 2018/19 £ | Variation £ | Variation % |
|---|---|---|---|---|
| Lewisham Council | **1,263.94** | 1,203.87 | 60.07 | 4.99 |
| Greater London Authority | **320.51** | 294.23 | 26.28 | 8.93 |
| **Council Tax for Band D** | **1,584.45** | 1,498.10 | 86.35 | 5.76 |

**c) 2019/20 Revenue Budget Outturn**

The Council's 2019/20 revenue outturn position is shown in the following table. Further detail can be found in the Expenditure and Funding Analysis in section 3 of this document.

| Directorate | Gross budgeted expenditure | Gross budgeted income | Net budget | Outturn Variance | Outturn Variance |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | % |
| Children & Young People | 68.7 | -9.6 | 59.1 | 6.7 | 11.3% |
| Community Services | 179.7 | -88 | 91.7 | -4.9 | -5.3% |
| Housing, Regen & Environment | 123.4 | -88.9 | 34.5 | 3.2 | 9.3% |
| Corporate Services | 62.5 | -28.2 | 34.3 | 0.9 | 2.6% |
| **Directorate totals** | **434.3** | **(214.7)** | **219.6** | **5.9** | **2.7%** |
| Corporate items | 23.6 | 0 | 23.6 | 0 | 0.0% |
| **Net Revenue Budget** | **457.9** | **(214.7)** | **243.2** | **5.9** | **2.4%** |

During 2019/20 the overspend against the directorates' net controllable budgets was £5.9m. After adding in the effect of agreed transfers to reserves for specific c/f underspends of £0.9m, the total directorate overspend becomes £6.8m. Detailed reasons for budget variances will be reported to Mayor & Cabinet on 9 July 2020. For the third successive year, the main element of the overspend has been expenditure on children's social care. Officers are continually seeking to identify ways to manage down overspending budgets, but this has not been sufficient to balance the budget in this financial year.

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

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

**Budget overspends**

The main element of the overspend was the £6.7m overspend in the Children and Young People (CYP) directorate. The Children's Social Care General Fund budget for 2019/20 was £41.5m with a further £7m funded from corporate resources making a total resource available of £48.5m. It should be noted that the revised budget was uplifted to align with the 2018/19 outturn position and then reduced by the savings (£1.5m) proposals as agreed with Mayor and Cabinet.

The most significant cost pressures for the CYP directorate fell within the Children's Social Care division, where the final outturn was an overspend of £5.2m compared to a projection of £1.7m. The main element of the overspend was in the residential care placements budget. This is the most expensive form of care and as at March 2020. A smaller overspend was incurred in fostering budgets.

Education Services budgets overspent by £1.8m. This is predominantly as a result of a £2m overspend in SEN transport, a similar level to the over spend in 2018/19.

Joint Commissioning and Early Help within CYP overspent by £1.3m. The early help offer for families, the service overspent by £1.1m. This is a legacy from the 2015/16 savings process. The budget for Youth Services overspend by £0.5m, mainly as a result of the contract being extended at a higher rate than budgeted. The budget for Children's Centres underspend by £0.3m and monies set aside for one off post Ofsted actions remained as yet unspent at the end of the year.

The other main overspend was within the Housing, Regeneration & Environment directorate. The Housing, Regeneration & Environment directorate ended the 2019/20 financial year with an overspend of £3.2m. Of this, £1.4m of Tidemill costs were funded corporately, bringing the adjusted overspend down to £1.8m. The most significant cost pressures for the directorate fell within the Environment division. Smaller overspends were incurred in Regeneration and Reserves / Provisions.

An underspend of £4.9m was achieved by the Community Services directorate. Within adult social care, budgets have been supplemented by increases in the Improved Better Care Fund (a grant received directly from central government) and by the precept of £2m on council tax. Most of the additional funding has been used to fund increases in home care and residential/nursing budgets to reflect, respectively, increases in London Living Wage and National Living Wage. However, the effects of these are less than the new level of resource available for 2019/20. The outturn includes unfunded expenditure on Covid-19.

The Corporate Services directorate had an outturn overspend of £0.9m. This consists of various divisional underspends but also two overspends. The Public Services division had an overall overspend of £0.6m. This is £0.5m worse than the February forecast, with the main reasons being: reduced Parking income with no additional accrual for amounts collectible in 20/21 in relation to 19/20 income due. The IT & Digital Services division had a year-end overspend of £1.6m. This is £0.4m higher than the previous forecast, mainly because of the year-end accrual from the Shared ICT Service.

**Dedicated Schools Grant**

The final budget distribution of the Dedicated Schools Grant (DSG) for 2019/20 was a net of £258.8m (net of academy recoupment). The cumulative revenue balances for schools at year-end, including external funds, amounted to £23.5m. However, it should be noted that there were 11 schools with licensed deficit budgets at the year end, totalling £3.8m. There are also 8 schools with local authority loans with a total balance of £2.2m, 4 of which have licensed deficit budgets. Overall the net position for schools has reduced from £21.6m to £19.3m. All schools with deficits have a budget recovery plan and work will continue this year to ensure that plans are delivered and the future position is sustainable.

**d) Balances and Reserves**

After transfers to and from reserves the General Fund balance has remained at £20.0m. This is an adequate level of cover and represents approximately 8.2% of Lewisham's Net Budget Requirement. The Council also has a number of earmarked reserves for specific on-going initiatives and these are shown in Note 9 to the Core Financial Statements.

The Housing Revenue Account (HRA) spent to budget after transfers to reserves as at 31 March 2020. It continues to build reserves up on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes

and to significantly increase the supply of housing in the borough over the medium to long term. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs. After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £107.8m (£113.6m as at 31 March 2019). These reserves include the Major Repairs Reserve and are for specific on-going projects as outlined in the notes to the HRA in Section 4 of the Accounts.

### e) Cashflow

Cash and Cash equivalents held by the Council increased from £75.5m to £112.8m in 2019/20. Note 15 shows that this increase was mostly contained within Investing Activities.
The detailed analysis of the movements in Cash throughout the year can be found in the Cashflow Statement and related notes. The summary is as follows:

| | **2019/20 £000s** |
|---|---|
| Net Cash flows from Operating Activities | (15,049) |
| Purchases of PPE | (67,120) |
| Sales of PPE | 29,366 |
| Net Purchases of Short & Long-term investments | 72,000 |
| Net Receipts from Investing activities | 21,781 |
| Cash receipts of short and Long-Term Borrowing | 0 |
| Repayment of Short and Long-Term Borrowing | (203) |
| Net payments for Other Financing activities | (3,423) |
| **Net Increase or (Decrease) in Cash and Cash Equivalents** | **37,352** |

### f) 2019/20 Capital Budget Outturn

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

| | **2019/20 Final Outturn £m** | **2019/20 Original Budget Report £m** | **2019/20 Revised Budget Report £m** | **2018/19 Final Outturn £m** |
|---|---|---|---|---|
| **CAPITAL PROGRAMME EXPENDITURE** | | | | |
| General Fund | **76.6** | **47.0** | **93.1** | **43.5** |
| Housing Revenue Account | **44.6** | **95.2** | **76.0** | **27.6** |
| **Total Spent** | **121.2** | **142.2** | **169.1** | **71.1** |
| **CAPITAL PROGRAMME FINANCING** | | | | |
| Borrowing | **44.8** | **16.4** | **48.6** | **12.4** |
| Capital Grants | **20.9** | **38.2** | **25.6** | **16.2** |
| Capital Receipts | **10.0** | **9.1** | **5.6** | **5.0** |
| Use of reserves and revenue financing | **45.5** | **78.5** | **89.3** | **37.5** |
| **Total Financed** | **121.2** | **142.2** | **169.1** | **71.1** |

During the year, the budget was revised to reflect the forecast development of the programme. The percentage spent compared to the revised programme budget was 72% (2018/19 82**%)**.
Spend on the major projects, where in year spend exceeded £1m, is shown in the table below.

| **Major Projects of over £1m** | **2019/20 Expenditure £m** |
|---|---|
| **General Fund** | |
| Lewisham Homes – Property Acquisition | |
| Highways & Bridges (incl. TFL programme) | **6.9** |
| Schools minor works | **4.4** |
| Beckenham Place Park | **3.0** |
| School Places Programme | **5.8** |
| Smart Working | **2.6** |
| Asset Management Programme | **2.0** |
| Catford Town Centre | **1.9** |
| Achilles St. Development | **1.7** |
| Residential Portfolio Acquisition – Hyde Housing Association | **42.8** |
| Other General Fund schemes | **2.6** |
| Private Sector Grants and Loans (inc. DFG) | **1.5** |
| **Housing Revenue Account** | |
| Building for Lewisham Programme | **3.5** |
| HRA Capital Programme | **40.4** |

## 4. LOOKING AHEAD

### a) Revenue Budget Outlook

Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity and growth in demand for services. The Covid-19 pandemic has increased the pressure on costs. This has driven significant changes to services that in turn bring additional risks and uncertainties. The consequences of Brexit have added to the uncertainty.

The Council set a net budget requirement of £248.714m for 2020/21 at its meeting on 26 February 2020, which is £5.714m higher than the equivalent figure for 2019/20. The Council has made reductions of £16.6m to its budget, and added £23.5m to provide for risks and pressures. This is sufficient to set a balanced budget for the year, without the need to use reserves, but action is also being taken to ensure that expenditure is affordable in future years. Reserves may be used at the start of the financial year to underpin selected service budgets, pending actions being taken to bring these budgets back in line on an ongoing basis.

The Medium Term Financial Strategy (MTFS) was reported to Mayor & Cabinet in June 2019. This set out that an estimated £50m of cuts would be required from 2020/21 to 2023/24. This position has now been revised following the cuts proposals submitted to Mayor and Cabinet in November 2019, the provisional local government finance settlement announced in December 2019 and the annual review of the statutory calculation for the Collection Fund. The revised profile for cuts required is now broadly:

- £16.6m to be implemented in 2020/21;
- sufficient to set a balanced budget for the year, without the need to use reserves;
- £8.9m cuts pre-approved for 2020/21.

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

Looking further ahead, the Government is due to carry out a Comprehensive Spending Review in 2022/23 and has consulted on two potential changes that will contribute to shaping the future of Local Government Finance:

- A Fair Funding Review of local authorities' relative needs and resources which sought views on the approach to measuring the relative needs and resources of local authorities. This will determine new baseline funding allocations for all local authorities in England.
- Business Rates Retention Reform – Views were sought on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system, whereby local authorities will retain 75% of business rates.

In 2020/21, officers updated the MTFS to extend the planning horizon to 2023/24 to include the impact of moving to the 75% retention of business rates. This was presented to Mayor and Cabinet on 26 June 2019 and can be found on the Council's website.

**b) Capital Budget Outlook**

The Council set its capital programme budget at its meeting on 26 February 2020. This outlined the Council's programme of £559.5m for the years 2020/21 to 2022/23. The most significant parts of the programme are school expansion to provide additional pupil places, highways and bridges, fleet replacement programme, major regeneration schemes including Catford town centre, plus the Building for Lewisham programme.

The budgeted amount to be invested in 2020/21 is shown in the table below.

| **2020/21 Capital Programme** | **2020/21 Budget £m** |
|---|---|
| **General Fund** | |
| Schools – Pupil Places Programme & other capital works | **10.6** |
| Lewisham Homes – Property acquisition | **3.0** |
| Beckenham Place Park | **0.6** |
| Town Centres & High Street improvements | **3.7** |
| Highways, footways and bridges | **3.3** |
| Broadway Theatre- Repairs & Refurbishment | **1.8** |
| Lewisham Library – Repairs & Refurbishment | **1.0** |
| Old Town Hall – Repairs & Refurbishment | **3.0** |
| Disabled Facilities Grant | **1.6** |
| Private Sector Grants and Loans | **1.7** |
| Fleet Replacement Programme | **8.1** |
| Edward St. Development | **9.0** |
| Ladywell Leisure Centre Development site | **1.1** |
| Traveller's Site Relocation | **2.1** |
| Asset Management programme | **1.7** |
| Other schemes | **5.8** |
| | **58.1** |
| **Housing Revenue Account** | |
| Building for Lewisham Programme | **97.5** |
| HRA Capital Programme | **37.2** |
| Other Schemes | **1.6** |
| | **136.3** |
| **Total Capital Programme** | **194.4** |

The budgeted capital programme expenditure and how this is forecast to be resourced is shown below:

**2020/21 Capital Programme**

| | 2020/21 Budget £m |
|---|---|
| **CAPITAL PROGRAMME EXPENDITURE** | |
| General Fund | **58.1** |
| Housing Revenue Account | **136.3** |
| **Total Forecast Spend** | **194.4** |
| | |
| **CAPITAL PROGRAMME FINANCING** | |
| Borrowing | **108.5** |
| Capital Grants | **36.4** |
| General (Capital receipts, Reserves, Revenue) | **49.5** |
| **Total Financing Budget** | **194.4** |

**c) Corporate Risks**

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

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

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

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

## 5. PENSION FUND VALUATION

The actuarial valuation of the Council's pension scheme liabilities and pension reserve shown on the Balance Sheet has decreased by £233.9m during the year, mainly as a result of changes to the financial assumptions used by the pension fund Actuary (Hymans-Robertson). The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation.

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

## 6. THE COUNCIL'S STATEMENT OF ACCOUNTS

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

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

**Section 1 – The Core Financial Statements**

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

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

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

category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

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

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

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

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

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

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

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

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

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

# THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

**The Authority's Responsibilities**

**The Authority is required:**

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

**Responsibility of the Director of Corporate Resources**

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

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

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

**I certify that I have also:**

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

**The Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2020.**

**David Austin CPFA**
Director of Corporate Resources (Deputy S151)
30 November 2020

## Independent Auditor's reports to the Members of London Borough of Lewisham

To Follow

# SECTION 1 - CORE FINANCIAL STATEMENTS

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31 MARCH 2020**

| Restated 2018/19 | | | | 2019/20 | | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £000s | Gross Income £000s | Net Expenditure £000s | SERVICE | Gross Expenditure £000s | Gross Income £000s | Net Expenditure £000s | Note |
| 411,834 | (311,719) | 100,115 | Children & Young People Directorate | 379,587 | (314,493) | 65,094 | |
| 178,040 | (85,688) | 92,352 | Community Services Directorate | 181,686 | (91,489) | 90,197 | |
| 113,051 | (79,097) | 33,954 | Housing, Environment & Regeneration Directorate | 119,991 | (86,650) | 33,341 | |
| 273,421 | (229,244) | 44,177 | Corporate Services Directorate | 251,075 | (210,686) | 40,389 | |
| 109,952 | (97,283) | 12,669 | HRA | 123,239 | (105,641) | 17,598 | |
| 20,592 | (894) | 19,698 | Corporate Provisions | 10,430 | (2,334) | 8,096 | |
| 1,106,891 | (803,926) | 302,965 | **Cost of Services** | 1,066,008 | (811,293) | 254,715 | 1 |
| | | | **Other Operating Expenditure** | | | | |
| 0 | (14,748) | (14,748) | (Gain) / Loss on the disposal of non-current assets | 0 | (19,860) | (19,860) | |
| 1,691 | 0 | 1,691 | Levies | 1,700 | 0 | 1,700 | 7 |
| 1,926 | 0 | 1,926 | Contribution of housing capital receipts to Government Pool | 20,121 | 0 | 20,121 | 19 |
| 3,617 | (14,748) | (11,131) | | 21,821 | (19,860) | 1,961 | |
| | | | **Financing and Investment Income and Expenditure** | | | | |
| 33,526 | 0 | 33,526 | Interest payable and similar charges | 35,651 | 0 | 35,651 | |
| 0 | (4,150) | (4,150) | Interest and Investment Income | 0 | (4,623) | (4,623) | |
| 48,344 | (30,915) | 17,429 | Net interest on the net defined benefit liability | 47,656 | (29,199) | 18,457 | 37 |
| 81,870 | (35,065) | 46,805 | | 83,307 | (33,822) | 49,485 | |
| | | | **Taxation and non-specific Grant Income** | | | | |
| 0 | (112,811) | (112,811) | Income from Council Tax | 0 | (113,437) | (113,437) | |
| 0 | (45,012) | (45,012) | General Government Grants | 0 | (55,224) | (55,224) | |
| 0 | (9,859) | (9,859) | Recognised Capital Grants and Contributions | 0 | (18,568) | (18,568) | |
| 0 | (91,530) | (91,530) | Non-Domestic Rates income and expenditure | 0 | (102,075) | (102,075) | |
| 0 | (259,212) | (259,212) | | 0 | (289,304) | (289,304) | |
| | | 79,427 | **Deficit/ (Surplus) on provision of services** | | | 16,857 | 1 |
| | | (22,889) | Surplus on revaluation of non-current assets | | | (123,566) | 21 |
| | | 70,017 | Remeasurement of the net defined benefit liability | | | (273,410) | 20, 37 |
| | | 47,128 | **Other Comprehensive Income and Expenditure** | | | (396,976) | |
| | | 126,555 | **Total Comprehensive Income and Expenditure** | | | (380,119) | |

## Core Financial Statements

### MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2020

| YEAR ENDING 31 MARCH 2020 | General Fund Balance £000 | Earmarked Gen Fund Reserves £000 | Sub-Total General Fund £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01 April 2019 Brought Forward** | **20,000** | **147,145** | **167,145** | **76,708** | **36,919** | **62,101** | **16,998** | **359,871** | **1,261,635** | **1,621,506** | |
| **Movement in Reserves during 2019/20** | | | | | | | | | | | |
| Surplus or (Deficit) on the provision of services | 3,192 | 0 | **3,192** | (20,049) | 0 | 0 | 0 | **(16,857)** | 0 | **(16,857)** | |
| Other Comprehensive Income and Expenditure | 0 | 0 | **0** | 0 | 0 | 0 | 0 | **0** | 396,976 | **396,976** | |
| **Total Comprehensive Income and Expenditure** | **3,192** | **0** | **3,192** | **(20,049)** | **0** | **0** | **0** | **(16,857)** | **396,976** | **380,119** | |
| Adjustments between accounting basis and funding basis under regulations | 785 | 0 | **785** | 16,970 | (2,742) | (733) | 6,628 | **20,908** | (20,908) | **0** | 8 |
| **Net Increase / (Decrease) before Transfers to Earmarked Reserves** | **3,977** | **0** | **3,977** | **(3,079)** | **(2,742)** | **(733)** | **6,628** | **4,051** | **376,068** | **380,119** | |
| Transfers to / (from) Earmarked Reserves | (3,977) | 3,977 | **0** | 17,714 | (17,714) | 0 | 0 | **0** | 0 | **0** | 9, HRA 14, HRA 15 |
| **Increase / (Decrease) in 2019/20** | **0** | **3,977** | **3,977** | **14,635** | **(20,456)** | **(733)** | **6,628** | **4,051** | **376,068** | **380,119** | |
| **Balance at 31 March 2020 Carried Forward** | **20,000** | **151,122** | **171,122** | **91,343** | **16,463** | **61,368** | **23,626** | **363,922** | **1,637,703** | **2,001,625** | |
| Note | | 9 | | HRA 15 | HRA 14 | 19 | | | 20, 21, 22 Coll Fd 3 | | |

## Core Financial Statements

### MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2019

| YEAR ENDING 31 MARCH 2019 | General Fund Balance £000 | Earmarked Gen Fund Reserves £000 | Sub-Total General Fund £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01 April 2018 Brought Forward** | **13,000** | **160,123** | **173,123** | **70,209** | **38,471** | **48,350** | **17,299** | **347,452** | **1,400,609** | **1,748,061** | |
| **Movement in Reserves during 2018/19** | | | | | | | | | | | |
| Surplus or (Deficit) on the provision of services | (75,240) | 0 | **(75,240)** | (4,187) | 0 | 0 | 0 | **(79,427)** | 0 | **(79,427)** | |
| Other Comprehensive Income and Expenditure | 0 | 0 | **0** | 0 | 0 | 0 | 0 | **0** | (47,128) | **(47,128)** | |
| **Total Comprehensive Income and Expenditure** | **(75,240)** | **0** | **(75,240)** | **(4,187)** | **0** | **0** | **0** | **(79,427)** | **(47,128)** | **(126,555)** | |
| Adjustments between accounting basis and funding basis under regulations | 69,262 | 0 | **69,262** | 9,595 | (461) | 13,751 | (301) | **91,846** | (91,846) | **0** | 8 |
| **Net Increase / (Decrease) before Transfers to Earmarked Reserves** | **(5,978)** | **0** | **(5,978)** | **5,408** | **(461)** | **13,751** | **(301)** | **12,419** | **(138,974)** | **(126,555)** | |
| Transfers to / (from) Earmarked Reserves | 12,978 | (12,978) | **0** | 1,091 | (1,091) | 0 | 0 | **0** | 0 | **0** | 9, HRA 14, HRA 15 |
| **Increase / (Decrease) in 2018/19** | **7,000** | **(12,978)** | **(5,978)** | **6,499** | **(1,552)** | **13,751** | **(301)** | **12,419** | **(138,974)** | **(126,555)** | |
| **Balance at 31 March 2019 Carried Forward** | **20,000** | **147,145** | **167,145** | **76,708** | **36,919** | **62,101** | **16,998** | **359,871** | **1,261,635** | **1,621,506** | |
| Note | | 9 | | HRA 15 | HRA 14 | 19 | | | 20, 21, 22 Coll Fd 3 | | |

## Core Financial Statements

### BALANCE SHEET AS AT 31 MARCH 2020

| 31/03/2019 £000 | | 31/03/2020 £000 | Note |
|---|---|---|---|
| | Property, Plant & Equipment | | |
| 1,254,452 | Council Dwellings | 1,283,064 | 10b, HRA 1a, 9 |
| 974,550 | Other Land and Buildings | 1,074,576 | 10b |
| 26,871 | Vehicles, Plant, Furniture and Equipment | 24,159 | 10b |
| 116,082 | Infrastructure | 113,902 | 10b |
| 5,510 | Community Assets | 5,424 | 10b |
| 91,500 | Surplus Assets not Held for Sale | 94,699 | 10b |
| 31,094 | Assets under Construction | 80,532 | 10b |
| 2,500,059 | | 2,676,356 | |
| 257 | Heritage Assets | 257 | 41 |
| 2,030 | Long Term Investments | 1,975 | |
| 56,442 | Long Term Debtors | 56,645 | 14a |
| 2,558,788 | **Total Long Term Assets** | 2,735,233 | |
| 341,046 | Short Term Investments | 268,595 | 12 |
| 165 | Inventories | 171 | |
| 54,844 | Debtors | 63,655 | 14b |
| 84,377 | Cash and Cash Equivalents | 115,967 | 15 |
| 4,178 | Prepayments | 7,397 | |
| 484,610 | **Current Assets** | 455,785 | |
| 8,887 | Bank Overdraft | 3,125 | 15 |
| 27,446 | Short Term Borrowing | 5,968 | 12 |
| 3,918 | Provisions (Less than 1 year) | 4,801 | 18 |
| 86,997 | Creditors | 102,269 | 16 |
| 104,215 | Receipts in Advance | 103,902 | 17 |
| 7,504 | PFI Liabilities due within one year | 8,797 | 34d |
| 238,967 | **Current Liabilities** | 228,862 | |
| | | | |
| 2,804,431 | **Total Assets less Current Liabilities** | 2,962,156 | |
| | | | |
| 202,015 | Long Term Borrowing | 222,987 | 12 |
| 5,756 | Provisions (More than 1 year) | 5,005 | 18 |
| 220,492 | Deferred PFI Liabilities | 211,567 | 34d |
| 2,252 | Capital Grants Receipts in Advance | 2,506 | |
| 752,410 | Liability related to defined benefit pension scheme | 518,466 | 20, 37 |
| 1,182,925 | **Long Term Liabilities** | 960,531 | |
| | | | |
| 1,621,506 | **NET ASSETS** | 2,001,625 | |
| | | | |
| | **Usable Reserves** | | |
| 20,000 | General Fund Balance | 20,000 | |
| 147,145 | Earmarked Revenue Reserves | 151,122 | 9 |
| 76,708 | Housing Revenue Account | 91,343 | HRA 15 |
| 36,919 | Major Repairs Reserve | 16,463 | HRA 14 |
| 62,101 | Usable Capital Receipts Reserve | 61,368 | 19 |
| 16,998 | Capital Grants Unapplied | 23,626 | 42 |
| 359,871 | | 363,922 | |
| | **Unusable Reserves** | | |
| 1,026,623 | Revaluation Reserve | 1,130,110 | 21 |
| 1,031,425 | Capital Adjustment Account | 1,070,983 | 22 |
| 93 | Deferred Capital Receipts | 93 | |
| (36,124) | Financial Instruments Adjustment Account | (34,694) | 12e |
| (752,410) | Pensions Reserve | (518,466) | 20, 37 |
| (1,374) | Collection Fund Adjustment Account | (3,570) | Coll Fd 3 |
| (6,598) | Short Term Compensated Absences Account | (6,753) | |
| 1,261,635 | | 1,637,703 | |
| | | | |
| 1,621,506 | **TOTAL RESERVES** | 2,001,625 | |

## Certification by the Director of Corporate Resources (Deputy S151)

**David Austin CPFA –** Director of Corporate Resources
**30 November 2020**

## CASH FLOW STATEMENT FOR THE YEAR ENDING 31 MARCH 2020

| 2018/19 £000s | | 2019/20 £000s | Note |
|---|---|---|---|
| **(79,427)** | Net surplus or (deficit) on the provision of services | **(16,857)** | |
| **138,179** | Adjustment to surplus or deficit on the provision of services for non-cash movements | **53,485** | 43 |
| **(31,388)** | Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | **(51,677)** | 44 |
| **27,364** | **Net Cash flows from Operating Activities** | **(15,049)** | |
| **(29,375)** | Net Cash flows from Investing Activities | **56,027** | 46 |
| **(17,219)** | Net Cash flows from Financing Activities | **(3,626)** | 47 |
| **(19,230)** | **Net Increase or (decrease) in Cash and Cash Equivalents** | **37,352** | |
| **94,720** | **Cash and Cash Equivalents at the beginning of the reporting period** | **75,490** | 15 |
| **75,490** | **Cash and Cash Equivalents at the end of the reporting period** | **112,842** | 15 |

# SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

## 1. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 (as amended for the Accounts and Audit (Coronavirus) Amendment Regulations 2020), which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the SERCOP 2019/20, both published by CIPFA, and based on IFRS and statutory guidance under Section 12 of the Local Government Act 2003 (see Glossary for definitions). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis (in other words, on the expectation that the Council will continue to operate in its current form for the foreseeable future).

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

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

## 3. ACCRUALS OF INCOME AND EXPENDITURE

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

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from Council Tax, Non-Domestic Rates and rents is accounted for in the year it is due.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Expenditure on supplies is accounted for when they are used. When there is a significant gap between the date on which supplies are received and the date of their use, and the value is material, they are carried as inventories on the Balance Sheet.
- Expenditure on services received (including those provided by employees) is accounted for when the services are received rather than when payments are made.
- Revenue for the provision of contracts and services is recognised in line with IFRS15.

The Council has a de-minimis level in accounting for manual accruals of £5,000. However, this does not mean that all transactions below this value will not be accrued as they may form part of feeder file accruals (where the file is over £5k) or the Corporate Accrual for invoices paid in the first week of April with March dates or where similar transactions below £5k add up to a total above £5k.

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

**4. EXCEPTIONAL ITEMS**

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

**5. FOREIGN CURRENCY TRANSLATION**

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

**6. VALUE ADDED TAX (VAT)**

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

**7. EVENTS AFTER THE BALANCE SHEET DATE**

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

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

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

**8. OVERHEADS AND SUPPORT SERVICES**

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

**9. GOVERNMENT GRANTS AND CONTRIBUTIONS**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that

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

## 10. LEASES

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

### a) The Council as Lessee

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

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

### b) The Council as Lessor

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

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

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

**ii) Operating Leases**

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

There will be significant changes to accounting for leases in 2021/22 - for further information see Note 2 of Section 3 in these Accounts.

## 11. INVENTORIES (STOCK)

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

## 12. LONG TERM CONTRACTS

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

## 13. EMPLOYEE BENEFITS

### a) Benefits Payable during Employment

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

### b) Termination and Discretionary Benefits

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

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

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

**c) Post-Employment Benefits**

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

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

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

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

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

**(ii) London Pension Fund Scheme**

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

**(iii) Local Government Pension Scheme**

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

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

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

- <u>Service Costs comprising</u>
  The current service cost which is the increase in liabilities as a result of years of service earned this year. These are allocated in the CIES to the services for which the employees worked.
  The past service cost which is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited to the relevant Service Directorate in the Surplus or Deficit on the Provision of Services in the CIES.
- <u>Net interest on the net defined benefit liability</u>
  This is the change in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate to the net defined benefit liability at the beginning of the period, accounting for any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- 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 8 of the Statement of Accounts.

## 14. INTERESTS IN COMPANIES

The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited. These are accounted for at cost in the single entity accounts. It also has a minority interest (significantly lower than 50%) in a number of other companies. The transactions between the Council and all of these companies are included in the Council's accounts. An annual review of the necessity of preparing Group Accounts is undertaken, and for 2019/20 it has again been concluded that the activities of Group's entities are sufficiently material to warrant the production of Group Accounts. See also Section 6 – Group Accounts, and Note 25 - Investment in Companies.

## 15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES

### a) Provisions

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

### b) Impairment Allowances

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

## 16. RESERVES

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

The reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then credited back to the General Fund Balance in the MiRS so that there is no net charge against Council Tax. Statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and are not available for the Council to use to finance services.

## 17. CONTINGENT LIABILITIES AND ASSETS

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

## 18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

## 19. FINANCIAL INSTRUMENTS

### a) Financial Liabilities

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

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

### b) Financial Assets

Following the adoption of accounting standard IFRS 9 from 01 April 2018, which replaced IAS 39 Financial Instruments, the Available for Sale Financial Asset category is no longer available. Assets

previously held as available for sale have now been reclassified in line with IFRS 9 code. In order to comply with the new requirements of the Code, financial assets are now classified into three categories:

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

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

**b (i) Financial assets measured at amortised cost**

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

**c) Expected Credit Loss Model**

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

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

## 20. CASH AND CASH EQUIVALENTS

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

## 21. INTANGIBLE NON CURRENT ASSETS

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

## 22. NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

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

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

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

### a) Recognition

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

### b) Measurement and Valuation

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

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

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

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

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

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

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

**c) Charges to Revenue for Non-Current Assets**

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

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

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

**d) Impairment**

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

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

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

**e) Depreciation**

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

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

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

**f) Disposals of Non-Current Assets**

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

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

**g) Deferred Capital Receipts**

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

## 23. HERITAGE ASSETS

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

## 24. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

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

- fair value of the services received during the year – debited to the relevant service in the CIES;

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

## 25. ACCOUNTING FOR SCHOOLS

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

# SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31 MARCH 2020

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

| SERVICE | Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000 | Net Expenditure in the CIES £'000 |
|---|---|---|---|
| Children & Young People Directorate | 76,168 | (11,074) | 65,094 |
| Community Services Directorate | 84,949 | 5,248 | 90,197 |
| Housing, Environment & Regeneration Directorate | 16,642 | 16,699 | 33,341 |
| Corporate Services Directorate | 36,623 | 3,766 | 40,389 |
| HRA | (34,979) | 52,577 | 17,598 |
| Corporate Provisions | 39,843 | (31,747) | 8,096 |
| **Cost of Services** | **219,246** | **35,469** | **254,715** |
| Other Income and Expenditure | (237,858) | 0 | (237,858) |
| **(Surplus) or Deficit** | **(18,612)** | **35,469** | **16,857** |

| | |
|---|---|
| Opening General Fund and HRA Balance at 01 April 2019 | (243,853) |
| Add (Surplus)/ Deficit on General fund and HRA Balance in Year | (18,612) |
| **Closing General Fund and HRA Balance at 31 March 2020** | **(262,465)** |

| **Analysed between General Fund and HRA Balances** | | | |
|---|---|---|---|
| | **General Fund** | **HRA** | **Total** |
| Opening General Fund and HRA Balance at 01 April 2019 | (167,145) | (76,708) | **(243,853)** |
| Add (Surplus)/ Deficit on General fund and HRA Balance in Year | (3,977) | (14,635) | **(18,612)** |
| **Closing General Fund and HRA Balance at 31 March 2020** | **(171,122)** | **(91,343)** | **(262,465)** |

## EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31 MARCH 2019

| | Restated | | |
|---|---|---|---|
| **SERVICE** | **Net Expenditure Chargeable to the General Fund and HRA Balances £'000** | **Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000** | **Net Expenditure in the CIES £'000** |
| Children & Young People Directorate | 62,799 | 37,316 | 100,115 |
| Community Services Directorate | 87,314 | 5,038 | 92,352 |
| Housing, Environment & Regeneration Directorate | 11,407 | 22,547 | 33,954 |
| Corporate Services Directorate | 41,362 | 2,815 | 44,177 |
| HRA | 57 | 12,612 | 12,669 |
| Corporate Provisions | 20,078 | (380) | 19,698 |
| **Cost of Services** | **223,017** | **79,948** | **302,965** |
| Other Income and Expenditure | (223,538) | 0 | (223,538) |
| **(Surplus) or Deficit** | **(521)** | **79,948** | **79,427** |

| | |
|---|---|
| Opening General Fund and HRA Balance at 01 April 2018 | (243,332) |
| Add (Surplus)/ Deficit on General fund and HRA Balance in Year | (521) |
| **Closing General Fund and HRA Balance at 31 March 2019** | **(243,853)** |

| **Analysed between General Fund and HRA Balances** | | | |
|---|---|---|---|
| | **General Fund** | **HRA** | **Total** |
| Opening General Fund and HRA Balance at 01 April 2018 | (173,123) | (70,209) | **(243,332)** |
| Add (Surplus)/ Deficit on General fund and HRA Balance in Year | 5,978 | (6,499) | **(521)** |
| **Closing General Fund and HRA Balance at 31 March 2019** | **(167,145)** | **(76,708)** | **(243,853)** |

## Notes to the EFA

### (i) Adjustments between Funding and Accounting Basis

| | 2019/20 | | | |
|---|---|---|---|---|
| **Adjustments from General Fund to arrive at the CIES amounts** | **Adjustment for Capital Purposes £'000** | **Net change for the Pensions Adjustments £'000** | **Other Differences £'000** | **Total Adjustments £'000** |
| **SERVICE** | | | | |
| Children & Young People Directorate | (27,992) | 16,806 | 112 | **(11,074)** |
| Community Services Directorate | 2,478 | 2,764 | 6 | **5,248** |
| Housing, Environment & Regeneration Directorate | 11,269 | 3,273 | 2,157 | **16,699** |
| Corporate Services Directorate | 1,447 | 2,243 | 76 | **3,766** |
| HRA | 34,718 | 146 | 17,713 | **52,577** |
| Corporate Provisions | (44,538) | 14,234 | (1,443) | **(31,747)** |
| **Cost of Services** | **(22,618)** | **39,466** | **18,621** | **35,469** |
| Other Income and Expenditure | 0 | 0 | 0 | **0** |
| **Difference between General Fund surplus or deficit and CIES surplus or deficit** | **(22,618)** | **39,466** | **18,621** | **35,469** |

| | Restated | | | |
|---|---|---|---|---|
| | 2018/19 | | | |
| **Adjustments from General Fund to arrive at the CIES amounts** | **Adjustment for Capital Purposes £'000** | **Net change for the Pensions Adjustments £'000** | **Other Differences £'000** | **Total Adjustments £'000** |
| **SERVICE** | | | | |
| Children & Young People Directorate | 25,784 | 12,007 | (475) | **37,316** |
| Community Services Directorate | 2,820 | 2,199 | 19 | **5,038** |
| Housing, Environment & Regeneration D | 13,081 | 2,552 | 6,914 | **22,547** |
| Corporate Services Directorate | 1,136 | 1,674 | 5 | **2,815** |
| HRA | 11,386 | 135 | 1,091 | **12,612** |
| Corporate Provisions | (24,175) | 24,091 | (296) | **(380)** |
| **Cost of Services** | **30,032** | **42,658** | **7,258** | **79,948** |
| Other Income and Expenditure | 0 | 0 | 0 | **0** |
| **Difference between General Fund surplus or deficit and CIES surplus or deficit** | **30,032** | **42,658** | **7,258** | **79,948** |

### (ii) Segmental Income and Expenditure

| | 2019/20 |
|---|---|
| | £'000 |
| Revenues from external customers | (237,625) |
| Revenues from transactions with other operating segments of the authority | 0 |
| Interest revenue | (4,623) |
| Interest expense | 35,651 |
| Depreciation and amortisation | 9,351 |
| Material items of income and expense (related to disposals of PPE and investments and reversals of provisions) | (19,860) |
| The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method | 0 |
| Income tax expense or income | 0 |
| Material non-cash items other than depreciation and amortisation | 0 |

| | 2018/19 |
|---|---|
| | £'000 |
| Revenues from external customers | (219,636) |
| Revenues from transactions with other operating segments of the authority | 0 |
| Interest revenue | (4,150) |
| Interest expense | 33,526 |
| Depreciation and amortisation | 71,725 |
| Material items of income and expense (related to disposals of PPE and investments and reversals of provisions) | (14,748) |
| The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method | 0 |
| Income tax expense or income | 0 |
| Material non-cash items other than depreciation and amortisation | 0 |

## 2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2019/20 ACCOUNTS

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

- Leases: IFRS 16 will require lessees to recognise most leases on their balance sheet – this is a significant change from current practice. Lessees will have a single accounting model for all leases, with two exemptions (low value assets and short term leases). Lessor accounting will be substantially unchanged. The new standard will come into effect in financial year 2021/22; therefore there is no impact on the 2019/20 Accounts.

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

c. A judgement has been made by the Council that it is proper practice to prepare Group Accounts for 2019/20, on grounds of materiality. For further information, see Section 2 – Accounting Policies (para. 14 – Interests in Companies); also Section 6 – Group Accounts; and Note 25 – Investment in Companies.

d. Lewisham Homes Ltd is a scheduled body to the Lewisham Council Pension Fund. The Council has agreed that it will indemnify all pension costs relating to Lewisham Homes Ltd staff, enabling the company to continue as a going concern. The Council's Single Entity Accounts include the deficit applicable to Lewisham Council, whilst the Group Accounts include, in addition, the deficit attributable to Lewisham Homes. It should be noted that if Lewisham Homes Ltd was in any way unable to deliver a satisfactory housing management service, the Council would have to provide such a service itself, together with the consequent pension liability of the staff involved.

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

These Accounts contain a number of estimated figures that are based on assumptions made about the future or that are otherwise uncertain, and take into account historical experience, current trends and other relevant factors. Because of this, the actual outcomes could be materially different from the assumptions and estimates made. The areas in the Council's Accounts at 31 March 2020 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

### a) Property, Plant and Equipment

We are now in a period of uncertainty as the UK has now left the EU with effect from 31 January 2020. There is still a transition period moving on continuing terms with the aim of agreeing a deal by 31 December 2020. Furthermore, the outbreak of the Covid-19 pandemic has impacted global financial

markets, and the future effect of the pandemic on the real estate market is as yet unknown. Therefore, the review of the Council's non-current asset values (and any valuations completed during 2019/20) is reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these values than would normally be the case.

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

**b) Arrears of Significant Debtors**

The Council had debtors balances of Council Tax, Non Domestic Rates, Housing Rents and sundry others of £157.9m as at 31 March 2020. 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 £94.3m. Although the current economic climate, including the Government's welfare benefits reform initiative, has been taken into account, it is not certain that these allowances will be sufficient, as the judgements made are mainly based on historical trends. If collection rates were to deteriorate, an increase of 10% in the amount of the impairment allowance would require an additional sum of £9.4m to be set aside.

**c) Pensions Liability**

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

## 5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

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

## 6. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the then Acting Chief Finance Officer in June 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions.

a) Covid-19 Pandemic: Following the introduction of lockdown in late March 2020, there have been significant changes to the way in which the Council operates, giving rise to unprecedented cost pressures in 20/21. In summary, an assessment of the financial impact has identified a potential £82.7m impact to the 20/21 budget - from additional costs of £22.9m and lost income of £59.8m (before applying Government funding received). After applying Government funding received of £33m for business rate reliefs, £18m for Council services, and assuming the

remaining estimated Collection Fund lost income of £11.5m is met by Government once the full taxation impact becomes clear, the outstanding financial gap for the Council is currently estimated at £20.2m. This represents all the unallocated reserves the Council holds of £20m. This is the current position with the recovery and longer term impacts to the budget still to be assessed and funded. Other specific Covid-19 funding received from Government early in 20/21 includes £47m for small business grants and £3.2m as support for council tax payers. Further information on the impact of Covid-19 can be found in the Narrative Statement.

b) Business Rates on ATM Cash Machines: In May 2020 the Supreme Court upheld the Court of Appeal's decision that ATMs (e.g. at supermarkets and petrol stations) should be removed from the list of rateable items. This will require a backdated payment of business rates by the Council of £1.6m for the years 2010/11 to 2019/20 inclusive, plus an annual loss of £0.177m in 20/21 and future years.

## 7. OTHER OPERATING EXPENDITURE - LEVIES

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| London Pension Fund Authority | **1,289** | 1,286 |
| Lee Valley Regional Park Authority | **210** | 209 |
| Environment Agency | **201** | 196 |
| **Total Levies Paid** | **1,700** | **1,691** |

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

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

## Notes to the Core Financial Statements

| 2019/20 | Usable Reserves | | | | | Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | |
| **Adjustments to Revenue Resources** | | | | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | | |
| **Pensions costs** (transferred to/ from the Pensions Reserve) | 39,320 | 146 | | | | (39,466) |
| **Financial instruments** (transferred to the Financial Instruments Adjustment Account) | (1,430) | 0 | | | | 1,430 |
| **Council Tax and NDR** (transfers to/ from Collection Fund Adjustment Account) | 2,196 | | | | | (2,196) |
| **Holiday Pay** (transferred to the Accumulated Absences Account) | 155 | | | | | (155) |
| **Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure** (these items are charged to the Capital Adjustment Account (CAA)) | (8,203) | 27,084 | | | | (18,881) |
| **Total Adjustments to Revenue Resources** | **32,038** | **27,230** | **0** | **0** | **0** | **(59,268)** |
| **Adjustments between Revenue and Capital Resources** | | | | | | |
| **Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve** | (21,964) | (7,402) | | 29,366 | | 0 |
| **Payments to the Government housing receipts pool** (funded by a contribution from the Capital Receipts Reserve) | 20,121 | | | (20,121) | | 0 |
| **Statutory provision for the repayment of debt** (transfer from the CAA) | (8,732) | (2,858) | | | | 11,590 |
| **Revenue Expenditure Funded from Capital under Statute** | 1,687 | | | | | (1,687) |
| **Capital expenditure funded from revenue balances** (transfer to the CAA) | 0 | 0 | | | | 0 |
| **Total Adjustments between Revenue and Capital Resources** | **(8,888)** | **(10,260)** | **0** | **9,245** | **0** | **9,903** |
| **Adjustments to Capital Resources** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | | | (9,978) | | 9,978 |
| Use of the Major Repairs Reserve to finance capital expenditure | | | (2,742) | | | 2,742 |
| Application of capital grants to finance capital expenditure | (22,365) | | | | 6,628 | 15,737 |
| **Total Adjustments to Capital Resources** | **(22,365)** | **0** | **(2,742)** | **(9,978)** | **6,628** | **28,457** |
| | | | | | | |
| **Total Adjustments** | **785** | **16,970** | **(2,742)** | **(733)** | **6,628** | **(20,908)** |

## Notes to the Core Financial Statements

| 2018/19 | Usable Reserves | | | | | Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | |
| **Adjustments to Revenue Resources** | | | | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | | |
| **Pensions costs** (transferred to/ from the Pensions Reserve) | 42,523 | 135 | | | | (42,658) |
| **Financial instruments** (transferred to the Financial Instruments Adjustment Account) | (294) | | | | | 294 |
| **Council Tax and NDR** (transfers to/ from Collection Fund Adjustment Account) | 6,921 | | | | | (6,921) |
| **Holiday Pay** (transferred to the Accumulated Absences Account) | (458) | | | | | 458 |
| **Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure** (these items are charged to the Capital Adjustment Account (CAA)) | 46,282 | 32,288 | | | | (78,570) |
| **Total Adjustments to Revenue Resources** | **94,974** | **32,423** | **0** | **0** | **0** | **(127,397)** |
| **Adjustments between Revenue and Capital Resources** | | | | | | |
| **Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve** | (1,564) | (19,874) | | 21,438 | | 0 |
| **Payments to the Government housing receipts pool** (funded by a contribution from the Capital Receipts Reserve) | 1,926 | | | (1,926) | | 0 |
| **Statutory provision for the repayment of debt** (transfer from the CAA) | (10,966) | (2,954) | | | | 13,920 |
| **Revenue Expenditure Funded from Capital under Statute** | 2,200 | | | | | (2,200) |
| **Capital expenditure funded from revenue balances** (transfer to the CAA) | (7,312) | | | | | 7,312 |
| **Total Adjustments between Revenue and Capital Resources** | **(15,716)** | **(22,828)** | **0** | **19,512** | **0** | **19,032** |
| **Adjustments to Capital Resources** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | | | (5,761) | | 5,761 |
| Use of the Major Repairs Reserve to finance capital expenditure | | | (461) | | | 461 |
| Application of capital grants to finance capital expenditure | (9,996) | | | | (301) | 10,297 |
| **Total Adjustments to Capital Resources** | **(9,996)** | **0** | **(461)** | **(5,761)** | **(301)** | **16,519** |
| | | | | | | |
| **Total Adjustments** | **69,262** | **9,595** | **(461)** | **13,751** | **(301)** | **(91,846)** |

## 9. EARMARKED RESERVES

The Council has a number of earmarked reserves on its Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up to provide resources for future spending plans. This note shows the amounts used to meet General Fund expenditure in 2019/20 and amounts set aside in the year to finance future expenditure plans. The use of HRA earmarked reserves is shown in the notes to the HRA in Section 4.

| Name of Reserve | Balance 31/03/19 £000 | 2019/20 Transfers Out £000 | 2019/20 Transfers In £000 | Balance 31/03/20 £000 | |
|---|---|---|---|---|---|
| Specific Revenue Earmarked | 56,827 | (24,175) | 33,653 | **66,305** | (a) |
| PFI and BSF Schemes | 26,985 | (470) | 1,378 | **27,893** | (b) |
| New Homes Bonus Reserve | 20,208 | (8,608) | 4,870 | **16,470** | (c) |
| Insurance | 15,445 | (1,188) | 1,773 | **16,030** | (d) |
| Capital Programme Expenditure | 0 | (1,914) | 2,854 | **940** | (e) |
| | **119,465** | **(36,355)** | **44,528** | **127,638** | |
| Schools Reserves and External Funds | 27,680 | (35,306) | 31,110 | **23,484** | (f) |
| | **27,680** | **(35,306)** | **31,110** | **23,484** | |
| **Total** | **147,145** | **(71,661)** | **75,638** | **151,122** | |

### a) Specific Earmarked Reserves

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

### b) PFI and BSF Schemes Reserves

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

### c) New Homes Bonus Reserve

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

### d) Insurance Reserve

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

### e) Capital Programme Expenditure Reserve

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

### f) Schools Reserves and Schools External Funds

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

## 10. NON CURRENT ASSETS

### a) Non-Current Assets Revaluations

Assets are valued at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value, to ensure that the Council's assets are valued in accordance with RICS and CIPFA guidance. The valuations this year were undertaken and signed off by the valuers Wilkes, Head and Eve LLP. Where revaluations have occurred in 2019/20, their exact effective date was 31 March 2020 for council dwellings and 31 March 2020 for other assets.

| | Council Dwellings £000 | Other Land & Buildings £000 | Surplus Assets £000 | Total £000 |
|---|---|---|---|---|
| **Valued at Historic Cost** | **0** | **1,767** | **5,310** | **7,077** |
| **Valued at Current Value** | | | | |
| 2019-20 | 1,246,916 | 904,198 | 89,389 | **2,240,503** |
| 2018-19 | 34,736 | 137,620 | 0 | **172,356** |
| 2017-18 | 45 | 20,351 | 0 | **20,396** |
| 2016-17 | 123 | 10,015 | 0 | **10,138** |
| 2015-16 | 1,244 | 625 | 0 | **1,869** |
| **Total Net Book Value** | **1,283,064** | **1,074,576** | **94,699** | **2,452,339** |

### b) Movements in Non-Current Assets

The movements in non-current assets during 2019/20 were as follows:

## Notes to the Core Financial Statements

| 2019/20 | Council Dwellings £000 | Other Land & Bldgs £000 | Vehicles, Plant & Equip't £000 | Infra-structure Assets £000 | Comm. Assets £000 | Surplus Assets £000 | Assets under Construction £000 | TOTAL £000 |
|---|---|---|---|---|---|---|---|---|
| **Gross Book Value b/fwd at 01 April 2019** | **1,254,663** | **976,188** | **57,395** | **186,395** | **5,587** | **91,758** | **31,095** | **2,603,081** |
| Additions | 1,864 | 5,325 | 2,008 | 6,194 | 361 | 895 | 54,965 | **71,612** |
| Revaluations (recognised in Revaluation Reserve) | 30,522 | 64,256 | 0 | 0 | 0 | 13,888 | 0 | **108,666** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 579 | 37,405 | 0 | 0 | 0 | 4,989 | 0 | **42,973** |
| Impairments (recognised in Revaluation Reserve) | (7) | (7,953) | 0 | 0 | 0 | (5,033) | 0 | **(12,993)** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | (278) | (1,484) | 0 | (608) | (352) | (5,037) | (1,416) | **(9,175)** |
| Disposals | (3,732) | 0 | (400) | 0 | 0 | (6,063) | 0 | **(10,195)** |
| Transfers | 454 | 4,197 | 0 | 0 | 0 | (539) | (4,112) | **0** |
| Gross Book Value c/fwd at 31 March 2020 | 1,284,065 | 1,077,934 | 59,003 | 191,981 | 5,596 | 94,858 | 80,532 | **2,793,969** |
| Depreciation b/fwd at 01 April 2019 | (211) | (1,638) | (30,524) | (70,321) | (77) | (257) | 0 | **(103,028)** |
| Depreciation for year | (22,071) | (14,328) | (4,720) | (7,758) | (95) | (1,015) | 0 | **(49,987)** |
| Depreciation written back on: | | | | | | | | |
| Transfers | (33) | (1) | 0 | 0 | 0 | 34 | 0 | **0** |
| Revaluations (recognised in Revaluation Reserve) | 20,482 | 6,898 | 0 | 0 | 0 | 513 | 0 | **27,893** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 832 | 5,711 | 0 | 0 | 0 | 253 | 0 | **6,796** |
| Impairments (recognised in Revaluation Reserve) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | 0 | 0 | 0 | 0 | 49 | 0 | **49** |
| Assets Sold | 0 | 0 | 400 | 0 | 0 | 264 | 0 | **664** |
| Depreciation c/fwd at 31 March 2020 | (1,001) | (3,358) | (34,844) | (78,079) | (172) | (159) | 0 | **(117,613)** |
| **Net Book Value at 31 March 2020** | **1,283,064** | **1,074,576** | **24,159** | **113,902** | **5,424** | **94,699** | **80,532** | **2,676,356** |

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

| 2018/19 | Council Dwellings £000 | Other Land & Bldgs £000 | Vehicles, Plant & Equip't £000 | Infra-structure Assets £000 | Comm. Assets £000 | Surplus Assets £000 | Assets under Construction £000 | TOTAL £000 |
|---|---|---|---|---|---|---|---|---|
| **Gross Book Value b/fwd at 01 April 2018** | **1,256,670** | **1,014,477** | **53,264** | **180,370** | **5,029** | **94,821** | **23,690** | **2,628,321** |
| Additions | 36 | 112 | 6,068 | 5,953 | 214 | 1,945 | 8,605 | **22,933** |
| Revaluations (recognised in Revaluation Reserve) | 9,163 | (7,655) | 0 | 0 | 0 | 561 | 0 | **2,069** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | (2,873) | (18,337) | 0 | 0 | 0 | (689) | 0 | **(21,899)** |
| Impairments (recognised in Revaluation Reserve) | (10) | 0 | 0 | 0 | 0 | (9,619) | 0 | **(9,629)** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | (26) | (113) | 0 | 0 | 0 | (9,829) | 0 | **(9,968)** |
| Disposals | (6,809) | 0 | (1,937) | 0 | 0 | 0 | 0 | **(8,746)** |
| Transfers | (1,488) | (12,296) | 0 | 72 | 344 | 14,568 | (1,200) | **0** |
| Gross Book Value c/fwd at 31 March 2019 | 1,254,663 | 976,188 | 57,395 | 186,395 | 5,587 | 91,758 | 31,095 | **2,603,081** |
| Depreciation b/fwd at 01 April 2018 | (827) | (3,416) | (28,094) | (62,946) | (54) | (198) | 0 | **(95,535)** |
| Depreciation for year | (21,993) | (15,396) | (4,345) | (7,375) | (23) | (1,027) | 0 | **(50,159)** |
| Depreciation written back on: | | | | | | | | |
| Transfers | 26 | 189 | 0 | 0 | 0 | (215) | 0 | **0** |
| Revaluations (recognised in Revaluation Reserve) | 21,704 | 8,044 | 0 | 0 | 0 | 701 | 0 | **30,449** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 879 | 8,941 | 0 | 0 | 0 | 173 | 0 | **9,993** |
| Impairments (recognised in Revaluation Reserve) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | 0 | 0 | 0 | 0 | 309 | 0 | **309** |
| Assets Sold | 0 | 0 | 1,915 | 0 | 0 | 0 | 0 | **1,915** |
| Depreciation c/fwd at 31 March 2019 | (211) | (1,638) | (30,524) | (70,321) | (77) | (257) | 0 | **(103,028)** |
| **Net Book Value at 31 March 2019** | **1,254,452** | **974,550** | **26,871** | **116,074** | **5,510** | **91,501** | **31,095** | **2,500,053** |

## 11. INVESTMENT PROPERTIES

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

## 12. FINANCIAL INSTRUMENTS

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

### a) Categories of Financial Instruments

**Financial Assets**

| | Long Term | | | | Current | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Investments | | Debtors | | Investments | | Debtors | | Total | |
| | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Amortised cost | 0 | 0 | 56,645 | 56,442 | 381,437 | 416,536 | 36,126 | 33,486 | 474,207 | 506,464 |
| **Total financial assets** | **0** | **0** | **56,645** | **56,442** | **381,437** | **416,536** | **36,126** | **33,486** | **474,207** | **506,464** |

**Financial Liabilities**

| | Long Term | | | | | Current | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Borrowings | | | Creditors | | Borrowings | | | Creditors | | Total | |
| | 31/03/20 | 31/03/19 | 31/03/2019 RESTATED | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 | 31/03/2019 RESTATED | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Amortised cost | 434,867 | 422,711 | 447,711 | 0 | 0 | 14,765 | 34,950 | 9,950 | 81,592 | 71,188 | **531,224** | **528,850** |
| **Total financial liabilities** | **434,867** | **422,711** | **447,711** | **0** | **0** | **14,765** | **34,950** | **9,950** | **81,592** | **71,188** | **531,224** | **528,850** |

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

The value of short-term investments on the Balance Sheet of £269m includes short term fixed deposits of £189m and notice accounts of £80m, including accrued interest.

The 2018/19 long term and current borrowings at amortised cost have been restated to reflect a change in accounting policy in accordance with the updated 2019/20 Code, in that call options within LOBO contracts are no longer accounted for separately.

### b) Non-Financial Instruments

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

**Debtors:**

| | Long Term Debtors | | Current Debtors | | Total | |
|---|---|---|---|---|---|---|
| | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial instruments | 56,645 | 56,442 | 36,126 | 33,486 | 92,770 | 89,928 |
| Non-financial instruments | 0 | 0 | 27,529 | 21,358 | 27,529 | 21,358 |
| **Total Debtors** | **56,645** | **56,442** | **63,655** | **54,844** | **120,300** | **111,286** |

**Creditors**

| | Long Term Creditors | | Current Creditors | | Total | |
|---|---|---|---|---|---|---|
| | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 | 31/03/20 | 31/03/19 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial instruments | 0 | 0 | 81,592 | 71,188 | 81,592 | 71,188 |
| Non-financial instruments | 0 | 0 | 20,677 | 15,809 | 20,677 | 15,809 |
| **Total Creditors** | **0** | **0** | **102,269** | **86,997** | **102,269** | **86,997** |

Other Required Declarations

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

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

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

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

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

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

The adoption of IFRS 9 includes the requirement for disclosure of the expected credit loss impairment associated with financial instruments held at amortised cost. For 2019/20 this charge is set out in the following section as £2.9m (£6.0m in 2018/19). These charges relate to the expected credit losses on trade receivables.

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

### c) Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are as follows (there were no revaluations of financial instruments in 2019/20 or 2018/19):

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| | Surplus or Deficit on the Provision of Services £000 | Other Comprehensive Income and Expenditure £000 | Surplus or Deficit on the Provision of Services £000 | Other Comprehensive Income and Expenditure £000 |
| **Interest revenue:** | | | | |
| Financial assets measured at amortised cost | (3,836) | 0 | (3,452) | 0 |
| **Total Income** | **(3,836)** | **0** | **(3,452)** | **0** |
| | | | | |
| **Interest expense** | **8,287** | **0** | **8,375** | **0** |
| **Expected Credit Loss:** | | | | |
| Financial assets measured at amortised cost | 2,912 | 0 | 6,026 | 0 |
| **Total Expense** | **11,199** | **0** | **14,401** | **0** |

### d) The Fair Values of Financial Assets and Financial Liabilities that Are Not Measured at Fair Value (but for which Fair Value Disclosures Are Required)

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

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

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

| **Financial Liabilities** | 31/03/20 | | 31/03/19 | | |
|---|---|---|---|---|---|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 | Fair Value RESTATED £000 |
| Financial liabilities held at amortised cost: | | | | | |
| PWLB loans - maturity | 97,741 | 125,751 | 98,039 | 155,970 | 132,267 |
| Lender Option Borrower Option (LOBO) loans | 131,214 | 164,315 | 131,422 | 213,197 | 172,181 |
| PFI and finance lease liabilities | 220,677 | 220,677 | 227,996 | 227,996 | 227,996 |
| **Total** | **449,632** | **510,743** | **457,457** | **597,163** | **532,444** |

The fair value of borrowings is greater than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

The 2018/19 fair values for PWLB and LOBO Loans have been restated to correctly show values at the New Loan rate, and not the Premature Repayment rate.

| **Financial Assets** | **31/03/20** | | **31/03/19** | |
|---|---|---|---|---|
| | **Carrying Amount £000** | **Fair Value £000** | **Carrying Amount £000** | **Fair Value £000** |
| Financial assets held at amortised cost: | | | | |
| Cash and cash equivalents | 114,770 | 114,770 | 82,452 | 82,452 |
| Short term investments | 268,595 | 268,595 | 325,970 | 325,970 |
| Certificates of deposit | 0 | 0 | 15,076 | 15,152 |
| Long term debtors | 56,645 | 56,645 | 56,442 | 56,442 |
| **Total** | **440,010** | **440,010** | **479,940** | **480,016** |

The fair value of the financial assets is equal to the carrying value, where the carrying value of assets with a maturity of less than 12 months is taken to be the fair value.

### e) Financial Instruments Adjustment Account

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

| | **Balance 31/03/19 £000** | **19/20 Transfers Net £000** | **Balance 31/03/20 £000** |
|---|---|---|---|
| LOBO Premium (created in Nov-17 following LOBO restructure) | (23,029) | 1,137 | **(21,892)** |
| FV recognition adjustment following LOBO restructure | (9,967) | 0 | **(9,967)** |
| Other Premiums and Discounts | (3,127) | 293 | **(2,834)** |
| | | | **0** |
| **Total** | **(36,124)** | **1,430** | **(34,694)** |

## 13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### a) Key Risks

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

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

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

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

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

**b) Overall Procedures for Managing Risk**

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

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

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

**c) Credit Risk**

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

The Council's maximum exposure to credit risk in respect of its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to an individual institution. It is rare for such entities to be unable to meet their commitments and a risk of irrecoverable losses applies to all of the Council's deposits; however at the 31 March 2020 there was no evidence that this was likely to happen.

### d) Amounts Arising from Expected Credit Losses

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

The Council's investment assets are held with highly rated counterparties with very low historical rates of default, and are mainly simple deposit products held for durations of less than a year to collect contractual cash flows. Using the 12 month ECL model, at 31 March 2020 the Council's investment assets with a value of £382.7m had a calculated ECL of £0.049m; the Council has deemed this immaterial for adjusting the carrying values of those assets.

### e) Liquidity Risk

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

| 31/03/20 | | | | | 31/03/19 | | | |
|---|---|---|---|---|---|---|---|---|
| PWLB | LOBO | PFI and Finance Leases | Total | | PWLB | LOBO | PFI and Finance Leases | Total |
| £000 | £000 | £000 | £000 | Maturity Period | £000 | £000 | £000 | £000 |
| 3,825 | 203 | 8,797 | **12,825** | Less than 1 year | 0 | 203 | 7,504 | **7,707** |
| 0 | 203 | 9,303 | **9,506** | Between 1 and 2 years | 3,825 | 203 | 8,798 | **12,826** |
| 2,432 | 608 | 32,713 | **35,753** | Between 2 and 5 years | 2,432 | 608 | 30,293 | **33,333** |
| 11,597 | 1,014 | 61,160 | **73,771** | Between 5 and 10 years | 9,914 | 1,014 | 61,320 | **72,248** |
| 18,366 | 17,028 | 108,705 | **144,099** | Between 10 and 20 years | 20,050 | 17,028 | 120,285 | **157,362** |
| 8,581 | 22,028 | 0 | **30,609** | Between 20 and 30 years | 8,581 | 12,028 | 0 | **20,609** |
| 51,939 | 35,101 | 0 | **87,040** | Between 30 and 40 years | 51,939 | 45,101 | 0 | **97,040** |
| 0 | 44,122 | 0 | **44,122** | Above 40 years | 0 | 44,325 | 0 | **44,325** |
| **96,740** | **120,307** | **220,677** | **437,724** | **Total** | **96,740** | **120,510** | **228,200** | **445,450** |

The LOBO maturity profile assumes that the lenders will not exercise any options embedded in the loans until maturity. As at 31 March 2020, LOBO loans with nominal value £83m have fixed interest rates ranging from 3.98% to 4.67%, whilst a loan with nominal value £38m has a stepped rate ranging from 2.19% at 31 March 2020 to 6.30% at maturity. Of the total amount of LOBO loans, £35m have a break clause at every biannual interest payment date, £5m have a break clause every three years, and £80m every five years. In the current low interest rate environment, it is unlikely that the lenders will exercise their options to request early repayment of these LOBOs.

### f) Refinancing and Maturity Risk

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

### g) Market Risk – Interest Rate Risk

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

If variable interest rates had been 0.1% higher (with all other variables held constant) the financial effect would be a net increase in income of £0.3m. The impact of a 0.1% fall in interest rates would be a net decrease in income of £0.3m.

## 14. DEBTORS

### a) Long Term Debtors

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

| | 31/03/20 £000 | 31/03/19 £000 | |
|---|---|---|---|
| Lewisham Homes Limited - Loan | **37,000** | **37,000** | (a) |
| Catford Regeneration Partnership Limited (CRPL) - Loan | **13,361** | **12,861** | (b) |
| Street Lighting PFI Sinking Fund | **2,950** | **2,950** | (c) |
| Lewisham Gateway Development - Loan | **2,000** | **2,000** | (d) |
| Land Charges Debts | **277** | **277** | |
| Other Long Term Debtors | **1,057** | **1,354** | (e) |
| **Total Long Term Debtors** | **56,645** | **56,442** | |

a) Lewisham Homes Limited Loan

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

b) Catford Regeneration Partnership Limited Loan

A loan of £12m was advanced to CRPL in 2010/11, followed by further loans of £0.25m in 2015/16, £1m in 2016/17 and £0.50m in 2019/20. (See Section 6 – Group Accounts.)

c) Street Lighting PFI Sinking Fund

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

d) Lewisham Gateway Development

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

e) Other Long Term Debtors

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

**b) Current Debtors**

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

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Government and Other Public Bodies: | | |
| HM Revenue & Customs - VAT | 6,030 | 6,002 |
| Central Government bodies | 6,937 | 3,927 |
| Other Local Authorities | 3,261 | 3,638 |
| NHS bodies | 1,186 | 1,177 |
| Other Public bodies | 545 | 982 |
| Council Tax Payers | 39,807 | 35,655 |
| NDR Payers | 2,219 | 2,115 |
| Council Tax Court Costs | 9,764 | 9,117 |
| Housing Benefit Overpayments | 25,168 | 25,911 |
| Housing Rents (inc PSL, B & B, Hostels, Commercial) | 11,680 | 9,539 |
| Leaseholders Services Charges | 6,204 | 5,819 |
| Parking | 0 | 399 |
| LBL Pension Fund | 5,036 | 1,458 |
| General Debtors due for Supplies and Services | 40,108 | 35,871 |
| **Total Current Debtors** | 157,945 | 141,610 |
| **Impairment Allowances** | (94,290) | (86,766) |
| **Total Net Current Debtors** | 63,655 | 54,844 |

**c) Impairment Allowances**

| | Balance at 31/03/19 £000 | Movement in 2019/20 £000 | Balance at 31/03/20 £000 |
|---|---|---|---|
| Council Tax Payers | (32,673) | (3,804) | **(36,477)** |
| Council Tax Court Costs | (8,296) | (659) | **(8,955)** |
| NDR Payers | (1,029) | 4 | **(1,025)** |
| Housing Benefit Overpayments | (20,099) | (144) | **(20,243)** |
| Housing Rents (inc PSL, B & B, Hostels, Commercial) | (4,533) | (113) | **(4,646)** |
| Leaseholders Services Charges | (1,896) | (84) | **(1,980)** |
| General Debtors due for Supplies and Services | (18,240) | (2,724) | **(20,964)** |
| **Total Impairment Allowances** | **(86,766)** | **(7,524)** | **(94,290)** |

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

## 15. CASH AND CASH EQUIVALENTS

| | Balance 31/03/19 £000 | Movement in 2019/20 £000 | Balance 31/03/20 £000 |
|---|---|---|---|
| **Cash Equivalents** | | | |
| Short Term Deposits | 0 | 0 | **0** |
| **Cash** | | | |
| Money Market Funds | 82,451 | 32,318 | **114,769** |
| Call Accounts with Banks | 0 | 0 | **0** |
| | **82,451** | **32,318** | **114,769** |
| **Other Cash and Bank Balances** | | | |
| Main Bank Accounts | 0 | 0 | **0** |
| Other Cash and Bank Accounts | 1,926 | (728) | **1,198** |
| | **1,926** | **(728)** | **1,198** |
| **Total Cash and Cash Equivalents** | **84,377** | **31,590** | **115,967** |
| **Bank Accounts Overdrawn** | | | |
| Main Bank Accounts | (7,974) | 4,577 | **(3,397)** |
| Schools Bank Accounts | (913) | 1,185 | **272** |
| | **(8,887)** | **5,762** | **(3,125)** |
| **Net Cash and Cash Equivalents** | **75,490** | **37,352** | **112,842** |

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

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

c) The schools bank accounts are an integral part of the Council's overall cash management arrangements, and are therefore included under Net Cash and Cash Equivalents. They consist of individual accounts for each school, and an overall treasury account which is used to invest the net balance in conjunction with the Council's other balances. The balances on these accounts were £12.0m (2018/19 £20.7m) and overdrawn £11.7m (2018/19 overdrawn £21.6m) respectively.

## 16. CREDITORS

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

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Government and other public bodies: | | |
| HM Revenue & Customs | **5,869** | 5,365 |
| Central Government bodies | **35,835** | 16,879 |
| Other Local Authorities | **6,232** | 13,391 |
| NHS bodies | **3,399** | 1,865 |
| Other Public bodies | **598** | 462 |
| | **51,933** | **37,962** |
| Short Term Compensated Absences | **6,753** | 6,598 |
| General Creditors (amounts owed for supplies and services) | **43,583** | 42,437 |
| **Total Creditors** | **102,269** | **86,997** |

## 17. REVENUE RECEIPTS IN ADVANCE

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Capital Contributions Unapplied (*) | **45,483** | 48,989 |
| PFI Schemes | **23,769** | 23,324 |
| Council Tax | **8,932** | 8,125 |
| Revenue Grants and Contributions | **7,285** | 8,328 |
| NDR | **6,953** | 6,462 |
| Rents in Advance | **5,734** | 5,207 |
| Other Receipts in Advance | **5,746** | 3,780 |
| **Total Receipts in Advance** | **103,902** | **104,215** |

(*) Capital Contributions Unapplied includes a balance of £43.7m Section 106 Contributions, where the conditions have not yet been met, in 2019/20 (2018/19 was £47.2m).

## 18. PROVISIONS

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

| | Balance 31/03/19 £000 | 2019/20 Transfers Out £000 | 2019/20 Transfers In £000 | Balance 31/03/20 £000 |
|---|---|---|---|---|
| **Current (less than 1 year)** | | | | |
| Insurance Provision | 2,712 | (2,619) | 2,277 | **2,370** |
| Other Provisions | 1,206 | (963) | 2,188 | **2,431** |
| | **3,918** | **(3,582)** | **4,465** | **4,801** |
| **Non Current (Over 1 year)** | | | | |
| Insurance Provision | 4,785 | (758) | 0 | **4,027** |
| Other Provisions | 971 | 0 | 7 | **978** |
| | **5,756** | **(758)** | **7** | **5,005** |
| **Total - Provisions** | **9,674** | **(4,340)** | **4,472** | **9,806** |

Insurance Provisions

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

## 19. USABLE CAPITAL RECEIPTS

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Balance brought forward at start of year** | **62,101** | **48,350** |
| Amounts Received | **29,366** | **21,438** |
| Poolable to Central Government | **(1,926)** | **(1,926)** |
| Receipts returned to Central Government | **(18,195)** | **0** |
| Amounts applied to finance new capital investment | **(9,978)** | **(5,761)** |
| **Total increase/(decrease) in capital receipts in year** | **(733)** | **13,751** |
| **Balance carried forward at end of year** | **61,368** | **62,101** |

## 20. PENSION RESERVE

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Balance brought forward at start of year** | **(752,410)** | **(639,735)** |
| Adjustment to balance b/f to remove Lewisham Homes from Single Entity Accounts | **0** | 9,739 |
| Actuarial gains or losses on pensions assets and liabilities | **322,424** | (132,994) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES | **(121,605)** | (20,100) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | **33,125** | 30,680 |
| **Balance carried forward at end of year** | **(518,466)** | **(752,410)** |

## 21. REVALUATION RESERVE

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

| | 2019/20<br>£000 | 2018/19<br>£000 |
|---|---|---|
| **Balance brought forward at start of year** | **1,026,623** | **1,025,482** |
| Balance brought forward adjustment | **13** | 0 |
| **Restated Balance brought forward at start of year** | **1,026,636** | **1,025,482** |
| Revaluation of Assets | **136,558** | 32,518 |
| Impairment Losses | **(12,992)** | (9,629) |
| **Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services** | **123,566** | **22,889** |
| Difference between fair value and historic cost depreciation | **(18,058)** | (18,223) |
| Accumulated gains on assets sold or scrapped | **(2,034)** | (3,525) |
| **Amount written off to the Capital Adjustment Account** | **(20,092)** | **(21,748)** |
| **Balance carried forward at end of year** | **1,130,110** | **1,026,623** |

## 22. CAPITAL ADJUSTMENT ACCOUNT

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Balance brought forward at start of year** | **1,031,425** | **1,052,696** |
| Reversal of capital expenditure items debited or credited to the CIES | | |
| Charges for depreciation and impairment of non-current assets | **(9,351)** | (71,725) |
| Revenue expenditure funded from capital under statute | **(1,687)** | (2,200) |
| Non-current assets written off on disposal - gain/loss to the CIES | **(7,510)** | (3,322) |
| | **(18,548)** | **(77,247)** |
| Adjusting amounts written out of the Revaluation Reserve | **18,058** | 18,223 |
| **Net amount written out of the cost of non-current assets consumed in the year** | **(490)** | **(59,024)** |
| Capital Financing applied in the year: | | |
| Use of Capital Receipts to finance new capital expenditure | **9,978** | 5,761 |
| Use of Major Repairs Reserve to finance new capital expenditure | **2,742** | 461 |
| Capital grants and contributions credited to the CIES | **15,738** | 10,298 |
| Statutory Provision for the financing of capital investment | **3,958** | 5,848 |
| Repayment of Principal on PFI schemes | **7,632** | 8,072 |
| Capital expenditure charged to General Fund and HRA | **0** | 7,313 |
| | **40,048** | **37,753** |
| **Balance carried forward at end of year** | **1,070,983** | **1,031,425** |

## 23. EXPENDITURE AND INCOME ANALYSED BY NATURE

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Employee expenses - LBL | **282,180** | 271,133 |
| Employee expenses - Schools Non-LBL | **60,171** | 57,638 |
| Other Expenditure | **714,306** | 708,004 |
| Revaluation, Depreciation, Amortisation and Impairment | **9,351** | 70,116 |
| Interest payments | **35,651** | 33,526 |
| Precepts and levies | **1,700** | 1,691 |
| Payments to Housing Capital Receipts Pool | **20,121** | 1,926 |
| Gain or loss on disposal of non-current assets | **0** | 0 |
| Net interest on the net defined benefit liability | **18,457** | 17,429 |
| **Total Expenditure** | **1,141,937** | **1,161,463** |
| | | |
| Government grants and contributions | **(628,892)** | (658,157) |
| Fees, Charges and Other service income | **(237,625)** | (219,637) |
| Interest and Investment income | **(4,623)** | (4,150) |
| Income from council tax, non-domestic rates, district rate income | **(215,512)** | (175,485) |
| Recognised Capital Grants and Contributions | **(18,568)** | (9,859) |
| Gain or loss on disposal of non-current assets | **(19,860)** | (14,748) |
| Other Income | **0** | 0 |
| **Total Income** | **(1,125,080)** | **(1,082,036)** |
| | | |
| **(Surplus) or Deficit on the Provision of Services** | **16,857** | **79,427** |

## 24. AGENCY SERVICES AND POOLED BUDGETS

The Council did not carry out any agency services, construction work or any other work for any other Local Authorities, public bodies or entities in 2019/20 (nor 2018/19).

In 2019/20 the Council operated a pooled budget as defined by the terms of a Section 75 Agreement (National Health Service Act 2006.

There is one Pooled fund called Lewisham Better Care Fund (BCF). The Host Partner for the pooled fund is the Council (LBL) and the Pooled Fund Manager, is the officer of the council the Group Finance Manager, Community Services.

The two partners in the agreement are LBL and NHS Lewisham CCG.

Before the start of the financial year the Partners agree an expenditure plan and the financial contribution of each party. For each element the plan indicates which party will be the Lead Commissioner (or whether there will be joint commissioning). All BCF expenditure will require the approval of the Partnership Board. Payments to and from the Pooled Fund are made from and recorded on the Council's financial systems. Except where agreed otherwise payments to providers for services that are part of the BCF are made by the Partner holding the contract. These are identified and agreed by the Partners at least yearly before the start of each financial year. The Council invoices the CCG monthly for 1/12th of the agreed annual contribution less all planned payments made by the CCG in relation to CCG let contracts delivering the Schemes.
The total Lewisham Better Care Fund for 2019/20 was £38.7m, the split of which can be seen in the table below:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Funding provided to the pooled budget: | | |
| Lewisham Borough Council | **(16,615)** | **(12,466)** |
| NHS Lewisham CCG | **(22,056)** | **(20,915)** |
| | **(38,671)** | **(33,381)** |
| Expenditure met from the pooled budget: | | |
| Lewisham Borough Council | **25,927** | **21,241** |
| NHS Lewisham CCG | **12,744** | **12,140** |
| | **38,671** | **33,381** |
| **Net surplus arising in year** | **0** | 0 |
| ***LBL share being 9.6% of the net surplus in year*** | ***0*** | *0* |

Note:

(i) The LBL share of any in-year net surplus would be 9.6%. This was nil in 2019/20 (and 2018/19) due to there not being a surplus.

## 25. INVESTMENT IN COMPANIES

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

The Council is sole owner of two companies:

i) Lewisham Homes Limited

ii) Catford Regeneration Partnership Limited

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

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

i) Lewisham Schools for the Future LEP Limited and Lewisham Schools for the Future SPV Limited

The Council has a stake of 10% in Lewisham Schools for the Future LEP Limited which is the Local Education Partnership company also comprising Costain Engineering & Construction Limited, Babcock Project Investments Limited and Building Schools for the Future Limited as well. It was established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish the secondary schools within the Borough. No payments were made to this company in 2019/20 or 2018/19.

The Council also has a 10% stake in four Special Purpose Vehicles which were set up in relation to the schools which were built within this BSF Programme. Amounts paid to these companies in 2019/20 are shown in brackets and are included in the Corporate Services line of the CIES. The investment is accounted for at cost. The total cost of shares was £24k for all companies and came out of revenue. The lines of the CIES where revenue expenditure is charged are included in the note.

The companies concerned are Lewisham Schools For The Future SPV Limited (19/20 £9.3m, 18/19 £8.7m), Lewisham Schools For The Future SPV2 Limited (19/20 £3.2m, 18/19 £2.7m), Lewisham Schools For The Future SPV3 Limited (19/20 £4.6m, 18/19 £3.9m) and Lewisham Schools For The

Future SPV4 Limited (19/20 £8.5m, 18/19 £7.5m). The Director of Financial Services is the Council's Director on all of these companies' boards. The corporate structure is standard to BSF schemes.

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

The Council has a minority share of less than 1% in South-East London Combined Heat and Power Limited (SELCHP) which is a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy services. Payments of £5.2m were made in 2019/20 to the company (£5.3m in 2018/19) and are included in the Housing, Regeneration & Environment line of the CIES.

iii) Newable Limited

The Council has a minority share in Newable Limited (formerly Greater London Enterprise Limited) which is a company limited by guarantee and provides property management & consultancy services. No payments were made by the Council in 2019/20 or 2018/19.

iv) Lewisham Grainger Holdings LLP

During 2018/19 the Council formed a Limited Liability Partnership with Grainger Developments Ltd. The Council and Grainger are each 50:50 shareholders in the holding company and this (and its subsidiaries) are all registered at Companies House. Therefore this is not a subsidiary of the Council as LBL do not have the majority shareholding. The partnership will build housing for rent in Besson Street, New Cross. No payments were made to the company by the Council in 2019/20 or 2018/19.

## 26. MEMBERS' ALLOWANCES

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Allowances (incl. NI) | 965 | 938 |
| Other Expenses | 71 | 85 |
| **Total Expenditure in Year** | **1,036** | **1,023** |

## 27. OFFICERS' REMUNERATION

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

| | Non-Schools | | Schools | | Totals | |
|---|---|---|---|---|---|---|
| **Remuneration Band** | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| £50,000 to £54,999 | **92** | **84** | **188** | **214** | **280** | **298** |
| £55,000 to £59,999 | **46** | **31** | **113** | **114** | **159** | **145** |
| £60,000 to £64,999 | **19** | **23** | **79** | **53** | **98** | **76** |
| £65,000 to £69,999 | **15** | **15** | **51** | **34** | **66** | **49** |
| £70,000 to £74,999 | **14** | **13** | **21** | **22** | **35** | **35** |
| £75,000 to £79,999 | **7** | **5** | **21** | **23** | **28** | **28** |
| £80,000 to £84,999 | **3** | **4** | **17** | **18** | **20** | **22** |
| £85,000 to £89,999 | **2** | **2** | **12** | **5** | **14** | **7** |
| £90,000 to £94,999 | **0** | **1** | **3** | **6** | **3** | **7** |
| £95,000 to £99,999 | **3** | **0** | **6** | **6** | **9** | **6** |
| £100,000 to £104,999 | **4** | **6** | **6** | **3** | **10** | **9** |
| £105,000 to £109,999 | **4** | **0** | **2** | **1** | **6** | **1** |
| £110,000 to £114,999 | **1** | **2** | **4** | **2** | **5** | **4** |
| £115,000 to £119,999 | **2** | **0** | **1** | **0** | **3** | **0** |
| £120,000 to £124,999 | **0** | **0** | **1** | **2** | **1** | **2** |
| £125,000 and over | **0** | **0** | **0** | **1** | **0** | **1** |

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

Note (ii) The 2018/19 figures for schools have been restated to include those with external payroll providers.

## 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.

**Disclosure of Senior Employees Remuneration for financial year 2019/20**

| Financial Year 2019/20 | Salary (inc fees and allowances) | Employer's Pension Contributions | Total (inc. Pension Contributions) |
|---|---|---|---|
| | £ | £ | £ |
| **Senior Employees** | | | |
| Chief Executive (a) | **180,525** | **40,619** | **221,144** |
| *01-Apr-19 to 27-Oct-19* | *100,202* | *22,546* | *122,748* |
| *21-Oct-19 to 31-Mar-20* | *80,323* | *18,073* | *98,396* |
| Executive Director for Resources and Regeneration (b) | **111,807** | **25,157** | **136,964** |
| Executive Director for Children and Young People (c) | **163,634** | **25,276** | **188,910** |
| *01-Apr-19 to 31-Dec-19* | *112,334* | *25,276* | *137,610* |
| *09-Dec-19 to 31-Mar-20* | *51,300* | *0* | *51,300* |
| Executive Director for Community Services (d) | **59,891** | **13,476** | **73,367** |
| Executive Director for Housing, Regeneration and Environment (previously Customer Services) | **149,778** | **33,700** | **183,478** |
| Director of Children's Social Care and Health | **111,552** | **25,099** | **136,651** |
| Director of Public Health | **97,407** | **22,357** | **119,764** |
| Acting Chief Finance Officer (b) | **22,361** | **5,032** | **27,393** |
| Head of Law and Monitoring Officer (part-time) | **68,479** | **15,408** | **83,887** |
| **Totals** | **965,434** | **206,124** | **1,171,558** |

(a) Chief Executive - post was covered by an interim from 01-Apr-19 to 27-Oct-19. Salary is the total of both postolders in place during the year. There was a brief overlap between postholders.

(b) Executive Director for Resources and Regeneration - this was an interim appointment for period 01-Apr-19 to 31-Jan-20. The postholder then returned to their position of Acting Chief Finance Officer for period 01-Feb-20 to 31-Mar-20.

(c) Director for Children and Young People - post was covered by an interim from 09-Dec-19 to 31-Mar-20 (however only 2 days were worked in Dec-19). Salary is the total of both postolders in place during the year. Agency costs of £9,234 (not included above) were also incurred for the interim employee.

(d) Executive Director for Community Services - part-time 01-Apr-19 to 29-Feb-20.

**Disclosure of Senior Employees Remuneration for financial year 2018/19**

| Financial Year 2018/19 | Salary (inc fees and allowances) | Employer's Pension Contributions | Total (inc. Pension Contributions) |
|---|---|---|---|
| | £ | £ | £ |
| **Senior Employees** | | | |
| Chief Executive (a) | **86,035** | **19,358** | **105,393** |
| Executive Director for Resources and Regeneration (b) | **157,135** | **35,355** | **192,490** |
| Executive Director for Children and Young People | **146,841** | **33,039** | **179,880** |
| Executive Director for Community Services | **146,841** | **33,039** | **179,880** |
| Executive Director for Customer Services | **146,841** | **33,039** | **179,880** |
| Director of Children's Social Care and Health (c) | **152,688** | **21,734** | **174,422** |
| *01-Apr-18 to 30-Jun-18* | *39,023* | *8,780* | *47,803* |
| *01-Jul-18 to 16-Sep-18* | *56,091* | *0* | *56,091* |
| *17-Sep-18 to 31-Mar-19* | *57,574* | *12,954* | *70,528* |
| Director of Public Health (d) | **129,206** | **18,579** | **147,785** |
| Acting Chief Finance Officer (14-Nov-18 to 31-Mar-19) | **43,645** | **9,820** | **53,465** |
| Head of Law and Monitoring Officer (Part time) | **67,192** | **15,118** | **82,310** |
| **Totals** | **1,076,424** | **219,081** | **1,295,505** |

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

### 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 | |
|---|---|---|---|---|
| | 2019/20 No. | 2018/19 No. | 2019/20 £000 | 2018/19 £000 |
| £0 to £20,000 | **90** | **38** | **716** | **265** |
| £20,001 to £40,000 | **20** | **14** | **520** | **379** |
| £40,001 to £60,000 | **4** | **1** | **204** | **50** |
| £60,001 to £80,000 | **3** | **0** | **214** | **0** |
| £80,001 to £100,000 | **1** | **0** | **86** | **0** |
| £100,001 and over (*) | **1** | **1** | **493** | **231** |
| **Total** | **119** | **54** | **2,233** | **925** |

*This payment in 2018/19 includes the £185k exit payment (noted above in Note 27b) and remuneration of £46k in respect of the period from the end of October 2018.

## 28. EXTERNAL AUDIT COSTS

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| External Audit Services | 183 | 149 |
| Certification of Grant Claims and Returns | 42 | 40 |
| Other services provided by the appointed auditor | 0 | 0 |
| | 225 | 189 |

The Council's External Auditors are Grant Thornton.

## 29. DEDICATED SCHOOLS' GRANT

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

| | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| | 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** | 81,444 | 209,649 | 291,093 | | | 289,744 |
| Academy figure recouped | (787) | (31,473) | (32,260) | | | (26,183) |
| **Total DSG after academy recoupment** | 80,657 | 178,176 | 258,833 | | | 263,561 |
| Brought forward from previous year | 0 | 0 | 0 | | | 0 |
| Carry forward to next year agreed in advance | 0 | 0 | 0 | | | 0 |
| **Agreed initial budgeted distribution** | 80,657 | 178,176 | 258,833 | 89,455 | 174,106 | 263,561 |
| In year adjustments | 0 | 0 | 0 | (181) | (3,615) | (3,796) |
| **Final Budget Distribution** | 80,657 | 178,176 | 258,833 | 89,274 | 170,491 | 259,765 |
| **Actual Central Expenditure** | 80,106 | | 80,106 | 89,274 | | 89,274 |
| **Actual ISB deployed to schools** | | 178,176 | 178,176 | | 170,491 | 170,491 |
| **Carry Forward** | 551 | 0 | 551 | 0 | 0 | 0 |

## 30. GRANT INCOME

The following grants were credited to services during the year:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Dedicated Schools Grant | (259,006) | (258,972) |
| Housing Benefit Grant | (180,332) | (205,073) |
| BSF/ Grouped Schools PFI Unitary Charge Grant | (26,267) | (26,730) |
| Public Health Grant | (23,683) | (24,325) |
| Housing Subsidy/ Decent Homes Backlog Grant | (17,553) | (10,353) |
| Improved Better Care Fund | (13,134) | (10,470) |
| Pupil Premium Grant | (12,939) | (14,172) |
| Other Grants | (40,754) | (34,194) |
| **Total** | (573,668) | (584,289) |

## 31. RELATED PARTY TRANSACTIONS

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

(a) Central Government and Other Local Authorities

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

(b) Subsidiaries, Associated Companies and Joint Ventures

The companies that are related to the Council are detailed in Note 25 to the Core Financial Statements.

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

| Name | Loan with LBL | Expenditure | Income | Income outstanding to LBL (LBL debtor balance) | Balance outstanding (LBL creditor balance) |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Lewisham Homes Ltd | 37,000 | 47,476 | 47,499 | 4,369 | 8,979 |
| Catford Regeneration Partnership Ltd | 13,361 | 1,123 | 1,086 | 15 | 0 |

(c) Elected Members (Councillors) and Chief Officers

Councillors have direct control over the Council's financial and operating policies, and their total cost is shown in Note 26. They are required to declare all related party transactions which they have with any organisation in which they have a controlling interest. This information is recorded on the Council's

Register of Members and Chief Officers' Declarations of Interests and is open to public inspection at the Civic Suite at Lewisham Civic Suite during office hours. The information is also published on the Council's website. The Council is compliant with the Localism Act 2012. The material instances (over £100,000) where a Councillor has declared a related party transaction are as follows (amounts in brackets show how much the Council paid the organisations named in 2019/20):

- Councillor Tom Copley is an assembly member of the GLA (£1.432m)
- Councillor Liz Johnston-Franklin is a non-executive director of Youth First (£2.757m)
- Councillor Mark Ingleby is a director of Lewisham Homes (£23.425m)
- Councillor Jim Mallory is a trustee of the Deptford Challenge Trust (£0.312m)
- Councillor Hilary Moore is a governor of Lewisham Southwark College (£0.885m)

(d) Lewisham Pension Fund

The Pension Fund Accounts are included in Section 8 of this document.

## 32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

| | 2019/20 £000 | Restated 2018/19 £000 |
|---|---|---|
| **Opening Capital Financing Requirement** | **486,552** | **244,313** |
| **Capital Investment** | | |
| Property, Plant and Equipment | **71,612** | 22,933 |
| Capital Expenditure not added to Fixed Assets (*) | **0** | 13,863 |
| Revenue Expenditure Funded from Capital under Statute | **1,687** | 2,200 |
| | **73,299** | **38,996** |
| **Resources Used for Financing** | | |
| Capital Receipts | **(9,978)** | (5,761) |
| Government Grants and Other Contributions | **(15,740)** | (10,808) |
| Sums set aside from Revenue: | **(2,742)** | (10,042) |
| | **(28,460)** | **(26,611)** |
| **Increase in the underlying need to borrowing** | **44,839** | **12,385** |
| **Adjustment (**)** | | |
| Bring in PFI Schemes Liability | **0** | 243,774 |
| | **0** | **243,774** |
| **Debt Redeemed** | | |
| Minimum Revenue Provision | **(3,958)** | (5,848) |
| Repayment of Principal on PFI schemes | **(7,632)** | (8,072) |
| | **(11,590)** | **(13,920)** |
| **Increase/ (decrease) in Capital Financing Requirement** | **33,249** | **242,239** |
| **Closing Capital Financing Requirement** | **519,801** | **486,552** |

* Lewisham Homes Loan £11m in 2018/19 & Other Capital expenditure not added to fixed assets £2.9m in 2018/19

** It was found that the PFI Liability was not included into the CFR Calculation from 2018/19 when the PFI Debt repayment was added. This has now been corrected, hence why the 2018/19 figures have been restated

## 33. LEASES

### a) Council as a Lessee

i) Finance Leases

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

ii) Operating Leases

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

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Not later than one year | **1,329** | **1,602** |
| Later than one year and not later than five years | **3,279** | **3,637** |
| Later than five years | **15,431** | **15,603** |
| | **20,039** | **20,842** |

**b) Council as a Lessor**

i) Finance Leases

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

ii) Operating Leases

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

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Not later than one year | **3,614** | 3,441 |
| Later than one year and not later than five years | **6,610** | 7,152 |
| Later than five years | **5,751** | 5,129 |
| | **15,975** | **15,722** |

## 34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

**a) Summary of PFI Schemes**

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

**b) Payments made under PFI contracts**

| | Brockley HRA | Downham Lifestyles | Grouped Schools | BSF 1 | BSF 2 | BSF 3 | BSF 4 | Street Lighting | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **2019/20** | | | | | | | | | |
| Service Charges | 9,023 | 492 | 3,733 | 3,933 | 975 | 1,109 | 2,454 | 818 | 22,537 |
| Interest | 3,757 | 1,653 | 3,138 | 3,825 | 1,707 | 2,559 | 4,970 | 2,322 | 23,931 |
| Liability Repayment | 2,858 | 258 | 800 | 1,227 | 372 | 723 | 756 | 636 | 7,630 |
| **Unitary Charge** | **15,638** | **2,403** | **7,671** | **8,985** | **3,054** | **4,391** | **8,180** | **3,776** | **54,098** |
| **2018/19** | | | | | | | | | |
| Service Charges | 8,366 | 480 | 3,571 | 3,719 | 873 | 1,056 | 1,729 | 798 | 20,592 |
| Interest | 4,138 | 1,633 | 3,229 | 3,958 | 1,759 | 2,603 | 5,158 | 2,359 | 24,837 |
| Liability Repayment | 2,954 | 243 | 769 | 1,212 | 393 | 683 | 1,232 | 585 | 8,071 |
| **Unitary Charge** | **15,458** | **2,356** | **7,569** | **8,889** | **3,025** | **4,342** | **8,119** | **3,742** | **53,500** |

### c) Movement in PFI Assets in year

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

| | 2019/20 | | Restated 2018/19 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Gross Book Value b/fwd** | | 422,963 | | 407,370 |
| **Additions** | | | | 0 |
| Revaluations (recognised in Revaluation Reserve) | (1,178) | | 15,803 | |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 5,539 | 4,361 | (210) | 15,593 |
| Impairments (recognised in Revaluation Reserve) | 0 | | 0 | |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | 0 | 0 | 0 |
| **Disposals** | | (203) | | 0 |
| **Transfers** | | 0 | | 0 |
| **Assets reclassified (to)/ from Held for Sale** | | 0 | | 0 |
| **Gross Book Value c/fwd** | | 427,121 | | 422,963 |
| **Depreciation b/fwd** | | (5,007) | | (4,303) |
| Depreciation for year | | (7,826) | | (7,561) |
| Depreciation written back on: | | | | |
| Transfers | | 0 | | 0 |
| Revaluations (recognised in Revaluation Reserve) | 4,020 | | 5,772 | |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 2,160 | 6,180 | 1,085 | 6,857 |
| Impairments (recognised in Revaluation Reserve) | 0 | | 0 | |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | | 0 | |
| Assets sold | | 0 | | 0 |
| **Depreciation c/fwd** | | (6,653) | | (5,007) |
| **Net Book Value at End of Year** | | **420,468** | | **417,956** |

**d) PFI Liabilities**

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

| | Current Liabilities (Due within 1 Year) | | Deferred (Future) Liabilities | |
|---|---|---|---|---|
| | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 |
| **Balance outstanding at start of year** | 7,504 | 7,945 | 220,696 | 228,224 |
| **Balance outstanding at end of year** | 8,797 | 7,504 | 211,880 | 220,696 |

**e) Payments due under PFI contracts in future years**

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

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

**Notes to the Core Financial Statements**

| | In 2020/21 | 2 to 5 years | 6 to 10 years | 11 to 15 years | 16 to 20 years | Total |
|---|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| **Brockley HRA** | | | | | | |
| Service charges | 8,789 | 38,356 | 20,808 | | | **67,953** |
| Interest | 3,498 | 10,644 | 3,252 | | | **17,394** |
| Repayment of liability | 3,165 | 15,331 | 11,452 | | | **29,949** |
| Planned lifecycle replacement | 549 | 2,522 | 1,207 | | | **4,278** |
| **Downham Lifestyles** | | | | | | |
| Service charges | 246 | 1,049 | 1,466 | 1,658 | 1,482 | **5,902** |
| Interest | 1,590 | 6,444 | 7,984 | 7,342 | 4,950 | **28,310** |
| Repayment of liability | 147 | 810 | 1,701 | 2,712 | 3,808 | **9,178** |
| Planned lifecycle replacement | 258 | 1,106 | 1,559 | 1,771 | 1,583 | **6,277** |
| **Grouped Schools** | | | | | | |
| Service charges | 2,876 | 12,343 | 17,509 | 20,153 | 4,921 | **57,802** |
| Interest | 3,059 | 11,335 | 11,683 | 7,221 | 587 | **33,885** |
| Repayment of liability | 844 | 4,088 | 8,730 | 14,760 | 4,353 | **32,775** |
| Planned lifecycle replacement | 1,007 | 4,518 | 4,742 | 3,946 | 951 | **15,165** |
| **BSF 1** | | | | | | |
| Service charges | 2,740 | 11,795 | 16,852 | 19,545 | | **50,932** |
| Interest | 3,790 | 13,331 | 12,704 | 5,173 | | **34,998** |
| Repayment of liability | 1,537 | 6,989 | 13,470 | 19,900 | | **41,896** |
| Planned lifecycle replacement | 1,042 | 5,477 | 6,786 | 5,978 | | **19,284** |
| **BSF 2** | | | | | | |
| Service charges | 810 | 3,449 | 4,819 | 5,452 | 2,890 | **17,419** |
| Interest | 1,662 | 6,209 | 6,508 | 4,258 | 769 | **19,406** |
| Repayment of liability | 382 | 1,831 | 3,566 | 5,916 | 4,064 | **15,759** |
| Planned lifecycle replacement | 229 | 1,150 | 1,655 | 1,856 | 1,117 | **6,007** |
| **BSF 3** | | | | | | |
| Service charges | 999 | 4,664 | 7,120 | 9,002 | 4,749 | **26,533** |
| Interest | 2,516 | 9,293 | 9,636 | 6,368 | 1,859 | **29,673** |
| Repayment of liability | 835 | 3,566 | 5,795 | 7,735 | 5,608 | **23,540** |
| Planned lifecycle replacement | 90 | 759 | 1,570 | 2,599 | 1,304 | **6,322** |
| **BSF 4** | | | | | | |
| Service charges | 1,854 | 8,084 | 12,215 | 14,919 | 10,646 | **47,717** |
| Interest | 4,987 | 18,789 | 19,900 | 14,013 | 4,063 | **61,751** |
| Repayment of liability | 1,196 | 5,985 | 10,244 | 14,993 | 12,249 | **44,666** |
| Planned lifecycle replacement | 255 | 1,211 | 2,433 | 3,617 | 3,035 | **10,551** |
| **Streetlighting** | | | | | | |
| Service charges | 838 | 3,569 | 4,987 | 5,642 | 1,659 | **16,695** |
| Interest | 2,280 | 8,602 | 9,097 | 6,197 | 957 | **27,133** |
| Repayment of liability | 692 | 3,416 | 6,202 | 9,376 | 3,228 | **22,913** |
| Planned lifecycle replacement | 0 | 0 | 0 | 0 | 0 | **0** |
| **Totals** | **54,764** | **226,714** | **247,651** | **222,104** | **80,831** | **832,063** |

## 35. CAPITAL CONTRACTUAL COMMITMENTS

The table below lists the contractual commitments for the acquisition of property, plant and equipment. These are estimated amounts based either on the value of open purchase orders or officer estimates.

| | Contractual commitments as at 31/03/20 £m | Contractual commitments as at 31/03/19 £m |
|---|---|---|
| **General Fund** | | |
| School Places Programme | **1.0** | **4.1** |
| Fleet Vehicle Replacement | **6.3** | **0.0** |
| Beckenham Place Park | **0.0** | **1.5** |
| Highways, footways and bridges | **0.0** | **0.3** |
| Asset Management programme | **0.0** | **0.4** |
| **Housing Revenue Account** | **13.6** | **13.4** |
| **Total Capital Programme contractual commitments** | **20.9** | **19.7** |

## 36. DEFINED CONTRIBUTION PENSION SCHEMES

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

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is run by the Department for Education (DfE). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DfE use a notional fund to set a national employers contribution rate based on a percentage of members' pensionable pay – in 2019/20 this rate was 16.48% to 31-Aug-19 and 23.68% from 01-Sep-19 (16.48% in 2018/19). In 2019/20, the Council paid £17.8m to the DfE in respect of teachers' pension costs (£12.5m in 2018/19).

Public Health staff employed by the Council are members of the NHS Pension Scheme, which is run by the Department of Health (DoH). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DoH use a notional fund to set a national employers contribution rate based on a percentage of members pensionable pay – this rate was 20.7% for 2019/20 (14.4% in 2018/19). In 2019/20 the Council paid £0.052m to the DoH in respect of employees' pension costs (£0.073m in 2018/19).

## 37. DEFINED BENEFIT PENSION SCHEMES

### a) Participation in Pension Schemes

The Council offers retirement benefits as part of the terms and conditions of staff employment. Although these benefits will not actually be payable until employees retire, the Council is committed to making these payments, and they are required to be disclosed at the time that employees earn their future entitlement. The Council makes contributions on behalf of its employees to the Local Government Pension Scheme (LGPS) and the London Pensions Fund Authority (LPFA). These are defined benefit

pension schemes, meaning that both the Council and the employees pay contributions into a fund, calculated at a level which is intended to balance the pension's liabilities with investment assets.

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

These are assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. They have been prepared by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on IAS19 assumptions and calculations for the year and the latest triennial valuations as at 31 March 2019. It should be noted the Council has guaranteed any pension liability that may arise for its wholly owned subsidiary, Lewisham Homes Limited – this figure is excluded from the Council's single entity accounts but is included in the Group Accounts (see Section 6).

### c) Transactions relating to Retirement Benefits

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

| **Comprehensive Income and Expenditure Statement** | **2019/20 £000** | **2018/19 £000** |
|---|---|---|
| **Cost of Service** | | |
| Current Service Cost | **53,619** | **44,555** |
| Past Service Cost (inc.settlements and curtailments) | **515** | **11,354** |
| | **54,134** | **55,909** |
| **Financing and Investment Income and Expenditure** | | |
| Net Interest on the Net Defined Benefit Liability | | |
| Interest Income on Scheme Assets | **(29,199)** | **(30,915)** |
| Interest Cost on Defined Benefit Obligation (Liabilities) | **47,656** | **48,344** |
| | **18,457** | **17,429** |
| **Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services** | **72,591** | **73,338** |
| Remeasurements of the Net Defined Benefit Liability | | |
| Return on Assets excluding amounts included in Net Interest | **49,014** | **(53,238)** |
| Actuarial Losses from changes in Demographic Assumptions | **(46,956)** | **(2,338)** |
| Actuarial Losses from changes in Financial Assumptions | **(151,328)** | **136,321** |
| Other Gains and Losses | **(124,140)** | **(989)** |
| **Total Remeasurements recognised in CIES** | **(273,410)** | **79,756** |
| **Total Post Employment Benefits Charged to the CIES** | **(200,819)** | **153,094** |

| **Movement in Reserves Statement** | **2019/20 £000** | **2018/19 £000** |
|---|---|---|
| Pensions Reserve - Adj to opening bal (re Lewisham Homes) | **0** | **9,739** |
| Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services | **(72,591)** | **(73,338)** |
| Employers' Contributions Payable to the Scheme | **33,125** | **30,680** |
| Return on Assets excluding amounts included in Net Interest | **(49,014)** | **53,238** |
| Actuarial Gains and Losses | **322,424** | **(132,994)** |
| **Net Movement in Pensions Reserve** | **233,944** | **(112,675)** |

### d) Pensions Assets and Liabilities Recognised in the Balance Sheet

| | **31/03/20 £000** | **31/03/19 £000** |
|---|---|---|
| Fair Value of Plan Assets | **1,191,887** | 1,233,006 |
| Present Value of Defined Benefit Liability (Obligation) | **(1,650,206)** | (1,919,094) |
| | **(458,319)** | **(686,088)** |
| Present Value of Unfunded Liabilities | **(60,147)** | (66,322) |
| **Pensions Reserve - Year End Balance** | **(518,466)** | **(752,410)** |

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

| | **31/03/20 £000** | **31/03/19 £000** |
|---|---|---|
| **Opening Fair Value of Scheme Assets** | **1,233,006** | **1,293,992** |
| Interest Income on Scheme Assets | 29,307 | 31,019 |
| Administration | (108) | (104) |
| Remeasurement Gains / Losses | | |
| Return on Assets excluding amounts included in Net Interest | (49,014) | 53,238 |
| Employer Contributions | 28,455 | 26,063 |
| Contributions in respect of Unfunded Benefits | 4,670 | 4,617 |
| Contributions from Scheme Participants | 8,120 | 7,742 |
| Benefits Paid | (55,169) | (49,776) |
| Unfunded Benefits Paid | (4,670) | (4,617) |
| Other Gains and Losses | (2,710) | 0 |
| Pensions Reserve - Adj to opening bal (re Lewisham Homes) | | (129,168) |
| **Closing Fair Value of Scheme Assets** | **1,191,887** | **1,233,006** |

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

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| **Opening Present Value of Scheme Liabilities (Obligations)** | **(1,985,416)** | **(1,933,727)** |
| Current Service Cost | (53,619) | (44,555) |
| Interest Cost on Defined Benefit Obligation (Liabilities) | (47,656) | (48,344) |
| Contributions from Scheme Participants | (8,120) | (7,742) |
| Remeasurement Gains / Losses | | |
| Benefits Paid | 55,169 | 49,545 |
| Unfunded Benefits Paid | 4,670 | 4,617 |
| Actuarial Losses from changes in Demographic Assumptions | 46,956 | 2,338 |
| Actuarial Losses from changes in Financial Assumptions | 151,328 | (136,321) |
| Other Gains and Losses | 126,850 | 989 |
| Adj. to write out Lewisham Homes obligation from single entity accs | 0 | 138,907 |
| Past Service Costs / Curtailments / Settlements | (515) | (11,123) |
| **Closing Present Value of Scheme Liabilities (Obligations)** | **(1,710,353)** | **(1,985,416)** |

## g) Pension Scheme Assets

| | 31/03/20 | | | 31/03/19 | | |
|---|---|---|---|---|---|---|
| **LGPS (LBL)** | **Active Market £000** | **Not in Active Markets £000** | **Total £000** | **Active Market £000** | **Not in Active Markets £000** | **Total £000** |
| Equities | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Securities | 145,671 | 0 | 145,671 | 155,923 | 0 | 155,923 |
| Real Estate | 0 | 87,640 | 87,640 | 0 | 101,839 | 101,839 |
| Investment Funds / Unit Trusts | 628,740 | 194,737 | 823,477 | 640,625 | 120,959 | 761,584 |
| Private Equity | 0 | 37,816 | 37,816 | 0 | 34,134 | 34,134 |
| Cash and Cash Equivalents | 0 | 23,378 | 23,378 | 0 | 96,795 | 96,795 |
| **Total LGPS Assets** | **774,411** | **343,571** | **1,117,982** | **796,548** | **353,727** | **1,150,275** |

| | 31/03/20 | | | 31/03/19 | | |
|---|---|---|---|---|---|---|
| **LPFA** | **Active Market £000** | **Not in Active Markets £000** | **Total £000** | **Active Market £000** | **Not in Active Markets £000** | **Total £000** |
| Equities | 33,425 | 6,606 | 40,031 | 35,953 | 9,056 | 45,009 |
| LDI Cashflow matching | 0 | 0 | 0 | 0 | 0 | 0 |
| Target Return Portfolio | 11,177 | 6,836 | 18,013 | 14,104 | 7,958 | 22,062 |
| Infrastructure | 0 | 5,187 | 5,187 | 0 | 4,985 | 4,985 |
| Fixed income | 0 | 0 | 0 | 0 | 0 | 0 |
| Real Estate | 0 | 6,749 | 6,749 | 0 | 7,779 | 7,779 |
| Cash | 2,707 | 1,218 | 3,925 | 2,655 | 241 | 2,896 |
| **Total LPFA Assets** | **47,310** | **26,595** | **73,905** | **52,712** | **30,019** | **82,731** |

### h) Basis for Estimating Assets and Liabilities

| | Local Government Pension Scheme | | LPFA | |
|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| Rate of Inflation – CPI | 1.9% | 2.5% | 2.0% | 2.5% |
| Salary Increase Rate | 2.6% | 3.2% | 3.0% | 4.0% |
| Pensions Increases | 1.9% | 2.5% | 2.0% | 2.5% |
| Rate for discounting scheme liabilities | 2.3% | 2.4% | 2.3% | 2.3% |
| **Mortality assumptions** | | | | |
| Longevity at 65 for current pensioners - Men | 20.9 | 22.2 | 20.7 | 20 |
| Longevity at 65 for current pensioners - Women | 23.5 | 24.6 | 23.7 | 23 |
| Longevity at 65 for future pensioners - Men | 22.2 | 24 | 22.1 | 21.8 |
| Longevity at 65 for future pensioners - Women | 24.8 | 26.5 | 25.2 | 24.9 |

### i) Sensitivity Analysis

| Change in Assumption at 31st March 2020 | Approximate % Increase in Employer Liability | Approximate Monetary Amount (£000) |
|---|---|---|
| **LGPS - LB Lewisham** | | |
| 0.5% Decrease in Real Discount Rate | 9% | 145,131 |
| 1 Year Increase in Member Life Expectancy | 4% | 58,052 |
| 0.5% Increase in the Salary Increase Rate | 1% | 9,376 |
| 0.5% Increase in the Pension Increase Rate | 8% | 134,888 |
| **LPFA** | | |
| 0.1% Decrease in Real Discount Rate | n/a | 172 |
| 1 Year Increase in Member Life Expectancy | n/a | 176 |
| 0.1% Increase in the Salary Increase Rate | n/a | 170 |
| 0.1% Increase in the Pension Increase Rate | n/a | 172 |

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

### j) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Council anticipates paying £27.5m in contributions to the scheme in 2020/21.

## 38. CONTINGENT LIABILITIES

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

- There are 11 schools with licensed deficit budgets at the year-end, totalling £3.8m. There are also 8 schools with local authority loans with a total balance of £2.2m, 4 of which have licensed deficit budgets. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits / loans, some or all of this total of £6.0m may ultimately fall to be met from the Council's General Fund, either in 2020/21 or a later year.

- There is currently uncertainty over the formula used by some councils to calculate holiday pay for term-time-only support staff in schools dating back several years. This could result in a liability of approx. £3m - £5m for back payments to those staff.

- There is a potential liability of approx. £2m - £3m in respect of savings accounts for children leaving care, which extends back over a number of years.

- The case regarding the application of the NHS for charitable status is to be taken to the Court of Appeal. If this appeal is successful, it would require a backdated payment of around £9.3m by the Council and an ongoing annual loss of business rates of £0.128m.

## 39. CONTINGENT ASSETS

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

## 40. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances. The total amount held as at 31 March 2020 was £0.2m (£0.2m as at 31 March 2019).

## 41. HERITAGE ASSETS

These assets comprise Lewisham Clock Tower and the Civic Regalia. Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31 March 2020 is £0.26m (£0.26m as at 31 March 2019).

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

## 42. CAPITAL GRANTS UNAPPLIED

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can take place. The grants that make up the balance are detailed in the table below:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Community Infrastructure Levy - LB Lewisham | (14,363) | (10,016) |
| Adults PSS Grant (DoH) | (2,895) | (2,895) |
| Disabled Facilities Grant | (1,452) | (979) |
| Social Care Single Capital Pot (DoH) | (712) | (750) |
| NHS Capital Grant | (900) | 0 |
| Other Housing Grants (GLA) | (2,845) | 0 |
| Other Grants | (459) | (2,358) |
| **Total** | (23,626) | (16,998) |

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Depreciation, Impairment and Downward Valuations | 9,351 | 71,725 |
| Increase/ (decrease) in creditors | 7,491 | 23,176 |
| (Increase)/ decrease in debtors | (12,479) | (7,316) |
| (Increase)/ decrease in inventories (stock) | (6) | (13) |
| Movement in pension liability | 39,466 | 42,658 |
| Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 9,544 | 6,847 |
| Other non-cash items charged to the net surplus or deficit on the provision of services | 118 | 1,102 |
| **Total Adjustment to net surplus or deficit on the provision of services for non-cash movements** | 53,485 | 138,179 |

## 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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 55 | 46 |
| Proceeds from the sale of property plant and equipment, investment property and intangible assets | (29,366) | (21,438) |
| Any other items for which the cash effects are investing or financing cash flows. | (22,366) | (9,996) |
| **Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities** | (51,677) | (31,388) |

## 45. CASH FLOW STATEMENT - OPERATING ACTIVITIES

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Interest Received | 5,516 | 3,419 |
| Interest Paid | (36,257) | (33,902) |
| **Net Interest Paid** | (30,741) | (30,483) |

## 46. CASH FLOW STATEMENT - INVESTING ACTIVITY

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Purchase of Property, Plant and Equipment, investment property and intangible assets | (67,120) | (24,349) |
| Purchase of short and long term investments | (308,000) | (375,000) |
| Other payments for Investing Activities | (1,944) | (4,585) |
| Proceeds from the sale of property plant and equipment, investment property and intangible assets | 29,366 | 21,438 |
| Proceeds from short-term and long-term investments | 380,000 | 345,000 |
| Other Receipts from Investing Activities | 23,725 | 8,121 |
| **Net Cash Flows from Investing Activities** | 56,027 | (29,375) |

## 47. CASH FLOW STATEMENT - FINANCING ACTIVITIES

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Cash receipts of short and long term borrowing | 0 | 8,000 |
| Other receipts from financing activities | 0 | 0 |
| Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (7,632) | (8,073) |
| Repayment of Short-Term and Long-Term Borrowing | (203) | (10,240) |
| Other payments for financing activities | 4,209 | (6,906) |
| **Net Cash Flows from Financing Activities** | (3,626) | (17,219) |

# 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

| | 2019/20 £000 | 2018/19 £000 | Note |
|---|---|---|---|
| **INCOME** | | | |
| Gross Rent - Dwellings | **(68,223)** | **(69,232)** | 1 |
| Gross Rent - Other Housing Properties | **(3,480)** | **(3,448)** | 1 |
| Charges for Services and Facilities | **(12,545)** | **(11,936)** | 1 |
| Housing Subsidy and Government Grants | **(17,553)** | **(10,353)** | 2 |
| Contribution towards Expenditure | **(3,439)** | **(2,094)** | 4 |
| **Total Income** | **(105,240)** | **(97,063)** | |
| **EXPENDITURE** | | | |
| Supervision and Management - General Expenses | **36,881** | **34,216** | 5 |
| Supervision and Management - Special Expenses | **5,303** | **5,224** | 5 |
| Repairs and Maintenance | **54,621** | **42,670** | 6 |
| Rent, Rates and Other Charges | **346** | **762** | 8 |
| Rent Rebate Subsidy Shortfall | **0** | **0** | 3 |
| Contribution to Doubtful Debts Provision | **636** | **601** | 9 |
| Depreciation - Dwellings | **22,071** | **21,993** | 10 |
| Depreciation - Other Housing Assets | **832** | **794** | 10 |
| Impairment of Non Current Assets | **4,182** | **3,278** | |
| Debt Management Expenses | **20** | **20** | |
| **Total Expenditure** | **124,892** | **109,558** | |
| **Net Cost of Services included in the Council's Income and Expenditure Account** | **19,652** | **12,495** | |
| HRA Services share of Corporate and Democratic Core Costs | **173** | **173** | |
| **Net Cost of HRA Services** | **19,825** | **12,668** | |
| **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 | **(7,402)** | **(13,651)** | |
| Interest Payable and Similar Charges | **8,767** | **6,173** | 11 |
| Interest and Investment Income | **(1,210)** | **(1,078)** | |
| Pension Interest Cost and Expected Return on Pension Assets | **69** | **75** | 12 |
| **(Surplus) / Deficit for the Year on HRA Services** | **20,049** | **4,187** | |

## HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Balance on the HRA at the End of the Previous Year** | **76,707** | **70,208** |
| Movement in Year | | |
| Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement | **(20,049)** | **(4,187)** |
| Adjustments between Accounting Basis and Funding Basis under Statute | **16,971** | **9,595** |
| **Net Increase or (Decrease) before Transfers (To) / From Reserves** | **(3,078)** | **5,408** |
| **Transfers (To) / From Reserves** | **17,714** | **1,091** |
| **Increase or (Decrease) in Year on the HRA** | **14,636** | **6,499** |
| **Balance on the HRA at the End of the Year** | **91,343** | **76,707** |

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

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

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

# NOTES TO THE HOUSING REVENUE ACCOUNT

## 1. GROSS RENT OF DWELLINGS

This is the total rent collectable for the year after allowance is made for empty property. At 31 March 2020, 0.48% of lettable property was empty (0.34% at 31 March 2019). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £94.98 In 2019/20 and £95.72 per week In 2018/19.

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

### (a) Housing stock

The Council was responsible for managing 13,796 dwellings as at 31 March 2020 (13,957 as at 31 March 2019).

There have been no stock transfers undertaken in 2019/20.

The stock was made up as follows:

| | 31/03/20 | 31/03/19 |
|---|---|---|
| Stock Numbers at year end | | |
| Houses and Bungalows | 2,307 | 2,324 |
| Flats and Maisonettes | 11,489 | 11,633 |
| **Stock at End of Year** | 13,796 | 13,957 |

| | 2019/20 | 2018/19 |
|---|---|---|
| Change in Stock Numbers during the year | | |
| Stock at 1 April | 13,957 | 14,158 |
| Less Sales, Demolitions, etc. | (219) | (203) |
| Add Re-purchases, Conversions etc. | 58 | 2 |
| **Stock at End of Year** | 13,796 | 13,957 |

### b) Rent Arrears

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Rent Arrears due from Current Tenants | 3,833 | 3,595 |
| Rent Arrears due from Former Tenants | 2,133 | 1,863 |
| **Total Arrears** | 5,966 | 5,458 |
| **Total Arrears as % of Gross Rent of Dwellings Due** | 6.6% | 6.3% |

The arrears shown in this note exclude water charges, heating charges and all other charges collected as part of tenants' rent. Housing rent represents 93% of the total collectable from tenants.

**c) Rent – Other Housing Property**

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Aerial Sites | 415 | 260 |
| Garages | 164 | 125 |
| Reception Hostels | 2,563 | 2,573 |
| Commercial Property | 280 | 432 |
| Ground Rents | 58 | 58 |
| **Total Other Rents and Charges** | **3,480** | **3,448** |

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

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal and disposal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £8.66 In 2019/20 (£8.58 in 2018/19).

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Heating Charges | 662 | 659 |
| Leasehold Service Charges | 5,587 | 5,155 |
| Tenants Service Charges | 6,296 | 6,122 |
| **Total Charges for Services and Facilities** | **12,545** | **11,936** |

## 2. GOVERNMENT HOUSING EXCHEQUER SUBSIDY

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

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

The council has also received £7.2m in funding towards the removal and recladding of 3 tower blocks within the borough.

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Other Reckonable Expenditure | 7,200 | 0 |
| PFI Credit | 10,353 | 10,353 |
| Decent Homes Grant | 0 | 0 |
| **Total Grants and Subsidy** | **17,553** | **10,353** |

## 3. REBATES

Assistance with rents is available under the Housing benefits scheme for those on low income. The scheme is administered by the Council and approximately 40% of tenants received help in 2019/20 (46% in 2018/19). 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:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Rent Rebates Given (GF) | 30,964 | 35,643 |
| Subsidy Received on Rebates (GF) | (30,964) | (35,643) |
| **Net cost to the HRA** | **0** | **0** |

## 4. CONTRIBUTIONS TOWARDS EXPENDITURE

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Court Costs | 68 | 121 |
| Recharges of repairs | 2,711 | 1,173 |
| Recharge to Capital Receipts | 401 | 515 |
| Hostels: Heat, Light and Water Charges | 102 | 113 |
| Other miscellaneous income | 157 | 172 |
| **Total Other Income** | **3,439** | **2,094** |

## 5. SUPERVISION AND MANAGEMENT

General expenses

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

Special expenses

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

## 6. REPAIRS AND MAINTENANCE

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Revenue R&M works | 14,004 | 18,792 |
| R&M works charged to MRR | 40,617 | 23,878 |
| **Total Repairs and Maintenance** | **54,621** | **42,670** |

## 7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE

A contribution of £0.636m (2018/19 £0.601m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Housing Tenants | 4,517 | 4,444 |
| Leaseholders | 2,109 | 1,985 |
| Commercial Properties, Miscellaneous Debts | 704 | 641 |
| **Total Impairment Allowance** | **7,330** | **7,070** |

## 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 2020 was £55.5m (31 March 2019 was £57.5m).

## 9. NON CURRENT ASSET VALUATION

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

**Housing Revenue Account**

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| **Operational Assets:** | | |
| Dwellings (Existing Use Value - Social Housing) | 1,283,064 | 1,254,452 |
| Other Land and Buildings | 16,386 | 15,869 |
| Infrastructure | 96 | 101 |
| Vehicles, Plant and Equipment | 6,985 | 7,331 |
| | 1,306,531 | 1,277,753 |
| Investment Properties | 0 | 0 |
| Surplus Assets | 45,679 | 28,709 |
| **Total Housing Assets** | 1,352,210 | 1,306,462 |
| **Full Valuation of Council Dwellings** | 5,132,256 | 5,017,808 |

## 10. DEPRECIATION

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

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Operational Assets** | | |
| Dwellings | 22,071 | 21,848 |
| Other Land and Buildings | 275 | 274 |
| Infrastructure | 5 | 5 |
| Vehicles, Plant and Equipment | 552 | 516 |
| **Total Depreciation** | 22,903 | 22,643 |

## 11. INTEREST PAYABLE AND SIMILAR CHARGES

This line includes the charge of £3.8m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2019/20 (£4.1m in 2018/19). It no longer includes any costs for the net cost of amortised loan redemption premiums and discounts as the final payment was made in 2017/18.

## 12. PENSIONS COSTS – IAS 19

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

## 13. HOUSING CAPITAL EXPENDITURE

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.

**Housing Revenue Account**

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Expenditure:** | | |
| Dwellings | 3,279 | 3,705 |
| Revenue Expenditure Funded from Capital under Statute | | 0 |
| | 3,279 | 3,705 |
| **Financed by:** | | |
| Capital Receipts | 537 | 3,244 |
| Major Repairs Reserve | 2,742 | 461 |
| **Total Capital Expenditure Financed** | 3,279 | 3,705 |

## 14. MAJOR REPAIRS RESERVE

The movements on the major repairs reserve are as follows:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Balance brought forward at start of year** | 36,919 | 38,471 |
| Transferred in (depreciation dwellings) | 22,903 | 22,787 |
| Financing of capital expenditure on housing assets | (2,742) | (461) |
| Financing Major Revenue Repairs | (40,617) | (23,878) |
| Contributions from Revenue (Capital) | | |
| **Balance carried forward at end of year** | 16,463 | 36,919 |

## 15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

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

| | Balance at 31/03/19 £000 | Transfers In £000 | Transfers Out £000 | Balance at 31/03/20 £000 |
|---|---|---|---|---|
| Property and Stock Related Reserves | 5,048 | 212 | 0 | 5,260 |
| Staff Related Reserves | 750 | 0 | 0 | 750 |
| Other Earmarked Reserves | 70,909 | 14,424 | 0 | 85,333 |
| **Total Reserves and Balances** | 76,707 | 14,636 | 0 | 91,343 |

# SECTION 5 - THE COLLECTION FUND

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

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

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

**COLLECTION FUND REVENUE ACCOUNT**

| | 2019/20 | | | 2018/19 | | | |
|---|---|---|---|---|---|---|---|
| | Council Tax | NDR | Total | Council Tax | NDR | Total | |
| | £000 | £000 | £000 | £000 | £000 | £000 | Note |
| **INCOME** | | | | | | | |
| Income from Council Tax (net) | 144,911 | | 144,911 | 135,251 | | 135,251 | 4 |
| Income from Non-Domestic Rates (net) | | 65,919 | 65,919 | | 65,354 | 65,354 | 5 |
| Income from Non-Domestic Rates (net) - BRS | | 1,710 | 1,710 | | 1,445 | 1,445 | 5 |
| **TOTAL INCOME** | 144,911 | 67,629 | 212,540 | 135,251 | 66,799 | 202,050 | |
| **EXPENDITURE** | | | | | | | |
| **Precepts and Demands upon Fund (C. Tax)** | | | | | | | |
| - London Borough of Lewisham | 111,739 | | 111,739 | 104,083 | | 104,083 | |
| - Greater London Authority | 28,335 | | 28,335 | 25,438 | | 25,438 | |
| **Precepts and Demands upon Fund (NDR)** | | | | | | | |
| - London Borough of Lewisham | | 30,571 | 30,571 | | 41,141 | 41,141 | |
| - Greater London Authority | | 17,196 | 17,196 | | 22,087 | 22,087 | |
| - Central Government | | 15,923 | 15,923 | | (2,629) | (2,629) | |
| - Cost of Collection Allowance | | 300 | 300 | | 305 | 305 | |
| **Business Rate Supplement (BRS)** | | | | | | | |
| - Paid to Greater London Authority | | 1,660 | 1,660 | | 1,384 | 1,384 | |
| - Administrative Costs | | 6 | 6 | | 6 | 6 | |
| **Bad and Doubtful Debts** | | | | | | | |
| - Net adj to Impairment Allowance | 4,734 | | 4,734 | 3,802 | | 3,802 | 6a |
| - Net adj to Impairment Allowance | | 528 | 528 | | (215) | (215) | 6b |
| - Amounts Written Off | 403 | | 403 | 318 | | 318 | |
| - Amounts Written Off | | 281 | 281 | | 759 | 759 | |
| **Contributions from previous year** | | | | | | | |
| - London Borough of Lewisham | 1,698 | 108 | 1,806 | 8,728 | | 8,728 | |
| - Central Government | 0 | 512 | 512 | | | | |
| - Greater London Authority | 415 | 740 | 1,155 | 2,111 | | 2,111 | |
| **Provision for Appeals** | | | | | | | |
| - Net contribution | | 3,050 | 3,050 | | (509) | (509) | |
| **TOTAL EXPENDITURE** | 147,324 | 70,875 | 218,199 | 144,480 | 62,329 | 206,809 | |
| **Deficit / (Surplus) for the year** | 2,413 | 3,246 | 5,659 | 9,229 | (4,470) | 4,759 | 3 |
| **Deficit / (Surplus) at start of year** | (343) | 2,742 | 2,399 | (9,572) | 7,212 | (2,360) | 3 |
| **Opening Balance Adjustment** | 0 | (2,521) | (2,521) | 0 | 0 | 0 | 3 |
| **Deficit / (Surplus) at end of year** | 2,070 | 3,467 | 5,537 | (343) | 2,742 | 2,399 | |

## NOTES TO THE COLLECTION FUND

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

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

The tax base used in setting the Council Tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a "Band D" equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for 2019/20 assumed a collection rate of 97.0% (96.0% for 2018/19).

The table below sets out the original tax base calculation for 2019/20 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.

| | | 2019/20 | | | 2019/20 | | 2018/19 | |
|---|---|---|---|---|---|---|---|---|
| Council Tax Band | Property Value | No.of Properties Actual Number | No.of Properties Adjusted Number | Band D Ratio | Band D Equivalents as per Ratio | Council Tax Charge | Band D Equivalents as per Ratio | Council Tax Charge |
| | £000 | (1) | (2) | | No. | £ | No. | £ |
| A | up to 40 | 7,864 | 4,959 | 6/9 | 3,306.0 | **1,056.30** | 3,250.5 | **998.74** |
| B | 40 - 52 | 34,198 | 24,728 | 7/9 | 19,232.8 | **1,232.35** | 19,098.0 | **1,165.19** |
| C | 52 - 68 | 44,852 | 35,831 | 8/9 | 31,849.7 | **1,408.40** | 31,366.5 | **1,331.65** |
| D | 68 - 88 | 26,146 | 22,457 | 1 | 22,456.8 | **1,584.45** | 22,205.5 | **1,498.10** |
| E | 88 - 120 | 7,559 | 6,734 | 11/9 | 8,230.5 | **1,936.55** | 8,099.0 | **1,831.01** |
| F | 120 - 160 | 2,727 | 2,548 | 13/9 | 3,680.2 | **2,288.65** | 3,660.7 | **2,163.92** |
| G | 160 - 320 | 1,300 | 1,236 | 15/9 | 2,060.3 | **2,640.75** | 2,055.8 | **2,496.84** |
| H | over 320 | 171 | 162 | 18/9 | 323.0 | **3,168.90** | 323.0 | **2,996.20** |
| **Totals** | | **124,817** | **98,654** | | **91,139.3** | | **90,059.0** | |
| Add: Contributions in lieu | | | | | 0.0 | | 0.0 | |
| **Total Band D Equivalents** | | | | | **91,139.3** | | **90,059.0** | |
| Estimated Collection Rate | | | | | 97.0% | | 96.0% | |
| **NET COUNCIL TAX BASE** | | | | | **88,405.1** | | **86,456.6** | |

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

## 2. COLLECTION FUND SURPLUS OR DEFICIT

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

## 3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

| | (Surplus)/ Deficit | | | (Surplus)/ Deficit | |
|---|---|---|---|---|---|
| | Balance at 31/03/18 £000 | Movement in 2018/19 £000 | Balance at 31/03/19 £000 | Movement in 2019/20 £000 | Balance at 31/03/20 £000 |
| **Council Tax** | | | | | |
| London Borough of Lewisham | (7,711) | 7,425 | (286) | **1,938** | **1,652** |
| Greater London Authority | (1,862) | 1,805 | (57) | **475** | **418** |
| | **(9,573)** | **9,230** | **(343)** | **2,413** | **2,070** |
| **Non-Domestic Rates** | | | | | |
| London Borough of Lewisham | 2,163 | (503) | 1,660 | **257** | **1,917** |
| Greater London Authority | 2,328 | (1,338) | 990 | **88** | **1,078** |
| Central Government | 2,721 | (2,629) | 92 | **380** | **472** |
| | **7,212** | **(4,470)** | **2,742** | **725** | **3,467** |
| **Collection Fund Balances** | **(2,361)** | **4,760** | **2,399** | **3,138** | **5,537** |

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

| | 2019/20 | | 2018/19 |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Gross Council Tax Income Due** | | **185,318** | **173,279** |
| Less: Adjustments to charge | **1,036** | | 1,647 |
| Exemptions | **(6,194)** | | (5,573) |
| Disabled Relief | **(102)** | | (112) |
| Discounts | **(16,745)** | | (16,013) |
| Adjustment for Council Tax Reduction Scheme | **(18,402)** | | (17,977) |
| | | **(40,407)** | **(38,028)** |
| **Total Due from Council Tax payers** | | **144,911** | **135,251** |

## 5. NON-DOMESTIC RATES

The Council is responsible for collecting the Non-Domestic Rates (NDR) (often referred to as Business Rates) which are payable within its area. The amount payable is based upon the rateable value of commercial properties multiplied by the NDR multiplier, which is set annually by the Government. The amount due is paid as precepts to London Borough of Lewisham's General Fund (48%), Greater London Authority (27%) and Central Government (25%).

| | 2019/20 | | 2018/19 |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Gross NDR Collectable (after voids and exemptions)** | | **87,312** | **83,882** |
| **Reductions and Relief:** | | | |
| Mandatory Relief | **(16,883)** | | |
| Discretionary Relief | **(2,800)** | | |
| | | **(19,683)** | **(17,083)** |
| **Total Receivable from Business Rates** | | **67,629** | **66,799** |

| | 2019/20 | 2018/19 |
|---|---|---|
| | £m | £m |
| **Non-Domestic Rateable Value** | **177.4** | 180.8 |

| | 2019/20 | 2018/19 |
|---|---|---|
| | pence | pence |
| **Non-Domestic Rate Multiplier** | **50.4** | 49.3 |
| **Non-Domestic Rate Multiplier (Small Business)** | **49.1** | 48.0 |

## 6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Council Tax Arrears | **49,864** | **44,696** |
| Impairment Allowance | **(45,694)** | **(40,959)** |
| As a Percentage of Arrears | **91.6%** | **91.6%** |

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| **Age of Arrears** | £000 | % | £000 | % |
| Year of Accounts | **9,104** | **18** | 8,278 | 19 |
| Under 2 Years old | **6,224** | **12** | 5,832 | 13 |
| Under 3 Years old | **5,191** | **10** | 4,077 | 9 |
| Under 5 Years old | **7,193** | **14** | 6,772 | 15 |
| Over 5 Years old | **22,152** | **44** | 19,737 | 44 |
| **Total** | **49,864** | **100** | **44,696** | **100** |

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

## Collection Fund

### b) Non-Domestic Rates

| | 31/03/2020 £000 | 31/03/2019 £000 |
|---|---|---|
| NDR Arrears | **4,753** | **3,424** |
| Impairment Allowance | **(2,135)** | **(1,607)** |
| As a Percentage of Arrears | **44.9%** | **46.9%** |

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| **Age of Arrears** | **Amount £000** | **Percentage %** | **Amount £000** | **Percentage %** |
| Year of Accounts | **2,173** | **46** | 1,588 | 46 |
| Under 2 Years old | **1,056** | **22** | 569 | 17 |
| Under 3 Years old | **480** | **10** | 372 | 11 |
| Under 5 Years old | **473** | **10** | 334 | 10 |
| Over 5 Years old | **571** | **12** | 561 | 16 |
| **Total** | **4,753** | **100** | **3,424** | **100** |

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

# SECTION 6 – GROUP ACCOUNTS

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

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

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

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

## Group Accounts

| Restated 2018/19 Gross Expenditure £000s | Restated 2018/19 Gross Income £000s | Restated 2018/19 Net Expenditure £000s | SERVICE | 2019/20 Gross Expenditure £000s | 2019/20 Gross Income £000s | 2019/20 Net Expenditure £000s |
|---|---|---|---|---|---|---|
| 411,835 | (311,720) | 100,115 | Children & Young People Directorate | 379,587 | (314,493) | 65,094 |
| 178,040 | (85,688) | 92,352 | Community Services Directorate | 181,684 | (91,468) | 90,216 |
| 113,051 | (79,097) | 33,954 | Housing, Environment & Regeneration Directorate | 119,520 | (85,112) | 34,408 |
| 273,713 | (230,492) | 43,221 | Corporate Services Directorate | 251,449 | (211,367) | 40,082 |
| 116,173 | (103,845) | 12,328 | HRA | 144,914 | (110,586) | 34,328 |
| 20,592 | (894) | 19,698 | Corporate Provisions | 10,430 | (2,334) | 8,096 |
| 1,113,404 | (811,736) | 301,668 | **Cost of Services** | 1,087,584 | (815,360) | 272,224 |
| | | | **Other Operating Expenditure** | | | |
| 0 | (14,748) | (14,748) | (Gain) / Loss on the disposal of non-current assets | 0 | (19,860) | (19,860) |
| 1,691 | 0 | 1,691 | Levies | 1,700 | 0 | 1,700 |
| 1,926 | 0 | 1,926 | Contribution of housing capital receipts to Government Pool | 20,121 | 0 | 20,121 |
| 3,617 | (14,748) | (11,131) | | 21,821 | (19,860) | 1,961 |
| | | | **Financing and Investment Income and Expenditure** | | | |
| 33,526 | 0 | 33,526 | Interest payable and similar charges | 35,385 | 0 | 35,385 |
| 0 | 0 | 0 | Loan Restructuring | 0 | 0 | 0 |
| 0 | (2,684) | (2,684) | Interest and Investment Income | 0 | (2,610) | (2,610) |
| 52,163 | (34,434) | 17,729 | Net interest on the net defined benefit liability | 51,641 | (32,617) | 19,024 |
| 85,689 | (37,118) | 48,571 | | 87,026 | (35,227) | 51,799 |
| | | | **Taxation and non-specific Grant Income** | | | |
| 0 | (112,811) | (112,811) | Income from Council Tax | 0 | (113,437) | (113,437) |
| 0 | (45,012) | (45,012) | General Government Grants | 0 | (55,224) | (55,224) |
| 0 | (9,859) | (9,859) | Recognised Capital Grants and Contributions | 0 | (18,568) | (18,568) |
| 0 | (91,530) | (91,530) | Non-Domestic Rates income and expenditure | 0 | (102,075) | (102,075) |
| 133 | 0 | 133 | Corporation Tax Payable | 152 | (136) | 16 |
| 133 | (259,212) | (259,079) | | 152 | (289,440) | (289,288) |
| | | 80,029 | **Deficit/(Surplus) on provision of services** | | | 36,696 |
| | | (23,095) | Surplus or deficit on revaluation of non-current assets | | | (122,769) |
| | | 87,564 | Remeasurement of the net defined benefit liability | | | (300,342) |
| | | 64,469 | **Other Comprehensive Income and Expenditure** | | | (423,111) |
| | | 144,498 | **Total Comprehensive Income and Expenditure** | | | (386,415) |

## GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2020

| YEAR ENDING 31 MARCH 2020 | General Fund Balance £000 | Earmarked Gen Fund Reserves £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2019 Brought Forward** | **20,000** | **148,146** | **88,225** | **36,919** | **62,101** | **16,998** | **372,389** | **1,242,100** | **1,614,489** |
| **Movement in Reserves during 2019/20** | | | | | | | | | |
| Surplus or (Deficit) on the provision of services | 3,192 | (45) | (39,843) | 0 | 0 | 0 | **(36,696)** | 0 | **(36,696)** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 423,111 | **423,111** |
| **Total Comprehensive Income and Expenditure** | **3,192** | **(45)** | **(39,843)** | **0** | **0** | **0** | **(36,696)** | **423,111** | **386,415** |
| Adjustments between accounting basis and funding basis under regulations | 785 | 0 | 21,670 | (2,742) | (733) | 6,628 | **25,608** | (25,608) | **0** |
| **Net Increase / Decrease before Transfers to Earmarked Reserves** | **3,977** | **(45)** | **(18,173)** | **(2,742)** | **(733)** | **6,628** | **(11,088)** | **397,503** | **386,415** |
| Transfers to / from Earmarked Reserves | (3,977) | 3,977 | 17,714 | (17,714) | 0 | 0 | **0** | 0 | **0** |
| **Increase / (Decrease) in 2019/20** | **0** | **3,932** | **(459)** | **(20,456)** | **(733)** | **6,628** | **(11,088)** | **397,503** | **386,415** |
| **Balance at 31 March 2020 Carried Forward** | **20,000** | **152,078** | **87,766** | **16,463** | **61,368** | **23,626** | **361,301** | **1,639,603** | **2,000,904** |

## GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31 MARCH 2019

| | Restated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **YEAR ENDING 31 MARCH 2019** | **General Fund Balance £000** | **Earmarked Gen Fund Reserves £000** | **Housing Revenue Account £000** | **Major Repairs Reserve £000** | **Capital Receipts Reserve £000** | **Capital Grants Unapplied £000** | **Total Usable Reserves £000** | **Unusable Reserves £000** | **Total Authority Reserves £000** |
| **Balance at 31 March 2018 Brought Forward** | **13,000** | **161,515** | **78,840** | **38,471** | **48,350** | **17,299** | **357,475** | **1,401,512** | **1,758,987** |
| **Movement in Reserves during 2018/19** | | | | | | | | | |
| Surplus or (Deficit) on the provision of services | (75,240) | 498 | (5,287) | 0 | 0 | 0 | **(80,029)** | 0 | **(80,029)** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | **0** | (64,469) | **(64,469)** |
| **Total Comprehensive Income and Expenditure** | **(75,240)** | **498** | **(5,287)** | **0** | **0** | **0** | **(80,029)** | **(64,469)** | **(144,498)** |
| Adjustments between accounting basis and funding basis under regulations | 69,262 | (889) | 13,581 | (461) | 13,751 | (301) | **94,943** | (94,943) | **0** |
| **Net Increase / Decrease before Transfers to Earmarked Reserves** | **(5,978)** | **(391)** | **8,294** | **(461)** | **13,751** | **(301)** | **14,914** | **(159,412)** | **(144,498)** |
| Transfers to / from Earmarked Reserves | 12,978 | (12,978) | 1,091 | (1,091) | 0 | 0 | **0** | 0 | **0** |
| **Increase / (Decrease) in 2018/19** | **7,000** | **(13,369)** | **9,385** | **(1,552)** | **13,751** | **(301)** | **14,914** | **(159,412)** | **(144,498)** |
| **Balance at 31 March 2019 Carried Forward** | **20,000** | **148,146** | **88,225** | **36,919** | **62,101** | **16,998** | **372,389** | **1,242,100** | **1,614,489** |

## Group Accounts

### GROUP BALANCE SHEET AS AT 31 MARCH 2020

| Restated 31/03/2019 £000 | | 31/03/2020 £000 |
|---|---|---|
| | Property, Plant & Equipment | |
| 1,297,337 | Council dwellings | 1,310,558 |
| 974,550 | Other land and buildings | 1,074,576 |
| 28,015 | Vehicles, plant, furniture and equipment | 24,936 |
| 116,082 | Infrastructure | 113,902 |
| 5,510 | Community | 5,424 |
| 91,500 | Surplus Assets not held for Sale | 94,699 |
| 31,094 | Assets under Construction | 80,532 |
| 2,544,088 | | 2,704,627 |
| 257 | Heritage Assets | 257 |
| 15,767 | Investment Property | 14,970 |
| 2,030 | Long term investments | 1,975 |
| 6,581 | Long term debtors | 6,284 |
| 2,568,723 | **Total Long Term Assets** | 2,728,113 |
| 341,046 | Short Term Investments | 268,595 |
| 207 | Inventories | 210 |
| 52,945 | Debtors | 64,158 |
| 91,992 | Cash and Cash Equivalents | 118,418 |
| 4,297 | Prepayments | 4,357 |
| 490,487 | **Current Assets** | 455,738 |
| 8,887 | Bank Overdraft | 3,125 |
| 27,446 | Short term borrowing | 5,968 |
| 4,046 | Provisions | 4,975 |
| 87,733 | Creditors | 96,051 |
| 104,215 | Receipts in advance | 103,902 |
| 7,504 | PFI Liabilities due within one year | 8,797 |
| 239,831 | **Current Liabilities** | 222,818 |
| | | |
| 2,819,379 | **Total Assets less Current Liabilities** | 2,961,033 |
| 202,015 | Long term borrowing | 222,987 |
| 6,188 | Provisions | 5,302 |
| 220,492 | Deferred PFI Liabilities | 211,567 |
| 2,252 | Capital Grants Receipts in Advance | 2,506 |
| 773,943 | Liability related to defined benefit pension scheme | 517,767 |
| 1,204,890 | **Long Term Liabilities** | 960,129 |
| | | |
| 1,614,489 | **NET ASSETS** | 2,000,904 |
| | | |
| | **Usable Reserves** | |
| 20,000 | General Fund Balance | 20,000 |
| 147,145 | Earmarked Revenue Reserves | 151,122 |
| 11,517 | Lewisham Homes Reserves | (3,577) |
| 1,001 | Catford Regeneration Partnership Reserves | 956 |
| 76,708 | Housing Revenue Account | 91,343 |
| 36,919 | Major Repairs Reserve | 16,463 |
| 62,101 | Usable Capital Receipts Reserve | 61,368 |
| 16,998 | Capital Grants Unapplied | 23,626 |
| 372,389 | | 361,301 |
| | **Unusable Reserves** | |
| 1,028,621 | Revaluation Reserve | 1,131,311 |
| 1,031,425 | Capital Adjustment Account | 1,070,983 |
| 93 | Deferred Capital Receipts | 93 |
| (36,124) | Financial Instruments Adjustment Account | (34,694) |
| (773,943) | Pensions Reserve | (517,767) |
| (1,374) | Collection Fund Adjustment Account | (3,570) |
| (6,598) | Short Term Compensated Absences Account | (6,753) |
| 1,242,100 | | 1,639,603 |
| 1,614,489 | **TOTAL RESERVES** | 2,000,904 |

## GROUP CASH FLOW STATEMENT FOR THE YEAR ENDING 31 MARCH 2020

| Restated 2018/19 £000s | | 2019/20 £000s |
|---|---|---|
| **(80,029)** | Net surplus or (deficit) on the provision of services | **(35,585)** |
| **144,158** | Adjustment to surplus or deficit on the provision of services for noncash movements | **69,177** |
| **(31,388)** | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | **(51,677)** |
| **32,741** | **Net Cash flows from operating activities** | **(18,085)** |
| **(42,044)** | Net Cash flows from Investing Activities | **53,399** |
| **(5,645)** | Net Cash flows from Financing Activities | **(3,126)** |
| **(14,948)** | **Net increase or (decrease) in cash and cash equivalents** | **32,188** |
| **98,053** | **Cash and cash equivalents at the beginning of the reporting period** | **83,105** |
| **83,105** | **Cash and cash equivalents at the end of the reporting period** | **115,293** |

## Notes to the Group Accounts

### 1. General

The Group Accounts should be read in conjunction with the Lewisham Council single entity accounts on pages 3 to 97. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.
The 2018/19 Group Accounts have been re-stated in-line with the LBL single entity accounts. This is due to a re-organisation of the Council's management structure in 2019/20 which affected the CIES and all related notes.

### 2. Group Boundary

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

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

### 3. Accounting Policies

(i) In preparing the Group Accounts the Council has aligned the accounting policies of its companies with those of the Council and made consolidation adjustments where necessary.

(ii) In 2019/20 Lewisham Homes "Council Dwellings" assets were re-valued using the same accounting standards as LBL to consolidate Lewisham Homes assets into the Group balance sheet. This resulted in an impairment charge of £15.117m to the Group CIES due to the downward revaluation of the assets. The revaluation was from cost based in the Lewisham Homes accounts of NBV £42.885m to Fair Value in the Group Accounts of NBV £27.494m

(iii) The Council has consolidated the companies' financial statements with those of the Council on a line by line basis and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiaries.

## 4. Investment Properties

Whilst the Council has no investment properties, CRPL owns Catford shopping centre and several surrounding properties. As these properties were solely being used to generate income at 31 March 2020, under the code of practice they are classed as investment properties.

The fair value of the properties owned by CRPL as at 31 March 2020 was £14.970m. This is a £0.797m reduction in value from 2018/19 and a £6.950m reduction from the draft CRPL statement of accounts of £21.920m.

Due to the outbreak of Covid-19 being declared as a "Global Pandemic" it was decided to get the Investment Properties re-valued again in September 2020. Our valuers have said that due to Covid-19 market activity has been affected in many sectors and as of the valuation date they can attach less weight to previous market evidence for comparison purposes to inform opinions of value.
Therefore their valuations are reported on the basis of "Material Valuation Uncertainty" as per VPS3 and VPGA10 of the RICS Red Book Global. Consequently, less certainty, and a higher degree of caution, should be attached to the valuation than would normally be the case.

## 5. Pensions

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

Lewisham Homes include the asset and liability for the Pension Fund under Current Assets and Long Term Liabilities in their single entity accounts. When consolidating with the LBL accounts to create the Group Accounts this has to be changed to Unusable Reserves and Long Term Liabilities to be in-line with how LBL treat these balances. This results in the various elements of the in-year movement in the valuation being charged through the different areas of the Group CIES.

## 6. Movements in Non-Current Assets

The movements in non-current assets during 2019/20 and 2018/19 were as follows:

| 2019/20 | Council Dwellings £000 | Other Land & Bldgs £000 | Vehicles, Plant & Equip't £000 | Infra-structure Assets £000 | Comm. Assets £000 | Surplus Assets £000 | Assets under Construction £000 | TOTAL £000 |
|---|---|---|---|---|---|---|---|---|
| **Gross Book Value b/fwd at 01 April 2019** | **1,298,495** | **976,188** | **60,638** | **186,403** | **5,587** | **91,757** | **31,094** | **2,650,162** |
| Additions | 2,123 | 5,325 | 2,045 | 6,186 | 361 | 896 | 54,966 | **71,902** |
| Revaluations (recognised in Revaluation Reserve) | 30,522 | 64,256 | 0 | 0 | 0 | 13,888 | 0 | **108,666** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | (16,018) | 37,405 | 0 | 0 | 0 | 4,989 | 0 | **26,376** |
| Impairments (recognised in Revaluation Reserve) | (7) | (7,953) | 0 | 0 | 0 | (5,033) | 0 | **(12,993)** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | (278) | (1,484) | 0 | (608) | (352) | (5,037) | (1,416) | **(9,175)** |
| Disposals | (3,732) | 0 | (392) | 0 | 0 | (6,063) | 0 | **(10,187)** |
| Transfers | 454 | 4,197 | 0 | 0 | 0 | (539) | (4,112) | **0** |
| Gross Book Value c/fwd at 31 March 2020 | 1,311,559 | 1,077,934 | 62,291 | 191,981 | 5,596 | 94,858 | 80,532 | **2,824,751** |
| Depreciation b/fwd at 01 April 2019 | (1,158) | (1,638) | (32,623) | (70,321) | (77) | (257) | 0 | **(106,074)** |
| Depreciation for year | (22,604) | (14,328) | (5,112) | (7,758) | (95) | (1,015) | 0 | **(50,912)** |
| Depreciation written back on: | | | | | | | | |
| Transfers | (33) | (1) | 0 | 0 | 0 | 34 | 0 | **0** |
| Revaluations (recognised in Revaluation Reserve) | 20,482 | 6,898 | 0 | 0 | 0 | 513 | 0 | **27,893** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 2,312 | 5,711 | 0 | 0 | 0 | 253 | 0 | **8,276** |
| Impairments (recognised in Revaluation Reserve) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | 0 | 0 | 0 | 0 | 49 | 0 | **49** |
| Assets Sold | 0 | 0 | 380 | 0 | 0 | 264 | 0 | **644** |
| Depreciation c/fwd at 31 March 2020 | (1,001) | (3,358) | (37,355) | (78,079) | (172) | (159) | 0 | **(120,124)** |
| **Net Book Value at 31 March 2020** | **1,310,558** | **1,074,576** | **24,936** | **113,902** | **5,424** | **94,699** | **80,532** | **2,704,627** |

## Group Accounts

| 2018/19 | Council Dwellings £000 | Other Land & Bldgs £000 | Vehicles, Plant & Equip't £000 | Infra-structure Assets £000 | Comm. Assets £000 | Surplus Assets £000 | Assets under Construction £000 | TOTAL £000 |
|---|---|---|---|---|---|---|---|---|
| **Gross Book Value b/fwd at 01 April 2018** | **1,286,466** | **1,014,477** | **56,422** | **180,370** | **5,029** | **94,821** | **26,726** | **2,664,311** |
| Additions | 11,036 | 112 | 6,169 | 5,961 | 214 | 1,944 | 8,604 | **34,040** |
| Revaluations (recognised in Revaluation Reserve) | 9,163 | (7,655) | 0 | 0 | 0 | 561 | 0 | **2,069** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | (2,873) | (18,337) | 0 | 0 | 0 | (689) | 0 | **(21,899)** |
| Impairments (recognised in Revaluation Reserve) | (10) | 0 | 0 | 0 | 0 | (9,619) | 0 | **(9,629)** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | (26) | (113) | 0 | 0 | 0 | (9,829) | 0 | **(9,968)** |
| Disposals | (6,809) | 0 | (1,953) | 0 | 0 | 0 | 0 | **(8,762)** |
| Transfers | 1,548 | (12,296) | 0 | 72 | 344 | 14,568 | (4,236) | **0** |
| Gross Book Value c/fwd at 31 March 2019 | 1,298,495 | 976,188 | 60,638 | 186,403 | 5,587 | 91,757 | 31,094 | **2,650,162** |
| Depreciation b/fwd at 01 April 2018 | (1,321) | (3,416) | (29,635) | (62,946) | (54) | (198) | 0 | **(95,535)** |
| Depreciation for year | (22,446) | (15,396) | (4,903) | (7,375) | (23) | (1,027) | 0 | **(51,170)** |
| Depreciation written back on: | | | | | | | | |
| Transfers | 26 | 189 | 0 | 0 | 0 | (215) | 0 | **0** |
| Revaluations (recognised in Revaluation Reserve) | 21,704 | 8,044 | 0 | 0 | 0 | 701 | 0 | **30,449** |
| Revaluations (recognised in Surplus/ Deficit on the Provision of Services) | 879 | 8,941 | 0 | 0 | 0 | 173 | 0 | **9,993** |
| Impairments (recognised in Revaluation Reserve) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments (recognised in Surplus/ Deficit on the Provision of Services) | 0 | 0 | 0 | 0 | 0 | 309 | 0 | **309** |
| Assets Sold | 0 | 0 | 1,915 | 0 | 0 | 0 | 0 | **1,915** |
| Depreciation c/fwd at 31 March 2019 | (1,158) | (1,638) | (32,623) | (70,321) | (77) | (257) | 0 | **(106,074)** |
| **Net Book Value at 31 March 2019** | **1,297,337** | **974,550** | **28,015** | **116,082** | **5,510** | **91,500** | **31,094** | **2,544,088** |

## SECTION 7 – GLOSSARY OF TERMS USED IN THE ACCOUNTS

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

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

## COMMON ACRONYMS USED IN THE ACCOUNTS

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

# SECTION 8 - PENSION FUND ACCOUNTS

## FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year ending 31 March 2020.

The Pension Fund's value decreased over the year by £35m (2.5%), from £1.387bn to £1.352bn, in large part due to the impact of the Covid-19 coronavirus outbreak. At the start of March 2020 the value of the Fund had seen an-year increase of almost 6.0%, only to fall off by month end. Clearly the timing of the outbreak has impacted the financial position reported in these accounts as at 31 March 2020, and additional information on its impact will be provided within the accounting policies and notes to the accounts.

## INTRODUCTION

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

## ORGANISATION

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

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

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

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

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

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

www.lewishampensions.org

## ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 26 basis.

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

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

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

**(a)** Fund Assets at 31 March 2020 – the below table outlines the fund managers, asset classes, and values of those assets held by the Fund as at 31 March 2020.

| Fund Manager | Asset | Asset Value<br>31 March 2020<br>£000 | Proportion of the Fund<br>31 March 2020<br>% | Asset Value<br>31 March 2019<br>£000 |
|---|---|---|---|---|
| **Blackrock** | Passive Equity and Bonds | 501,591 | 37.1 | 526,667 |
| **UBS** | Passive Equity and Bonds | 426,666 | 31.5 | 446,038 |
| **Schroders Property** | Property | 106,328 | 7.9 | 112,281 |
| **J.P. Morgan** | Infrastructure | 78,098 | 5.8 | 80,580 |
| **Invesco** | Diversified Growth/Targeted Returns | 77,726 | 5.7 | 76,231 |
| **HarbourVest** | Private Equity | 57,267 | 4.2 | 51,321 |
| **Partners Group** | Multi-Asset Credit | 40,400 | 3.0 | 41,776 |
| **Pemberton** | Multi-Asset Credit | 34,873 | 2.6 | 22,937 |
| **M&G** | Credit | 0 | 0.0 | 656 |
| **Various Managers** | Cash and Net Current Assets | 29,683 | 2.2 | 28,678 |
| **Lewisham** | Cash and Net Current Assets/(Liabilities) | (424) | 0.0 | (438) |
| **Total Fund Assets** | | **1,352,208** | **100.0** | **1,386,727** |

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

**(c)** Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2019/20 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

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

**(e)** Passive equity and bonds - dividend income earned from equity and bonds with BlackRock and UBS is reinvested and not repaid directly to the Fund 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 notes for Debtors and Creditors.

**(f)** Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of these investments, the value carried in the accounts as at 31 March 2020 is the fair value using the latest available valuation at 31 December 2019, rolled forward to include known fund level activity up to 31 March 2020, and adjusted for market valuation changes . As a result, it does not take into account potential valuation declines due to the Covid-19 outbreak.

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

The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies, and will be based on the price frequency of the underlying assets.

As at 31 March 2020, RICS have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions arising from the coronavirus pandemic, with valuers unable to accurately rely on previous market experience to form an opinion of value.

**(h)** Financing Fund – The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund collected on its last outstanding loan in February 2020 and made final distributions to investors in the same month; as at 31 March 2020 it is in the initial stages of liquidation.

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

**(j)** Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

**(k)** Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

**(l)** Contributions – These represent the total amounts received from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 1 April 2019 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

| Pensionable Pay for the Post | Contribution Rates 2019/20 | |
|---|---|---|
| | Main Section | 50/50 Section |
| Up to £14,400 | 5.50% | 2.75% |
| £14,401 to £22,500 | 5.80% | 2.90% |
| £22,501 to £36,500 | 6.50% | 3.25% |
| £36,501 to £46,200 | 6.80% | 3.40% |
| £46,201 to £64,600 | 8.50% | 4.25% |
| £64,601 to £91,500 | 9.90% | 4.95% |
| £91,501 to £107,700 | 10.50% | 5.25% |
| £107,701 to £161,500 | 11.40% | 5.70% |
| More than £161,500 | 12.50% | 6.25% |

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

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

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

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

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

**(q)** Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out by the actuaries was as at 31 March 2019. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

| Financial Assumption | March 2019 (%) | March 2016 (%) |
|---|---|---|
| Discount Rate | 3.5 | 4.0 |
| Price Inflation (CPI*) | 2.3 | 2.1 |
| Pay Increases | 3.0 | 2.9 |
| Benefit Increase | 2.3 | 2.1 |
| CARE Revaluation | 2.3 | 2.1 |
| Expenses | 0.7 | 0.6 |

* Consumer Price Index

With effect from 1 April 2017 to 31 March 2019, the actuarial review carried out for 31 March 2016 resulted in the Council's employer contribution rate being set at 22.5%.

The recent triennial valuation as at the 31 March 2019 revealed that the Fund's assets, which at 31 March 2019 were valued at £1.387bn, were sufficient to meet 90% (78% in 2016) of the past service liabilities valued at £1.541bn (£1.328bn in 2016) accrued up to that date. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016).

**(r)** Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1.817bn as at 31 March 2020 (£2.098bn as at 31 March 2019), which includes an allowance for the McCloud ruling on age discrimination, being an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The key actuarial assumptions used to calculate this value are summarised in the below table:

| Financial Assumptions | March 2020 (%) | March 2019 (%) |
|---|---|---|
| Discount Rate | 2.3 | 2.4 |
| Salary Increases | 2.6 | 3.2 |
| Pension Increases | 1.9 | 2.5 |

| Longevity Assumptions for year ended 31 March 2020 | Males | Females |
|---|---|---|
| Current Pensioners | 20.9 years | 23.5 years |
| Future Pensioners | 22.2 years | 24.8 years |

| Sensitivity to the assumptions for year ended 31 March 2020 | Approxmiate increase to liabilites (%) | Approximate monetary amount (£m) |
|---|---|---|
| 0.5% p.a. decrease in the Real Discount Rate | 10 | 173 |
| 0.5% p.a. increase in the Salary Increase Rate | 0 | 7 |
| 0.5% p.a. increase in the Pension Increase Rate | 9 | 165 |

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation; these longevity assumptions have changed since the previous IAS26 disclosures for year ending 31 March 2019.

For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would increase liabilities by approximately 3-5%.

**(s)** Investment Management and Administration - Regulation 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council, as the administering authority, to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. Management fees of the Fund's investment managers are typically calculated as a set percentage of the market value of funds under management at regular intervals, although some agreements also allow for performance fees above a defined hurdle rate. Of the Fund’s nine fund managers, four charge fees by invoice, the remaining five deduct them at source; in the latter instance, adjustments have been made to the Fund Account to recognise the net return on those investments.

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

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

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

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

**(w)** Critical judgements in applying accounting policies, and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. These assumptions affect the amounts reported for assets and liabilities as at 31 March 2020, as well as revenues and expenses incurred during the year. The impact of these judgements has been heighted by the coronavirus pandemic and its impact on the financial markets, which has affected all asset classes. The ongoing spread of the virus has had, and will continue to have a material adverse impact on local economies in affected countries and on the global economy, as international commercial activity and market sentiment are increasingly impacted by governments' measures in response to the outbreak.

There are two areas in the accounts where critical judgements are applied that are materially significant and will also be impacted by the pandemic:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on Fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. However, the market disruption caused by the coronavirus outbreak will have mixed and uncertain impacts on all of those assumptions, possibly resulting in material changes to the disclosed present value of promised retirement benefits as at 31 March 2020.

- Property, private equity, infrastructure and private debt valuations – these investments are not publicly listed and involve estimation techniques in their valuation. In addition, timing issues in producing capital statements for inclusion in the statement of accounts means that several assets are valued in the accounts at previous quarter valuations or later, and rolled forward to 31 March 2020 with adjustments and estimations where possible for known activity such as disbursements and capital calls. The Fund's private equity and infrastructure holdings (all level 3 investments) are impacted by this delay; as such, the final realised value of those assets may differ from the valuations presented in the accounts.

- The uncertainty in the financial markets caused by the coronavirus pandemic creates further risk that the valuation of the unlisted investments may have an increased level of uncertainty, and the estimated valuations may be misstated; for example, where mark-to-market valuations have been used for private debt, this may not truly represent an asset's actual value in an orderly market. There is an extremely wide range of outcomes, resulting in a high degree of uncertainty about the ultimate impact of the pandemic and the time it will take for markets to return to a 'steady state'.

- The total value of the Fund's property, private equity, infrastructure and private debt valuations in the financial statements is £304m. Having engaged with the fund managers of those investments and considered the variety of approaches and timeframes within which valuations at 31 March 20 have been calculated, there is a risk that the actual values are lower than was estimated at year-end, possibly resulting in a fall in valuations of between 0-5% across asset classes, which represents between £0-£6.3m of the above value (allowing for varying levels of sensitivity between asset classes).

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

## Pension Fund Accounts

### FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

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

| | 2019/20 £000 | 2018/19 £000 | See note |
|---|---|---|---|
| **DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME** | | | |
| **Contributions Receivable:** | | | |
| - from Employers | **(35,027)** | (32,123) | 1 |
| - from Employees | **(10,369)** | (9,712) | 1 |
| Transfer Values In | **(10,708)** | (4,453) | |
| Other Income | **(79)** | (68) | |
| **Sub-Total: Income** | **(56,183)** | **(46,356)** | |
| **Benefits Payable:** | | | |
| - Pensions | **44,347** | 42,220 | 2 |
| - Lump Sums: Retirement allowances | **9,726** | 8,261 | 2 |
| - Lump Sums: Death grants | **1,080** | 843 | 2 |
| **Payments to and on account of leavers:** | | | |
| - Refunds of Contributions | **105** | 118 | |
| - Transfer Values Out | **5,314** | 4,133 | |
| **Sub-Total: Expenses** | **60,572** | **55,575** | |
| **Sub-Total: Net (Additions)/ Withdrawals from dealings with members** | **4,389** | **9,219** | |
| Management Expenses | **3,593** | 2,830 | 3 |
| **Sub-Total: Net (Additions)/ Withdrawals including fund management expenses** | **7,982** | **12,049** | |
| **RETURNS ON INVESTMENTS** | | | |
| Investment Income | **(14,952)** | (6,168) | 4 |
| Change in market value of investments (Realised & Unrealised) | **41,344** | (89,474) | 5a |
| Taxes on Income | **145** | 392 | |
| **Total Net Returns on Investments** | **26,537** | **(95,250)** | |
| **NET (INCREASE) / DECREASE IN THE FUND DURING YEAR** | **34,519** | **(83,201)** | |
| **OPENING NET ASSETS OF THE FUND** | **(1,386,727)** | **(1,303,526)** | |
| **CLOSING NET ASSETS OF THE FUND** | **(1,352,208)** | **(1,386,727)** | |

## Pension Fund Accounts

### NET ASSETS STATEMENT AS AT 31 MARCH 2020

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2020.

| | 31/03/20 £000 | 31/03/19 RESTATED £000 | 31/03/19 £000 | See note |
|---|---|---|---|---|
| **INVESTMENT ASSETS** | | | | |
| **Equities** | | | | |
| United Kingdom | **0** | 0 | 13,747 | 5 |
| Global | **13,342** | 13,747 | 0 | 5 |
| | **13,342** | **13,747** | **13,747** | |
| **Managed Funds** | | | | |
| Property | **106,332** | 112,285 | 112,285 | 5 |
| Equities | **663,396** | 695,931 | 695,931 | 5 |
| Fixed Interest | **176,092** | 183,854 | 183,854 | 5 |
| Index Linked | **88,785** | 92,934 | 92,934 | 5 |
| Other Assets | **275,021** | 259,752 | 259,752 | 5 |
| | **1,309,626** | **1,344,756** | **1,344,756** | |
| **Cash Held with Custodian** | **28,393** | 28,593 | 28,593 | 9 |
| **Derivative Contracts** | | | | |
| Assets | **1,815** | 0 | 0 | 7 |
| Liabilities | **(1,815)** | 0 | 0 | 7 |
| **Other Investment Balances** | **1,272** | 70 | 70 | 8a |
| **TOTAL INVESTMENTS** | **1,352,633** | **1,387,165** | **1,387,165** | |
| Current Assets | **5,070** | 1,325 | 1,325 | 8b |
| Current Liabilities | **(5,495)** | (1,763) | (1,763) | 8b |
| **TOTAL NET ASSETS** | **1,352,208** | **1,386,727** | **1,386,727** | |

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2020. This liability is included within the Authority's balance sheet.

The 2018/19 Net Asset Statement has been restated to reclassify an asset categorisation from UK equities to global equities with value £13.7m at 31 March 2019 and £13.3m at 31 March 2020. In the following notes to the accounts, and where applicable, the asset is clearly identified in prior year balances as global equities, without restatement of full notes to reflect the re-categorisation.

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. CONTRIBUTIONS RECEIVABLE

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Employer Contributions** | | |
| Administering Authority | **(28,555)** | (25,855) |
| Scheduled Bodies | **(5,824)** | (5,585) |
| Admitted Bodies | **(648)** | (683) |
| | **(35,027)** | **(32,123)** |
| **Employee Contributions** | | |
| Administering Authority | **(8,251)** | (7,701) |
| Scheduled Bodies | **(1,900)** | (1,783) |
| Admitted Bodies | **(218)** | (228) |
| | **(10,369)** | **(9,712)** |

Contributions receivable from employers are shown below:

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| **Employer Contributions** | | |
| Normal | **(33,302)** | (31,714) |
| Early Retirement Strain | **(1,024)** | (133) |
| Deficit Funding | **(701)** | (276) |
| | **(35,027)** | **(32,123)** |

### 2. BENEFITS PAYABLE

| By Category | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Pensions | **44,347** | 42,220 |
| Commutation and Lump Sum Retirement Benefits | **9,726** | 8,261 |
| Lump Sum Death Grants | **1,080** | 843 |
| | **55,153** | **51,324** |

| By Authority | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Administering Authority | **50,057** | 46,924 |
| Scheduled Bodies | **3,808** | 3,005 |
| Admitted Bodies | **1,288** | 1,395 |
| | **55,153** | **51,324** |

## 3. MANAGEMENT EXPENSES

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Administration Expenses | **698** | 626 |
| Oversight and Governance Expenses | **403** | 235 |
| Investment Management Expenses: | | |
| - Transaction Costs | **13** | 24 |
| - Management Fees | **2,444** | 1,911 |
| - Performance Fees | **0** | 0 |
| - Custody Fees | **35** | 34 |
| | **3,593** | **2,830** |

Oversight and governance costs increased largely as a result of incurring an additional £0.14m in actuarial and investment advisory services during a triennial valuation year.

The increase in management fees is a result of full year charges from the Fund's infrastructure and multi-asset credit managers (which were new mandates in 2018/19) where committed investments have been fully called, and increased charges where further capital has been deployed to those mandates with outstanding commitments. During the year, the Fund incurred management fees that were deducted at source of £1.4m (£0.8m in 2018/19).

## 3A. EXTERNAL AUDIT COSTS

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| External Audit Services | **25** | 16 |
| | **25** | **16** |

## 4. INVESTMENT INCOME

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Cash | **(1,003)** | (258) |
| Equities | **0** | 0 |
| Fixed Interest | **0** | 0 |
| Index Linked | **0** | 0 |
| Managed Funds (incl Property) | **(12,521)** | (5,079) |
| Securities Lending | **(1)** | (1) |
| Other | **(1,427)** | (831) |
| | **(14,952)** | **(6,169)** |

## 5 INVESTMENT ANALYSIS

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

| Asset | Manager | 31 March 2020 | |
|---|---|---|---|
| | | £000 | % |
| UBS Asset Management Life World Equity Tracker | UBS | 190,536 | 14.1 |
| Aquila Life US Equity Index Fund | Blackrock | 162,396 | 12.0 |
| BlackRock Pensions Aquila Life UK Equity Index | Blackrock | 99,797 | 7.4 |
| IIF UK I LP | JP Morgan | 78,098 | 5.8 |
| Invesco Fund Managers Perpetual Targeted Returns | Invesco | 77,726 | 5.7 |
| UBS Asset Management Life UK Equity Tracker A Nav | UBS | 75,078 | 5.6 |

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

| Asset | Manager | 31 March 2020 | |
|---|---|---|---|
| | | £000 | % |
| **Global Equities** | | | |
| Harbourvest GE PE Shares | Harbourvest | 13,346 | 100.0 |
| **Property** | | | |
| Schroder Unit TST UK Real Estate | Schroders | 15,388 | 14.5 |
| IPIF Feeder Unit Trust Fund | Schroders | 13,668 | 12.9 |
| Hermes Property Unit | Schroders | 10,820 | 10.2 |
| Real Income Fund | Schroders | 10,260 | 9.6 |
| Blackrock UK FD | Schroders | 9,576 | 9.0 |
| Metro Ppty Unit Trust | Schroders | 9,406 | 8.8 |
| Mayfair Cap Ppty (MCPUT) | Schroders | 8,559 | 8.0 |
| Multi-Let INDL Property Unit Trust | Schroders | 7,864 | 7.4 |
| Legal and General Managed Property Fund | Schroders | 5,738 | 5.4 |
| **Managed Equities** | | | |
| UBS Asset Management Life World Equity Tracker | UBS | 190,536 | 28.7 |
| Aquila Life US Equity Index Fund | Blackrock | 162,396 | 24.5 |
| BlackRock Pensions Aquila Life UK Equity Index | Blackrock | 99,797 | 15.0 |
| UBS Asset Management Life UK Equity Tracker A Nav | UBS | 75,078 | 11.3 |
| Aquila Life European Equity Index Fund | Blackrock | 38,078 | 5.7 |
| **Fixed Interest** | | | |
| UBS Asset Mgmnt STG Corp Bond Index Fund | UBS | 45,399 | 25.8 |
| UBS GBL Asset Life UK Over 15 Year Gilt Tracker Fund | UBS | 44,675 | 25.4 |
| Blackrock Pensions Aquila Life Over 15 Years UK Gilt Index Fund | Blackrock | 43,661 | 24.8 |
| Blackrock AM (IE) iShares UK Credit Bond Index Fund | Blackrock | 42,357 | 24.0 |
| **Index Linked** | | | |
| Aquila Life Over 5 Yrs Index Fund | Blackrock | 45,170 | 50.9 |
| UBS Asset Mgmnt Life Over 5 Year Index Linked Gilt Tracker | UBS | 43,615 | 49.1 |
| **Alternatives** | | | |
| JP Morgan IIF UK I LP | JP Morgan | 78,098 | 28.4 |
| Invesco Fund Managers Perpetual Targeted Returns | Invesco | 77,726 | 28.3 |
| Partners Group Comp MAC 2017 IV | Partners Group | 40,400 | 14.7 |
| Pemberton Euro Debt Investments Jersey II | Pemberton | 34,873 | 12.7 |
| HIPEP VII (AIF) Partnership Fund LP | Harbourvest | 19,148 | 7.0 |

An analysis of investment movements is set out below:

**5. INVESTMENT ANALYSIS**

| INVESTMENT MOVEMENTS 2019/20 | Value at 31 March 2019 £000 | Purchases at Cost £000 | Sales Proceeds £000 | Change in Capital Value £000 | Change in Market Value £000 | Value at 31 March 2020 £000 |
|---|---|---|---|---|---|---|
| Global Equities | **13,747** | 0 | 0 | 0 | (406) | **13,342** |
| Managed Equities | **695,931** | 40,119 | (10,600) | 1,247 | (63,301) | **663,396** |
| Property | **112,285** | 3,534 | (3,856) | (730) | (4,900) | **106,332** |
| Fixed Interest Securities | **183,854** | 6,650 | (28,526) | (1,247) | 15,360 | **176,092** |
| Index Linked Securities | **92,934** | 4,550 | (11,089) | 0 | 2,390 | **88,785** |
| Other Assets* | **259,751** | 32,421 | (26,236) | (11) | 9,096 | **275,021** |
| | **1,358,502** | **87,274** | **(80,307)** | **(741)** | **(41,761)** | **1,322,968** |
| Cash Deposits | **28,593** | | | | 409 | **28,393** |
| Other Investment Balances | **70** | | | | 7 | **1,272** |
| **Total Investments** | **1,387,165** | | | | **(41,345)** | **1,352,633** |

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

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

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £43.9m, multi-asset credit/private debt with a value of £34.9m, and infrastructure with a value of £78.1m.

The total value of unquoted securities held by the Fund as at 31 March 2020 was £1,011m; this includes equities, bonds, private equity, diversified growth, infrastructure and multi-asset credit funds.

The total value of quoted securities held by the Fund as at 31 March 2020 was £206m; this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £859m and unit trusts valued at £180m, of which £106m relates to pooled property investments. The Fund also holds assets with value £75m as a Limited Partner in the compartments of multi asset credit limited partnerships, and £78m in a perpetual life infrastructure fund.

As at 31 March 2019:

| INVESTMENT MOVEMENTS 2018/19 | Value at 31 March 2018 £000 | Purchases at Cost £000 | Sales Proceeds £000 | Change in Capital Value £000 | Change in Market Value £000 | Value at 31 March 2019 £000 |
|---|---|---|---|---|---|---|
| Global Equities | **11,487** | 0 | 0 | 0 | 2,260 | **13,747** |
| Managed Equities | **710,103** | 8,087 | (83,101) | (2,777) | 63,619 | **695,931** |
| Property | **108,401** | 9,207 | (8,231) | 0 | 2,908 | **112,285** |
| Fixed Interest Securities | **210,101** | 15,875 | (5,013) | 1,867 | (38,976) | **183,854** |
| Index Linked Securities | **42,600** | 2,100 | (3,900) | 910 | 51,224 | **92,934** |
| Other Assets* | **135,223** | 142,214 | (26,634) | (13) | 8,961 | **259,751** |
| | **1,217,915** | **177,483** | **(126,879)** | **(13)** | **89,996** | **1,358,502** |
| Cash Deposits | **86,154** | | | | (513) | **28,593** |
| Other Investment Balances | **16** | | | | (9) | **70** |
| **Total Investments** | **1,304,085** | | | | **89,474** | **1,387,165** |

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

## 5A. FINANCIAL INSTRUMENTS

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified between accounting categories during the year ended 31 March 2020, and all assets are held at fair value.

## Pension Fund Accounts

| | 31-Mar-20 | | | 31-Mar-19 | | |
|---|---|---|---|---|---|---|
| | Fair Value through Profit & Loss | Financial Assets at Amortised Cost | Financial Liabilities at Amortised Cost | Fair Value through Profit & Loss | Financial Assets at Amortised Cost | Financial Liabilities at Amortised Cost |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| | | | | | | |
| **Financial Assets** | | | | | | |
| Equities | 13,342 | | | 13,747 | | |
| Managed Funds: | | | | | | |
| Property | 106,332 | | | 112,285 | | |
| Managed Equity | 663,396 | | | 695,931 | | |
| Fixed Interest | 176,092 | | | 183,854 | | |
| Index Linked | 88,785 | | | 92,934 | | |
| Other Alternative Assets | 275,021 | | | 259,752 | | |
| Derivative contracts | 1,815 | | | 0 | | |
| Cash deposits | | 28,393 | | | 28,593 | |
| Pending Trades | | 17,500 | | | 0 | |
| Dividends & Income Due | | 1,276 | | | 70 | |
| Cash Balances | | 4,691 | | | 1,049 | |
| Other Current Assets | | 188 | | | 87 | |
| **Total Financial Assets** | **1,324,783** | **52,048** | **0** | **1,358,503** | **29,799** | **0** |
| | | | | | | |
| **Financial Liabilities** | | | | | | |
| Derivative Contracts | | | (1,815) | | | 0 |
| Pending Trades | | | (17,511) | | | 0 |
| Unpaid benefits | | | 0 | | | 0 |
| Other Current Liabilities | | | (5,488) | | | (1,763) |
| **Total Financial Liabilities** | **0** | **0** | **(24,814)** | **0** | **0** | **(1,763)** |
| | | | | | | |
| **Net Financial Assets** | **1,324,783** | **52,048** | **(24,814)** | **1,358,503** | **29,799** | **(1,763)** |

### Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| **Financial Assets** | | |
| Fair Value through Profit and Loss | **(41,760)** | **89,987** |
| Assets at Amortised Cost | **409** | **(513)** |
| **Financial Liabilities** | | |
| Liabilities at Amortised Cost | **7** | **0** |
| | **(41,344)** | **89,474** |

### Valuation of Financial Instruments carried at Fair Value

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

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

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

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

| **Values as at 31 March 2020** | **Quoted Market Price Level 1 £000** | **Using Observable Inputs Level 2 £000** | **With Significant Unobservable Inputs Level 3 £000** | **Total at 31/03/20 £000** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial Assets at Fair Value through Profit and Loss | 13,342 | 1,187,605 | 122,022 | **1,322,969** |
| Financial Assets at Amortised Cost | 52,238 | 0 | | **52,238** |
| | **65,580** | **1,187,605** | **122,022** | **1,375,207** |
| **Financial Liabilities** | | | | |
| Fair Value through Profit and Loss | 0 | 0 | 0 | **0** |
| Financial Liabilities at Amortised Cost | (22,999) | 0 | 0 | **(22,999)** |
| | **(22,999)** | **0** | **0** | **(22,999)** |
| **Net Financial Assets** | **42,581** | **1,187,605** | **122,022** | **1,352,208** |

| **Values as at 31 March 2019** | **Quoted Market Price Level 1 £000** | **Using Observable Inputs Level 2 £000** | **With Significant Unobservable Inputs Level 3 £000** | **Total at 31/03/19 £000** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial Assets at Fair Value through Profit and Loss | 13,747 | 1,225,948 | 118,807 | **1,358,502** |
| Financial Assets at Amortised Cost | 29,988 | 0 | 0 | **29,988** |
| | **43,735** | **1,225,948** | **118,807** | **1,388,490** |
| **Financial Liabilities** | | | | |
| Fair Value through Profit and Loss | 0 | 0 | 0 | **0** |
| Financial Liabilities at Amortised Cost | (1,763) | 0 | 0 | **(1,763)** |
| | **(1,763)** | **0** | **0** | **(1,763)** |
| **Net Financial Assets** | **41,972** | **1,225,948** | **118,807** | **1,386,727** |

## 5B. FINANCIAL RISK MANAGEMENT

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

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

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

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

The Committee has determined that the current largely passive investment management structure is appropriate, which is reflected in its most recent investment strategy agreed in February 2020. The new strategy will target a 50% allocation to low carbon passive equity mandates, maintaining the growth strategy of the Fund, whilst continuing to invest in income assets such as renewable infrastructure to ensure the cash flow requirements of the Fund continue to be addressed

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

### i) Market Risk

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

### a) Other Price Risk – Market

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

**b) Other Price Risk – Sensitivity analysis**

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

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund's assets in 2019/20, assuming all other variables such as foreign exchange rates and interest rates remain the same:

| Asset Type | Potential Market Movement +/- (% p.a.) |
|---|---|
| **UK Equities** | **12.6** |
| **Global Equities** | **14.7** |
| **Bonds and Index Linked** | **7.9** |
| **Alternatives** | **4.1** |
| **Property** | **2.3** |
| **Cash** | **2.4** |

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

| **Asset Type** | **Final Market Value as at 31 March 2020 £000** | **Percentage Change** | **Value on Increase £000** | **Value on Decrease £000** |
|---|---|---|---|---|
| UK Equities | 365,850 | 12.6 | 411,767 | 319,933 |
| Global Equities | 310,888 | 14.7 | 356,704 | 265,072 |
| Bonds and Index Linked | 264,877 | 7.9 | 285,800 | 243,954 |
| Other Assets | 275,021 | 4.1 | 286,186 | 263,856 |
| Property | 106,332 | 2.3 | 108,758 | 103,906 |
| Cash | 28,393 | 2.4 | 29,083 | 27,703 |
| **Total Assets*** | **1,351,361** | **6.9** | **1,444,875** | **1,257,847** |

* This figure excludes derivatives and other investment balances.

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

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

**d) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund was exposed to the following significant foreign currency levels (i.e. £2m and over) at the 31 March 2020, with the previous year in brackets:

| | | |
|---|---|---|
| Euro | €9.9m | (€15.9m) |
| US Dollars | $196.4m | ($190.6m) |

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Norwegian Krone and Australian Dollars.

**e) Currency risk – sensitivity analysis**

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2020 there were corresponding pending foreign exchange purchases of £1.8m and sales of £1.8m. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2019/20 to be 7.4%. This volatility is applied to the Fund's overseas assets at period end as follows:

| Asset Type | Asset Value at 31 March 20 £000 | Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Equities | 310,888 | 7.4 | 333,746 | 288,030 |
| Overseas Fixed Income | 87,756 | 7.4 | 94,208 | 81,304 |
| Other Alternatives | 156,858 | 7.4 | 168,391 | 145,325 |
| **Total** | **555,502** | **7.4** | **596,345** | **514,659** |

**ii) Credit Risk**

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

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

**iii) Liquidity Risk**

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2020 these assets totalled approximately £942m, comprising of bonds and equities, with a further £28.4m held in cash by the custodian on behalf of the Fund and fund managers.

## 6. PRIOR YEAR ADJUSTMENT

£13.75m of equities in 2018/19 have been reclassified from UK to global equities; the asset represents the Fund's holdings in HarbourVest Global Private Equity, a Guernsey domiciled and London listed evergreen fund.

## 7. DERIVATIVE CONTRACTS

As at 31 March 2020 there were pending foreign exchange purchases of £1.8m and sales of £1.8m, with an unrealised loss of £390. The net gains and losses in the tables below relate to foreign exchange forward contracts.

| | 2019/20 £000 | 2018/19 £000 |
|---|---|---|
| Foreign Exchange Gains | 0 | 21 |
| Foreign Exchange Losses | 0 | 0 |
| **Total Unrealised Gains / (Losses)** | 0 | 21 |

## 8A. OTHER INVESTMENT BALANCES

These comprise the following amounts:

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| **Debtors** | | |
| Equity Dividends / Income from Managed Funds | 1,244 | 38 |
| Interest and Other Income | 32 | 32 |
| Pending Trades | 17,500 | 0 |
| **Creditors** | | |
| Interest and Other Expenditure | 7 | 0 |
| Pending Trades | (17,511) | 0 |
| **Net** | 1,272 | 70 |

## 8B. NET CURRENT ASSETS

These comprise the following amounts:

**Pension Fund Accounts**

**Current Assets**

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Contributions Due from Admitted/ Scheduled Employers/ Employees | 191 | 189 |
| Interest and Other Income | 0 | 0 |
| Other Current Assets | 188 | 87 |
| Cash in Hand | 4,691 | 1,049 |
| | 5,070 | 1,325 |

**Current Liabilities**

| | 31/03/20 £000 | 31/03/19 £000 |
|---|---|---|
| Fund Manager and Custody Fees | (283) | (274) |
| Consultancy/ Advisory Fees | (35) | (8) |
| Other Current Liabilities | (5,177) | (1,481) |
| | (5,495) | (1,763) |

## 9. CASH AND BANK

### Cash Held With Custodian

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2020 was £28.4m (£28.6m as at 31 March 2019). Approximately £10.9m of this was with Schroders (of which £5.3 was committed), £6.0m with HarbourVest, £4.7m with JP Morgan and £6.8 was being held on behalf of the other managers.

### Pension Fund Bank Account

The Lewisham cash in hand balance of £4.7m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2020. The Fund's accounts are held with Barclays Bank.

## 10. POST YEAR END EVENTS

### Non-Adjusting event – Covid-19

The coronavirus outbreak, declared a pandemic by the World Health Organisation on 11th March 2020, has resulted in thousands of deaths, the imposition of quarantine measures, border closures and travel restrictions, and wider market uncertainty, particularly for those cyclical industries less able to deal with an economic downturn.

The impact on global financial markets in the short term has primarily been greater volatility; for a pension fund, a significant decline in the value of investments could be classed as a non-adjusting event with regards conditions that arose after the reporting period. Longer term performance will depend on how long the pandemic lasts and what path the recovery takes. However, although there have been variations to fund values, the value of the Fund's investments as at 30 September 2020 is overall higher than as reported at 31 March 2020 in these statements (an increase of approximately 11% to £1,502m).

The Fund's level 3 investments are well diversified in terms of geographies, sectors and vintages (year when first tranche of investment capital is called) so any valuation effects of the pandemic will vary depending on such factors. The total value of level 3 investments in the financial statements is £123.7m; this value could see increases where underlying investments are held in sectors such as telecoms and IT, or food products, whilst there is likely to be an adverse impact on investments held in the non-food retail and leisure sectors.

## 11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2020:

| Fund Manager | Fund | Amount ('000) | Translated (£'000) |
|---|---|---|---|
| HarbourVest | HarbourVest Partners XI AIF L.P. | $20,138 | 16,236 |
| HarbourVest | HarbourVest Partners X AIF L.P. | $15,908 | 12,826 |
| Pemberton | European Debt Investments Jersey II L.P. | £8,212 | 8,212 |
| HarbourVest | HIPEP VII (AIF) Partnership Fund L.P. | $6,975 | 5,624 |
| HarbourVest | Harbourvest Partners VIII - Cayman Buyout Fund L.P. | $833 | 671 |
| HarbourVest | Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P. | € 700 | 619 |
| HarbourVest | Harbourvest Partners VIII - Cayman Venture Fund L.P. | $190 | 153 |
| HarbourVest | Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P. | € 124 | 109 |
| | **Total** | | **44,450** |

## 12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

- Councillor John Muldoon declared his interest as a member of Lewisham's Pension Fund.
- The Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

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

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

No other trustees or Council chief officers with direct responsibility for Pension Fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2020.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £654k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently Pension Fund cash balances are held by the Council from time to time and vice versa.
- The salary of the Executive Director for Resources and Regeneration for 2019/20 was £136,964, which includes employer's pension contributions of £25,157. This was an interim appointment to 31 January 2020, after which the post holder returned to their position of Acting Chief Finance Officer from 1 February 2020 to 31 March 2020.
- The salary of the Acting Chief Finance Officer, covering the period 1 February 2020 to 31 March 2020, was £27,393, which includes employer's pension contributions of £5,032.

## 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 45 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

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

| | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| | Utmost £000 | Clerical Medical £000 | Total £000 | Equitable Life £000 | Clerical Medical £000 | Total £000 |
| **Value at the Beginning of Year** | **428** | **964** | **1,392** | **434** | **876** | **1,310** |
| Contributions and Transfers Received | 3 | 182 | 185 | 3 | 172 | 175 |
| Investment Return | 81 | (83) | (2) | 13 | 93 | 106 |
| Paid Out | (91) | (77) | (168) | (22) | (177) | (199) |
| **Value at the End of the Year** | **421** | **986** | **1,407** | **428** | **964** | **1,392** |

## 14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2020, arranged in descending order by the value of their contributions in 2019/20:

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

## 15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2020, arranged in descending order by the value of their contributions in 2019/20:

| |
|---|
| Youth First LTD |
| Phoenix |
| Phoenix Agency Services |
| DB Services |
| Lewisham Music |
| Skanska |
| Chartwells Compass |
| One Housing (Ceased 31/12/2019) |
| Change Grow Live |
| NSL (formerly known as National Car Parks Ltd) |
| Nviro |
| Fusions Leisure Management |
| Quality Heating |
| 3 C's Support |
| Housing 21 |
| Pre-School Learning Alliance |
| Tower Services |
| Wide Horizons (Ceased 31/07/2018) |

## 16. STOCK LENDING

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

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

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

As at the 31 March 2020 the value of aggregate stock on loan was £0m (£0m as at 31 March 2019); the Fund does not currently hold any segregated assets for participation in the securities lending programme.

**Collateral**

The collateral held as security on loans cannot be sold or re-pledged in the absence of default by the borrower. The Fund did not enter into any stock lending transactions during the financial year, and the value of collateral held as at 31 March 2020 was £0m (£0m as at 31 March 2019).

## 17. MEMBERSHIP

| | Active Members | | Deferred Beneficiaries | | Retired Members | |
|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| Administering Authority | 5,590 | 5,656 | 10,502 | 10,295 | 7,556 | 7,360 |
| Scheduled Bodies | 1,050 | 951 | 1,234 | 1,051 | 346 | 298 |
| Admitted Bodies | 114 | 119 | 124 | 123 | 122 | 111 |
| | **6,754** | **6,726** | **11,860** | **11,469** | **8,024** | **7,769** |

## 18. AUTHORISATION

These accounts were approved by Council on XXXXXX.

# SECTION 8 – ANNUAL GOVERNANCE STATEMENT

**What is corporate governance?**

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

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

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives and Senior Managers) Framework Delivering Good Governance in Local Government. This statement explains how the authority has complied with the code and also how it meets the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of a statement on internal control.

> ***"Corporate governance is about making sure that the Council is run properly. It is about ensuring the Council does the right things, at the right time and in the right way."***

**How has this statement been prepared?**

Every year a review of the effectiveness of the Council's governance framework is conducted by the Annual Governance Statement working party, which comprises 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.

**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 Corporate Resources (as Head of Internal Audit) 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, the Council's governance arrangements have operated as designed, with some acting up arrangements, principally in respect of the Head of Paid Service and Section 151 Officer roles.

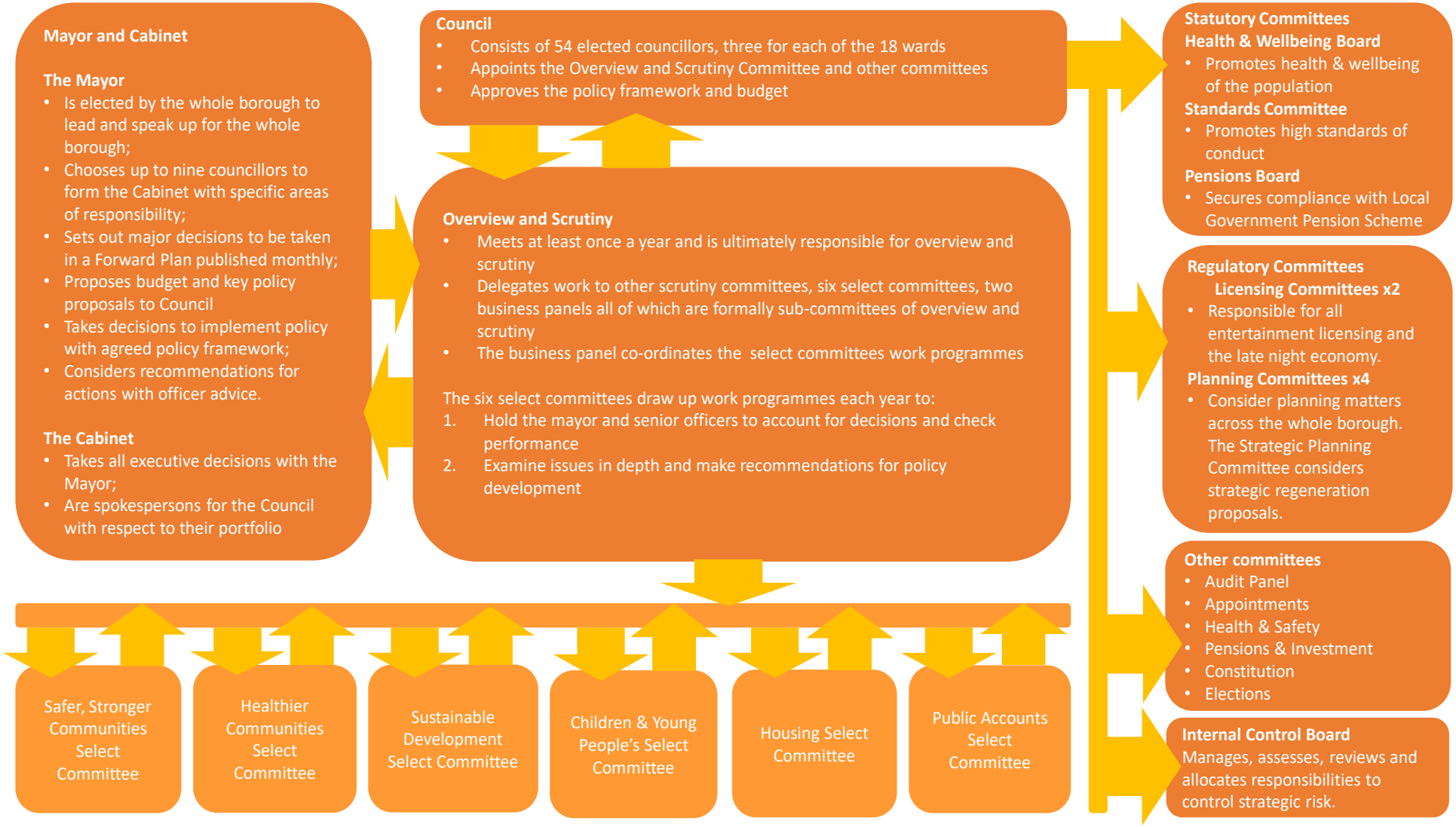
**The Council's governance arrangements in 2019/20**

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

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

The Council has worked closely with its partners, both strategic and operational. The Council has 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.

## Annual Governance Statement



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

**Communicating and reviewing the Council's vision**

The Council adopted a new Corporate Strategy 2018-2022 in February 2019. The Council's new Corporate Strategy sets out how Lewisham Council plans to deliver for our residents over the next four years. There are seven corporate priorities:

**Open Lewisham** – Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.

**Tackling the housing crisis –** Everyone has a decent home that is secure and affordable.

**Giving children and young people the best start in life** – Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.

**Building an inclusive local economy** – Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.

**Delivering and defending: health, social care and support** – Ensuring everyone receives the health, mental health social care and support services they need.

**Making Lewisham greener –** Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.

**Building safer communities** – Every resident feels safe and secure living here as we we work together towards a borough free from the fear of crime.

The Council's performance is monitored via monthly Directorate (Children and Young People Services, Community Services, Housing Regeneration and Environment and Corporate Services) management reports. The reports use 'red' exception reporting to focus attention on underperforming or high risk areas and is a critical tool for supporting decisions across the organisation. These reports are shared with Cabinet Leads, giving them direct line of sight to current and emerging performance issues. The appropriateness of Directorate performance measures is reviewed annually. The quality of services for users is also measured through satisfaction surveys and information from the complaints and management resolution processes. In addition, where areas for improvement are identified, the Council acts swiftly to address them. For example, following the Inspection of Local Authority Children's Services by Ofsted in July 2019, the Council is taking active steps to address areas for improvement that have been identified by the regulator.

**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.

**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 July 2019 concluded that the Member Code of Conduct was well embedded and the evidence suggested a high level of compliance. Training on the Member Code of Conduct was delivered to all Councillors in June 2018, following the local elections that year, as part of a comprehensive induction programme to enable Members to understand and access all appropriate support and development to undertake their role. Training is updated periodically.

> *'**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**'*

**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.

In 2019/20 two items were called in by the Overview and Scrutiny Business Panel. These are as follows:

- Re-commissioning of Building-Based Day Services for Older Adults (November 2019)
- Disposal of former Wide Horizons sites in Wales and Kent (January 2020)

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 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. This work is conducted in compliance with the Public Sector Internal Audit Standards (PSIAS), as adopted by the Council in its Internal Audit Charter.

The annual self-assessment of the compliance to the PSIAS, confirms that the service continues to meet the standards. For the 2019/20 the Head of Internal Audit was also acting as the Council's s151 officer in an acting up capacity. This was discussed with the external auditors and the Audit Panel and compensating controls implemented.

The internal audit plan for the year concludes with reporting to the Audit Panel in June/July with an annual assurance opinion. For 2018/19, 66 (39 corporate and 27 schools) assurance reviews were undertaken and the annual opinion of the Head of Internal Audit, reported to the Audit Panel, was:

> *"the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2018-19 is **Satisfactory**. The Schools opinion also remains as Satisfactory."*

Subject to the following qualifications to the opinion;

- Internal audit resources - vacancies experienced by both the contractor and in-house team impacted the delivery of the audit plan which was reduced in year from the original plan;
- Through part of the year, the Head of Internal Audit also had wider finance management responsibilities raising the risk of possible conflicts of interest for which compensating governance arrangements were adopted; and
- Following the move to the new finance processes and system early in the year some control weaknesses were identified with the accounts payable and receivable areas, the audit opinions for which were Limited.

For 2019/20, as discussed with the Audit Panel in February, work on the audit plan was suspended in March. This was due to the need for the Council to focus its response to Covid 19 by front line teams and the internal audit team who were redeployed in support. The internal audit plan was picked up in June and will report to the Audit Panel in September for the 2019/20 year.

**External audit**

The Council's governance, risk and control management arrangements are subject to an annual independent review by Grant Thornton, the Council's external auditors. In their last Annual Audit Letter on the 2018/19 accounts Grant Thornton gave an unqualified opinion for the financial statements and unqualified conclusion for the Council's value for money arrangements. Grant Thornton reported:

> *"In our opinion, the financial statements:*
>
> - *give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;*
> - *have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and*
> - *have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014."*
>
> and
>
> *"we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019."*

The final audit certificate was not issued pending the auditors finalising their work into two objections received to the accounts in 2016/17 by a number of authorities. One of these has concluded with no action required and it is hoped the second will be concluded in August 2020 in time for completing the 2019/20 accounts.

While the audit will conclude and report to the Audit Panel and Council in the usual way, the 2019/20 closing will be later due to delays arising from Covid 19. The government deferred the audit deadlines for completion of audits to November 2020, from July originally.

**Audit Panel**

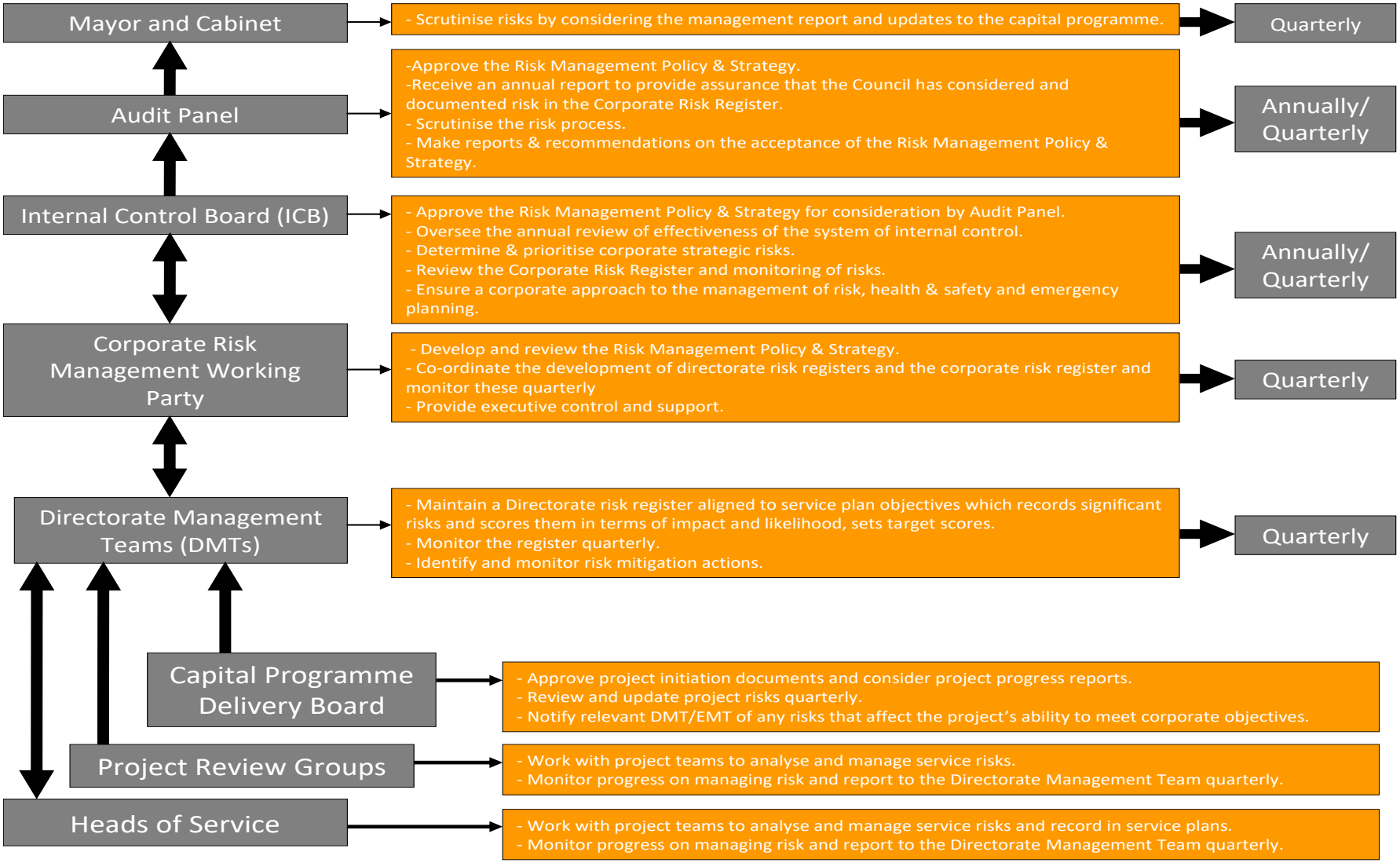
The Council's Audit Panel meets quarterly and is made up of a mixture of Councillors and independent advisors. The key roles of the Panel are to:

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

**Compliance**

The Monitoring Officer is central to ensuring compliance with the rules and procedures set out in the constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs the Executive Management Team (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.

**Risk and Strategy Framework**



It should be noted that the Council's ICB was dissolved at the end of the financial year, following its last meeting in February 2020. The work of the ICB will revert to being undertaken by the EMT.

**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 who are aware of their statutory duties and stay abreast any changes in relevant legislation. At the start of the financial year the Chief Executive 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. During the 2019-20 financial year some 50 public consultations were initiated across the borough, which generated more than 8,200 responses from the public.

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's website includes a page on open data and transparency, which gives information on spending; wages of senior managers; Freedom of Information requests; the annual audit of accounts; the pay policy; and Council decisions. The arrangements for strategic partnership working are set out earlier in this statement. Periodically the Council also engages in wide consultation and communication activities.

**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 Director for Corporate Resources, 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:
  - Review of Compliance with the Council's Code of Corporate Governance (July 2019)

- Review of Whistle-blowing and Referrals Policy (January 2020)
- Review of Compliance with the Member Code of Conduct (January 2020)
- Annual Complaints Report 2018-19 (January 2020)

- Consideration of external audit reports by Mayor and Cabinet, Audit Panel and relevant Select Committees.

**What are our governance priorities going forward?**

Our priorities continue to include:

- Progressing delivery of the Mayor's policy programme, as set out in the Corporate Strategy to 2022 adopted by Council in 2018/19;
- Plan and prepare to implement further cuts and adjust the allocation of resources across Council services in light of the anticipated further budget reductions the Council faces;
- Respond to the leadership priorities following appointments within the period considered by the 2019/20 accounts to the roles of Chief Executive, s151 Officer, and Monitoring Officer;
- Complete the annual reviews of the schemes of delegation and performance report to align to the new Directorate structures to be implemented in 2020/21;
- Update the payroll and HR procedures to ensure resilience and capture the operational changes from the move to a new system (Oracle Cloud);
- Address the external and internal audit findings reported to the Audit Panel to maintain and, where necessary, improve the Council's financial controls (e.g. in respect of income);
- Agree and implement the actions to respond to the findings and recommendations of the Children Services Ofsted review (August 2019); and
- Continue the work with our local and regional health partners to best deliver the 'integrated health and social care agenda' for the benefit of the borough's citizens.

In addition to the above the Council is responding to the impact of Covid 19 on the Borough and the Council. On the 23 March 2020 the UK was put on 'lockdown' as a result of Covid-19. The impact of the pandemic has been considerable both in terms of loss of life as well as disruption to the economy. In response, the Council activated its emergency response procedures, which remain in effect at the time of preparing this statement. The impact of the pandemic has also placed significant pressure on the Council's finances.

The exceptional measures impacted the conclusion of the 19/20 municipal year with revised governance arrangements put in place. These included reduced Member meetings restricted to Council, Mayor & Cabinet, and Overview and Scrutiny for decision making in line with the Constitution and the introduction of virtual meetings for participants and the public. The Council was able to hold its Annual General Meeting on the 15 July to start the 2020/21 municipal year. As the exceptional measures introduced following Covid-19 are eased, the Council is gradually moving from a response to transition and recovery phases.

The Council's response is guided by a set of agreed overarching priorities, they are:

- Tackling widening social, economic and health inequalities;
- Protecting and empowering our most vulnerable residents;
- Ensuring the Council's continued resilience, stability and sustainability;
- Enabling residents to make the most of Lewisham the place; and
- Collaborating and working together with our communities and partnership across the borough.

# Audit Panel

## Report title: Final Accounts 2019/20 – LBL Response to Grant Thornton's Audit Findings Reports

**Date:** 04 November 2020

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Executive Director for Corporate Resources

## Outline and recommendations

The purpose of this report is to respond to the external auditor's Audit Findings Reports on the 2019/20 audit of the Council's Main Accounts and Value for Money conclusion, and the 2019/20 Pension Fund Accounts.

It is recommended that the Audit Panel note the reports from Grant Thornton and this officer response report, to ask questions as appropriate and to agree the comments.

## 1. Summary

1.1 The purpose of this report is to respond to the external auditor's Audit Findings Reports on the 2019/20 audit of the Council's Main Accounts and Value for Money conclusion, and the 2019/20 Pension Fund Accounts.

## 2. Recommendation

2.1. It is recommended that the Audit Panel note the reports from Grant Thornton and this officer response report, to ask questions as appropriate and to agree the comments.

## 3. Background

3.1. These audit findings are attached to the previous item on this agenda, and contain:

"*… the key issues arising from the statutory audits of the London Borough of Lewisham Council ('the Council or you') and the preparation of the group and Council financial statements for the year ended 31 March 2020 … (and) whether, in our opinion, the group and Council financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and have been properly prepared … in accordance with the Local Audit and Accountability Act 2014 … (and) if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ...*"

3.2. The reports set out any issues arising from the audits that, in the opinion of the external auditor, are of sufficient significance to warrant informing and discussing with Members.

## 4. Audit of Accounts

4.1. As a result of the Covid-19 pandemic, the deadline for the preparation of the pre-audit financial statements was extended to 31 August 2020 and the date for audited financial statements to 30 November 2020. The first of these deadlines was achieved on 29 June 2020 and it is fully anticipated that the second will be achieved immediately following approval of the audited accounts by full Council on 25 November 2020.

4.2. Since the pre-audit accounts were completed on 29 June 2020, they have been subject to extensive external audit by Grant Thornton. The audits are now substantially complete and Grant Thornton report that, subject to outstanding queries being resolved, they anticipate providing unqualified opinions on the financial statements and Value for Money conclusion. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.

4.3. The external auditor requests that Members note the adjustments to the financial statements in the reports.

4.4. Under the Council's constitution these matters are for the Council to determine. At full Council on 25 November 2020, Members will note the Audit Findings reports and are expected to approve the audited Statement of Accounts.

## 5. Audit Findings

5.1. The headlines are shown on pages 3, 4 & 5 of the Audit Findings Report. The Covid-19 pandemic has not had a significant impact overall on the actual process of final accounts preparation and audit. With remote working, there have inevitably been some delays in resolving certain audit queries but, conversely, there have also been some improvements in the timeliness of officer responses.

5.2. The main issues to note from the Council's main accounts audit report are as follows:-

i. There were some weaknesses identified around cut-off arrangements which resulted in expenditure that related to the 2019/20 financial year being incorrectly allocated to 2020/21. This will require a concerted effort by various service accountants to examine more closely the year-end accruals in future, plus a strengthened review process, for which the options will be examined in November / December 2020. The natural consequence of this audit finding is that additional expenditure will fall on the General Fund in 2020/21, estimated to be up to £6.6m using extrapolation techniques. This impact will be investigated further.

ii. There were two notable issues arising regarding property, plant & equipment (PPE): firstly, that the Council had not revalued all of its surplus assets as required by the accounting standards; and secondly, the floor areas used in the valuation of three schools were incorrect, which led to a decrease in the valuation of these buildings by £11.5m. PPE is a complex accounting area, for which any errors or misjudgements can cause significant swings in the figures. Nevertheless, it is accepted that the review of this area by management must be strengthened, and the plans for this will be devised in November / December 2020, ready for implementation by year-end.

iii. It was necessary to update the pension fund IAS19 valuation due to the impact of Covid-19 reducing year-end asset valuations. Officers always seek to obtain the most up-to-date valuation figures in time for the draft accounts, but in the exceptional circumstances of the Covid-19 pandemic this year, even this approach could not keep pace with the market changes. This will be kept closely under review for 2020/21.

iv. A number of presentational amendments to the financial statements were identified by the auditors. On account of the tight deadlines for submission of the draft accounts to the auditors, there is often a shortage of time to carry out a proper management review. Therefore, the appropriate time for a more robust management review will be built into the timetable for 2020/21 and adhered to.

v. None of the above has any impact on the Council's General Fund position or council tax or housing rents for 2019/20, although the first one may have an effect in 2020/21 as indicated.

vi. A review of the Council's IT controls is outlined in Appendix A on page 37, and these ongoing concerns have been discussed with senior management.

vii. The Value for Money findings are summarised on pages 18 & 19, with the detail being set out on pages 20 to 33.

5.3. The Action Plan (Appendix A on pages 36 & 37) contains seven recommendations which will be discussed further with Grant Thornton and agreed as appropriate.

5.4. The areas to note from the Pension Fund accounts audit report are as follows:-

i. Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration the impact of Covid-19. The valuations of the Harbourvest investments had fallen by £2.1m from the balance disclosed in the draft financial statements. Management have agreed to adjust the pension fund financial statements.

ii. The action plan (Appendix A on page 16) shows just one item, regarding the coding structure in the general ledger. Officers agree that historic coding arrangements with the Fund's custodian require significant manual adjustments throughout the year and at year-end for the accounts to reconcile to the ledger. Discussions will take place with the custodian to update the coding structure, and adjustments will be processed to tidy up historical miscodings in the ledger as it stands.

iii. There were also several misclassification and disclosure changes required (see Appendix B on pages 17 & 18). These have been agreed and the final accounts amended.

## 6. Annual Governance Statement

6.1. This document is currently being finalised, subject to review by the Executive Director for Corporate Resources and the Monitoring Officer. This final version will be circulated separately to Audit Panel members in time for the meeting on 4 November 2020. It will be an updated version from the draft which was circulated following the meeting on 30 September 2020. The final Annual Governance Statement is expected to be approved by Council on 25 November 2020.

## 7. Financial implications

7.1. There are no direct financial implications resulting from this report.

7.2. The cost of the external audit of the main accounts for 2019/20 was £183,000, plus £42,000 for the certification of grant claims. The Pension Fund external audit cost was £25,000.

## 8. Legal implications

8.1. The Accounts and Audit (England) Regulations 2015 (as amended for the Accounts and Audit (Coronavirus) Amendment Regulations 2020) require authorities to publish their Statement of Accounts after the external audit is completed no later than 30 November. It is fully anticipated that this sign-off will be achieved immediately following approval of the audited accounts by full Council on 25 November 2020.

8.2. It is the role of the Audit Panel to receive, review and where appropriate, advise and make recommendations to the Council in relation to the external auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

## 9. Consultation

9.1. Sections 25 to 27 of the Local Audit and Accountability Act 2014 give electors the right to inspect and make copies of the Accounts; also to question the auditor and make an objection. The Accounts are required to be available for public inspection for 30 working days prior to the planned conclusion of the audit and an advertisement is placed on the Council's website to publicise this fact. This public inspection period ended on 28 September 2020. It is also a requirement that notice of the conclusion of the audit is advertised on the Council's website.

No new objections to the Accounts were received in 2019/20. The objections outstanding in connection with LOBO loans and PFI from financial year 2016/17 have now been resolved and final responses sent to the objectors. Grant Thornton can therefore now proceed to certify the closure of the 2016/17 audit and subsequent years.

## 10. Equalities implications

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

## 11. Climate change and environmental implications

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

## 12. Crime and disorder implications

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

## 13. Health and wellbeing implications

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

## 14. Background papers

14.1. None

## 15. Report author and contact

Selwyn Thompson, Director of Financial Services – Selwyn.Thompson@lewisham.gov.uk 020 8314 6932

Paul Calnan, Acting GFM – Core Accounting – Paul.Calnan@lewisham.gov.uk 020 8314 6167

# Audit Adjustments

Since submitting the Audit Findings Report to the Audit Panel, we have identified the following two changes that we are required to report to you. These are highlighted in the following tables.

| Detail | CIES £000s | Balance Sheet £000s | Impact on total net expenditure £000s |
|---|---|---|---|
| There were adjustments to the draft group financial statements to take account of the audited financial statements of Lewisham Homes Limited and Catford Regeneration Partnership Limited. The most significant of these was an IAS19 adjustment to Lewisham Homes Limited and a downward adjustment to the investment property in the Catford Regeneration Partnership Limited accounts | Lewisham Home<br>Dr Remeasurement of the net defined<br>Benefit liability<br>20,834 | Lewisham Home<br>Dr Liability related to defined benefit<br>Pension scheme<br>20,834<br>Cr Pensions Reserve<br>20,834 | Nil |
| | Catford Regeneration Partnership Ltd | Catford Regeneration Partnership Ltd<br>Cr Investment Property<br>6,951<br>Dr Revaluation Reserve<br>6,951 | Nil |

| Disclosure | Detail | Adjusted? |
|---|---|---|
| Note 32 Capital Financing Requirement | The Council included an adjustment of £27.038m following a review of its MRP by Link Asset Service.<br>This inclusion was found to be incorrect and removed and closing capital financing requirement carry forward Figure revised. There is no impact on the financial statements. | ✓ |

# Agenda Item 5

| AUDIT PANEL | | | |
|---|---|---|---|
| **Report Title** | Exclusion of the Press and Public | | |
| **Key Decision** | | | Item No. 9 |
| **Ward** | | | |
| **Contributors** | Chief Executive | | |
| **Class** | Part 1 | Date: 4 November 2020 | |

**Recommendation**

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

10. Closed Minutes

# Audit Panel

## Report title: Managers' progress with improvements relating to 2019/20 audits of concern

**Date:** 4 November 2020

**Key decision:** No.

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Director of Corporate Resources

## Outline and recommendations

This report describes managers' progress with improving controls in service areas that were identified by internal audit work during 2019/20 as having 'Limited' assurance or where an audit opinion could not be provided.

Members are asked to note the progress and raise questions directly to the accountable officers in attendance.

## Summary

### Background

1.1. The Internal Audit Annual Assurance report for 2019/20 identified a number of service areas where the overall assurance was assessed as 'Limited' or where an opinion could not be provided. The Assurance report was discussed by members of the Audit Panel at the meeting on 30 September 2020.

### Introduction

1.2. Internal audit work is undertaken to evaluate governance, risk management and control processes using a systematic and disciplined approach. An objective, overall opinion is assigned to each audited area, based on the number and risk profile of the findings identified and classified in terms of one of four categories of assurance: Substantial, Satisfactory, Limited or No Assurance. Definitions of risk ratings and assurance opinions are provided in Annex 1. Therefore, the process contributes to the continuous improvement of the Council's governance, risk management and internal control processes.

1.3. The work completed by Internal Audit during 2019/20 was summarised in an Annual Assurance Report, which was presented to Audit Panel on 30 September. Members raised a number of questions about the details and results reported. In particular, a summary of

audits undertaken on key financial processes within the Council highlighted services where audit assurances were Limited or where no opinion could be given. Members requested that progress relating to the following audits should be presented to the following Audit Panel:

- Accounts Receivable and Debt Recovery (Limited assurance)
- Client Contributions for Care Provision (Limited assurance)
- Payments to Childcare Providers and Foster Carers for Looked After Children (Unable to provide an opinion)

1.4. The Executive Summary from the report for each of these audits is provided in Appendices 1 - 3.

1.5. It was also reported that Internal Audit was unable to provide an opinion for an audit of Banking. This subject area is currently being re-audited and it is anticipated that the outcome will be reported in the Internal Audit Progress Update to the January 2021 Audit Panel.

## Managers' progress since audits were completed

1.6. Managers responsible for implementing actions arising from each of the audits listed above were contacted to provide updates regarding their progress with implementing improvements for the High and Medium category findings. Their self-assessments are summarised below:

**Table 1: Accounts Receivable and Debt Recovery 2019/20 – Status of Management Action**

| Rec No. | Recommendation Heading | Category | Status | Original Due Date | Owner |
|---|---|---|---|---|---|
| 1 | Raising Invoices - Raising and Processing Credit Notes | Medium | No response | 31/12/2020 | Director of Financial Services |
| 2 | Raising Invoices - Raising and Processing Invoice Requests | Medium | No response | 31/12/2020 | Director of Financial Services |
| 4 | Income and Debt Recovery - Recovery Action | High | In Progress | 31/12/2020 | Enforcement Manager |
| 5 | Income and Debt Recovery - Housing Benefit Debt Recovery | Medium | Partly complete | 31/12/2020 | Debt Collection Manager |
| 6 | Income and Debt Recovery - Instalment Arrangements Sundry Debt | Medium | Complete | 31/12/2020 | Enforcement Manager |
| 8 | Write-Offs - Write Off Documentation | Medium | Complete | 31/12/2020 | Enforcement Manager |
| 9 | Reconciliation's - Accounts Receivable and Refunds | Medium | No response | 31/03/2021 | Group Finance Manager - Core |
| 10 | Performance Monitoring - Debtor Indicators | Medium | Complete | 31/12/2020 | Enforcement Manager |

1.7. This table shows that, although the agreed target dates have not yet been reached for any of the recommendations, progress has been made towards implementing five out of eight of them, with three already fully implemented. However, we did not receive any management feedback regarding progress of three of the recommendations.

**Table 2: Client contributions for care provision 2019/20 – Status of Management Action**

| Rec No. | Recommendation Heading | Category | Status | Original Due Date | Owner |
|---|---|---|---|---|---|
| 1 | Carrying Out a Financial Assessment - Value of the Upper Capital Limit For Non-Residential Service Users | High | No response | 30/09/2020 | GFM – Community Services* |
| 2 | Carrying Out a Financial Assessment - Prior to the Start of Care and Charging Start Date | Medium | No response | 31/12/2020 | Adult Social Care Service Manager |
| 4 | Issuing of Invoices - Adjusting Invoice Amounts | High | Partly complete | 31/07/2020 | Income Team Leader |
| 5 | Issuing of Invoices – Changes in Financial Circumstances | High | Complete | | |
| 6 | Issuing of Invoices – Adjusting Invoices for Service Breaks | Medium | No response | 31/12/2020 | Adult Social Care Service Manager |
| 7 | Issuing of Invoices – Reconciliation Between the Source Data and the General Ledger | Medium | No response | 31/03/2021 | GFM – Community Services* |
| 8 | Deferred Payment Agreements (DPAs) - Disposable Income Allowance and Invoicing on the Correct Account | High | Complete | | |
| 9 | DPAs - Six-Monthly Written Statements and Interest | High | In progress | 31/08/2020 | Debt Collection Team Leader |
| 10 | DPAs - Calculation of Equity Limit and Monitoring of DPA Balances | Medium | In progress | 31/08/2020 | Debt Collection Team Leader |
| 11 | DPAs - Timely set-up of DPA | Medium | Complete | 30/09/2020 | Benefits Delivery Manager |
| 12 | DPAs - Administration Charges | Medium | Not progressed | 31/08/2020 | Debt Collection Team Leader |

*It is noted that GFM – Community Services has recently left the Council

1.8. This table shows that, although the agreed target dates have not yet been reached for three of the recommendations, progress has been made towards implementing six out of 11 of them, with three already fully implemented. However, we did not receive any management feedback regarding progress for four of the recommendations, one of which (Rec No 1) was High risk and already beyond the due date.

1.9. **Payments to Childcare Providers and Foster Carers for Looked After Children**: In the absence of the Director of Children's Social Care, the Head of Corporate Parenting provided the following progress update: "*We are currently reviewing placements which will include a review of policies and procedures relating to payments and the process of chasing up signed agreements. The review will be completed by December. The report has been shared with Placement and Fostering. All officers have been reminded to save placement information records and placement authorisation in the relevant records on LCS (LiquidLogic Children's Social Care system). We also have a tracker looking at placement costs and review dates.*"

## 2. Recommendations

2.1. It is recommended that the Audit Panel notes the progress reported by managers with implementing improvements to control arrangements for the service areas in scope.

## 3. Financial implications

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

## 4. Legal implications

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

## 5. Equalities implications

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

## 6. Climate change and environmental implications

6.1. There are no climate change or environmental implications arising directly from this report.

## 7. Crime and disorder implications

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

## 8. Health and wellbeing implications

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

## 9. Background papers

9.1. There are no background papers.

## 10. Glossary

| Term | Definition |
|---|---|
| Assurance Opinion | An independent assessment on the controls in place. |
| Recommendation | A suggestion made by internal audit on how to improve controls. |
| Management Action | The actions that management have agreed to do to implement the recommendation made by internal audit. |
| Control | A process that is in place to facilitate achievement of an objective or to prevent or reduce a risk from occurring. |

## 11. Report author and contact

11.1. If there are any queries on this report, please contact: Christine Webster, Interim Head of Internal Audit, on 202 8314 5617 or David Austin, Director of Corporate Resources, on 020 8314 9114, or email them at: christine.webster@lewisham.gov.uk or david.austin@lewisham.gov.uk.

**Appendix 1**

# Accounts Receivable and Debt Recovery 19-20

## Final Report

## Corporate Services (COR)

## Overall Audit Opinion - Limited

| | Process Areas | High | Medium | Low |
|---|---|---|---|---|
| ● | 1. Raising Invoices | - | 2 | 1 |
| ▲ | 2. Debt Recovery | 1 | 2 | 1 |
| ● | 3. Write-Off's | - | 1 | - |
| ▲ | 4. Reconciliations | 1 | - | - |
| ● | 5. Performance Monitoring | - | 1 | - |
| ▲ * | 6. Information Security and Business Continuity | - | - | - |
| **Total** | | **2** | **6** | **2** |

*There are three recommendations, (1 high and 2 medium) relating to the controls around Oracle Financial System. While they also relate to Account Receivable, they will only be formally reported and monitored in the Accounts Payable Audit.

**Key** ★Substantial ● Satisfactory ▲ Limited ■ No Assurance

## 1. Introduction

The background for this internal audit and the service objectives were included in the Terms of Reference. Testing of write-offs, including review of the documentation and confirmation of authorisation could not be completed. This is due to Covid 19 lockdown restrictions which meant officers were not able to access the documentation kept in the office.

It is also noted that some of the debts within the sample had reached the stage where legal action or bailiffs could have been used (prior to COVID 19). However, none of these cases had been progressed to this level of recovery action, therefore controls around these processes have not been tested as part of this audit. It was stated by the Corporate Debt Collection Manager, Public Services this was due to a restructure of the team that started in April 2019, and is still on-going due to be finished in September 2020 when all posts should be filled.

The report has been given a limited opinion due to the following issues;

- Delays in recovery action including sending reminder letters within the required timeframes as per the Debtors Procedure Manual.

- The Accounts Receivable and Accounts Receivable Refunds Reconciliation had not always been completed and authorised within a timely manner. There were also items of income that had not been cleared and on-going discrepancies that had not been resolved.

There were three findings raised in the Accounts Payable Audit relating to Oracle System Controls that are also relevant to Accounts Receivable. While they also relate to Account Receivable, they will only be formally reported and monitored in the Accounts Payable Audit. The findings were:

- It was not possible to run a report to show vacation rules in use and for how long they had been set. It was also found that when an officer uses the delegation rule they are able to delegate their authority to another user and further approval is not required.
- *A report to help identify new user set-ups, amendments, such as additional roles or when a user is de-activated could not be produced in Oracle Cloud.
- *The form used to set up new profiles and process amendments on Oracle Cloud had too many options to choose from and it might not be clear to officers which option relates to which role on Oracle Cloud. In addition, the form had not been completed for all amendments. Supporting procedures had also not been formally documented.

## 2. Assurance Opinion and Recommendations Made

Accounts Receivable and Debt Recovery 19-20 has an assurance rating of Limited.

The previous audit completed in 2018/19 had the assurance rating of Limited.

The number of recommendations made, listed by categories are listed below:

2 High recommendations, of these 2 were made in the previous report,

6 Medium Recommendations, of these 5 were made in the previous report, and

2 Low Recommendations.

## 3. Key Findings *indicates reoccurring recommendation

- *Debt recovery action including sending reminder letters was not done in a timely manner and further debt recovery action had not been done.
- *The Accounts Receivable and Accounts Receivable Refunds Reconciliation had not always been completed promptly (within three weeks of month end) and had not always been authorised in a timely manner. Items on the Accounts Receivable Refunds reconciliation had not been resolved. There were discrepancies between the Accounts Receivable report and General Ledger report in the Accounts Receivable Reconciliation that were not resolved.
- *Debtor KPIs were not being reported as part of the Corporate Services Performance Report.
- *In one case the credit note request had not been processed in a timely manner. In one case the request had been processed without the request form completed. In two cases a reason for the credit note and a record of authorisation of the credit note was not recorded.
- *In one case the invoice request had not been processed in a timely manner and time scales for processing invoice requests had not been agreed. There was also one invoice request form that had not been processed in a timely manner.
- *Internal Audit requested evidence confirming authorisation for a sample of five write-offs. However, these were not kept electronically. Therefore, the documentation could not be provided Due to Covid 19 lockdown restrictions, and write off controls could not be fully reviewed.
- *There were four debts where a default on an instalment arrangement had occurred and further investigation was needed but not actioned. In addition, the Financial Information Form had not been completed in one case where it was required.
- Out of a sample of five Housing Benefit Debt Recovery cases, it was found that two cases debt recovery action had not been taken. In one case this was due to an issue with the migration to ASH where a number of invoices had not been migrated.

## 4. Areas that worked well

- Invoices included the Councils options for payments printed on the back
  - Invoices had been authorised by appropriate officers in all cases
  - Once an invoice has been issue, it is not possible to amend or cancel an invoice. A credit note must be raised.
  - There was a Write-off Policy, and write-offs had been authorised by the appropriate person with documentation retained.

## Appendix 2

# Client Contributions for Care Provision 2019/20

## Final Report

## Corporate Services (COR)

## Overall Audit Opinion - Limited

| | Process Areas | High | Medium | Low |
|---|---|---|---|---|
| ★ | 7. Service Users' With Care Packages and Their Eligibility | 0 | 0 | 0 |
| ● | 8. Carrying Out Financial Assessments | 1 | 1 | 1 |
| ▲ | 9. Issuing of Invoices | 2 | 2 | 0 |
| ★ | 10. Annual Uplifts | 0 | 0 | 0 |
| ▲ | 11. Deferred Payment Scheme (DPA) and Top-Up Payment Agreement | 2 | 3 | 1 |
| ★ | 12. Information Security and Business Continuity Planning | 0 | 0 | 0 |
| | **Total** | **5** | **6** | **2** |

**Key** ★Substantial ● Satisfactory ▲ Limited ■ No Assurance

### 1. Introduction

The background for this internal audit and the service objectives are included in the Terms of Reference.

Basis of Opinion

Audit testing has identified a number processes that puts at risk the service objective of issuing accurate and timely invoices to service users' for their assessed contribution towards their care and support charges. Due to this the audit has been given a Limited Assurance

opinion.

The process area that impacted upon the assurance opinion was issuing invoices to service users'. A review of invoices issued to 41 service users' identified nine were issued with inaccurate invoices. It was identified service users' were being both over charged (£48,771.47 in total) and under charged (£3,723.94 in total) for their contributions.

Audit testing also established inconsistencies in the value of the upper capital limit in the charging policy. In addition, financial assessments for non-residential service users' took place after they started receiving care.

## 2. Assurance Opinion and Recommendations Made

Client Contribution for Care Provision 2019/20 has an assurance rating of Limited.

The previous audit completed in 2018/19 had the assurance rating of Limited.

The number of recommendations made, listed by categories are listed below:

5 High recommendations (of these 2 were raised in the previous audit report),

6 Medium Recommendations (of these 3 were raised in the previous audit report), and

2 Low Recommendations.

## 3. Key Findings *indicates reoccurring recommendation

- * A review of the invoices issued to 41 service users' identified seven instances where the amount invoiced to the service user did not agree to their financial assessment. Due to a change in the service users' package of care, six clients were over charged a total of £14,517.62 and three clients were under charged a total of £3,723.94.
- * For two out of three Deferred Payment Agreement (DPA) service users' tested, interest on deferred charges was not being applied. In addition, DPA service users' are not being sent six-monthly statements, as required by the Care Act statutory guidance.
- Due to miscommunication between different service teams within the Council, it was identified two service users' were over charged £34,253.85 for contributions towards their care and support costs.
- A review of three Deferred Payment Agreements (DPA's) identified one service user was not provided with a disposable income allowance of £144 per week, as required by the Care Act statutory guidance. In addition, the same service user was incorrectly sent an invoice of £9,350 for immediate payment instead of being debited to their DPA account and deferred until the termination of the deferred payment agreement.
- A review of the Adult Social Care Charging and Financial Assessment Framework identified inconsistencies in the value of the upper capital limit.
- * A review of three Deferred Payment Agreements (DPA's) identified none of the three were charged an administration charge. In addition, a review of one ended DPA identified the service user was not charged a termination fee. In total, the lost income to the Council from these service users' was £1,225.
- * For three Deferred Payment Agreements (DPA's) tested, it was identified that two did not have an equity limit calculated. In addition, evidence was not provided that an officer of the Council was regularly monitoring the amount of charges accrued on DPA accounts

to identify when service users' are approaching 70% of their property value or equity limit, as required by the Care Act statutory guidance.

- * Testing of 23 new service users' identified 10 non-residential and three residential service users' financial assessments were not carried out prior to the start of the service user's package of care. In addition, it was identified for four service users' they were not charged from the first date they received care from the Council. The loss of income to the Council was £6,802.50.
- A review of five non-residential service users' that are paying the full cost of their care identified three that did not have an adjustment on their invoices for service breaks.
- A review of three Deferred Payment Agreements (DPA's) identified one was not set up within 12 weeks of receiving the completed and signed DPA application form, as recommended by the Care Act statutory guidance. The length of time to set up the DPA was 116 weeks. At this point, the service user had accrued charges of £83,603.07 without adequate security being put in place.
- It was identified that client contributions are not exported from ContrOCC (Adult social care finance system). Therefore, it is not possible for the Finance Team to perform a reconciliation between the assessed contribution data on ContrOCC to the general ledger.

## 4. Areas that worked well

- A review of LAS records for 25 service users' with an active package of care on LAS and no financial assessment identified all 25 service users' were exempt from charging.
- A review of 36 financial assessments identified for all 36 assessments that relevant financial information such as benefits, occupational pension, property ownership, disability related expenditure, other expenses etc. was obtained. It was confirmed for each assessment tested, the data entered agreed to the source documents.
- Testing of 24 periodic invoice request forms and 18 one off invoice request forms sent to the Income and Payment Team identified the amount invoiced to the service user agreed to the request form and data on ContrOCC.
- It was confirmed that an annual uplift was carried out for the financial year 2019/20.
- It was confirmed for all Deferred Payment Agreements tested that a written contract was in place which was signed both the service user or their power of attorney and an officer of the Council. In addition, it was verified that a legal charge was placed on the service user's property as security for the deferred charges.
- It was confirmed a documented business continuity plan is in place for the Benefits service. The plan was recently reviewed on the 31/10/19.

**Appendix 3**

# Payments to Childcare Providers and Foster Carers for Looked After Children – 2019/20

## Final Report

## Children and Young People (CYP)

## Overall Opinion – Unable to Provide an Opinion.

| | Process Areas | High | Medium | Low |
|---|---|---|---|---|
| ▲ | 1. Assessments and Placement | 2 | 1 | - |
| | 2. Payments to Residential and Semi-Residential Care Providers | - | - | - |
| | 3. Payments to In-House Foster Carers and Independent Fostering Agency's | - | - | - |
| | 4. Budgetary Control | - | - | - |
| ● | 5. Information Security | - | - | - |
| | **Total** | **2** | **1** | **0** |

**Key** ★Substantial ● Satisfactory ▲ Limited ■ No Assurance

## 1. Introduction

The background for this internal audit was included in the Terms of Reference.

This audit was conducted remotely in order to comply with Government lockdown directives. Confirmation of controls in place was established through telephone, email and virtual communications. Compliance testing was expected to be achieved through Council staff providing documentation in respect specific samples as requested.

## 2. Assurance Opinion and Recommendations Made

The previous audit completed in 2018/19 had the assurance rating of Limited.

Internal audit have not been able to express an assurance opinion in this audit as we have not been able to obtain sufficient evidence to provide a basis for an audit opinion.

The key controls have been confirmed with management, however, internal audit have been unable to obtain evidence and/or perform testing to confirm the effectiveness of all controls. The work we have not been able to conduct, and the reasons, is detailed below.

**Payments to Residential and Semi-Residential Care Providers** - Other than the payment exception report that was received on 30th July 2020, no other information has been provided. No controls testing has therefore been completed in this area.

**Payments to In-House Foster Carers and Independent Fostering Agencies** - Information has been requested but not provided, therefore controls testing has not been performed.

**Budgetary Control** - Information has been requested but not provided, controls testing has not been undertaken.

**Information Security** – Access control to the Liquidlogic Children's Social Care (LCS) and ECM systems was confirmed and tested but we have not received the requested report of staff who have completed the Council's mandatory data protection course in order to confirm the training has been completed by all relevant staff.

Based on the work we have been able to complete, the number of recommendations made, listed by categories are listed below:

2 High Recommendations (one reoccurring)

1 Medium Recommendations;

0 Low Recommendations

## 3. Key Findings *indicates recurring recommendation

- Documented procedures for placement and procurement processes were not in place.
- * Sample testing of 20 placements identified three instances where the Placement Information Record (PIR) could not be found in the LCS and five instances where the placement authorisation was not recorded in LCS; and
- Sample testing of 20 placements identified sixteen instances where a Placement Plan (PP) or Individual Placement Contract (IPC) had not been signed by the provider.

## 4. Areas that worked well

- A Placement Tracker was being used to monitor placement activity and track expenditure made for weekly placement cost. The tracker was being constantly checked for errors and updated each week by Placement Contract Manager and Business Support Team.
- Child Social Care (CSC) managers completed and authorised Access Request forms for the creation within the LCS system of a new starter. Periodic active user review for LCS was carried out by the Business Support Team and managers to ensure the access of leavers and movers is removed from the system.

## Explanations for Audit Assurance Opinions

Where internal audit reviews are given an overall assurance opinion, this is based on the fieldwork conducted to assess the standard of governance, risk management or internal control. The following table explains these opinions.

| Assurance Opinion | Definition |
|---|---|
| ★ Substantial | A strong framework of controls is in place to ensure that the service area is likely to meet its 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. The controls in place are regularly applied, but with some lapses. |
| ▲ Limited | There are gaps in the control framework in place. This increases the likelihood of the service area not achieving its objectives. Where controls do exist, they are not always applied. |
| ■ No Assurance | There is no framework of controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where controls do exist, they are not applied. |

## Definitions of Finding Categories

Internal audit rates each finding as High, Medium or Low. This rating reflects the risk exposure for the service area and indicates the importance of implementing the recommendation.

| Rating | Definition |
|---|---|
| High | It is crucial that this recommendation is implemented as soon as possible. This will ensure that the service area will significantly reduce the 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. |

Document is Restricted

Document is Restricted

Document is Restricted