AUDIT PANEL			
Report Title	**REVIEW OF HALF YEAR FINANCIAL POSITION – 2011/12**		
Key Decision	**NO**		**Item No. 4**
Ward	**ALL**		
Contributors	**EXECUTIVE DIRECTOR FOR RESOURCES**		
Class	**PART 1**	**Date: 23 NOVEMBER 2011**	

1. SUMMARY AND PURPOSE

1.1. This report provides information to Audit Panel Members on the latest overall financial position of the Council for the 2011/12 financial year. This enables them to prepare to scrutinise the full year accounts at year end. External audit have also recommended that it is reported to Members of the panel.

2. RECOMMENDATION

2.1. The Audit Panel is asked to note the contents of the report.

3. DIRECTORATE REVENUE MONITORING

3.1. There was an underspend of £1,717k on Directorate budgets at the end of 2010/11. This was transferred to earmarked reserves and thus had no effect on the Council's overall General Fund balance, which remained at £11.511m at the year end.

3.2. The council set the budget for 2011/12 at its meeting on 1 March 2011, and agreed a managerially challenging package of savings as part of this. In delivering this programme there are inherent risks of delay, which would show as an overspend in the current year, and that some savings any prove unachievable, which would also create a budget pressure in 2012/13.

3.3. The revenue budget is monitored during the year to ensure that the impact on the overall financial position is assessed and action can be taken where necessary. It is regularly reported to the Public Accounts Select Committee and Mayor and Cabinet.

3.4. Directorate Expenditure Panels (DEPs) have continued to operate during 2011/12 in order to maintain financial control. The impact to date of these controls and the future anticipated impact is built into the forecast outturn for the directorates.

3.5. The latest directorate revenue budget monitoring shows that there is a projected year-end overspend of £0.725m, an improvement of nearly £1.4m on the position at the end of May, when there was a projected overspending of £2.1m.This is summarised in Table 1.

Table 1 – Forecast Directorate Revenue Budget position for 2011/12

Directorate	**Net Budget (£000)**	**Forecast Outturn (£000)**	**Forecast Variance (£000)**
Children & Young People	49,649	49,908	259
Community Services	118,215	118,350	135
Customer Services	38,940	39,327	387
Regeneration	12,715	13,007	292
Resources	28,387	28,039	(348)
Total	**247,905**	**248,630**	**725**

3.6. The proportion of agreed savings which are estimated to be delivered is currently 94.7% of the total programme of £23.8m, as summarised in Table 2. Any variances are included in the overall forecasts in Table 1.

Table 2 – Proportion of Directorate Savings Estimated to be Delivered

Directorate	**Savings Agreed for 2011/12 (£000)**	**Forecast Delivery (£000)**	**Forecast Variance (£000)**
Children & Young People	7,106	7,006	100
Community Services	5,868	5,868	0
Customer Services	3,886	3,561	325
Regeneration	3,883	3,135	748
Resources	3,071	2,986	85
Total	**23,814**	**22,556**	**1,258**

4. DEDICATED SCHOOLS GRANT

4.1. The total amount available for school funding is £242.6m in 2011/12, which comprises Dedicated Schools Grant (DSG) of £229.3m, Young Peoples' Learning Agency (YPLA) grant of £9.6m and Pupil Premium grant of £3.7m. Of this amount, £200.1m has been delegated to schools by way of the funding formula, with the balance of £42.5m being used to fund centrally managed school and pupil related services.

4.2. The current budget forecast shows no overspends against DSG budgets. However, there is a potential risk on the independent school fees budget.

5. HOUSING REVENUE ACCOUNT

5.1. The Housing Revenue Account (HRA) is a ring fenced account in that only expenditure and income in relation to its landlord functions are charged to this account. The net expenditure within the account is expected to be contained within budget.

5.2. The latest budget monitoring for 2011/12 shows a forecast underspending of £0.9m. This results mainly from additional major works income and improvements to debt collection. It should be noted however, that significant health and fire safety works are currently being commissioned which will reduce this underspend by the year end.

5.3. The DCLG has proposed significant changes for the housing finance system from nationally redistributed housing subsidy to local self-financing, with some flexibility to borrow. These changes will take effect from April 2012 with the impact on the council currently being modelled. However, these proposals will generally provide more resources to the council than the current HRA subsidy system. There will be a significant financial impact on the council's accounts, specifically in regards to the adjustment of debt levels.

5.4. As part of the 2012/13 budget therefore, significant decisions will be required on the housing stock investment strategy, borrowing levels and other matters, on which the council presently has little control.

6. CAPITAL PROGRAMME MONITORING

6.1. The latest Capital Programme monitoring shows a number of increases in budget due to extra resources being identified, particularly for the CYP and Lewisham Homes programmes. The forecast outturn is on budget at this stage.

Table 3 – Directorate Capital Expenditure forecast

DIRECTORATE	**Budget (May 11) (£m)**	**Budget (Sept 11) (£m)**	**Forecast (Sept 11) (£m)**
Community Services	10.0	10.0	10.0
Resources	0.8	0.8	0.8
Children & Young People	62.0	64.8	64.8
Regeneration	28.5	29.1	29.4
Customer Services	12.4	12.2	12.2
Directorates' Total	**113.7**	**116.9**	**117.2**
Lewisham Homes	26.1	29.1	29.1
Grand Total	**139.8**	**146.0**	**146.3**

6.2. Overall the projects in the Council's capital programme have spent 18.4% of their forecasts for the year as at the end of September (£27m against a forecast of £146.3m). This compares with 33% spend at the same stage of 2010/11. This decrease results from a lower number of projects being underway compared to the first half of 2010/11, and in particular the Lewisham Homes 2* programme of £14m being scheduled for the second half of the year. Expenditure is monitored carefully throughout the year, with particular emphasis on projects over £0.25m, to ensure that significant under/over spends are avoided.

6.3. At the end of 2010/11, the Council's non current assets were valued at just under £1.7bn, as shown in the Statement of Accounts. During the year, this value will increase due to capitalisation of expenditure, however, by the end of the year this figure will have changed due to the impact of the annual depreciation charges, and the revaluation, impairment and disposal of fixed assets.

7. COLLECTION OF COUNCIL TAX

7.1. Collection of Council Tax improved significantly in 2010/11 compared to 2009/10, with a collection rate of 94.1% compared to 92.7%. As at 31 August 2011, this improvement has been sustained, with 43.3% of the total due being collected this year compared to 42.7% at the same point last year.

8. CREDITORS

9.1 A crucial factor in the level of creditors is the amount of time the Council takes to pay suppliers. The current target for paying invoices within 30 days of receipt of invoice is 100%. In 2010/11, the actual percentage achieved was 86.4% (89% in 2009/10). The Council also has a target of 10 days for paying Small and Medium size Enterprises (SME's). The current position is as follows

Type of Invoice	Actual 2009/10 %	Actual 2010/11 %	June 2011 %	Sept 2011 %	Average for 2011/12 so far %
Commercial	89.0	86.4	88.9	88.0	88.4
SME's	41.0	32.0	42.1	50.8	45.2

9. EXTERNAL AUDIT ISSUES

9.1. As reported to the Panel's last meeting on 20 September 2011, the external audit by the Audit Commission had not been completed at that date. An initial Annual Governance Report (AGR) was included on that meeting's agenda and an updated AGR was tabled at the meeting.

9.2. The accounts were approved and signed by Council on 21 September 2011, subject to the Chair of the Audit Panel and the Executive Director of Resources being satisfied that the accounts have been amended as agreed. They were also granted delegated authority to approve and sign an appropriate Letter of Representation (LOR) on behalf of the council when this had been done. This letter was signed on 19 October 2011.

9.3. The Audit Commission completed the external audit on 21 October 2011 and issued an unqualified opinion on the financial statements and signed and issued the audit certificate on the same date.

9.4. A final updated Annual Governance Report was issued by the Audit Commission and is attached to this report at Appendix A. The Audit Commission's Annual Audit Letter is included as a separate item on this agenda.

9.5. The Audit Commission will again issue a Final Accounts Memorandum report, which is a working document for officers that highlights the issues identified during the recent audit and contains detailed recommendations for further improvements in the Council's financial processes. Although the report has not been issued yet, officers have agreed the draft content and recommendations.

10. 2011/12 STATEMENT OF ACCOUNTS AND TIMETABLE

10.1. The Statement of Accounts is produced in accordance with the Code of Practice on Local Authority Accounts, developed by CIPFA. From 2010/11 onwards, the Council was required to produce its Statement of Accounts fully in accordance with International Financial Reporting Standards (IFRS).

10.2. The 2010/11 financial year will end on 31 March 2012. The Pre-Audit Statement of Accounts is required to be produced by the end of June 2012 and the Audited Statement of Accounts by the end of September 2012. Both of these Statements will be submitted to the Audit Panel before these deadlines.

10.3. The Audit Commission will again be providing the external audit of the 2011/12 Statement of Accounts.

11. FINANCIAL IMPLICATIONS

11.1. There are no financial implications directly arising from this report.

12. LEGAL IMPLICATIONS

12.1. There are no legal implications directly arising from this report.

13. CRIME AND DISORDER ACT IMPLICATIONS

13.1. There are no crime and disorder implications directly arising from this report.

14. EQUALITIES IMPLICATIONS

14.1. There are no equalities implications directly arising from this report.

15. ENVIRONMENTAL IMPLICATIONS

15.1. There are no environmental implications directly arising from this report.

16. CONCLUSION

16.1. The Council's financial position is continually monitored during the year, and this report summarises this in-year monitoring at the half year stage. The report also confirms that plans and procedures are in place to enable a timely and accurate set of accounts to be produced at year end.

APPENDICES

Appendix 1 – Audit Commission Final Updated AGR

BACKGROUND PAPERS

Short Title of Document	Date	File Location	Contact Officer	Exempt Information
PAC and M & C Reports – Financial Monitoring	12 and 26 October 2011	1st Floor, Town Hall	Selwyn Thompson	
2010/11 Statement of Accounts		1st Floor, Town Hall	Richard Lambeth	
Revenue Budget Monitoring reports		1st Floor, Town Hall	Selwyn Thompson	
Capital Programme Monitoring reports		1st Floor, Town Hall	Richard Lambeth	

For further information on this report please contact:

Conrad Hall, Head of Business Management and Service Support on 020 8314 8379
Richard Lambeth, Group Finance Manager, Accounting on 020 8314 3797
Selwyn Thompson, Group Finance Manager, Budget Strategy on 020 8314 6932