

Review of the London Borough of Lewisham's arrangements for securing financial resilience

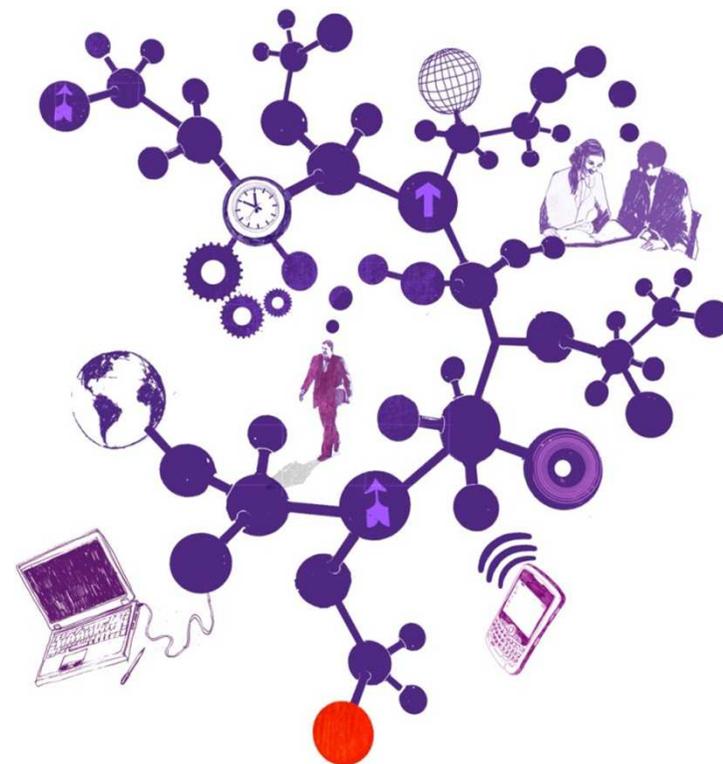
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013

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

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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the London Borough of Lewisham (the Council) has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

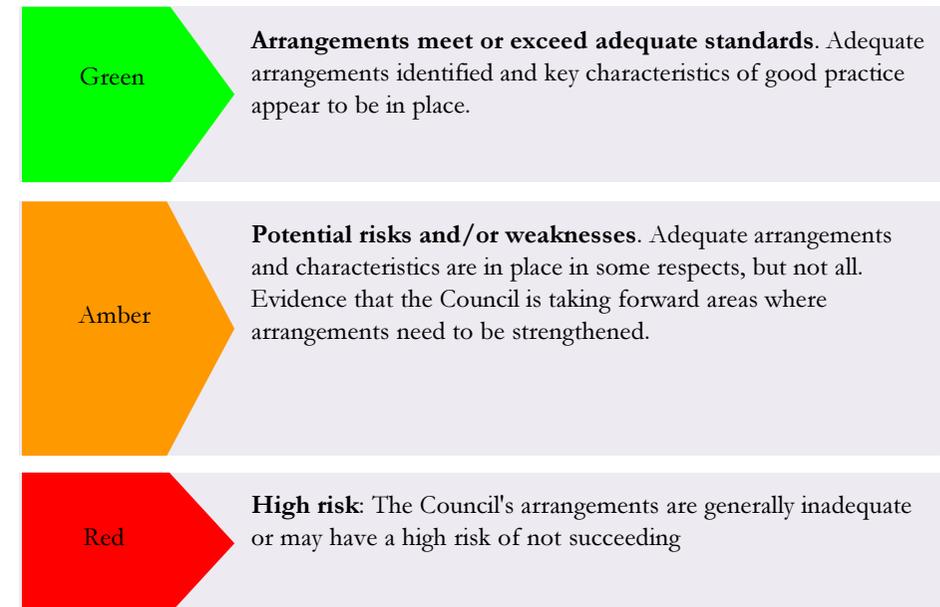
The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013/14 and beyond, it has sound arrangements for achieving financial resilience.

We have used a red/amber/green (RAG) rating with the following definitions.



Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms, with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12.

This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for other services, such as car parking, where customers pay a fee or charge.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. While health and schools will continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013/14.

The next spending review period will be for a single financial year, 2015-16. Financial austerity is expected to continue until at least 2017.

Local Context

The Council's overarching vision to make Lewisham "the best place in London to live, work and learn" is set out in its sustainable communities strategy 2008-2020, which is underpinned by other strategies.

The Council has a large and growing population of 276,000 people, (according to 2011 census data). Lewisham has one of the fastest growing populations in the UK, and a relatively young age profile. This presents particular challenges in key policy areas such as education, employment, housing and welfare.

The age profile in Lewisham means 23 new school classes were needed in 2012/13, and an additional 25 in 2013/14. The Council's education agenda is set out in its Children and Young People's plan 2012-15, to improve educational attendance and attainment and parenting in the Borough.

Lewisham is one of the more deprived London Boroughs and has high levels of unemployment. However the Council has good transport links to the rest of London and the South East and has ambitious plans to regenerate the Borough, notably through its town centre developments in Catford and Deptford.

The Borough is particularly affected by the changes introduced in the Welfare reform act 2012. The Council is working with its most vulnerable residents to mitigate the impact of the changes on its residents.

Housing is an acute problem across all of London. Among the problems Lewisham faces are a growing population, limited housing supply, unaffordable prices and an ageing housing stock. The Council has a number of plans in place to improve the quality, quantity and affordability of its own stock and to promote better housing across the Borough.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	<ul style="list-style-type: none"> The Council's 2012-13 General Fund net revenue budget was underspent by £3.5million. Benchmarking data shows the Council's financial standing to be consistent with other London Boroughs. The Council's long term borrowing is reducing, while useable reserves and schools balances are increasing. Council tax and NNDR collection rates improved compared with the previous year, but were short of the Council's targets and London averages. Lewisham's council tax collection rate is one of the worst in London. 	 Green
Strategic Financial Planning	<ul style="list-style-type: none"> The Council has a good track record of achieving savings. Over a three year period the Council has underspent its budgets and made savings of £67 million. The Council has a robust financial planning process and has made reasonable assumptions in its planning. The Medium Term Financial Plan covers the period to 2016. The Council's view is that the economic outlook beyond 2016 is too uncertain for detailed planning. Further cuts to formula grant mean the Council is faced with making savings of £53.5 million over the next 2 years. The Council has identified £21.3 million of reductions to its budgets for 2013/14. The Council has also identified over half the £32.3 million savings required for 2014/15. However the sheer scale of this target means the Council may have to consider more radical options than in the past. 	 Amber
Financial Governance	<ul style="list-style-type: none"> Senior management and Members are properly engaged in the financial planning process. Budget monitoring reports are presented to the Public Accounts Select Committee. Finance reports are informative and at an appropriate level of detail. The four Executive Directors are accountable for the budget performance of their directorates. Benchmarking data produced by the Audit Commission shows the cost of the Council's services is broadly in line with the London average, with some variations in specific service areas. 	 Green
Financial Control	<ul style="list-style-type: none"> The Council has a strong track record of performance against its savings plans. A strong control environment is in place. The Council's Internal Control Board which holds senior management to account for the effectiveness of controls across the Council is an example of good practice. The Council has an experienced senior finance team in place. Reorganisations have led to a lack of corporate knowledge and experience in specific areas, particularly asset valuations. 	 Amber

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	<p>Consider those areas of the benchmarking data in this report where the Council's indicators differ from the peer group average.</p> <p>Continue to focus on the council tax collection rate, to improve performance in line with the Council's targets and the London peer group average.</p>			
Strategic Financial Planning	<p>Extend the medium term financial plan beyond 2016, to plan effectively for likely and possible scenarios in the medium term.</p> <p>Continue to explore options for achieving the savings requirement for 2014/15, including alternative delivery models</p>			
Financial Governance	<p>Review benchmarking data produced by the Audit Commission for unexpected areas of high spending services.</p>			
Financial Control	<p>Ensure the financial knowledge and experience within the Council is sufficient to meet all statutory and other requirements, particularly with regard to asset valuations..</p> <p>Consider the additional controls needed during the oracle upgrade in November 2013.</p>			

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where data is available. Please refer to the appendix for the comparative data. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

Benchmarking is mostly based on your audited financial accounts and those of other councils. These are high level measures which can be affected by one-off events or technical accounting adjustments. As such it is only intended to give a broad indication of how you compare with other councils and our conclusions should be viewed in that context.

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Brent London Borough Council
Croydon London Borough Council
Haringey London Borough Council
Hounslow London Borough Council
London Borough of Barking and Dagenham
London Borough of Ealing
London Borough of Hackney
London Borough of Lambeth
London Borough of Lewisham
London Borough of Tower Hamlets
London Borough of Waltham Forest
Merton Council
Newham London Borough Council
Royal Borough of Greenwich
Southwark Council
Wandsworth Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<ul style="list-style-type: none">• The working capital ratio indicates if a council has enough current assets or resources to cover its immediate liabilities. The Council's working capital ratio was 1.5 in 2007/08, reduced to less than 1 in 2008/09 and was 1.30 in 2011-12. This is lower than most other London Boroughs and is less than the group average of 1.8. The Council has the fifth lowest ratio in the benchmarked group.• The Council's NNDR and council tax collection rates improved compared with 2011/12 but were both less than target and less than the London average. NNDR collection rate was 97.4 per cent against a target of 98.5 per cent. The London average was 98.2 per cent.• The Council reported a council tax collection rate of 94.8 per cent. According to published CLG statistics this was one of the lowest collection rates in London and compares with a London average of 96.4 per cent.	 Amber
Borrowing	<ul style="list-style-type: none">• The Council's long term borrowing fell significantly from 2010/11 (£303,372k) to 2011/12 (£157,782k), which was due to the Government redeeming £136m of the Council's Public Works Loan Board (PWLB) loans as part of the new Housing Revenue Account (HRA) Self Financing regulations introduced in 2011/12.• The Council's long term borrowing ratio (as a share of tax revenue) also fell from 1.83 in 2009-10 to 1.17 in 2011-12 a result of the abolition of HRA financing and is in line with the performance of the benchmarked group on average. The Council has the 5th lowest ratio in the benchmarked group.• The Council's long term borrowing ratio (as a share of long term assets) also fell from 0.28 in 2010-11 to 0.20 in 2011-12, which again follows the performance of the benchmarked group. This places the Council within the top 50% of the benchmarked group.• This reduction in borrowing is in line with the Council's Treasury Management Strategy. The Council takes a cautious approach. The Council is currently maintaining an under-borrowed position, ensuring its capital financing requirements are not solely met from debt, but are partly funded by cash as well.	 Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	<ul style="list-style-type: none"> The Council lost 7.23 days per annum per full time equivalent to sickness in 2012/13, similar to the rate in 2011/12 (7.19 days). This compares favourably with the local government average of 8 days and the public sector average of 7.9 days. The Council employed an average of 683 agency employees in 2012/13, some 16.7 per cent of the total headcount. Although the agency headcount reduced in 2012/13, the Council's spend on agency staff actually increased from £13.3 million to £14.4 million in 2012/13. This was due to new Agency worker regulations introduced in October 2011. 	 Green
Performance Against Budgets: revenue & capital	<ul style="list-style-type: none"> As per the draft outturn, the 2012-13 General Fund net revenue budget was underspent by £3.5 million. The Council achieved 97% of the £16.6m of savings that were planned and approved at the start of the year. This performance is consistent with both 2010/11 and 2011/12, in which time the Council underspent against its General Fund net revenue budget, and achieved savings of £53 million over these two years. The Council's Housing Revenue Account (HRA) underspent by £1.3 million after exceptional items (as per the draft 2012/13 accounts). The HRA budget was underspent in the preceding two years. The Council also underspent against its 2012/13 capital programme by £20.6 million. The main reason for this slippage is the significant re-phasing of several Building Schools for the Future (BSF) projects, following a detailed review of the current contract position. These costs are now planned to be incurred during 2013/14. Recent asset valuations indicate a decrease in the value of council owned property assets over the last three years. 	 Green
Reserve Balances	<ul style="list-style-type: none"> For the five years between 2007-08 and 2011-12, the ratio of the Council's useable reserves (as a percentage of expenditure) has increased, moving from a ratio of 0.08 in 2007/08 to 0.13 in 2011-12. This indicates the Council's usable revenue reserves have increased in absolute and relative terms. The Council was in the top third of the comparator group in 2011-12. The Council's useable reserves at the 31st of March 2013 were £201 million, of which £12 million represented the General Fund balance. This represented an overall increase of 15% compared with the usable reserves balance at the 31st of March 2012 (£174.8 million). The General Fund balance increased by £200k during the same period. The Council considered the adequacy of its reserves as part of the 2013/14 budget setting. 	 Green
Schools Balances	<ul style="list-style-type: none"> The Council's schools balances ratio (the sum of schools balances as a percentage of the Council's Dedicated Schools Grant allocation) was 0.08 in 2011/12. This ratio has fluctuated over the five year period. 	 Green

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Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	<ul style="list-style-type: none">• The Council set its 2013/14 revenue budget in February 2013. The latest Medium Term Financial Plan, known as the Financial Survey, was agreed by the Mayor and Cabinet in September 2012. This plan covers the period from 2013/14 to 2016/17.• The Council's view is that the economic outlook beyond 2016 is too uncertain for detailed planning. Consequently the financial survey does not set out detailed projections beyond this period.• The Financial Survey identified a best and worst case scenario of the level of savings that were going to be required during 2013/14 and 2014/15, along with the likely position. This confirmed that the Council was likely to need to find between £30m and £55m of savings over these two years. On confirmation of central Government funding, the savings target was finalised as £53.5m. Some £21.3m savings in 2013/14 and the remaining £32.2m falling in 2014/15.• The Council has identified the £21.3 million of savings for 2013/14 and has built this into budget assumptions.• The Council has also identified over half the £32.3 million savings required for 2014/15. However the sheer scale of this target means it may have to consider more radical options than in the past for service redesign, alternative delivery models, partnerships or cessation.• A recent housing matters report identified a potential shortfall of £85 million over the next ten years between the Council's aspiration to provide decent affordable housing and the sources of funding available for this.	 Amber
Adequacy of planning assumptions	<ul style="list-style-type: none">• When the Council was preparing its Medium Term Financial Plan for the period 2013/14 to 2016/17, a number of reasonable assumptions were made to ensure that it would provide a robust estimate of the likely financial position over this period.• Significant changes were made to the level of Formula Grant that the Council would receive in 2013/14 and beyond, which meant that it was difficult for the Council to provide a firm estimate of the level of funding it would receive in 2013/14. To mitigate this, the Council identified a higher and lower value as to the likely amount of funding to be received. The actual outturn was within the expected range, demonstrating that the assumptions were reasonable.• The Welfare reform act introduced a 10% cut in the level of grant provided to them to councils for council tax benefit. The Council has factored these reductions into its budget projections.• The Council has also assumed an annual increase in council tax of no more than 2.5% a year from 2013/14 onwards, an inflation level of 2.5% over the life of the current Plan, and a 1% increase in the employee pay levels over the life of the plan.• General budget pressures of £7.5m have also been included in each of the years of the Plan, to allow for the funding pressures that are likely to need to be considered in each of the years of the Plan.	 Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	<ul style="list-style-type: none">• The Council's vision to make Lewisham " the best place in London to live, work and learn" is set out in its sustainable communities strategy 2008-2020.• This vision sets the framework for the Directorates and for other strategies and policies, including the Financial Survey.• As part of our review we did not note any inconsistencies between different key strategic documents.	 Green
Review processes and responsiveness of the plan	<ul style="list-style-type: none">• The Council reviews its Medium Term Financial Plan annually, usually in the September preceding the year in which the plan is going to start.• Following this review process, a revised Plan is issued to cover the following four financial years.• Once the revised Plan has been agreed by Mayor and Cabinet, it is then considered by the Public Accounts Select Committee, who then use the figures included in the plan to advise the relevant Select Committees as to the level of savings that need to be identified by each of the directorates.	 Green

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Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	<ul style="list-style-type: none">• The Public Accounts select committee meets approximately eight times a year. It receives finance updates at a high level showing budget performance across the Council. Narrative explanations are brief but appropriate and explain the key variances.• The Mayor and Cabinet are also appropriately involved in agreeing the medium term financial plan and annual budget.• The Council has financial procedures, financial regulations and a Directorate Schemes of Delegation. The documents are currently being updated.• These documents cover financial management responsibilities distinguishing roles and responsibilities at strategic and operational levels and further specifying the amounts officers are responsible for authorising. In addition to this, the documents provide regulation in areas of financial management and budget monitoring, stipulating clearly the procedures that should be adopted and adhered to.	 Green
Executive and Member Engagement	<ul style="list-style-type: none">• There is a good level of involvement by the Council's senior management in financial management. The Mayor and Cabinet agree both the Council's Medium Term Financial Plan and the annual budget, subject to it being approved by full Council.• The Public Accounts Select Committee reviews the detailed budget information on a bi-monthly basis, and provides robust challenge to the relevant directorates where there are issues identified from the budget information presented at the Committee meetings.• The Council's Risk Registers are considered on a quarterly basis by the Internal Control Board, the meetings of which are attended by members of the Council's senior management team.	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	<ul style="list-style-type: none"> The Council's activities are managed by four directorates, each led by an Executive Director. The Directors are accountable for the budgetary performance of the Directorates and the controls in place to manage strategic risks. Performance of the Directorates is set out in the budget monitoring reports. Benchmarking data produced by the Audit Commission shows the Council spends marginally more per head than the peer group average. Adult Social Care is an area where the Council's spend per head is above the group average. Council management are aware of the higher spend in this area, which has resulted from policy decisions. 	 Green
Budget reporting: revenue and capital	<ul style="list-style-type: none"> Budget Monitoring Reports are presented to the Public Accounts Select Committee and Mayor and Cabinet. They are written at an appropriate level for the forum. These reports start with a high level summary providing the headline position on areas such as the spend against the General Fund net revenue budget, the current level of savings that are planned to be achieved, along with information on collection rates as well. Following the summary, more detailed overviews are provided, followed by detailed performance data for each of the Council's four main directorates. The data for the Council's directorates shows the year to date performance of each of the various divisions within the directorates, which allows both committees to clearly monitor if a particular service or area within a directorate is performing well or badly, and the impact this is having on the directorate as a whole. 	 Green
Adequacy of other Committee/Cabinet Reporting	<ul style="list-style-type: none"> Reports to the Public Accounts Select Committee contain a suite of additional financial information to supplement the budget reports. This information includes. <ul style="list-style-type: none"> - Council tax and NNDR collection rates and performance of the collection fund - Performance of the Housing Revenue Account - Treasury Management and borrowing information - Performance against the capital programme - Performance of the pension fund The report is at a high level which is appropriate for the forum it is being presented to. It includes brief narrative explanations of key messages. 	 Green

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Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<ul style="list-style-type: none">• There is a robust process in place throughout the Council to ensure that performance against the budget is adequately monitored during the year, so any potential issues or underperformance can be identified, and plans introduced to ensure these do not impact on the overall achievement of the budget and savings plans at the end of the year.• This process is largely overseen by the Mayor and Cabinet, who receive sufficient information to undertake the level of monitoring that is required of them. They receive a high-level summary of the overall performance of the Council, which also details the level of performance against the key targets they have in place.• More detailed information is then provided for each of the Council's four main directorates, allowing Mayor and Cabinet to understand why a department may be underperforming, and what processes have been put in place to deal with the identified underperformance.• Areas such as capital expenditure, spend against the Dedicated Schools Grant (DSG) and Council Tax and Business Rates collection rates are also monitored to ensure that all aspects of the Council's financial performance are routinely monitored.• The Council has consistently managed to achieve an underspend against its General Fund net revenue budget, which indicates that the processes that the Council has in place have been effective in managing the position and ensuring that any issues identified during the year are identified and resolved prior to year end.	 Green

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance against Savings Plans	<ul style="list-style-type: none">• The draft 2012-13 outturn position for the General Fund net revenue budget shows an overall underspend of £3.5million, which is the third year in a row that the Council has achieved a year end underspend against its revenue budget.• Also from the outturn position, the Council has managed to achieve 97% of the £16.6m of savings that were agreed at the start of the financial year.• A robust process in place for identifying potential savings schemes. Savings are identified as part of the annual process of updating the Council's Financial Survey. Directorates are tasked with creating robust plans and projects to achieve the savings required.• These plans are then considered by Sub-Committees to ensure they are robust before being forwarded to Mayor and Cabinet and full Council for consideration and approval.	 Green

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	<ul style="list-style-type: none">• There are well established systems and procedures in place to produce reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions.• The Council has been enhancing its controls to ensure all invoices are matched by a valid purchase order. There are still instances where purchase orders are raised retrospectively in Oracle after the invoice has been received by the relevant department. This issue is being monitored closely by the Shared Service Manager.• RSM Tenon provides the Council's internal audit function and carries out a regular programme of reviews of key financial systems. No fundamental concerns were raised by internal audit in 2012/13.• The Council is planning to upgrade its oracle ledger system in November 2013, in partnership with five other London Boroughs. Management will need to ensure that proper controls are in place to ensure the integrity of financial information during the migration to the new system and beyond.	 Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<ul style="list-style-type: none">• The Council has an experienced and knowledgeable senior finance team in place, which has considerable experience of the challenges that the Borough is facing. There has been little turnover at a senior level.• Turnover at other levels has caused some capacity issues. Following recent internal reorganisations the Council was left without any in-house valuations expertise, putting it at risk of being unable to produce code-compliant statutory accounts. The Council had to recruit agency staff at a very late stage in the year in order to meet this requirement.• Reorganisations also left the Council short of corporate experience and knowledge in the area of capital accounting. We have noted a number of misstatements in the draft accounts as a consequence, some of which were material.• These examples demonstrate the potential risks sometimes associated with efficiency savings, which can lead to false economies or leave the Council unable to meet certain statutory obligations.	 Amber
Internal audit arrangements	<ul style="list-style-type: none">• The Council's internal audit function is outsourced to RSM Tenon, who perform all of the detailed work that is requested by the Council. This arrangement has been in place since 2008, and is overseen by the Interim Head of Audit and Risk, who is employed by the Council.• The Interim Head of Audit and Risk has certain operational management responsibilities for risk management and governance, as well as his role of overseeing internal audit. The Council is aware of the potential conflict and elects to manage this risk. Other councils consider it best practice to separate completely audit and management responsibilities.• A detailed work plan is prepared by internal audit at the start of the year, taking into account any specific areas that the Council's management would like to be considered. Progress reports against the plan are provided to the quarterly Audit Panel meetings by the Interim Head of Audit and Risk.• Management monitors closely the timeliness of Internal Audit reporting and the timeliness of management responses to Internal Audit, which have been an issue historically.	 Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/ risk management	<ul style="list-style-type: none">• The Council's Risk Management Process is overseen by the Internal Control Board.• Each of the Council's four main directorates have an individual risk register, which identifies the main risks that these directorates have identified to them achieving their goals. These registers are reviewed quarterly, and updated to ensure they remain up to date.• All of the risks included on the directorate risk registers are RAG rated, and performance against these ratings is monitored during the quarterly meetings. Where issues are identified with the level of performance against a particular risk, then procedures are put in place to improve the level of performance against those particular indicators.• Further relevant detail is included on the Risk Registers, including the potential worst impact of the risk, the controls that the directorate currently has in place to mitigate the risk to an appropriate level, and any further work that is going to be performed to further reduce the level of risk present.• The Council also operates a Corporate Risk Register, which considers those areas which are a risk to the strategic performance of the whole Council. Performance against these risks is also monitored on a quarterly basis, and reported to the Audit Panel and the full Council on an annual basis as part of the Annual Governance Statement.	 Green

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Key Indicators of Financial Performance

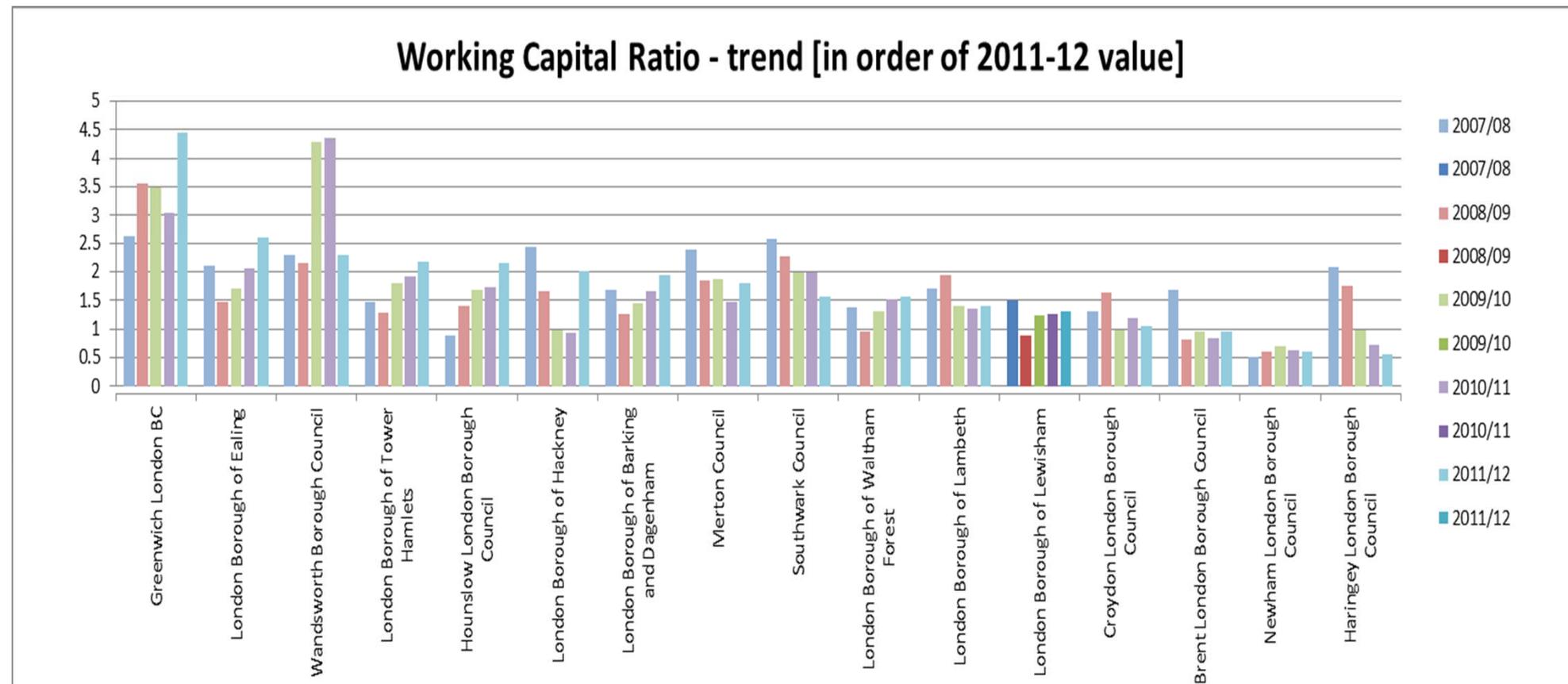
Working Capital - Benchmarked

Definition

The working capital ratio indicates if a council has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Lewisham's working capital ratio has reduced from 1.49 in 2007/08 to 1.30 in 2011/12. While the movement in this value over the past five years has been in line with the average movement of the benchmarked group, the Council has remained around half a percentage point below the average in each year. The Council is in the bottom third of the benchmarked group.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Useable Reserves - Benchmarked

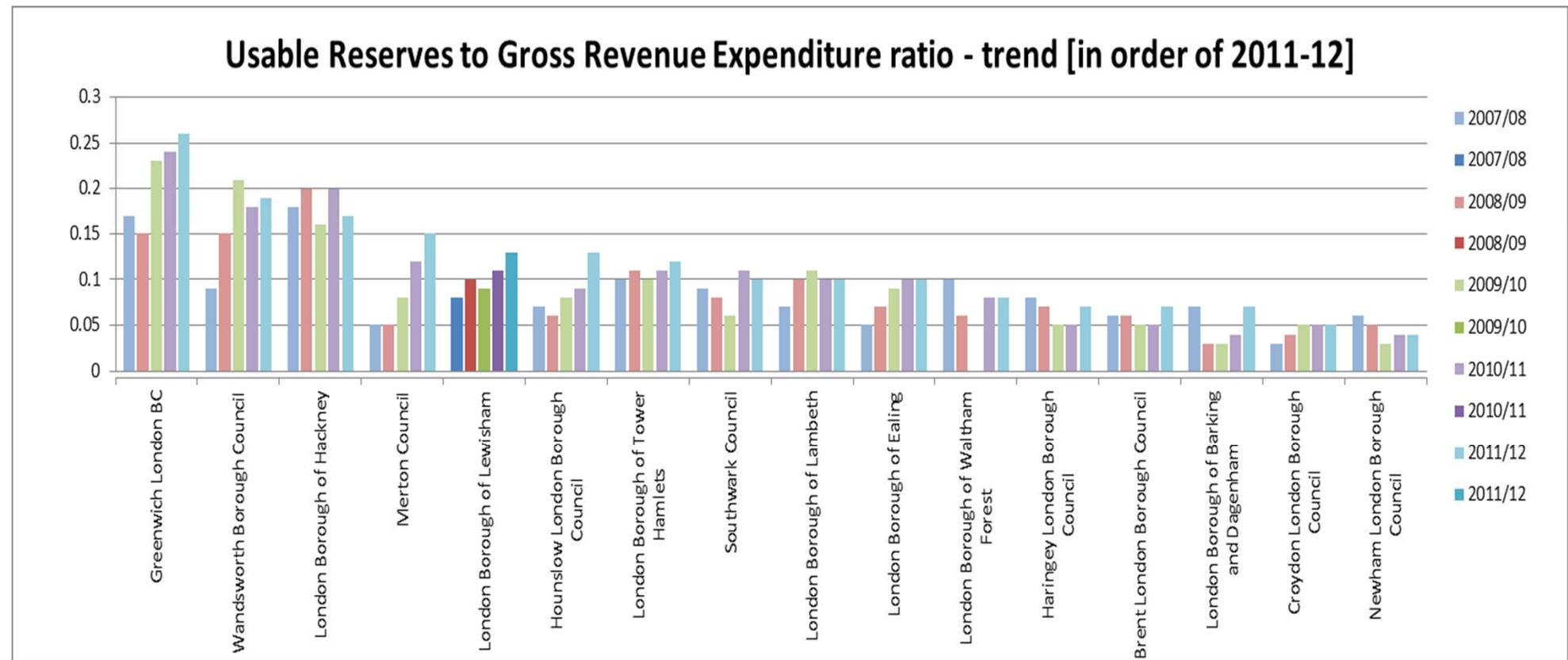
Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

Between 2007/08 and 2011/12, Lewisham has increased the ratio of its useable reserves, from 0.08 to 0.13. There is no clear trend in the benchmarked group, with some authorities increasing their level of reserves (as a percentage of expenditure), and others decreasing their reserve levels. In 2011/12, the Council sits in the top third of reserves levels within the benchmarked group.

As per the 2012/13 Accounts, the Council has reserves of £201million at the 31st of March 2013, of which £12 million is the General Fund Balance.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

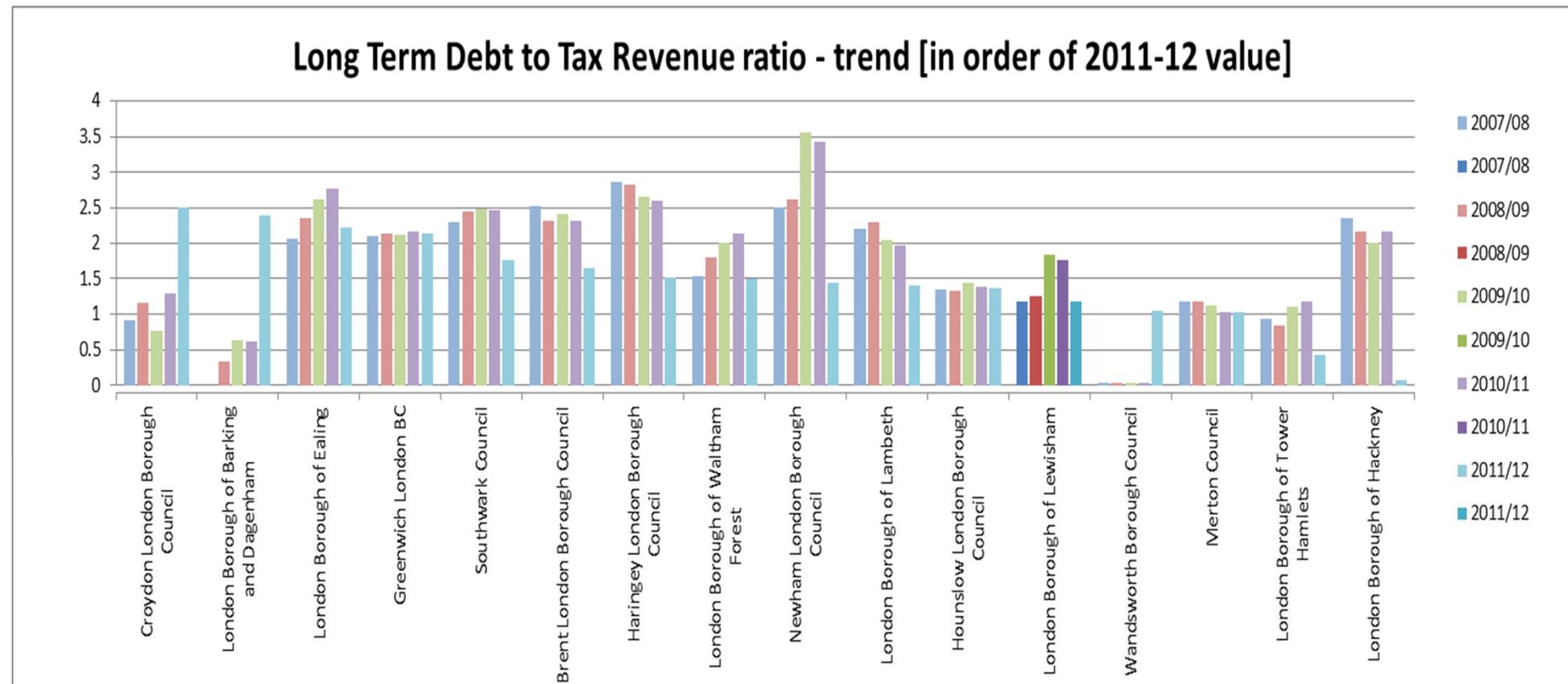
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

While the Council's long term borrowing ratio (as a share of tax revenue) has remained almost the same from 2007/08 (1.18) to 2011/12 (1.17), there has been some movement in the ratio in the intervening period. However, these movements are consistent with the average movement of the benchmarked group during this period. The Council currently sits in the bottom third of the benchmarked group, which indicates a favourable position for the Council at this current point in time.



Key Indicators of Financial Performance

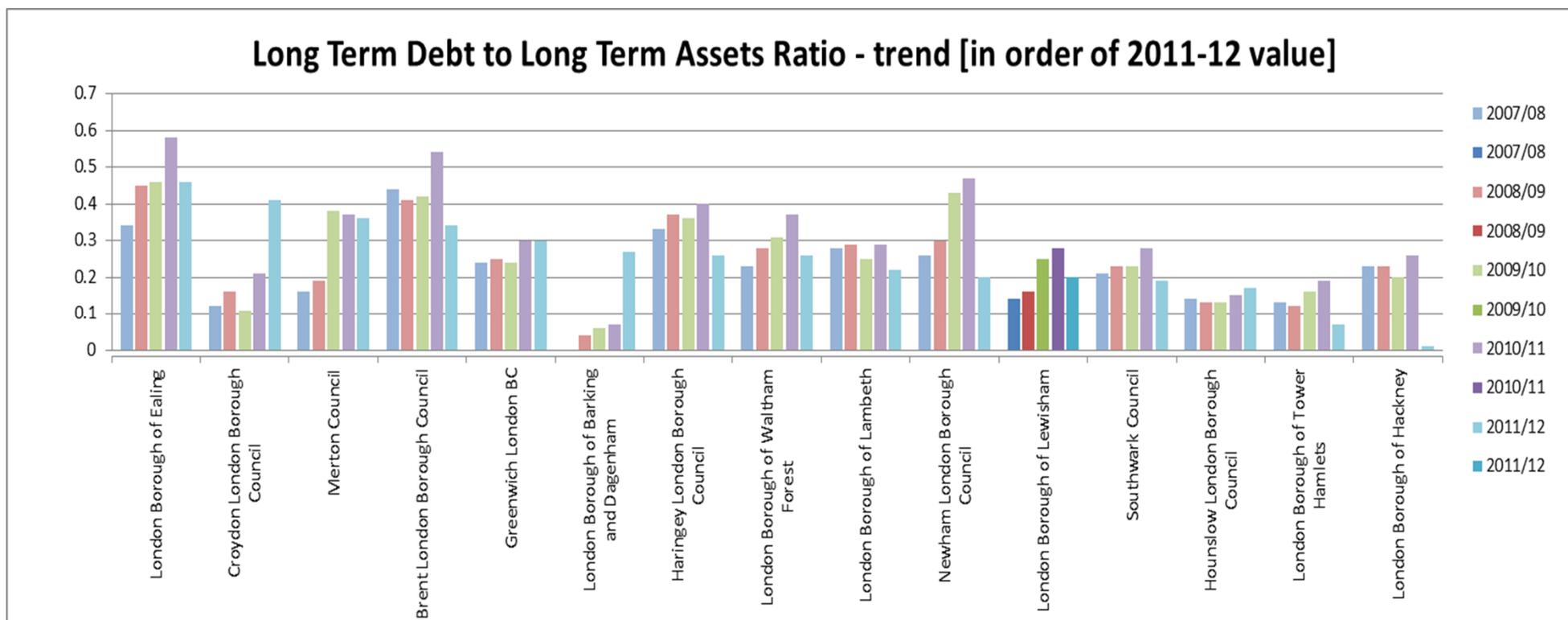
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Council's long term borrowing to assets ratio has decreased from 2010/11 (0.28) to 2011/12 (0.20). This significant movement is explained by the Government redeeming £136m of the Council's PWLB Loans during the HRA Self-Financing settlement, which occurred in March 2012. This direction of travel is consistent with the majority of the benchmarked group, with 11 of the 16 boroughs experiencing a reduction in this ratio over the same period. The Council's direction of travel over the whole five year period shown in the graph is largely in line with the average position of the benchmarked group during this period.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

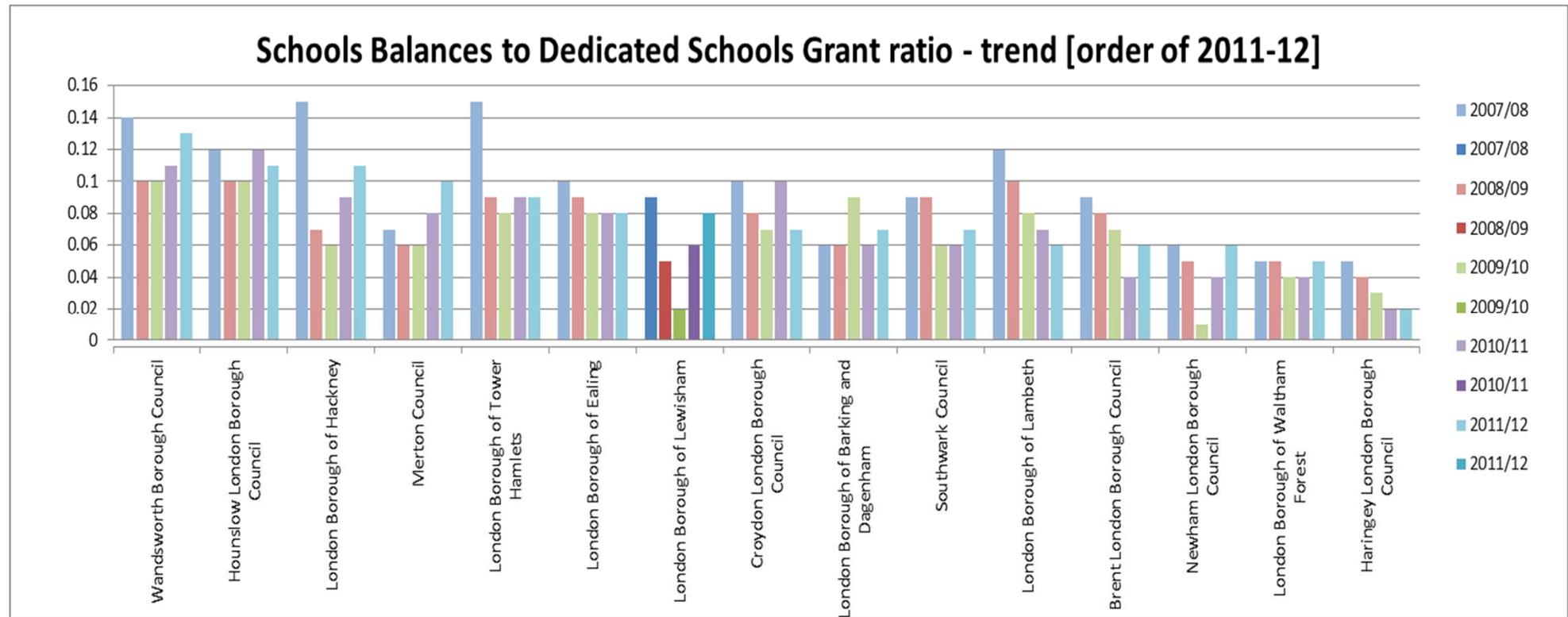
Schools balances to DSG allocation - Benchmarked

Definition

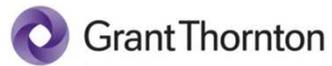
This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Again, although the Council's ratio in 2011/12 (0.08) is largely unchanged to the position in 2007/08 (0.09), there was a significant movement in the value over the past three years. The Council's direction of travel over this five year period is consistent with the benchmarked group. Over the past three years (2010/11 to 2012/13), the Council has spent its DSG allocation to budget.



Source: Audit Commission's Technical Directory



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