

AUDIT PANEL		
Report Title	REVIEW OF HALF YEAR FINANCIAL POSITION – 2010/11	
Key Decision	NO	Item No. 4
Ward	ALL	
Contributors	EXECUTIVE DIRECTOR OF RESOURCES	
Class	PART 1	Date: 22 DECEMBER 2010

1. SUMMARY AND PURPOSE

- 1.1. This report presents the overall financial position of the Council at the half way stage of the 2010/11 financial year. It provides information to Audit Panel Members to keep them up to date with the latest financial picture and to better prepare them to scrutinise the full year accounts at year end. It is also recommended by external audit that this review is carried out and is reported to Members.

2. RECOMMENDATIONS

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

3. DIRECTORATE REVENUE MONITORING

- 3.1. Members will recall that there was an underspend of £388k at the end of the 2009/10 financial year on Directorate budgets. This therefore had a minimal effect on the Council's overall General Fund balance, which was £11.511m at the year end. It is important that the revenue position is monitored to ensure that the impact on the overall financial position is kept under review.
- 3.2. Monitoring of the revenue budget is undertaken regularly throughout the year and is reported to the Public Accounts Select Committee and Mayor and Cabinet. Based on the latest monitoring information, there is a projected year-end underspend of £1.618m, after the implementation of management action. The overall summary is shown in Table 1 (over page).

Table 1 – Council-wide projected budget position for 2010/11

DIRECTORATE	2010/11 Controllable Budget (£000)	Projected Year End Outturn (£000)	Projected Year End Variance (£000)
Children & Young People	52,835	52,420	(415)
Community Services	95,795	95,795	0
Customer Services	40,527	40,083	(444)
Regeneration	17,512	17,274	(238)
Resources	31,396	30,875	(521)
Total	238,065	236,447	(1,618)

- 3.3. This is an improvement of nearly £2.5m on the position at the end of June, when there was a projected overspending was £0.720m. Executive Directors are continuing with existing measures to keep the budget in line and are taking all necessary actions to maintain and improve the position. However, the implications of likely redundancy costs also need to be taken into account and these are set out in the following paragraph.
- 3.4. The Council is currently considering revenue budget savings which include Phase 1 savings of £13.7m in 2011/12, resulting in up to 195 posts being deleted. This will result in a substantial redundancy cost which will need to be financed corporately and via the use of directorate resources. The level of these costs will not be fully identified until early in the new financial year. Any savings from the current financial year will be used to meet these costs.

4. DEDICATED SCHOOLS GRANT

- 4.1. The 2010/11 Dedicated Schools Grant (DSG) allocation for Lewisham is £198.4m. Of this amount, £168m has been delegated to schools by way of the funding formula, with the balance of £30.4m being used to fund centrally managed school and pupil related services. The current budget forecast shows a projected overspend of £0.154m, which relates to an increase in the number of reception class children in September.

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 shows a forecast overspending at the year end of £0.512m. This results mainly from a from a shortfall on energy budgets of

£0.446m, which can be met from reserves set aside specifically for this purpose. The remaining budget pressures are expected to be met from working balances.

- 5.3. The overall variance in the various income streams is relatively small, with a slight increase in former tenant arrears being broadly offset by slight reductions in current tenants arrears.
- 5.4. The management fee payable to Lewisham Homes is expected to be fully drawn down and Lewisham Homes estimate that their budget will break even for 2010/11.

6. CAPITAL PROGRAMME MONITORING

- 6.1. The latest Capital Programme monitoring (Table 2) shows that overall the projects in the Council's capital programme have spent 33% of their forecasts for the year as at the end of September (£24.9m against a forecast of £75.8m). This compares with 30% spend at the same stage of 2009/10. This slight increase results from a higher number of projects being underway compared to the first half of 2009/10. Spend is monitored carefully throughout the year, with particular emphasis on projects over £0.25m, to ensure that significant under/over spends are avoided.

Table 2 – Directorate analysis of capital spend forecasts

DIRECTORATE	Spend at half year (£m)	2010/11 Forecast (£m)	% of 2010/11 forecast spent
Community Services	0.8	2.5	32%
Resources	0.9	2.1	43%
Children & Young People	7.5	21.4	35%
Regeneration	7.2	24.3	30%
Customer Services	5.0	11.7	43%
Directorates' Total	21.4	62.0	35%
Lewisham Homes	3.5	13.8	25%
Grand Total	24.9	75.8	33%

- 6.2. At the end of 2009/10, the Council's fixed assets were valued at £1,995m, as shown in the Statement of Accounts. At the half year stage there is an increase in Fixed Assets of approximately £25m due to capitalisation of spend. However, by the end of the year this figure will have changed due to the impact of the annual depreciation charges, and the valuation, impairment and disposal of fixed assets.

7. TREASURY BORROWING AND INVESTMENTS

- 7.1. The Audit Commission report on Treasury Management entitled Risk and Return recommended authorities to report quarterly on treasury issues. In addition to the reports at the budget setting stage in February and a midyear report in late autumn, brief reports are submitted to Mayor and Cabinet in June and September to fulfil this requirement.
- 7.2. The Treasury Management Strategy Statement (TMSS) for 2010/11 was approved by Council on the 1st March 2010. The Council's Annual Investment Strategy, which is incorporated in the TMSS, established the Council's investment priorities as being security of capital and liquidity.
- 7.3. Investments and borrowing during the first six months of the year have been in line with the TMSS and the Executive Director of Resources continually reviews the strategy in conjunction with the Council's professional treasury advisors Sector.
- 7.4. It is a statutory requirement for the Council to determine and keep under review the "Affordable Borrowing Limits" as determined by Council as part of the budget setting process and outlined in the approved TMSS. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices.

8. DEBTORS

- 8.1. The centralised debtors team is responsible for the collection of debts from the following areas: Community Servicers, Trade Refuse, Transport Trade, Transport Client, Resources, Pest Control, Environment and Children and Young People.
- 8.2. Recovery action is instigated by the team when debts are not paid, and this includes enforcement action as well as reminders. The recovery action taken by the team includes issuing County Court Claims and referring cases to Debt Collection Agents.

Table 3 – Percentage of invoices cleared within 90 days of due date

Percentage of invoices cleared within 90 days of due date	Actual for 2008/09	Target for 2009/10	Actual for 2009/10	Target for 2010/11	Actual for Apr to Jun 2010
By Value	89	92	94	94	92
By Number	86	88	89	89	89

Table 4 – Aged debt analysis

Age of debt	As at end 2007/08 (£000)	As at end 2008/09 (£000)	As at end 2009/10 (£000)	As at end Sep 2010 (£000)
0 – 30 days	6,877	3,390	4,114	2,938
31 – 90 days	831	1,025	691	822
91 – 180 day	674	588	674	566
181 – 365 days	972	1,256	809	1,215
> 365 days	4,106	3,534	3,616	3,494
Total	13,460	9,793	9,904	9,035

9. CREDITORS

9.1 The term creditors relates to the amounts due to be paid to suppliers by the Council. Crucial to this figure 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 90%. In 2009/10, the actual percentage achieved was 89% (88% in 2008/09).

9.2 The Council also has a target of 10 days for paying Small and Medium size Enterprises (SME's).

9.3 The actual position at the 2010/11 half year stage is as follows

Type of Invoice	Actual 2008/09 %	Actual 2009/10 %	June 2010 %	Sept 2010 %	Av. to date 2010/11 %
30 days (Commercial)	88	89	89	88	88
10 days (SME's)	32	41	32	33	35

10. 2010/11 STATEMENT OF ACCOUNTS

10.1. The Statement of Accounts is produced in accordance with the Statement of Recommended Practice (SORP), developed by CIPFA. From 2010/11 the Council will be required to produce its Statement of Accounts fully in accordance with International Financial Reporting Standards (IFRS). This is being introduced to the public sector to improve consistency and comparability as well as to follow private sector best practice.

10.2. The Council has been planning for and working on these changes for over a year now and a project group has been set up and tasked with the responsibility of implementing the new requirements. A number of changes were introduced for the 2009/10 Accounts concerning the accounting for PFI Schemes and these were successfully implemented. A project plan is in place to ensure that all of the remaining requirements will be implemented in the 2010/11 Accounts.

11. EXTERNAL AUDIT ISSUES

11.1. Annual Governance Report - 2009/10

- 11.1.1. This report was submitted to the Panel's last meeting on 21st September 2010. It contained an Action Plan at Appendix 6 comprising six recommendations.
- 11.1.2. The first two recommendations concern the issue of the timeliness of the production of financial statements, working papers and dealing with audit queries (R1) and the quality control procedures (R2). The Closing of Accounts process will be reviewed carefully in liaison with the Audit Commission to identify and rectify the key areas of concern. The level of management will also be re-assessed.
- 11.1.3. A timetable will be agreed with the Audit Commission to deliver the required working papers to support the financial statements, as per the third recommendation (R3).
- 11.1.4. The recommendation to amend the 2009/10 final accounts (R4) as per Appendix 2 of the report has been actioned. The final accounts have now been published and a copy is available on the Council's website.
- 11.1.5. The recommendation concerning the accounting for housing stock transfers (R5) will be specifically addressed in the closing arrangements.
- 11.1.6. The final recommendation (R6) concerns the Council's readiness for implementing the requirements of IFRS. The Council's response to this is outlined in Section 10 of this report.

11.2. Opinion Audit Report - 2009/10

- 11.2.1. This is a working document from the Audit Commission for officers which draws attention to issues identified during the 2009/10 audit and contains detailed recommendations for further improvements in the Council's financial reporting processes.
- 11.2.2. Although the report has not formerly been issued, officers have accepted the draft recommendations contained in it. A number of the recommendations are immediate and have already been adopted. The ones which require amendments to processes are currently being implemented by officers. The remaining ones are concerned with next year's accounts closure and will be implemented as part of that process.

12. TIMETABLE

- 12.1. The 2010/11 financial year will end on 31 March 2011. The Pre-Audit Statement of Accounts is required to be produced by the end of June 2011 and the Audited Statement of Accounts by the end of September 2011. Both of these Statements will be submitted to the Audit Panel before the deadlines.

12.2. The Audit Commission will again be providing the external audit of the 2010/11 Statement of Accounts.

13. LEGAL IMPLICATIONS

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

14. CRIME AND DISORDER IMPLICATIONS

14.1. There are no crime and disorder 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 not just at year end. This report summarises much of this in-year monitoring at the half year stage and demonstrates that the controls and checks are in place to ensure that a timely and accurate set of accounts can be produced at year end.

BACKGROUND PAPERS

Short Title of Document	Date	File Location	Contact Officer	Exempt Information
PAC and M & C Reports – Revenue Budget Monitoring, Capital Programme Monitoring	9 & 17 November 2010	1 st Floor, Town Hall	Selwyn Thompson / Jim Ricketts	
2009/10 Statement of Accounts	30 September 2010	1 st Floor, Town Hall	Richard Lambeth	
Treasury Management monitoring reports	October 2010	1 st Floor, Town Hall	Jim Ricketts	

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