

**LONDON BOROUGH OF LEWISHAM**  
**2011 / 2012 STATEMENT OF ACCOUNTS**

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**FOREWORD**

**TO THE**

**STATEMENT OF ACCOUNTS**

**2011/12**

## FOREWORD BY THE EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION

### 1. INTRODUCTION

The Statement of Accounts brings together the financial results of all the Council's operations for the financial year 2011/12 and shows the financial position as at 31 March 2012.

The Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the COP), and the Service Reporting Code of Practice for Local Authorities (SERCOP) 2011/12, jointly developed by CIPFA and the Accounting Standards Board. The Code constitutes 'proper accounting practice' with which local authorities must by statute comply.

International Financial Reporting Standards (IFRS) were implemented throughout the Council's accounts in 2010/11. There are no fundamental changes to the basis on which the accounts are compiled for 2011/12.

The significant events that have had a major impact on the Statement of Accounts during 2011/12 are outlined in Section 7 of the foreword below.

### 2. THE COUNCIL'S STATEMENT OF ACCOUNTS

The Statement of Accounts comprises of this Foreword, a Statement of Responsibilities, an External Auditor's report and sections and appendices as outlined below.

#### Section 1 – The Core Financial Statements

##### Section 1a - Movement in Reserves Statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

##### Section 1b – Comprehensive Income and Expenditure Statement (CIES)

This statement shows the accounting cost in the year of providing the Council's services in accordance with IFRS, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

##### Section 1c - Balance Sheet

The Balance Sheet shows the value as at the date of the Accounts of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie 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

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## Foreword

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basis under regulations'. The Balance Sheet includes the Housing Revenue Account and the Council's own share of the Collection Fund, but excludes the Pension Fund and Trust Funds.

### **Section 1d - Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council'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 Council. There are two methods of preparing this statement. In previous years the Council has used the Direct method, but has this year adopted the Indirect method and has restated the comparatives accordingly. This is also in accordance with the requirements of the Whole of Government Accounts return.

### **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 all the notes that help to explain or give more detail to the Core Financial Statements.

### **Section 4 – Supplementary Financial Statements**

#### **Section 4a – Housing Revenue Account**

This reflects the statutory obligation to account separately for local authority housing provision and associated services to council tenants and leaseholders. It shows the major elements of income and expenditure on Council Housing.

#### **Section 4b – Collection Fund**

This statutory account shows the transactions relating to Council Tax and National Non-Domestic Rates and how the amounts collected have been distributed to the Council's General Fund and preceptor (GLA).

#### **Section 5 – Pension Fund**

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

#### **Section 6 – Lewisham Group Accounts**

The Group Accounts combine the financial results of Lewisham Council with that of its subsidiaries, Lewisham Homes and Catford Regeneration Partnership Ltd. 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 – Annual Governance Statement**

The Annual Governance Statement 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. The framework describes the activities with which it engages the community, and enables it to monitor the achievement of its 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.

#### **Annexes**

These include the Action Plan for the Annual Governance Statement and a Glossary which explains some technical terms.

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**Foreword**


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**3. REVENUE BUDGET****3a 2011/12 Revenue Budget Setting**

The Council set a net budget of £278.8 million for 2011/12 at its meeting in March 2011. On the face of it, this represents an increase of £7.3m or 2.7% on the previous year's net budget requirement. However, due to changes in the local government funding mechanism and in particular the incorporation of a large number of previously ring-fenced grants into the main formula grant, the two figures are not directly comparable, and the council in fact faced significant reductions in overall funding, which have continued into 2012/13.

**3b 2011/12 Revenue Budget Funding**

The Council Tax is a major source of local revenue. The other main sources of income are the Government determined National Non-Domestic Rates (NNDR) and the Revenue Support Grant (RSG). The amount to be raised from Council Tax was calculated as shown in the following table.

	2011/12 £000	2010/11 £000
<b>Lewisham's Net Budget</b>	<b>278,793</b>	<b>271,454</b>
Less: Formula Grant	44,050	22,851
Less NNDR received from the national pool	142,512	157,367
Less: Surplus on Collection Fund	18	52
<b>General Fund Services to be met from Council Tax</b>	<b>92,213</b>	<b>91,184</b>
Add Precept (GLA)	27,415	27,109
<b>Total to be met from Council Tax</b>	<b>119,628</b>	<b>118,293</b>

Note: The variations between the years on Formula Grant and NNDR come about due to changes by Central Government in the redistributable amount. For variance purposes they are considered as one block.

**3c 2011/12 Revenue Budget Outturn**

During 2011/12, Mayor and Cabinet and the Executive Management Team (EMT) received regular financial monitoring reports. These enabled the council to take corrective action where pressures were identified, with the result that at the end of the 2011/12 financial year there was a net underspend of £1.8m on the Directorates service budgets, continuing the council's record of sound financial management. The reasons for these variances were reported to the Public Accounts Select Committee on the 14 June 2012 and the Mayor and Cabinet on the 20 June 2012.

**3d 2012/13 Revenue Budget Outlook**

The Council set a net budget requirement of £268.5m for 2012/13 at its meeting in February 2012. This was 3.7% lower in cash terms than the equivalent figure for 2011/12 and a significantly greater reduction once inflation is adjusted for. This reflects the significant spending pressures on local authorities, and realistic plans are in place to ensure that expenditure remains affordable in the future. The council has adequate, but not excessive, reserves to enable it to manage the significant funding risks it faces in the medium-term as the national programme of public sector expenditure reductions continues.

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**Foreword**


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**4. COUNCIL TAX AND NATIONAL NON DOMESTIC RATES (NNDR)****4a Council Tax Levels and the Tax Base**

The actual Council Tax is determined by dividing the net amounts to be met from Council Tax by the tax base, which for Lewisham is 88,487 equivalent Band D properties for 2011/12 (87,500 for 2010/11). This then equates to the following Council Tax at Band D:

	<b>2011/12 £000</b>	<b>2010/11 £000</b>	<b>Increase £</b>	<b>Increase %</b>
Lewisham's Demand	<b>1,042.11</b>	1,042.11	00.00	0
Add: Preceptor Requirements:				
Greater London Authority	<b>309.82</b>	309.82	0.00	0
<b>Council Tax for Band D</b>	<b>1,351.93</b>	1,351.93	00.00	0

**4b Council Tax and National Non Domestic Rates Collection Rates**

<b>Actual Collection Rates</b>	<b>2011/12 %</b>	<b>2010/11 %</b>	<b>2009/10 %</b>
Council Tax	<b>94.56</b>	94.09	92.68
National Non-Domestic Rates	<b>97.41</b>	98.98	98.80

Further information on Council Tax and National Non-Domestic Rates can be found in the Collection Fund statements in Section 4b of the Accounts.

**5. CAPITAL PROGRAMME****5a 2011/12 Capital Programme**

A summary of the capital expenditure incurred during the year and its financing compared to the original programme budget is shown in the table below. The percentage of the 2011/12 programme budget that has been spent is 79%, with the underspending on a number of BSF schemes being carried forward to 2012/13.

Major projects (with spend over £2m) in the 2011/12 directorates' capital programme were:

Primary Places Programmes (inc Expansion)	£22.6m
Deptford Town Centre and Station	£10.5m
Building Schools for the Future (Design and Build)	£9.0m
Forest Hill Pool	£6.9m
Transport for London	£4.4m
Tidemill School	£3.2m
School Works and Upgrades	£3.0m
Highways and Bridges (Best Value Review - Prudential Borrowing)	£2.6m

The largest project in the 2011/12 Lewisham Homes capital programme was the Decent Homes improvement works with expenditure of £15.35m.

## Foreword

	2011/12 Actual Outturn £000	2011/12 Revised Budget £000	2010/11 Actual Outturn £000
<b>CAPITAL EXPENDITURE</b>			
Directorates' Capital Programme	70,677	94,995	54,012
Lewisham Homes' Capital Programme	28,019	28,720	1,600
<b>Total Capital Expenditure for the Year</b>	<b>98,696</b>	<b>123,715</b>	<b>55,612</b>
<b>CAPITAL FINANCING</b>			
Government Supported Borrowing	15,350	15,350	13,912
Unsupported Borrowing	2,606	2,715	2,645
Capital Grants	44,958	60,851	25,447
Capital Receipts	21,122	33,144	11,919
Capital Expenditure Financed from Revenue	14,660	11,655	1,689
<b>Total Capital Expenditure Financed</b>	<b>98,696</b>	<b>123,715</b>	<b>55,612</b>

**5b 2012/13 Capital Programme**

The Council's capital programme budget was agreed at Mayor and Cabinet in February 2012. This outlined the Council's rolled forward five year programme for the years 2012/13 to 2016/17, with total available resources of £336 million. However, most of this is earmarked for the school building and housing investment programmes, and there is relatively little capital finance available for other projects. On current projections the council is unlikely to enter into major new capital commitments (over and above those already included within the programme) due to lack of available capital finance.

Nonetheless, and despite the difficult economic circumstances, the council can report significant achievements within its capital programme, and some exciting further plans. The new swimming pool at Forest Hill will be open for the Olympics, and the major secondary school refurbishment and rebuild programme under the BSF banner is well advanced. Housing self-financing will give the council the opportunity to consider investment in new housing stock, and the decent homes programme should be complete by 2015/16. In addition the council is still pursuing ambitious regeneration schemes, utilising and maximising the value of its assets in prudent yet creative ways to enable further development and regeneration, especially in Catford and Lewisham Centre.

**Principal programmes and projects of over £2.5m include:****Directorates' Capital Programme**

Primary Places Programme – 2011/12	9,329
Primary Places Programme – 2012/13	18,062
BSF – Design and Build Programme	26,221
Schools Minor Works Programme	3,586
MyPlace – Wells Park	3,054
Heathside & Lethbridge	3,000
Highways (Prudential Borrowing)	3,000
Vehicle Replacement Programme	2,650
Other Schemes (below £2.5m)	25,698

**Directorates' Capital Programme****Housing Revenue Account Capital Programme****Total Capital Programme - 2012/13**

2012/13 Budget £000
9,329
18,062
26,221
3,586
3,054
3,000
3,000
2,650
25,698
<b>94,600</b>
<b>40,500</b>
<b>135,100</b>

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**Foreword**

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**6. FINANCIAL HEALTH**

**6a General Fund**

After transfers to and from reserves the General Fund balance now stands at £11.8m. This is an adequate but not excessive level of cover and represents approximately 2.5% of Lewisham's net budget (including the Net Budget Requirement and the Dedicated Schools Grant expenditure). Lewisham also has earmarked reserves for specific ongoing projects and these are detailed in Note 8 to the Core Financial Statements in Section 3 of the Accounts.

**6b Housing Revenue Account**

After transfers to and from earmarked reserves the HRA total balance, including earmarked reserves, now stands at £17.2m. The earmarked reserves are for specific ongoing projects and these are outlined in Note 16 of the HRA statements in Section 4a of the Accounts.

**6c Collection Fund**

The Collection Fund had a surplus of £1,674,000 for the year, which when added to the brought forward surplus of £29,000, leaves a surplus of £1,703,000 to carry forward to 2012/13. The details are shown in the Collection Fund statements in Section 4b of the Accounts.

**7. SIGNIFICANT EVENTS IN 2011/12 THAT HAVE HAD AN IMPACT ON THE ACCOUNTS**

**7a Housing Revenue Account – Self Financing**

In preparation for the new system of housing financing, which became effective on 1 April 2012, the council had £136m of housing debt written off on 28<sup>th</sup> March 2012. As a result the council's long-term borrowing has fallen from approximately £300m to approximately £160m. A premium of £42m was also paid in respect of this debt repayment. Further information is given in the Notes to the Accounts 4a) i) on page 37.

**7b Pension Fund Valuation**

In a turbulent year on the financial markets the value of the Fund increased during the year by £14m from £763m to £775m. At just under 2% this is below the long-term benchmark for fund performance and the deficit on the fund has increased as a result of this investment under-performance and changes to the fund's liabilities to pay future pensions.

**7c National Deficit Reduction Strategy**

The government's strategy to reduce the national deficit over the lifetime of this Parliament principally affects the council's future funding plans, but has also had some direct effect on the 2011/12 accounts. In particular, termination costs of £9.6m have been incurred as the council has implemented savings and staff reductions in response to the new funding climate.

**7d Tidemill Academy**

Tidemill Primary School became an academy school on 1<sup>st</sup> September 2011, and as such is no longer a council school and therefore has been removed from the council's balance sheet. The capital expenditure incurred in constructing the new school of £6.76m prior to 2011/12 was written off to revenue as an impairment and £3.2m in 2011/12 was accounted for as a deferred charge.

**7e Street Lighting PFI Scheme**

The council together with Croydon Council entered into a joint Street Lighting PFI contract with Skanska in August 2011 for a period of 25 years. The part year contract cost for 2011/12 was £1.55m. The contract provides for the replacement of street lighting columns over the next five years and maintenance over the term of the contract.

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**Statement of Responsibilities**

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**THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

**The Authority's Responsibilities**

**The Authority is required:**

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

**Responsibility of the Executive Director for Resources and Regeneration**

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

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

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

**I certify that I have also:**

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

**The Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2012.**

**Janet Senior CPFA**

Executive Director for Resources and Regeneration  
26<sup>th</sup> September 2012

I confirm that these accounts were approved by the Council at the meeting held on 26th September 2012

Signed on behalf of the London Borough of Lewisham:

**Councillor**

Chair of Council

Dated: 26<sup>th</sup> September 2012

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**Independent Auditor's Report**

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM**

**OPINION ON THE FINANCIAL STATEMENTS**

I have audited the financial statements of London Borough of Lewisham for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Reserves Statement and Collection Fund and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

**Respective responsibilities of the Executive Director for Resources and Regeneration and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director for Resources and Regeneration 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Lewisham as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

**Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**Independent Auditor's Report**

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**Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

**OPINION ON THE PENSION FUND FINANCIAL STATEMENTS**

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

**Respective responsibilities of the Executive Director for Resources and Regeneration and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority and Group's 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Opinion on financial statements**

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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**Independent Auditor's Report**

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**Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**CONCLUSION ON AUTHORITY'S ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES**

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Lewisham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

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**Independent Auditor's Report**

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**Susan M Exton**  
**District Auditor**

Audit Commission  
1st Floor Millbank Tower  
London  
SW1P 4HQ

27<sup>th</sup> September 2012

**SECTION 1**

**CORE FINANCIAL STATEMENTS**

**2011/12**

**1a) MOVEMENT IN RESERVES  
STATEMENT**

**1b) COMPREHENSIVE INCOME AND  
EXPENDITURE STATEMENT**

**1c) BALANCE SHEET**

**1d) CASH FLOW STATEMENT**

## Core Financial Statements

## MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2012

YEAR ENDING 31ST MARCH 2012	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2011 Brought Forward	11,511	83,904	9,908	32,745	3,211	4,583	145,862	757,781	903,643
<b>Movement in Reserves during 2011/12</b>									
Surplus or (Deficit) on the provision of services	(3,562)	0	122,720	0	0	0	119,158	0	119,158
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(81,601)	(81,601)
<b>Total Comprehensive Income and Expenditure</b>	<b>(3,562)</b>	<b>0</b>	<b>122,720</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>119,158</b>	<b>(81,601)</b>	<b>37,557</b>
Adjustments between accounting basis and funding basis under regulations (see note 7)	30,320	0	(115,447)	(8,418)	1,318	1,963	(90,264)	90,264	0
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>26,758</b>	<b>0</b>	<b>7,273</b>	<b>(8,418)</b>	<b>1,318</b>	<b>1,963</b>	<b>28,894</b>	<b>8,663</b>	<b>37,557</b>
Transfers to / (from) Earmarked Reserves	(26,469)	26,469	0	0	0	0	0	0	0
<b>Increase / (Decrease) in 2011/12</b>	<b>289</b>	<b>26,469</b>	<b>7,273</b>	<b>(8,418)</b>	<b>1,318</b>	<b>1,963</b>	<b>28,894</b>	<b>8,663</b>	<b>37,557</b>
Balance at 31 March 2012 Carried Forward	11,800	110,373	17,181	24,327	4,529	6,546	174,756	766,444	941,200

## Core Financial Statements

## MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2011 RE-STATEd

YEAR ENDING 31ST MARCH 2011	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010 Brought Forward	11,511	75,581	9,760	20,298	4,320	3,463	124,933	731,432	856,365
<b>Movement in Reserves during 2010/11</b>									
Surplus or (Deficit) on the provision of services	80,587	0	(287,733)	0	0	0	(207,146)	0	(207,146)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	254,424	254,424
<b>Total Comprehensive Income and Expenditure</b>	<b>80,587</b>	<b>0</b>	<b>(287,733)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(207,146)</b>	<b>254,424</b>	<b>47,278</b>
Adjustments between accounting basis and funding basis under regulations (see note 7)	(72,264)	0	269,395	12,447	17,377	1,120	228,075	(228,075)	0
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>8,323</b>	<b>0</b>	<b>(18,338)</b>	<b>12,447</b>	<b>17,377</b>	<b>1,120</b>	<b>20,929</b>	<b>26,349</b>	<b>47,278</b>
Transfers to / (from) Earmarked Reserves	(8,323)	8,323	18,486	0	(18,486)	0	0	0	0
<b>Increase / (Decrease) in 2010/11</b>	<b>0</b>	<b>8,323</b>	<b>148</b>	<b>12,447</b>	<b>(1,109)</b>	<b>1,120</b>	<b>20,929</b>	<b>26,349</b>	<b>47,278</b>
Balance at 31 March 2011 Carried Forward	11,511	83,904	9,908	32,745	3,211	4,583	145,862	757,781	903,643

## Core Financial Statements

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31ST MARCH 2012

2010/11 Re-stated			SERVICE	2011/12			Note
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	
41,277	(33,863)	7,414	Central services to the public	39,266	(32,414)	6,852	
25,589	(3,764)	21,825	Cultural and related services	24,004	(3,989)	20,015	
38,629	(5,270)	33,359	Environmental and regulatory services	36,564	(6,079)	30,485	
19,035	(5,433)	13,602	Planning services	17,048	(3,815)	13,233	
420,452	(293,198)	127,254	Children's and education services	351,243	(255,118)	96,125	
24,394	(10,223)	14,171	Highways and transport services	25,984	(10,938)	15,046	
661,665	(315,911)	345,754	Housing services*	347,928	(326,239)	21,689	4
119,249	(29,123)	90,126	Adult social care	120,913	(34,713)	86,200	
7,380	(193)	7,187	Corporate and democratic core	6,644	(294)	6,350	
(129,046)	0	(129,046)	Non distributed costs **	12,932	(15)	12,917	
1,228,624	(696,978)	531,646	<b>Cost of Services</b>	982,526	(673,614)	308,912	23
			<b>Other Operating Expenditure</b>				
220	(6,828)	(6,608)	(Gain) / Loss on the disposal of non-current assets	0	(6,962)	(6,962)	
1,787	0	1,787	Levies	1,730	0	1,730	6
688	0	688	Contribution of housing capital receipts to Government Pool	1,787	0	1,787	21a
2,695	(6,828)	(4,133)		3,517	(6,962)	(3,445)	
			<b>Financing and Investment Income and Expenditure</b>				
44,061	(63)	43,998	Interest payable and similar charges	75,877	0	75,877	
94	0	94	Changes in fair value of Investment Properties	466	0	466	10
555	0	555	(Gain) / loss on disposal of Investment Properties	127	0	127	10
441	(2,932)	(2,491)	Interest and Investment Income	316	(3,531)	(3,215)	
71,140	(51,608)	19,532	Pensions interest cost and expected return on pensions assets	61,882	(51,689)	10,193	40
116,291	(54,603)	61,688		138,668	(55,220)	83,448	
			<b>Taxation and non-specific Grant Income</b>				
0	(91,234)	(91,234)	Income from Council Tax	0	(93,522)	(93,522)	
0	(58,216)	(58,216)	General Government Grants	0	(47,899)	(47,899)	31
0	(75,238)	(75,238)	Recognised Capital Grants and Contributions	0	(224,140)	(224,140)	
0	(157,367)	(157,367)	National Non-Domestic Rates redistribution	0	(142,512)	(142,512)	
0	(382,055)	(382,055)		0	(508,073)	(508,073)	
		207,146	<b>Deficit/(Surplus) on provision of services</b>			(119,158)	
		(61,706)	Surplus on revaluation of non-current assets			(3,889)	22d
		(191,221)	Actuarial (gains)/losses on pension fund assets and liabilities			85,641	40
		(1,497)	Other (gains)/losses			(151)	
		(254,424)	<b>Other Comprehensive Income and Expenditure</b>			81,601	
		(47,278)	<b>Total Comprehensive Income and Expenditure</b>			(37,557)	

\* Note 4 gives information on the material items included within this line of expenditure and income for 2010/11 and 2011/12.

\*\* The credit in 2010/11 was in respect of an IAS19 adjustment for past service costs, not repeated in 2011/12.

## Core Financial Statements

## BALANCE SHEET AS AT 31ST MARCH 2012

31/03/2011 Re-stated £000		31/03/2012 £000	Note
	<b>Property, Plant &amp; Equipment</b>		
624,293	Council Dwellings	609,047	9a, HRA1a, 10
855,122	Other Land and Buildings	827,988	9a
29,844	Vehicles, plant, furniture and equipment	32,913	9a
57,339	Infrastructure	71,252	9a
8,162	Community Assets	9,275	9a
0	Heritage Assets	257	44
31,170	Surplus Assets not held for Sale	32,955	9a
58,098	Assets under Construction	51,435	9a
<b>1,664,028</b>		<b>1,635,122</b>	
22,491	Investment Property	21,960	10
0	Long Term Investments	0	12
13,179	Long Term Debtors	13,161	15a
<b>1,699,698</b>	<b>Total Long Term Assets</b>	<b>1,670,243</b>	
78,620	Short Term Investments	50,441	12
0	Assets Held for Sale	825	17
233	Inventories	179	14
38,528	Debtors	42,299	15b
128,265	Cash and Cash Equivalents	183,275	16
4,712	Prepayments	4,235	18
<b>250,358</b>	<b>Current Assets</b>	<b>281,254</b>	
0	Bank Overdraft	15,096	16
39,351	Short Term Borrowing	47,676	12a
3,481	Provisions (Less than 1 year)	3,472	20
84,505	Creditors	76,814	19
64,904	Receipts in Advance	67,765	32
4,900	PFI Liabilities due within one year	5,831	36c, d
<b>197,141</b>	<b>Current Liabilities</b>	<b>216,654</b>	
<b>1,752,915</b>	<b>Total Assets less Current Liabilities</b>	<b>1,734,843</b>	
303,372	Long Term Borrowing	157,782	12a
9,683	Provisions (More than 1 year)	9,718	20
173,073	Deferred PFI Liabilities	170,344	36c, d
1,117	Capital Grants Receipts in Advance	744	31
362,027	Liability related to defined benefit pension scheme	455,055	40d
<b>849,272</b>	<b>Long Term Liabilities</b>	<b>793,643</b>	
<b>903,643</b>	<b>NET ASSETS</b>	<b>941,200</b>	
	<b>Usable Reserves</b>		
11,511	General Fund Balance	11,800	
83,904	Earmarked Revenue Reserves	110,373	8
9,908	Housing Revenue Account	17,181	HRA16
32,745	Usable Capital Receipts Reserve	24,327	21a
3,211	Major Repairs Reserve	4,529	HRA15
4,583	Capital Grants Unapplied	6,546	21b
<b>145,862</b>		<b>174,756</b>	
	<b>Unusable Reserves</b>		
213,300	Revaluation Reserve	212,749	22d
923,021	Capital Adjustment Account	1,022,024	22e
469	Deferred Capital Receipts	337	22a
(10,060)	Financial Instruments Adjustment Account	(8,557)	22b
(362,027)	Pensions Reserve	(455,055)	22c
22	Collection Fund Adjustment Account	1,313	22f
(6,944)	Short Term Compensated Absences Account	(6,367)	22g
<b>757,781</b>		<b>766,444</b>	
<b>903,643</b>	<b>TOTAL EQUITY</b>	<b>941,200</b>	

## Core Financial Statements

CASH FLOW STATEMENT FOR THE YEAR ENDING 31<sup>ST</sup> MARCH 2012

2010/11 Restated £000s		2011/12 £000s	Note
(207,146)	Net surplus or (deficit) on the provision of services	119,158	
307,588	Adjustment to surplus or deficit on the provision of services for noncash movements	(33,418)	
(47,044)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(60,564)	
<b>53,398</b>	<b>Net Cash flows from operating activities</b>	<b>25,176</b>	45
(49,601)	Net Cash flows from Investing Activities	17,909	46
(13,137)	Net Cash flows from Financing Activities	(3,171)	47
(9,340)	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>39,914</b>	
137,605	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>128,265</b>	16
128,265	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>168,179</b>	16

**SECTION 2**

**STATEMENT OF  
ACCOUNTING POLICIES**

**2011/12**

## STATEMENT OF ACCOUNTING POLICIES – 2011 / 2012

### 1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its financial position at the year-end of 31 March 2012. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which requires them to be prepared in accordance with proper practices in relation to accounts. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice for Local Authorities 2011/12 (both published by the Chartered Institute of Public Finance and Accountancy (CIPFA)), supported by International Financial Reporting Standards (IFRS) and statutory guidance in the Accounts and Audit Regulations 2003 where applicable.

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Prior period adjustments may arise from a change in an accounting policy or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 3. ACCRUALS OF INCOME AND EXPENDITURE

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

Income from the provision of services or sale of goods is recognised when it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.

Expenditure on supplies is recorded as expenditure when they are consumed. When there is a significant gap between the date on which supplies are received and the date of their consumption, and the value is material, they are carried as stocks on the Balance Sheet. Expenditure on services received (including those provided by employees) is recorded as expenditure when the services are received rather than when payments are made.

Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates on a basis that reflects the effective interest rate, rather than the cash flows, of the loan or investment.

Where income and expenditure have been recognised in the accounts, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is probable 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.

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**Statement of Accounting Policies**

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#### **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 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 gains or losses are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

#### **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 those services that benefit from the supply or service in accordance with the total absorption costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The exceptions are as follows;

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation (e.g. member's services, external audit fees).
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held for Sale.

These categories are defined in SeRCOP and accounted for as separate headings as part of Cost of Services in the Comprehensive Income and Expenditure Statement.

#### **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 Authority 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 Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

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**Statement of Accounting Policies**

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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 in the Balance Sheet as receipts in advance. When conditions are satisfied, it is 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 Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. 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.

Any arrangements which do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where the fulfilment of the arrangement is dependent on the use of specific assets.

### **a) The Council as Lessee**

#### **i) Finance Leases**

Property, Plant and Equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. The initial direct costs of the Council are added to the carrying amount of the asset. Any premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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**Statement of Accounting Policies**

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**ii) Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as expenditure of the services benefitting from 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 pattern of payments (eg where there is a rent-free period at the commencement of the lease).

**b) The Council as Lessor**

**i) Finance Leases**

Where 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 (whether Property, Plant and Equipment or Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. 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 Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

**ii) Operating Leases**

Where the Council grants an operating lease over a property or item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

**11. INVENTORIES (STOCK)**

Highways and fleet stores are valued and included in the Balance Sheet at cost price as a proxy for average price, there being no material difference between the two. Revenue accounts are charged with the cost of obsolescent stock written off.

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**Statement of Accounting Policies**

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## **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 due to be settled within 12 months of the year-end. They include such benefits as 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 holiday entitlements (or any form of leave, eg time off in lieu) 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 following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **b) Termination and Discretionary Benefits**

Termination benefits are amounts payable either as a result of a decision by the Council to terminate an officer's employment before their normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant Service Cost line in the Comprehensive Income and Expenditure Statement in the year in which the Council is demonstrably committed to the termination of the employment of the officer.

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements and has an agreed scheme. It operates a Panel which considers proposals for retirement of employees on the grounds of redundancy and/or efficiency and applications for early retirement from employees. Any resulting additional liabilities arising to the Pension Fund are funded by payments from the Income and Expenditure Account.

Where termination benefits involve 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 Movement in Reserves Statement, 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.

### **c) Post Employment Benefits**

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

- The Teachers Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme (LGPS) administered by Lewisham Council.
- The London Pension Fund administered by the London Pension Fund Authority (LPFA).

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**

This scheme is a defined benefit scheme, but is accounted for as if it was a defined contributions scheme, since its liabilities can not be separately identified to individual local authorities. No liabilities for future payment of benefits are therefore recognised in the balance sheet for this scheme. The Comprehensive

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**Statement of Accounting Policies**

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Income and Expenditure Statement is charged with the employer's contributions paid to Teachers' Pensions during the year.

**(ii) Local Government Pension Scheme**

This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets can be identified to individual local authorities.

The liabilities of the Scheme which are attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments to be made by the Scheme in relation to benefits earned to date, based on a number of assumptions about mortality rates, turnover, projected earnings etc. These liabilities are discounted to their value at current prices, using a discount rate recommended by the Scheme's Actuaries.

The assets of the Scheme which are attributable to the Council are included in the Balance Sheet at their fair value. The asset categories are:

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:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Council's pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as expenditure.

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

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

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**Statement of Accounting Policies**

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**(iii) London Pension Fund**

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 Comprehensive Income and Expenditure Statement is charged with a levy from the LPFA to meet the employer's contributions and the costs of administration.

**14. INTERESTS IN COMPANIES**

Lewisham Homes (LH) and Catford Regeneration Partnership Ltd (CRPL) are wholly owned subsidiary companies of the Council. Group Accounts have been prepared which incorporate the accounts of LB Lewisham, LH and CRPL and these are included in Section 6 of the Statement of Accounts.

The Council has relationships with a number of other companies, details of which are shown in note 26 to the Core Financial Statements in Section 3 of the Statement of Accounts. During 2011/12 the Council had a minority interest (significantly lower than 50%) in these companies. The transactions between the Council and these companies are included in the Council's single entity accounts.

**15. CARBON REDUCTION COMMITMENT ALLOWANCES**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of its services and is apportioned to services on the basis of energy consumption.

**16. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES**

**a) Provisions**

The Council has set aside amounts from its revenue account to form provisions, which will be used to cover future expenditure. These are shown in Note 20 of Section 3 of the Statement of Accounts.

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council has undertaken a number of staff restructuring exercises which will result in termination payments being incurred.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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 carried in the Balance Sheet. All provisions are reviewed at the end of each financial year, and where it becomes less than probable that a transfer of economic benefits 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 authority settles the obligation.

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**Statement of Accounting Policies**

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**b) Impairment Allowances**

Impairment allowances (i.e. 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.

**17. RESERVES**

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

The reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

A number of statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent resources for the Council to use. These reserves are explained in the relevant policies and notes.

**18. 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. A contingent liability could also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts where it is probable that there will be an inflow or outflow of economic benefits or service potential.

**19. 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 (such as home improvement grants or expenditure on voluntary aided schools), is charged to the relevant cost of service line in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has decided to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

**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.

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**Statement of Accounting Policies**

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In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## **21. FINANCIAL INSTRUMENTS**

### **a) Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council enters into a contract for a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that 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, this means that the amount shown in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. Premiums and discounts are split between the General Fund and Housing Revenue Account in accordance with their share of debt as identified by the Council's Capital Financing Requirement as at 1 April in the year in which they are incurred. In accordance with statute, the reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against Council Tax or Housing Rents is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The premium paid by the DCLG on behalf of the Council in respect of the debt repayment resulting from the implementation of the HRA Self Financing system has been accounted for in accordance with specific guidance issued by CIPFA (LAAP Bulletin 92). This charges the whole premium direct to the HRA.

### **b) Financial Assets**

#### **i) Loans and Receivables**

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet when the Council enters into the financial instrument initially measured at fair value and subsequently at their amortised cost. This category includes short term investments and sundry debtors.

The credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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**Statement of Accounting Policies**

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Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**ii) Available-for-Sale Assets**

These are assets which have a quoted market price and/or do not have fixed or determinable payments. The Council does not have any assets in this category.

**22. INTANGIBLE NON CURRENT ASSETS**

Intangible Non Current Assets (e.g. software licenses) do not have any physical substance but are identifiable and controllable by the Council through custody or legal rights. The expenditure on them is only capitalised when it is material and the future economic benefits or service potential flowing will also be material.

**23. CHARGES TO REVENUE FOR NON CURRENT ASSETS**

All services (including support services and trading accounts) are debited with the following amounts to record 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.

The Council is not required to raise council tax to finance these charges. However, it is required to make an annual contribution from revenue to reduce its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance (Minimum Revenue Provision - MRP). These charges, therefore, are replaced by the MRP charge to the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**24. PROPERTY, PLANT AND EQUIPMENT**

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

**a) Recognition**

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

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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## Statement of Accounting Policies

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The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority. The Council has not received any donated assets in 2011/12 or 2010/11. Any donated assets received in future will be accounted for according to the COP.

Assets are carried in the Balance Sheet using the following measurement bases:

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. They are valued on the basis recommended by CIPFA and in accordance with the Statements of Appraisal and Valuation Manual and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement 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 balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **c) Impairment**

Assets held on the Balance Sheet (over £40,000) are reviewed at year-end to assess whether they may be impaired. Where an indication exists, the recoverable amount of the asset is estimated and if material, an impairment loss is recognised for the shortfall. Where impairment losses 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 balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

### **d) 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 or such a long life that any depreciation would be immaterial (i.e. freehold land and certain community assets), assets where the recoverable amount exceeds the carrying amount, (i.e. the

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**Statement of Accounting Policies**

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remaining community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as determined by the valuer (dwellings are usually over 25 years and buildings over 40 years).
- vehicles, plant and equipment – straight-line allocation over 5-10 years as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over 25 years, unless advised by a suitably qualified officer.

The Council's policy is to charge depreciation on the value of the asset as at 1 April each year (i.e. opening value). It is charged from the beginning of the year that follows the date of purchase or completion of construction, and is not adjusted for disposals or additions of assets during the year. Where a Property, Plant and Equipment 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.

## **25. DISPOSALS AND NON CURRENT ASSETS HELD FOR SALE**

When it is almost certain that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, and the strict criteria outlined in the COP are met, it is reclassified as an Asset Held for Sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement 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 a disposal in excess of £10,000 are classified as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is currently payable to the Government. However, recent legislation concerning HRA self-financing will alter this with effect from 1 April 2012. The retained receipts are required to be credited to the 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 (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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**Statement of Accounting Policies**

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**26. INVESTMENT PROPERTIES**

Investment properties are those assets which are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way for the delivery of services or production of goods or is held for sale. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. They are revalued annually according to market conditions, and are therefore not depreciated. Any gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. These are not permitted by statutory arrangements to have an impact on the General Fund Balance, and are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve if relevant.

**27. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS**

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment 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 was 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 which are 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 Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement.
- 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 Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet 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.

**28. HERITAGE ASSETS**

Where an asset is primarily held for its contribution to knowledge or culture, it is designated as a heritage asset. However, where it is used as an operational asset, it is classified as such. Heritage Assets are recognised and measured in accordance with the Council's 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.

An extensive review has identified 2 assets which have been classified as heritage assets, with a value of £257,000. Given that this is not material, the 2010/11 balance sheet comparatives have not been restated.

**SECTION 3**

**NOTES TO THE  
CORE FINANCIAL  
STATEMENTS**

**2011/12**

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED

The Code of Practice on Local Authority Accounting 2012/2013 (the Code) introduces one change in accounting policy which requires enhanced disclosures in respect of Financial Instruments (Transfers of financial assets). The Council will be required to adopt this change in its 2012/13 financial statements, however, it is unlikely that this will have a material effect on the accounts.

### 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the Accounting Policies set out in Section 2, the Council has had to make certain judgements about complex transactions (shown in this note, below) and a number of assumptions which involve uncertainty about future events (shown in the following note, Note 3).

The major judgements made in these Accounts are as follows:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- During the last two financial years, as a result of the implementation of IFRS accounting, a considerable number of judgements were made concerning the classification of and the accounting for Non Current Assets, Leases, PFI and other major contracts, Capital and Revenue Grants and other miscellaneous items. There are no material changes to these judgements for the 2011/12 accounts. Further details are included in the 2010/11 Statement of Accounts.
- When Lewisham Homes was first established as an ALMO, it was agreed that all pre transfer staff pension costs would be indemnified by the Council. The accounting treatment for this has been a matter of concern in recent years and has been reported to Members as such on several occasions. The Council's judgement is that this indemnity is best represented by a contingent liability, rather than an accrual, provision or reserve. This treatment has been consistently applied in the final accounts since 2009/10.
- Five Council libraries were closed with effect from 28 May 2011. Grove Park, Sydenham and Crofton Park Libraries were reopened as community libraries operated by Eco Computer Systems at the three buildings. New Cross Library was reopened as a community library operated by Bold Vision at the same building. These assets have therefore been retained as operational assets on the Council's balance sheet. Blackheath Library was not owned by the council and so the lease has been transferred to a new tenant to operate a library.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

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**Notes to the Core Financial Statements**


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**a) Property, Plant and Equipment**

Assets are depreciated over their useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, possibly bringing into doubt some of the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings could increase by approximately £1m for every year that useful lives are reduced.

**b) Insurance Provisions**

The insurance provision is made up of contributions to cover liabilities arising from a number of insurance years dating back to 2002. It has been split between less than one year and greater than one year, estimating what proportion of the monies held relate to each of the years, what has been paid so far in each of those years and what remains outstanding. The Council commissions an annual review from its insurance advisors to inform this split. An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement could each have the effect of adding £0.16m to the provision needed.

**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. Two firms of consulting actuaries (one for the LGPS and one the LPFA) are 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. For instance, a 0.5% increase in the real discount rate assumption would result in a decrease in the pension liability of about £106m. However, the assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability had increased by £45m as a result of estimates being corrected as a result of experience and increased by £35m attributable to updating of the assumptions.

**d) Arrears of Significant Debtors**

The Council had balances of sundry debtors, Council Tax, NNDR and Housing Rents of approximately £90m as at 31st March 2012 (see Note 15b). All of the significant balances have been reviewed and impairment allowances for doubtful debts at appropriate levels have been set. However, although the current economic climate has been taken into account, it is not certain that such allowances will be sufficient, as the judgements made in respect of them are necessarily primarily based on historical trends. To date however, there is insufficient evidence of reductions in collection rates, which in some cases have improved during 2011/12, to justify making additional impairments in this respect. If collection rates were to deteriorate, an increase of 10% in the amount of the impairment allowance would require an additional £5m to be set aside.

**4. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

Where material items have not been separately disclosed in the Comprehensive Income and Expenditure Statement, the nature and amount of the items are set out below;

**a) 2011/12 Accounts – ‘Housing Services’ line****i) Housing Revenue Account – Self Financing**

The government has reformed the council housing finance system from 1<sup>st</sup> April 2012 by abolishing the HRA subsidy system and replacing it with a “self-financing” system instead. A fundamental element of this was to adjust council's debt to make it affordable. The settlement for Lewisham comprised of the

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**Notes to the Core Financial Statements**


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DCLG repaying £136.3m of PWLB debt and a premium of £41.8m on 28<sup>th</sup> March 2012. This has been accounted for as recommended by CIPFA in a specific bulletin (LAAP 92). There is no effect on the net revenue outturn of the HRA or the General Fund.

**b) 2010/11 Accounts – ‘Housing Services’ line**i) Decent Homes Strategy

A housing stock transfer took place in October 2010 in which 3,530 housing units from the Chrysalis Estate, were transferred to London and Quadrant RSL. The asset value of the transfer was £103.2m and overhanging debt of £41.5m was written off, both of which affected the 2010/11 accounts. There were no stock transfers in 2011/12.

ii) HRA Stock Valuation

An impairment of £300m was charged to this line in 2010/11 due to a reduction in the valuation scaling factor set by the DCLG. The housing stock is valued in the Council's accounts on the basis of Social Housing – Existing Use, which is defined by the Government as a percentage of the vacant possession value on the open market. This percentage was set at 37% for 2009/10, but was reduced to 25% for 2010/11 (and remains at 25% for 2011/12).

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

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration on 29 June 2012. Where events took place before this date which materially altered the conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. However, no such post balance sheet events have occurred.

The following significant events have occurred after the 31 March 2012 which will affect the 2012/13 accounts, but have no effect on the 2011/12 accounts;

a) Trust Schools

Formal agreement has been reached with the governing bodies of Brent Knoll and Watgate Schools for them to become foundation schools (trust schools) with an implementation date of 2 April 2012

b) Schools Closing and Opening

Meadowgate and Pendragon Schools are closing on 31<sup>st</sup> August 2012 and Drumbeat School is opening on 1<sup>st</sup> September 2012.

**6. OTHER OPERATING EXPENDITURE - LEVIES**

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

	2011/12 £000	2010/11 £000
London Pension Fund Authority	1,294	1,346
Environment Agency	174	174
Lee Valley Regional Park Authority	262	267
<b>Total Levies Paid</b>	<b>1,730</b>	<b>1,787</b>

## Notes to the Core Financial Statements

## 7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the Comprehensive Income and Expenditure Statement 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" (see Section 1 of these accounts).

2011/12	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items credited or debited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets	72,724		29,012				(101,736)
Movements in the market value of Investment Properties	466						(466)
Capital grants and contributions applied	(42,682)		(178,100)				220,782
Revenue expenditure funded from capital under statute	11,874						(11,874)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	6,863		661				(7,524)
HRA capital expenditure or income from subsidy buy-out			41,762				(41,762)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	(9,355)		(2,621)				11,976
Capital expenditure charged against the General Fund and HRA balances	(1,620)						1,620
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(3,358)					3,358	0
Application of grants to capital financing transferred to the Capital Adjustment Account						(1,395)	1,395
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(11,593)		(2,766)	14,359			0
Use of the Capital Receipts Reserve to finance new capital expenditure				(21,122)			21,122
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,787			(1,787)			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				132			(132)

## Notes to the Core Financial Statements

2011/12 continued	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Major Repairs Reserve:</b>							
Use of the Major Repairs Reserve to finance new capital expenditure					(881)		881
Reversal of Major Repairs Allowance credited to the HRA			(5,570)		5,570		
Difference between Major Repairs Allowance and HRA depreciation			3,371		(3,371)		0
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(302)		(1,201)				1,503
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	36,219		177				(36,396)
Employer's pensions contributions and direct payments to pensioners payable in the year	(28,837)		(172)				29,009
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(1,291)						1,291
<b>Adjustments primarily involving the Accumulated Absences Account:</b>							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(577)						577
<b>Other Adjustments</b>	2						(2)
<b>Total Adjustments</b>	<b>30,320</b>	<b>0</b>	<b>(115,447)</b>	<b>(8,418)</b>	<b>1,318</b>	<b>1,963</b>	<b>90,264</b>

## Notes to the Core Financial Statements

2010/11 comparative figures	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items credited or debited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets	73,728		341,581				(415,309)
Revaluation losses on Property, Plant and Equipment							
Movements in the market value of Investment Properties	94						(94)
Capital grants and contributions applied	(23,801)		(41,537)				65,338
Revenue expenditure funded from capital under statute	3,942						(3,942)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	890		(6,943)				6,053
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	(9,160)		(3,078)				12,238
Capital expenditure charged against the General Fund and HRA balances	(1,689)						1,689
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						1,120	(1,120)
Application of grants to capital financing transferred to the Capital Adjustment Account							
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement				25,054			(25,054)
Use of the Capital Receipts Reserve to finance new capital expenditure				(11,919)			11,919
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	688			(688)			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash							
<b>Adjustments primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA			(13,670)		13,670		0
Difference between Major Repairs Allowance and HRA depreciation			(5,335)		5,335		0
Use of the Major Repairs Reserve to finance new capital expenditure			1,627		(1,627)		0

## Notes to the Core Financial Statements

2010/11 comparative figures (Continued)	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b> Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,439)		(1,601)				3,040
<b>Adjustments primarily involving the Pensions Reserve:</b> Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(85,598)		154				85,444
Employer's pensions contributions and direct payments to pensioners payable in the year	(30,385)		(177)				30,562
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b> Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3						(3)
<b>Adjustments primarily involving the Accumulated Absences Account:</b> Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(820)						820
<b>Other Adjustments</b>	1,283		(1,627)				344
<b>Total Adjustments</b>	<b>(72,264)</b>	<b>0</b>	<b>269,394</b>	<b>12,447</b>	<b>17,378</b>	<b>1,120</b>	<b>(228,075)</b>

## Notes to the Core Financial Statements

**8. TRANSFERS TO AND FROM EARMARKED RESERVES**

Lewisham keeps a number of earmarked reserves on the 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 voluntarily to earmark resources for future spending plans.

This note shows the amounts set aside voluntarily from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

The use of HRA earmarked reserves is shown in Note 16 of the notes to the HRA in Section 4a.

	Balance 31/03/10 £000	10/11 Transfers		Balance 31/03/11 £000	11/12 Transfers		Balance 31/03/12 £000	
		In £000	Out £000		In £000	Out £000		
General Earmarked	42,849	12,510	(15,836)	39,523	21,920	(8,512)	52,931	
PFI and BSF Schemes	3,862	2,909	0	6,771	5,904	0	12,675	(a)
Insurance	13,196	1,458	0	14,654	293	0	14,947	(b)
Capital Expenditure	11,482	1,724	(1,689)	11,517	667	(1,620)	10,564	(c)
	<b>71,389</b>	<b>18,601</b>	<b>(17,525)</b>	<b>72,465</b>	<b>28,784</b>	<b>(10,132)</b>	<b>91,117</b>	
School Balances	3,568	13,058	(5,835)	10,791	8,845	(1,105)	18,531	(d)
School's External Funds	624	648	(624)	648	113	(36)	725	(e)
	<b>4,192</b>	<b>13,706</b>	<b>(6,459)</b>	<b>11,439</b>	<b>8,958</b>	<b>(1,141)</b>	<b>19,256</b>	
<b>Total</b>	<b>75,581</b>	<b>32,307</b>	<b>(23,984)</b>	<b>83,904</b>	<b>37,742</b>	<b>(11,273)</b>	<b>110,373</b>	

a) PFI Schemes Reserves

This is a reserve which enables services to make revenue contributions towards their committed PFI schemes in future years.

b) Insurance Reserve

Included within this reserve is an amount of £7.8m which has been set aside for contingent liabilities in respect of specific cases under the MMI scheme (including asbestos exposure cases and claims against former employees of one of the council's former children's homes).

c) Capital Expenditure Reserve

This is a reserve which enables services to make revenue contributions towards their committed capital spending in future years.

d) School's Balances

This reserve represents schools' self-managed budgets that remain unspent at the year-end. It is earmarked for use by the schools only.

e) Schools' External Funds

This is the unspent balances from schools' locally generated funds and is earmarked for schools only.

## Notes to the Core Financial Statements

## 9. PROPERTY, PLANT AND EQUIPMENT

## a) Movements in Non Current Assets

The movements in non current assets during 2011/12 were as follows:

<b>2011/12</b>	<b>Council Dwellings £000</b>	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Infra-structure Assets £000</b>	<b>Comm. Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets under Construction £000</b>	<b>TOTAL £000</b>
<b>Gross Book Value b/fwd at 1st April 2011</b>	639,633	872,226	58,522	102,091	8,162	31,465	58,098	1,770,197
<b>Additions</b>	15,722	11,248	4,105	10,701	100	3,177	32,023	77,076
Revaluations (Reval Reserve)	0	5,828	0	0	0	5,780	0	11,608
Revaluations (Surp/Def on Prov of Servs)	(11,785)	(28,073)	(66)	(6)	0	(2,925)	0	(42,855)
<b>Total Revaluations</b>	<b>(11,785)</b>	<b>(22,245)</b>	<b>(66)</b>	<b>(6)</b>	<b>0</b>	<b>2,855</b>	<b>0</b>	<b>(31,247)</b>
Impairments (Reval Reserve)	(421)	(589)	0	0	0	(5,490)	0	(6,500)
Impairments (Surp/Def on Prov of Servs)	(907)	(15,934)	0	0	0	(4,333)	(6,760)	(27,934)
<b>Total Impairments</b>	<b>(1,328)</b>	<b>(16,523)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,823)</b>	<b>(6,760)</b>	<b>(34,434)</b>
<b>Disposals</b>	<b>(679)</b>	<b>0</b>	<b>(33)</b>	<b>0</b>	<b>0</b>	<b>(6,594)</b>	<b>0</b>	<b>(7,306)</b>
<b>Transfers</b>	<b>(2,067)</b>	<b>8,441</b>	<b>4,799</b>	<b>6,584</b>	<b>1,013</b>	<b>13,095</b>	<b>(31,926)</b>	<b>(61)</b>
<b>Assets reclassified to/from Held for Sale</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(825)</b>	<b>0</b>	<b>(825)</b>
<b>Gross Book Value c/fwd at 31st March 2012</b>	<b>639,496</b>	<b>853,147</b>	<b>67,327</b>	<b>119,370</b>	<b>9,275</b>	<b>33,350</b>	<b>51,435</b>	<b>1,773,400</b>
<b>Depreciation b/fwd at 1st April 2011</b>	<b>(15,340)</b>	<b>(17,104)</b>	<b>(28,678)</b>	<b>(44,752)</b>	<b>0</b>	<b>(295)</b>	<b>0</b>	<b>(106,169)</b>
Depreciation for year	(15,329)	(11,415)	(5,569)	(3,366)	0	(120)	0	(35,799)
<u>Depreciation written back on:</u>								
Transfers	115	336	(191)	0	(2)	(258)	0	0
Assets Revalued	0	1,058	0	0	2	26	0	1,086
Assets Impaired	72	1,966	0	0	0	252	0	2,290
Assets Sold	33	0	24	0	0	0	0	57
<b>Depreciation c/fwd at 31st March 2012</b>	<b>(30,449)</b>	<b>(25,159)</b>	<b>(34,414)</b>	<b>(48,118)</b>	<b>0</b>	<b>(395)</b>	<b>0</b>	<b>(138,535)</b>
<b>Net Book Value at 31st March 2012</b>	<b>609,047</b>	<b>827,988</b>	<b>32,913</b>	<b>71,252</b>	<b>9,275</b>	<b>32,955</b>	<b>51,435</b>	<b>1,634,865</b>

## Notes to the Core Financial Statements

The movements in non current assets during 2010/11 were as follows:

<b>2010/11</b>	<b>Council Dwellings £000</b>	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Infra- structure Assets £000</b>	<b>Comm. Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets under Construction £000</b>	<b>TOTAL £000</b>
<b>Gross Book Value b/fwd at 1st April 2010</b>	<b>949,010</b>	<b>868,037</b>	<b>51,853</b>	<b>97,602</b>	<b>8,451</b>	<b>31,636</b>	<b>38,785</b>	<b>2,045,374</b>
<b>Additions</b>	<b>13,329</b>	<b>25,273</b>	<b>4,434</b>	<b>5,036</b>	<b>10</b>	<b>1,077</b>	<b>30,819</b>	<b>79,978</b>
Revaluations (Reval Reserve)	39,860	31,158	0	0	0	7,813	0	<b>78,831</b>
Revaluations (Surp/Def on Prov of Servs)	(1,442)	723	0	0	0	4,042	0	<b>3,323</b>
<b>Total Revaluations</b>	<b>38,418</b>	<b>31,881</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,855</b>	<b>0</b>	<b>82,154</b>
Impairments (Reval Reserve)	(9,778)	(2,768)	0	0	0	(4,578)	0	<b>(17,124)</b>
Impairments (Surp/Def on Prov of Servs)	(347,923)	(59,164)	0	(723)	(299)	(2,217)	0	<b>(410,326)</b>
<b>Total Impairments</b>	<b>(357,701)</b>	<b>(61,932)</b>	<b>0</b>	<b>(723)</b>	<b>(299)</b>	<b>(6,795)</b>	<b>0</b>	<b>(427,450)</b>
<b>Disposals</b>	<b>(1,707)</b>	<b>(1,184)</b>	<b>(33)</b>	<b>0</b>	<b>0</b>	<b>(6,935)</b>	<b>0</b>	<b>(9,859)</b>
<b>Transfers</b>	<b>(1,716)</b>	<b>10,151</b>	<b>2,268</b>	<b>176</b>	<b>0</b>	<b>627</b>	<b>(11,506)</b>	<b>0</b>
<b>Assets reclassified to/from Held for Sale</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Gross Book Value c/fwd at 31st March 2011</b>	<b>639,633</b>	<b>872,226</b>	<b>58,522</b>	<b>102,091</b>	<b>8,162</b>	<b>31,465</b>	<b>58,098</b>	<b>1,770,197</b>
<b>Depreciation b/fwd at 1st April 2010</b>	<b>(24,211)</b>	<b>(8,143)</b>	<b>(23,570)</b>	<b>(41,664)</b>	<b>0</b>	<b>(454)</b>	<b>0</b>	<b>(98,042)</b>
Depreciation for year	(17,939)	(11,064)	(5,131)	(3,088)	0	(375)	0	<b>(37,597)</b>
<u>Depreciation written back on:</u>								
Transfers	0	0	0	0	0	0	0	<b>0</b>
Assets Revalued	1,570	383	0	0	0	226	0	<b>2,179</b>
Assets Impaired	25,213	1,720	0	0	0	106	0	<b>27,039</b>
Assets Sold	27	0	23	0	0	202	0	<b>252</b>
<b>Depreciation c/fwd at 31st March 2011</b>	<b>(15,340)</b>	<b>(17,104)</b>	<b>(28,678)</b>	<b>(44,752)</b>	<b>0</b>	<b>(295)</b>	<b>0</b>	<b>(106,169)</b>
<b>Net Book Value at 31st March 2011</b>	<b>624,293</b>	<b>855,122</b>	<b>29,844</b>	<b>57,339</b>	<b>8,162</b>	<b>31,170</b>	<b>58,098</b>	<b>1,664,028</b>

## Notes to the Core Financial Statements

**b) Non Current Assets Revaluations**

A five-year rolling programme of revaluation for land and buildings is carried out to ensure that the Council's assets are held at valuations in accordance with RICS and CIPFA guidance. These were signed off by the Council's Valuers Department. The Council's policy on valuing its assets are set out in the Accounting Policies in Section 2 of the Accounts. In addition to the rolling programme, a number of assets were revalued following the completion of capital programme works on them during the year.

	Council Dwellings £000	Other Land & Buildings £000	Community Assets £000	Surplus Assets £000	Total £000
<b>Valued at Historic Cost</b>	<b>0</b>	<b>16,504</b>	<b>8,344</b>	<b>0</b>	<b>24,848</b>
<b>Valued at Current Value</b>					
As at 31 March 2012	3,990	15,462		715	20,167
As at 1 April 2011	99	132,161	40	21,170	153,470
As at 31 March 2011		77,504		2,456	79,960
As at 1 April 2010	604,958	216,556	36		821,550
As at 31 March 2010		144,396		258	144,654
As at 1 April 2009		68,247	854		69,101
As at 31 March 2009		134,026		111	134,137
As at 1 April 2008		27,830			27,830
As at 1 April 2007		3,547			3,547
<b>Total Net Book Value</b>	<b>609,047</b>	<b>836,233</b>	<b>9,274</b>	<b>24,710</b>	<b>1,479,264</b>

**c) Capital Commitments**

At 31 March 2012, the Authority had one construction contract in progress with remaining contract value of over £8m. The value of the work completed as at 31 March 2012 has been established using a stage of completion methodology based on architects' certificates obtained at periodic times during the year.

	Total Value of Contract £000	Value of Works Completed		Value of Contract Remaining £000
		Before 1 April 2011 £000	During 2011/12 £000	
<b>Children &amp; Young People</b>				
BSF Addey & Stanhope School	8,246	1,240	3,944	3,062
BSF Prendergast Hilly Fields School	18,585	2,115	4,252	12,218
Gordonbrock School	9,407	955	6,921	1,531
<b>Other Directorates</b>				
Forest Hill Pool	8,934	609	6,672	1,653
Deptford Town Centre (inc Tidemill School)	20,464	12,295	7,347	822
<b>Total Commitments</b>	<b>65,636</b>	<b>17,214</b>	<b>29,136</b>	<b>19,286</b>

## Notes to the Core Financial Statements

## 10. INVESTMENT PROPERTIES

	2011/12 £000	2010/11 Restated £000
<b>a) In Comprehensive Income and Expenditure Statement</b>		
Operating Expenses	138	138
<u>Rental Income</u>		
Industrial and Commercial Properties	(440)	(460)
Shops	(1,115)	(1,065)
Aerial Sites	(252)	(313)
	<b>(1,807)</b>	<b>(1,838)</b>
<b>Net Income from Investment Properties</b>	<b>(1,669)</b>	<b>(1,700)</b>
<b>b) Movement in fair value in the Balance Sheet</b>		
<b>Balance at Beginning of Year</b>	<b>22,491</b>	<b>23,583</b>
Purchases	0	127
Disposals	(127)	(1,125)
Net Gains / (Losses) from fair value adjustments	(466)	(94)
Transfers to / from PPE	62	0
<b>Balance at End of Year</b>	<b>21,960</b>	<b>22,491</b>

## 11. INTANGIBLE ASSETS

The expenditure on these assets is only capitalised when it is material and the future economic benefits or service potential flowing will also be material. The Council has reviewed the level of spend on these assets and they continue to be immaterial and therefore are charged direct to the Comprehensive Income and Expenditure Statement.

## 12. FINANCIAL INSTRUMENTS

The 2011/12 Code of Practice requires compliance with IFRS but some of the requirements are non-compliant with primary legislation. Where this occurs, the CIES complies with IFRS, with the MiRS containing the reversals required to ensure that the closing balances comply with Statute.

## Notes to the Core Financial Statements

## a) Financial Instruments Balances

	Long-Term		Current	
	31 Mar 2012 £000	31 Mar 2011 Restated £000	31 Mar 2012 £000	31 Mar 2011 Restated £000
Financial Liabilities (Principal Amount)	157,607	303,206	45,000	35,000
Accrued Interest	175	166	2,676	4,351
<b>Total - Financial liabilities at amortised cost</b>	<b>157,782</b>	<b>303,372</b>	<b>47,676</b>	<b>39,351</b>
Financial liabilities at fair value through profit or loss	-	-	-	-
<b>Total Borrowings</b>	<b>157,782</b>	<b>303,372</b>	<b>47,676</b>	<b>39,351</b>
PFI and finance lease liabilities	170,344	173,073	5,831	4,900
<b>Total Other Liabilities</b>	<b>170,344</b>	<b>173,073</b>	<b>5,831</b>	<b>4,900</b>
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities at contract amount	-	-	64,671	78,301
<b>Total Creditors</b>	<b>-</b>	<b>-</b>	<b>64,671</b>	<b>78,301</b>
<b>Financial Guarantees</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Soft Loans Received</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loans and Receivables (principal amount)	-	-	218,017	180,809
Plus Accrued Interest	-	-	603	483
<b>Total - Loans and Receivables at amortised cost</b>	<b>-</b>	<b>-</b>	<b>218,620</b>	<b>181,292</b>
Available-for-sale financial assets	-	-	-	25,593
Financial Assets at fair value through p/l	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
<b>Total Investments</b>	<b>-</b>	<b>-</b>	<b>218,620</b>	<b>206,885</b>
Loans and receivables	13,161	13,179	-	-
Financial assets at contract amounts	-	-	35,646	32,382
<b>Total Debtors</b>	<b>13,161</b>	<b>13,179</b>	<b>35,646</b>	<b>32,382</b>
<b>Soft Loans Provided</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note 1 – The figures shown above do not all appear on the face of the balance sheet due to the reclassification of certain short and long term investments as Cash Equivalents under IFRS.

Note 2 – Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Note 3 – Fair value has been measured by:

- Direct reference to published price quotations in an active market; and/or
- Estimating using a valuation technique.

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**Notes to the Core Financial Statements**


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Note 4 – Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The Council provided no financial guarantees in the financial year and had none outstanding from previous years.

Note 5 – The Council has made no loans to voluntary organisations at less than market rates (soft loans), nor has it received any such loans.

Note 6 – Debtors and Creditors are carried at cost as this is a fair approximation of their value. The breakdown of these figures are shown in Notes 15a, 15b and 19 respectively. (HMRC debtors and creditors are excluded from the figures in this note).

Unusual Movements

The long term investments held by the two cash managers Investec and Invesco were cashed in during the year and the money brought back in-house and re-invested in the money market funds.

The government redeemed £136m of the Council's PWLB loans on 28<sup>th</sup> March 2012 under the new HRA Self Financing regulations.

Reclassification

There were no reclassifications of financial instruments in the year.

Derecognition of instruments

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

Collateral

The council does not hold or has not obtained any collateral for third party debts or other credit enhancements in the financial year 2011/12 or 2010/11.

Allowance for Credit Losses

No allowance for credit losses under section 7.4.2.6 of the Code was made during the year.

Defaults and Breaches

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

**b) Financial Instruments Gains / (Losses)**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

<b>Financial Instruments Gains and Losses 2011/12</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>			<b>Total £000</b>
	<b>Amortised cost £000</b>	<b>Loans and Receivables £000</b>	<b>Available For Sale £000</b>	<b>Fair Value £000</b>	
Interest expense	17,683	-	-	-	17,683
<b>Total Expense in Surplus or Deficit on Provision of Services</b>	<b>17,683</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,683</b>
Interest income	-	(2,444)	-	-	(2,444)
<b>Total Income in Surplus or Deficit on Provision of Services</b>	<b>-</b>	<b>(2,444)</b>	<b>-</b>	<b>-</b>	<b>(2,444)</b>
<b>Surplus / Deficit arising on revaluation of financial assets in OCIE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (Gain) / Loss for the Year</b>	<b>17,683</b>	<b>(2,444)</b>	<b>-</b>	<b>-</b>	<b>15,239</b>

## Notes to the Core Financial Statements

Financial Instruments Gains and Losses 2010/11	Financial Liabilities	Financial Assets			Total £000
	Amortised cost £000	Loans and Receivables £000	Available For Sale £000	Fair Value £000	
Interest expense	18,946	-	-	-	18,946
<b>Total Expense in Surplus or Deficit on Provision of Services</b>	<b>18,946</b>	-	-	-	<b>18,946</b>
Interest income	-	(1,536)	-	-	(1,536)
<b>Total Income in Surplus or Deficit on Provision of Services</b>	-	<b>(1,536)</b>	-	-	<b>(1,536)</b>
Surplus / Deficit arising on revaluation of financial assets in OCIE	-	-	-	-	-
<b>Net (Gain) / Loss for the Year</b>	<b>18,946</b>	<b>(1,536)</b>	-	-	<b>17,410</b>

## c) Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The following table shows the carrying amount of assets and liabilities on the balance sheet compared to the fair value amounts (which are not disclosed on the balance sheet):

	31 March 2012		31 March 2011	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	89,097	98,483	227,135	259,193
Non-PWLB Debt	116,361	117,063	115,588	123,835
<b>Total Debt</b>	<b>205,458</b>	<b>215,546</b>	<b>342,723</b>	<b>383,028</b>
Long Term Creditors	-	-	-	-
<b>Total Liabilities</b>	<b>205,458</b>	<b>215,546</b>	<b>342,723</b>	<b>383,028</b>
Money Market Loans	233,318	233,912	204,241	204,305
Bonds	-	-	-	-
Long Term Debtors	13,161	13,161	13,179	13,179
<b>Total Assets</b>	<b>246,479</b>	<b>247,073</b>	<b>217,420</b>	<b>217,484</b>

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**Notes to the Core Financial Statements**


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For bond holding, the differences are attributable to fixed interest loans receivable being held by the authority whose interest rate is lower than the prevailing rate estimated to be available at 31 March. This depresses the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

### 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 be requiring 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 are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance through the Act.

Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving 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 or before the Council's annual Council Tax setting budget or 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, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 1<sup>st</sup> March 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £567 million. This is the maximum limit of external borrowings or other long term liabilities.

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**Notes to the Core Financial Statements**


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- The Operational Boundary was expected to be £527 million. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £467 million and £45 million based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are as follows:

	<b>Upper Limit</b>	<b>Lower Limit</b>
	<b>%</b>	<b>%</b>
Less than 1 year	<b>15</b>	<b>0</b>
Between 1 and 2 years	<b>15</b>	<b>0</b>
Between 2 and 5 years	<b>50</b>	<b>0</b>
Between 5 and 10 years	<b>50</b>	<b>0</b>
More than 10 years	<b>95</b>	<b>50</b>

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### **c) Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied.

This Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

The full Investment Strategy for 2011/12 was approved by Full Council on 1<sup>st</sup> March 2011 and is available on the Council's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks, building societies and Local Authorities of £233 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

### **d) Liquidity Risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

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**Notes to the Core Financial Statements**


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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. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums invested (£233 million) are either due to be paid in less than one year or can be easily realised.

**e) Refinancing and Maturity Risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

Fixed Interest Investments Only	Approved Limits		Actual	Actual
	Minimum £000	Maximum £000	31 March 2012 £000	31 March 2011 £000
Less than 1 year	-	30,391	5,000	-
Between 1 and 2 years	-	30,391	5,612	5,000
Between 2 and 5 years	-	101,304	5,302	24,662
Between 5 and 10 years	-	101,304	10,000	23,002
More than 10 years	101,304	192,477	176,694	285,541
<b>Total</b>			<b>202,608</b>	<b>338,205</b>

**f) Market Risk**
**i) Interest rate risk**

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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**Notes to the Core Financial Statements**


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Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be as follows:

	<b>Variation £000</b>
Increase in interest payable on variable rate borrowings	125
Increase in interest receivable on variable rate investments	(2,042)
Increase in Government Grant (HRA subsidy) receivable for financing costs	(75)
<b>Effect on Surplus or Deficit on the Provision of Services</b>	<b>(1,992)</b>
Share of overall impact on the HRA	(50)
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value of fixed rate borrowings liabilities	-

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair Value of Assets and Liabilities carried at Amortised Cost.

**ii) Price risk**

The Council, excluding the pension fund, does not invest in equity shares or marketable bonds.

**iii) Foreign exchange risk**

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

**14. STOCKS AND INVENTORIES**

	<b>31/03/2012 £000</b>	<b>31/03/2011 £000</b>
Fleet	135	111
Highways	38	118
Other	6	4
<b>Total Stocks</b>	<b>179</b>	<b>233</b>

## Notes to the Core Financial Statements

## 15. DEBTORS

## a) Long Term Debtors

These consist of sums repayable to the Council over a period of time of more than one year. Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council.

	31/03/2012 £000	31/03/2011 £000
Catford Regeneration Partnership Ltd	11,769	11,911
Mortgages	332	429
Land Charges Debts	507	498
Other Long Term Debtors	553	341
<b>Total Long Term Debtors</b>	<b>13,161</b>	<b>13,179</b>

## b) Current Debtors

These are short term debts consisting of amounts due from the Government, other local authorities and amounts for goods and services provided as at 31 March 2012:

	31/03/2012 £000	31/03/2011 £000
Government and Other Public Bodies:		
HM Revenue & Customs - VAT	6,653	6,146
Education Recoupment	1,209	1,993
Central Government bodies	1,760	4,981
Other Local Authorities	1,130	1,908
NHS bodies	1,555	623
Other Public bodies	1,955	226
Council Tax Payers	21,744	23,083
Council Tax Court Costs	4,986	5,239
Housing Benefit Overpayments	11,677	10,330
Housing Rents (inc PSL, B & B, Hostels, Commercial)	7,337	8,238
Leaseholders Services Charges	7,581	7,432
General Debtors due for Supplies and Services	22,710	18,046
<b>Total Current Debtors</b>	<b>90,297</b>	<b>88,245</b>
<b>Impairment Allowances</b>	<b>(47,998)</b>	<b>(49,717)</b>
<b>Total Net Current Debtors</b>	<b>42,299</b>	<b>38,528</b>

## Notes to the Core Financial Statements

## c) Impairment Allowances

	Balance at 31/03/2011 Restated £000	Movement in 2011/12 £000	Balance at 31/03/2012 £000
Council Tax Payers	(20,946)	1,235	(19,711)
Council Tax Court Costs	(4,768)	329	(4,439)
Housing Benefit Overpayments	(7,723)	(998)	(8,721)
Housing Rents (inc PSL, B & B, Hostels, Commercial)	(7,548)	892	(6,656)
Leaseholders Services Charges	(1,287)	(76)	(1,363)
General Debtors due for Supplies and Services	(7,445)	337	(7,108)
<b>Total Impairment Allowances</b>	<b>(49,717)</b>	<b>1,719</b>	<b>(47,998)</b>

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

## d) Debtors which are past due but not impaired

The Council generally requires trade debtors to be settled within 30 days. A table showing an age analysis of unpaid invoices issued through the accounts receivable system follows.

Accounts Receivable System	31/03/2012		31/03/2011	
	Amount £000	Percentage %	Amount £000	Percentage %
<b>Age of Debt</b>				
31 to 60 Days	574	8	827	14
61 to 90 Days	1,133	16	261	4
91 to 180 Days	1,022	14	551	9
181 to 365 Days	1,626	22	870	14
Over 1 Year	2,851	40	3,660	59
<b>Total</b>	<b>7,206</b>	<b>100</b>	<b>6,169</b>	<b>100</b>

## Notes to the Core Financial Statements

## 16. CASH AND CASH EQUIVALENTS

	Balance 31/03/2011 Restated £000	Movement in 2011/12 £000	Balance 31/03/2012 £000
<b>Cash Equivalents</b>			
Short Term Deposits	90,095	(90,095)	0
<b>Cash</b>			
Money Market Funds	30,987	139,574	170,561
Call Accounts with Banks	4,539	7,777	12,316
Cash with External Cash Managers	0	0	0
	<b>35,526</b>	<b>147,351</b>	<b>182,877</b>
<b>Other Cash and Bank Balances</b>			
Euro Bank Account	394	(385)	9
Other Cash Balances	347	42	389
	<b>741</b>	<b>(343)</b>	<b>398</b>
<b>Total Cash and Cash Equivalents</b>	<b>126,362</b>	<b>56,913</b>	<b>183,275</b>
<b>Bank Accounts Overdrawn</b>			
Schools Bank Accounts	(1,635)	(198)	(1,833)
Main Bank Accounts	3,538	(16,801)	(13,263)
	<b>1,903</b>	<b>(16,999)</b>	<b>(15,096)</b>
<b>Net Cash and Cash Equivalents</b>	<b>128,265</b>	<b>39,914</b>	<b>168,179</b>

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

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

c) The Schools Bank Accounts are an integral part of the Council's overall cash management arrangements, and are therefore included under Cash and Cash equivalents. They consist of individual accounts for each school, and a treasury account which is used to invest the balance in conjunction with the council's other balances. The balances on these accounts were £13.7m (10/11 £14.1m) and overdrawn £15.5m (10/11 overdrawn £15.8m) respectively.

## 17. ASSETS HELD FOR SALE

	2011/12 £000	2010/11 £000
<b>Balance outstanding at start of year</b>	0	5,153
Assets newly classified	825	0
Assets sold	0	(5,153)
<b>Balance outstanding at year end</b>	<b>825</b>	<b>0</b>

## Notes to the Core Financial Statements

## 18. PREPAYMENTS

	31/03/2012 £000	31/03/2011 £000
Directorate prepayments	1,800	2,277
PFI Prepayments	2,435	2,435
<b>Total Prepayments</b>	<b>4,235</b>	<b>4,712</b>

## 19. 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.

	31/03/2012 £000	31/03/2011 £000
Government and other public bodies:		
HM Revenue & Customs	5,776	6,204
Education Recoupment	4,014	4,233
Central Government bodies	6,178	5,577
Other Local Authorities	2,410	2,836
NHS bodies	4,117	1,838
Other Public bodies	1,346	214
	<b>23,841</b>	<b>20,902</b>
Short Term Compensated Absences	6,367	6,944
General Creditors (amounts owed for supplies and services)	46,606	56,659
<b>Total Creditors</b>	<b>76,814</b>	<b>84,505</b>

## 20. PROVISIONS

Provisions are amounts which are set aside to meet liabilities or losses that are likely or certain to arise from events which have taken place. It is not, however possible to determine precisely when any transfer of economic benefits will take place.

	Balance 31/03/11 £000	11/12 Transfers		Balance 31/03/12 £000
		In £000	Out £000	
<b>Current (less than 1 year)</b>				
Insurance Provision	1,200	400	0	1,600
Redundancy Costs	2,281	162	(2,281)	162
Other Provisions	0	1,710	0	1,710
	<b>3,481</b>	<b>2,272</b>	<b>(2,281)</b>	<b>3,472</b>
<b>Non Current (Over 1 year)</b>				
Insurance Provision	6,517	0	(240)	6,277
Other Provisions	3,166	275	0	3,441
	<b>9,683</b>	<b>275</b>	<b>(240)</b>	<b>9,718</b>
<b>Total - Provisions</b>	<b>13,164</b>	<b>2,547</b>	<b>(2,521)</b>	<b>13,190</b>

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**Notes to the Core Financial Statements**


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**a) Insurance Provisions**

The Council holds insurance provisions for property and employers & public liability claims, which fall below the policy excess of insurance placed with external insurers. The Council does not arrange 'All Risks' insurance for all of its properties, but insures its buildings and contents for limited perils such as fire, lightning, aircraft impact, explosion and riot & civil commotion, It does not insure against water or weather perils or theft. All Risks cover is obtained for more attractive property such as cash, computers and other specified property. A reserve is also held to cover insurable but uninsured losses and to fund risk management initiatives.

**b) Other Provisions**

This includes a provision to cover the liability for repayment of charges made under the Section 117 1983 Mental Health Act that have now been declared unlawful by the Court of Appeal.

**21. USABLE RESERVES****a) Usable Capital Receipts**

Capital receipts are mainly sums received from the sale of fixed assets. Housing capital receipts are split into two parts: a usable part, which may be used to finance new capital expenditure; and a poolable part, which is paid to central government. Non housing capital receipts are wholly usable to finance new capital expenditure. The balance on this account is available for the financing of future capital expenditure.

	31/03/2012 £000	31/03/2011 £000
<b>Balance brought forward at start of year</b>	<b>32,745</b>	<b>20,298</b>
Amounts receivable in year (inc HRA self financing grant)	192,591	25,054
Poolable to Central Government	(1,787)	(688)
Amounts applied in respect of HRA self financing debt repayment	(178,100)	0
Amounts applied to finance new capital investment in year	(21,122)	(11,919)
<b>Total increase/(decrease) in capital receipts in year</b>	<b>(8,418)</b>	<b>12,447</b>
<b>Balance carried forward at end of year</b>	<b>24,327</b>	<b>32,745</b>

**b) Capital Grants Unapplied**

These are capital grants which are available to finance new capital expenditure but have yet to be used.

	2011/12 £000	2010/11 £000
<b>Opening balance at start of year</b>	<b>4,583</b>	<b>3,463</b>
Movement in year	1,963	1,120
<b>Balance carried forward at end of year</b>	<b>6,546</b>	<b>4,583</b>

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**Notes to the Core Financial Statements**


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**22. UNUSABLE RESERVES****a) Deferred Capital Receipts**

This account holds the gains recognised on the disposal of non-current assets but for which 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 deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2011/12 £000	2010/11 £000
<b>Opening balance at start of year</b>	469	611
Movement in year	(132)	(142)
<b>Balance carried forward at end of year</b>	<b>337</b>	<b>469</b>

**b) Financial Instrument Adjustment Account**

The Financial Instruments Adjustment Account is used to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

	2011/12 £000	2010/11 £000
<b>Opening balance at start of year</b>	(10,060)	(13,100)
Premiums paid for early redemption of debt	0	1,138
Amortisation of premiums and discounts	1,503	1,902
<b>Balance carried forward at end of year</b>	<b>(8,557)</b>	<b>(10,060)</b>

**c) Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement 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 Authority 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 in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

## Notes to the Core Financial Statements

	2011/12 £000	2010/11 £000
<b>Opening balance at start of year</b>	<b>(362,027)</b>	<b>(669,254)</b>
Actuarial gains or losses on pensions assets and liabilities	(85,641)	191,221
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(36,396)	85,444
Employer's pensions contributions and direct payments to pensioners payable in the year	29,009	30,562
<b>Balance carried forward at end of year</b>	<b>(455,055)</b>	<b>(362,027)</b>

**d) Revaluation Reserve**

The Revaluation Reserve records the accumulated gains since 1 April 2007 on non current assets held by the Council arising from increases in value (to the extent that these gains have not been consumed by subsequent downward movements in value). The Reserve is also debited with the part of the depreciation that has been incurred because the asset has been revalued. On disposal of an asset, its Revaluation Reserve balance is written out to the Capital Adjustment Account.

The overall balance on the Reserve thus represents the amount by which the value of non current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

	2011/12 £000	2010/11 £000
<b>Balance brought forward at start of year</b>	<b>213,300</b>	<b>161,419</b>
Upwards revaluation of assets	18,518	78,829
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services	(14,629)	(17,124)
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>3,889</b>	<b>61,705</b>
Difference between fair value and historic cost depreciation	(3,664)	(2,117)
Accumulated gains on assets sold or scrapped	(98)	(7,707)
Other amounts written off to Capital Adjustment Account	(678)	0
<b>Amount written off to the Capital Adjustment Account</b>	<b>(4,440)</b>	<b>(9,824)</b>
<b>Balance carried forward at end of year</b>	<b>212,749</b>	<b>213,300</b>

## Notes to the Core Financial Statements

**e) Capital Adjustment Account**

This reflects the timing differences arising from the different arrangements for accounting 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 Comprehensive Income and Expenditure Statement (with reconciling entries from the Revaluation Reserve to convert fair value figures to a historical cost basis). It is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement, and also contains accumulated gains and losses on Investment Properties.

	2011/12 £000	2010/11 £000
<b>Balance at Beginning of Year</b>	<b>923,021</b>	<b>1,260,106</b>
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Charges for depreciation and impairment of non-current assets	(101,735)	(417,742)
Revaluation losses on Property, Plant and Equipment	0	0
Amortisation of intangible assets	0	0
Revenue expenditure funded from capital under statute	(11,874)	(3,942)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(7,277)	(15,640)
	<b>(120,886)</b>	<b>(437,324)</b>
Adjusting amounts written out of the Revaluation Reserve	4,342	11,987
<b>Net amount written out of the cost of non-current assets consumed in the year</b>	<b>(116,544)</b>	<b>(425,337)</b>
<u>Capital financing applied in the year:</u>		
Use of Capital Receipts to finance new capital expenditure	21,122	8,575
Use of Major Repairs Reserve to finance new capital expenditure	881	1,627
Capital grants and contributions credited to the CIES	42,681	64,218
Application of grants from the Capital Grants Unapplied Account	1,395	0
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,883	6,861
Repayment of principal on PFI schemes	5,093	5,377
Capital expenditure charged to General Fund and HRA	1,620	1,689
HRA Self Financing Debt Repayment	136,338	0
	<b>216,013</b>	<b>88,347</b>
<b>Movements in the value of Investment Properties debited or credited to the CIES</b>	<b>(466)</b>	<b>(95)</b>
<b>Balance at End of Year</b>	<b>1,022,024</b>	<b>923,021</b>

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**Notes to the Core Financial Statements**


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**f) Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages 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.

	2011/12 £000	2010/11 £000
<b>Opening balance at start of year</b>	22	25
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	1,291	(3)
<b>Balance carried forward at end of year</b>	<b>1,313</b>	<b>22</b>

**g) Short Term Compensated Absences Account**

This account shows the differences arising on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March each year. Statutory requirements are that the impact on Council Tax is reversed through the Account.

	2011/12 £000	2010/11 £000
<b>Opening balance at start of year</b>	<b>(6,944)</b>	<b>(7,764)</b>
Reversal of accrual made at the end of the preceding year	6,944	7,764
Amounts accrued at the end of the current year	<b>(6,367)</b>	(6,944)
Amount by which the accrued charge to the CIES is different from that charged in the year in accordance with statutory requirements	577	<b>820</b>
<b>Balance carried forward at end of year</b>	<b>(6,367)</b>	<b>(6,944)</b>

## Notes to the Core Financial Statements

## 23. SEGMENTAL REPORTING (AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS)

## SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2012

	CYP £000s	Community Services £000s	Customer Services £000s	Resources and Regeneration £000s	HRA £000s	Total £000s
Fees, charges & other service income	(13,444)	(37,441)	(47,453)	(20,911)	(81,147)	<b>(200,396)</b>
Government grants	(272,321)	(13,991)	(247,478)	(1,005)	(193,245)	<b>(728,040)</b>
<b>Total Income</b>	<b>(285,765)</b>	<b>(51,432)</b>	<b>(294,931)</b>	<b>(21,916)</b>	<b>(274,392)</b>	<b>(928,436)</b>
Employee expenses	207,959	37,784	37,563	31,342	2,153	<b>316,801</b>
Other operating expenses	126,868	131,061	290,848	38,466	270,645	<b>857,888</b>
<b>Total operating expenses</b>	<b>334,827</b>	<b>168,845</b>	<b>328,411</b>	<b>69,808</b>	<b>272,798</b>	<b>1,174,689</b>
<b>Net Cost of Services</b>	<b>49,062</b>	<b>117,413</b>	<b>33,480</b>	<b>47,892</b>	<b>(1,594)</b>	<b>246,253</b>
<b>Net Budgets</b>	<b>49,543</b>	<b>118,037</b>	<b>33,011</b>	<b>49,104</b>	<b>0</b>	<b>249,695</b>
<b>Variation</b>	<b>(481)</b>	<b>(624)</b>	<b>469</b>	<b>(1,212)</b>	<b>(1,594)</b>	<b>(3,442)</b>
<b>Less; HRA Variation</b>						<b>1,594</b>
<b>General Fund Underspend reported to Members</b>						<b>(1,848)</b>

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

	£000s
Cost of Services in Service Analysis	246,253
Add services not included in main analysis	12,130
Add amounts not reported to management (Technical Accounting adjustments)	79,974
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(29,445)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>308,912</b>

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(200,396)	0	0	0	(200,396)	0	(200,396)
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0
Interest and investment income	0	0	310	0	310	(3,215)	(2,905)
Income from council tax	0	0	0	0	0	(93,522)	(93,522)
Government grants and contributions	(728,040)	0	0	0	(728,040)	(414,551)	(1,142,591)
<b>Total Income</b>	<b>(928,436)</b>	<b>0</b>	<b>310</b>	<b>0</b>	<b>(928,126)</b>	<b>(511,288)</b>	<b>(1,439,414)</b>
Employee expenses	316,801	7,255	36,396	(29,009)	331,443	0	331,443
Other service expenses	857,888	4,875	26,301	0	889,064	0	889,064
Depreciation, amortisation and impairment	0	0	85,355	0	85,355	466	85,821
Interest Payments	0	0	(68,388)	0	(68,388)	86,070	17,682
Precepts & Levies	0	0	0	(436)	(436)	1,730	1,294
Payments to Housing Capital	0	0	0	0	0	1,787	1,787
Receipts Pool	0	0	0	0	0	0	0
Gain or Loss on Disposal of non-current assets	0	0	0	0	0	(6,835)	(6,835)
<b>Total operating expenses</b>	<b>1,174,689</b>	<b>12,130</b>	<b>79,664</b>	<b>(29,445)</b>	<b>1,237,038</b>	<b>83,218</b>	<b>1,320,256</b>
<b>Surplus or deficit on provision of services</b>	<b>246,253</b>	<b>12,130</b>	<b>79,974</b>	<b>(29,445)</b>	<b>308,912</b>	<b>(428,070)</b>	<b>(119,158)</b>

## Notes to the Core Financial Statements

## SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2011 - RESTATED

	CYP £000s	Community Services £000s	Customer Services £000s	Resources and Regeneration £000s	HRA £000s	Total £000s
Fees, charges & other service income	(13,234)	(41,801)	(47,037)	(21,886)	(81,185)	(205,143)
Government grants	(281,611)	(34,199)	(234,236)	(3,089)	(57,064)	(610,199)
<b>Total Income</b>	<b>(294,845)</b>	<b>(76,000)</b>	<b>(281,273)</b>	<b>(24,975)</b>	<b>(138,249)</b>	<b>(815,342)</b>
Employee expenses	216,322	44,001	40,616	38,513	0	339,452
Other operating expenses	132,708	128,068	279,759	35,718	137,904	714,157
<b>Total operating expenses</b>	<b>349,030</b>	<b>172,069</b>	<b>320,375</b>	<b>74,231</b>	<b>137,904</b>	<b>1,053,609</b>
<b>Net Cost of Services</b>	<b>54,185</b>	<b>96,069</b>	<b>39,102</b>	<b>49,256</b>	<b>(345)</b>	<b>238,267</b>
<b>Net Budgets</b>	<b>54,725</b>	<b>96,091</b>	<b>39,328</b>	<b>50,185</b>	<b>0</b>	<b>240,329</b>
<b>Variation</b>	<b>(540)</b>	<b>(22)</b>	<b>(226)</b>	<b>(929)</b>	<b>(345)</b>	<b>(2,062)</b>
<b>Less; HRA Variation</b>						<b>345</b>
<b>General Fund Underspend reported to Members</b>						<b>(1,717)</b>

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

	£000s
Cost of Services in Service Analysis	238,267
Add services not included in main analysis	19,409
Add amounts not reported to management (Technical Accounting adjustments)	304,972
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(31,002)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>531,646</b>

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(205,143)	0	0	0	(205,143)	0	(205,143)
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0
Interest and investment income	0	0	212	0	212	(2,491)	(2,279)
Income from council tax	0	0	3	0	3	(91,233)	(91,230)
Government grants and contributions	(610,199)	0	35,362	0	(574,837)	(290,824)	(865,661)
<b>Total Income</b>	<b>(815,342)</b>	<b>0</b>	<b>35,577</b>	<b>0</b>	<b>(779,765)</b>	<b>(384,548)</b>	<b>(1,164,313)</b>
Employee expenses	339,452	12,804	(86,265)	(30,562)	235,429	0	235,429
Other service expenses	714,157	6,605	13,552	0	734,314	0	734,314
Depreciation, amortisation and impairment	0	0	406,516	0	406,516	95	406,611
Interest Payments	0	0	(64,408)	0	(64,408)	63,530	(878)
Precepts & Levies	0	0	0	(440)	(440)	1,787	1,347
Payments to Housing Capital	0	0	0	0	0	689	689
Receipts Pool	0	0	0	0	0	689	689
Gain or Loss on Disposal of non-current assets	0	0	0	0	0	(6,053)	(6,053)
<b>Total operating expenses</b>	<b>1,053,609</b>	<b>19,409</b>	<b>269,395</b>	<b>(31,002)</b>	<b>1,311,411</b>	<b>60,048</b>	<b>1,371,459</b>
<b>Surplus or deficit on provision of services</b>	<b>238,267</b>	<b>19,409</b>	<b>304,972</b>	<b>(31,002)</b>	<b>531,646</b>	<b>(324,500)</b>	<b>207,146</b>

## Notes to the Core Financial Statements

**24. TRADING OPERATIONS**

The following services trade with the public or other third parties. The relevant line in the Comprehensive Income and Expenditure Statement is also shown for each category.

	2011/12			2010/11
	Expenditure £000	Income £000	(Surplus)/ Deficit £000	(Surplus)/ Deficit £000
<b>Planning and Development Services</b>				
Markets	1,191	(1,368)	(177)	0
Industrial Estates	138	(440)	(302)	(328)
<b>Cultural and Related Services</b>				
Theatre	1,134	(711)	423	681
<b>Total - Trading Operations</b>	<b>2,463</b>	<b>(2,519)</b>	<b>(56)</b>	<b>353</b>

Note - Under the Local Authorities Act 1990 (amended) Street Markets operate as a trading account and any surplus or deficit at the year end is carried over into the following year. As at 31 March 2012, the accumulated surplus is £320k.

**25. 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 2011/12 or 2010/11.

The Council did not operate any pooled budgets as defined by the terms of a Section 75 Agreement (National Health Service Act 2006) in 2011/12 or 2010/11.

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

Lewisham Homes is a wholly owned subsidiary of the Council and Councillors Bell, Nisbet and Paschoud sat on its board throughout the year. The Council paid a management fee of £18.9m to the company in 2011/12 (£20.4m in 2010/11).

**ii) Catford Regeneration Partnership Limited**

Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council and the Head of Business Management and Service Support and the Head of Public Services (replacing the Director of Property and Programme Management on 13<sup>th</sup> December 2011) are its directors. The Council advanced a loan of £12m to CRPL in 2009/10, and CRPL repaid principal of £61k and made interest payments of £0.83m during 2011/12 to the Council (In 2010/11, these payments were £57k and £0.84m respectively).

Both of these companies are included in the Council's Group Accounts, which are shown in Section 6 of the Statement of Accounts.

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**Notes to the Core Financial Statements**


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

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

Additionally the Council has a 10% stake in four Special Purpose Vehicles set up in relation to those schools which are being newly built under the Government's Private Finance Initiative within this BSF Programme, one for each phase of the programme, known as Lewisham SPV Limited, Lewisham SPV 2 Limited, Lewisham SPV3 Limited and Lewisham SPV4 Limited, and in their related Holding Companies, Lewisham Building Schools for the Future Holdings 1 Limited, 2, 3 and 4 Limited. The corporate structure is standard to the BSF scheme.

The Head of Business Management and Service Support is the Council's Director on the LEP, its SPV's and Hold Co's.

In 2011/12, the Council paid the LEP £10.0m (£6.0m in 2010/11), the SPV £8.7m (£8.2m in 2010/11), the SPV2 £3.2m (£0.9m in 2010/11) and the SPV3 £12k (zero in 2010/11). No payments were made to SPV4 in 2011/12 or 2010/11.

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

The Council has a small minority share of less than 1% in South-East London Combined Heat and Power Ltd (SELCHP) which is a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy services. Payments of £5.1m were made in 2011/12 to the company (£5.0m in 2010/11).

**iii) Greater London Enterprise Ltd**

The Council has a small minority share in Greater London Enterprise Ltd which is a company limited by guarantee and provides property management & consultancy services.

**27. MEMBERS' ALLOWANCES**

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

	2011/12 £000	2010/11 £000
Allowances (inc. Pensions and NI)	1,027	1,012
Training	13	20
IT and Telephone	35	57
Travel and Subsistence	21	30
Other Expenses	11	16
<b>Total Expenditure in Year</b>	<b>1,107</b>	<b>1,135</b>

## Notes to the Core Financial Statements

## 28. OFFICERS' REMUNERATION

## a) Employees whose Remuneration was £50,000 or more

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more is shown below, in bands of £5,000. These figures include a number of senior employees whose details are also disclosed separately in note c) below.

Remuneration Band	2011/12			2010/11		
	Non-School Employees	School Employees	Total Employees	Non-School Employees	School Employees	Total Employees
£50,000 to £54,999	71	202	273	77	174	251
£55,000 to £59,999	25	82	107	41	67	108
£60,000 to £64,999	13	28	41	18	38	56
£65,000 to £69,999	15	38	53	15	34	49
£70,000 to £74,999	9	23	32	4	27	31
£75,000 to £79,999	4	19	23	3	11	14
£80,000 to £84,999	1	4	5	1	7	8
£85,000 to £89,999	2	6	8	2	8	10
£90,000 to £94,999	6	4	10	9	3	12
£95,000 to £99,999	4	2	6	2	1	3
£100,000 to £104,999	4	3	7	4	1	5
£105,000 to £109,999	1	2	3	2	2	4
£110,000 to £114,999	1	0	1	0	1	1
£130,000 to £134,999	1	0	1	0	0	0
£135,000 to £139,999	0	0	0	1	0	1
£140,000 to £144,999	3	0	3	3	0	3
£190,000 to £194,999	0	0	0	1	0	1
£230,000 to £234,999	0	0	0	0	0	0
<b>Total</b>	<b>160</b>	<b>413</b>	<b>573</b>	<b>183</b>	<b>374</b>	<b>557</b>

Note - Where salary bands are not quoted, there are no employees in those bands for either year.

## b) Exit Packages agreed and paid in year

Cost Band (inc Pension Fund Contributions)	Number of Compulsory Redundancies		Number of Other Departures		Total Number of Exit Packages		Total Cost of Exit Packages	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11 £000	2011/12 £000
£0 - £20,000	144	237	0	0	144	237	1,125	1,973
£20,001 to £40,000	50	109	0	1	50	110	1,423	3,198
£40,001 to £60,000	27	36	0	1	27	37	1,340	1,802
£60,001 to £80,000	8	17	1	0	9	17	633	1,179
£80,001 to £100,000	3	6	0	0	3	6	244	531
£100,001 to £150,000	1	6	0	1	1	7	123	785
£150,001 to £200,000	0	1	0	0	0	1	0	171
<b>Total</b>	<b>233</b>	<b>412</b>	<b>1</b>	<b>3</b>	<b>234</b>	<b>415</b>	<b>4,888</b>	<b>9,639</b>

## Notes to the Core Financial Statements

## c) Disclosure of Senior Employees' Remuneration for financial year 2011/12

Post Holder Information	Salary (inc fees and allowances)	Employer's Pension Contributions	Total including Pension Contributions
	£	£	£
<b>Senior Employees - Salary below £150,000</b>			
Executive Director for Children and Young People	141,123	28,930	170,053
Executive Director for Resources and Regeneration	141,123	28,930	170,053
Executive Director for Community Services	141,123	28,930	170,053
Chief Executive (Part time wef 1 July 2011)	134,671	9,860	144,531
Director of Regeneration and Asset Management (ex Director of Programme Management and Property)	111,668	22,892	134,560
Executive Director for Customer Services (see note)	109,843	22,638	132,481
Director of Children's Social Care	102,678	21,049	123,727
Head of Law and Monitoring Officer (Part time wef 1 June 2011)	71,692	14,697	86,389
<b>Totals</b>	<b>953,921</b>	<b>177,926</b>	<b>1,131,847</b>

Note - This includes the postholders remuneration as Head of Strategy to 30 October 2011 and as Executive Director of Customer Services from 31 October 2011.

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made in 2011/12 to these employees.

## c) Disclosure of Senior Employees' Remuneration for financial year 2010/11

Post Holder Information	Salary (inc fees and allowances)	Employer's Pension Contributions	Total including Pension Contributions
	£	£	£
<b>Senior Employees - Salary over £150,000</b>			
Chief Executive - B Quirk	192,387	38,477	230,864
<b>Senior Employees - Salary below £150,000</b>			
Executive Director for Customer Services	141,123	28,225	169,348
Executive Director for Children and Young People	141,123	28,225	169,348
Executive Director for Resources (and Regeneration)	141,123	28,225	169,348
Executive Director for Community Services	138,495	27,699	166,194
Director of Programme Management and Property	109,538	21,908	131,446
Head of Law and Monitoring Officer	107,538	21,508	129,046
Director of Children's Social Care (part year)	94,237	18,847	113,084
<b>Totals</b>	<b>1,065,564</b>	<b>213,114</b>	<b>1,278,678</b>

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made in 2010/11 to these employees.

## Notes to the Core Financial Statements

## 29. EXTERNAL AUDIT COSTS

	2011/12 £000	2010/11 £000
<b>Payments to the Audit Commission</b>		
Fees payable with regard to external audit services	391	429
Fees payable in respect of statutory inspection	0	0
Fees payable for the certification of grant claims and returns	130	131
Fees payable in respect of other services provided by the appointed auditor	0	0
<b>Total - External Auditor Fees</b>	<b>521</b>	<b>560</b>

These fees exclude a £32,200 fee payable for the audit of the Pension Fund (£35,000 in 2010/11).

## 30. DEDICATED SCHOOLS' GRANT

The Council's expenditure on schools is funded primarily by the Dedicated Schools' Grant (DSG), which are grant monies provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. 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.

The details of the deployment of DSG receivable for 2011/12 and 2010/11 are as follows:

	2011/12			2010/11		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	2011/12 Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	2010/11 Total £000
Final DSG for Year	38,182	194,866	233,048	30,161	163,628	193,789
Brought forward from previous year	0	0	0	390	0	390
Carry forward to next year agreed in advance	0	0	0	0	0	0
<b>Agreed budgeted distribution in Year</b>	<b>38,182</b>	<b>194,866</b>	<b>233,048</b>	<b>30,551</b>	<b>163,628</b>	<b>194,179</b>
Actual Central Expenditure	37,681	0	37,681	30,551	0	30,551
Actual ISB deployed to schools	0	194,866	194,866	0	163,628	163,628
Local authority contribution for Year	0	0	0	0	0	0
<b>Use of DSG in Year</b>	<b>37,681</b>	<b>194,866</b>	<b>232,547</b>	<b>30,551</b>	<b>163,628</b>	<b>194,179</b>
<b>Carried forward to next year</b>	<b>501</b>	<b>0</b>	<b>501</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Notes to the Core Financial Statements

**31. GRANT AND TAXATION INCOME**

The Council credited the following taxation and general grants to the Comprehensive Income and Expenditure Statement in 2011/12;

	2011/12 £000	2010/11 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Income from Council Tax	(93,522)	(91,234)
Recognised Capital Grants and Contributions	(224,140)	(75,238)
National Non-Domestic Rates redistribution	(142,512)	(157,367)
<u>General Government Grants</u>		
Formula Revenue Grant	(44,051)	(22,851)
Area Based Grant	0	(33,728)
Other Grants (non-service specific)	(3,848)	(1,637)
	<b>(47,899)</b>	<b>(58,216)</b>
<b>Total</b>	<b>(508,073)</b>	<b>(382,055)</b>
<b>Credited to Services</b>		
Dedicated Schools Grant	(223,852)	(194,179)
Housing and Council Tax Benefit	(242,645)	(228,984)
Early Intervention Grant	(17,772)	0
Sure Start Grants	0	(14,290)
Schools Standard Grant and Schools Standard Fund	0	(31,896)
Other Grants	(65,724)	(65,130)
<b>Total</b>	<b>(549,993)</b>	<b>(534,479)</b>

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that have not yet been satisfied. The balances at the year-end are as follows:

	2011/12 £000	2010/11 £000
Capital Grants	(744)	(1,117)
Revenue Grants	(3,866)	(2,091)
<b>Total</b>	<b>(4,610)</b>	<b>(3,208)</b>

**32. RECEIPTS IN ADVANCE**

	31/03/2012 £000	31/03/2011 £000
<b>Revenue Receipts in Advance</b>		
Capital Contributions Unapplied	37,910	35,169
Council Tax	5,311	5,293
PFI Schemes	16,441	16,512
Other Receipts in Advance	8,103	7,930
<b>Total Receipts in Advance</b>	<b>67,765</b>	<b>64,904</b>

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**Notes to the Core Financial Statements**


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**33. RELATED PARTY TRANSACTIONS**

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

(a) Central Government and Other Local Authorities

The UK government exerts significant influence on the Council through legislation and grant funding. The general government grants received are shown in Note 31 to the Core Financial Statements. The precept to the Greater London Authority is shown in the notes of the Collection Fund in Section 4b of the Accounts. There were numerous other transactions between the Council and other Local Authorities.

(b) Subsidiaries, Associated Companies and Joint Ventures

The companies that are related to the Council are detailed in Note 26 to the Core Financial Statements.

(c) Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The total cost of members (including allowances) is shown in Note 27. This note has been compiled by using the Council's Register of Members and Chief Officers' Declarations of Interests. This is open to public inspection at the Civic Suite at Lewisham Town Hall.

Declarable related party transactions where the Council has paid amounts of over £2,000 in 2011/12 to an organisation are shown as below (amount paid in brackets):

- The Mayor, Sir Steve Bullock, is a member of the Friends of the Horniman Museum (£23k).
- Councillor Adefiranye is a committee member of the Marsha Phoenix Memorial Trust (£0.25m).
- Councillor Affiku is employed by Lewisham Healthcare with whom Lewisham operates joint commissioning arrangements for health and social care (approximately £200m).
- Councillor Bell is a member of Bold Vision (£16k).
- Councillor Best is a member of Voluntary Action Lewisham (£0.3m), the Friends of the Horniman Museum (£23k), Sydenham Gardens (£7k), the Sydenham Society (£2.5k) and the London Wildlife Trust (£2k).
- Councillor Bonavia is a member and trustee of Age Exchange Theatre Trust (£96k) and was a member of Lewisham & Southwark Age Concern for part of the year (£42k).
- Councillor Clarke is a member of the Grove Park Community Group (£43k).
- Councillor Liam Curran is a member of Lewisham Plus Credit Union (£53k).
- Councillor Janet Daby is employed by Hillcrest Care Ltd (£47k).
- Councillor Egan is a member of Lewisham Park Housing Association (£0.59m) and Hither Green Community Association (£3k).
- Councillor Feakes is a member of Forest Hill and Sydenham Voluntary Service Association (£0.1m) and Sydenham Arts Festival (£5k).
- Councillor Fletcher is a board member of Phoenix Community Homes (£0.64m) and on the Council of Management of the Lewisham Youth Theatre (£68k).
- Councillor Hall is a board member of the Phoenix Community Homes (£0.64m).
- Councillor Johnson is a committee member of the Marsha Phoenix Memorial Trust (£0.25m).
- Councillor Klier is a member and trustee of Age Exchange Theatre Trust (£96k).
- Councillor Long is Chair (remunerated) of the South London and Maudsley NHS Trust (£2.4m), and a member of the Millwall Community Scheme (£0.16m).
- Councillor Mallory is a member of Deptford Challenge Trust (£0.25m).
- Councillor Millbank is a member of Voluntary Action Lewisham (£0.3m), the Ackroyd Community Association (£0.16m), the Oak Hill Community Nursery (£63k) and Cambridge House (£23k).
- Councillor Morrison is employed by the North Downham Training Project (£0.24m) and is on the Management Committee of the Ackroyd Community Centre (£0.16m).
- Councillor Muldoon is a board member of the South London and Maudsley NHS Trust (£2.4m) and a member of the Noah's Ark Children's Venture (£64k).
- Councillor Nisbet is a member of Lewisham & Southwark Age Concern (£42k) and is a member of Sydenham Gardens (£67k).
- Councillor Onuegbu is a member of the South London and Maudsley NHS Trust (£2.4m).

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**Notes to the Core Financial Statements**


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- Councillor Jacqueline Paschoud is a member of Contact a Family – Lewisham (£0.1m).
- Councillor Paschoud is a member of the Ravensbourne Project (£0.24m), the Lewisham Disability Coalition (£0.16m) and Contact a Family – Lewisham (£0.1m).
- Councillor Peake is a member of the Friends of the Horniman Museum (£23k), the Forest Hill Society (£2.4k) and the Sydenham Society (£2.5k).
- Councillor Smith is a member of South East Enterprise (£98k) and Groundwork Trust, London South (£51k).
- Councillor Till is employed by Dinardo Ltd (£0.45m), a member of the Marsha Phoenix Memorial Trust (£0.25m), the North Downham Training Project (£0.24m), the Ackroyd Community Association (£0.16m), the Noah's Ark Children's Venture (£64k), the Parents Support Group (£28k), the London Youth Games (£11k) and the Rockbourne Youth Management Committee (£10k).
- Councillor Wise is a member of Sydenham Gardens (£67k).
- Up to October 2011, the Interim Executive Director for Regeneration was the Director of Interea Consulting, to whom Lewisham paid £0.13m in 2011/12 (£0.24m in 2010/11) for his services.

**(d) Lewisham Pension Fund**

- The Council's contribution to the Pension Fund in 2011/12 on behalf of its employees was £24.7m (£25.0m in 2010/11).
- The Council's cost of administering the Pension Fund of £0.55m (£0.47m in 2010/11) was charged to the fund in 2011/12.
- As at the 31 March 2012 the Pension Fund owed the Council £1.4m (as at 31 March 2011 the Pension Fund had £0.04m of cash balances invested with the Council).

**34. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

The total amount of capital expenditure incurred in the year is shown in the table below (excluding the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR movement is further analysed in the second part of this note.

	<b>2011/12</b> <b>£000</b>	<b>2010/11</b> <b>£000</b>
<b>Opening Capital Financing Requirement</b>	<b>372,648</b>	<b>404,066</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	73,781	51,362
Investment Properties	0	308
Revenue Expenditure Funded from Capital under Statute	11,874	3,942
	<b>85,655</b>	<b>55,612</b>
<b>Sources of Finance</b>		
Capital Receipts	(21,122)	(11,919)
Government Grants and other contributions	(44,958)	(25,447)
Sums set aside from Revenue:	(1,620)	(1,689)
Minimum Revenue Provision	(6,883)	(6,439)
Other: HRA Self Financing / Transfer of Housing Stock	(136,338)	(41,536)
	<b>(210,921)</b>	<b>(87,030)</b>
<b>Movement in Capital Financing Requirement in Year</b>	<b>(125,266)</b>	<b>(31,418)</b>
<b>Closing Capital Financing Requirement</b>	<b>247,382</b>	<b>372,648</b>

## Notes to the Core Financial Statements

Explanation of CFR movements in year	2010/11 £000	2010/11 £000
Increase in the underlying need to borrowing (supported by government financial assistance)	15,350	13,912
Increase in the underlying need to borrowing (unsupported by government financial assistance)	2,605	2,645
Debt Redeemed - MRP / HRA Self Financing / Housing Stock Transfer	(143,221)	(47,975)
<b>Increase/ (decrease) in Capital Financing Requirement</b>	<b>(125,266)</b>	<b>(31,418)</b>

**35. 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.

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.

**a) Council as a Lessee**i) Finance Leases

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

ii) Operating Leases

The Authority has operating leases in the following areas:

Council Dwellings (life of 25 years),  
School Plant and Equipment (life ranging from 1 - 7 years),  
Council Plant and Equipment (contract expires in 2011-12)  
Refuse Vehicles.

The future minimum lease payments due under non-cancellable leases in futures are:

	31/03/12 £000	31/03/11 Restated £000
Not later than one year	2,783	2,934
Later than one year and not later than five years	5,478	7,755
Later than five years	17,026	29,000
	<b>25,287</b>	<b>39,689</b>

The expenditure charged to services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

## Notes to the Core Financial Statements

	31/03/12 £000	31/03/11 Restated £000
Minimum lease payments	3,012	3,001
	<b>3,012</b>	<b>3,001</b>

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

The Council has leased out a small number of commercial properties. The Council has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31/03/12 £000	31/03/11 £000
<b>Finance lease debtor (net present value of minimum lease payments)</b>		
Current	175	213
Unearned finance income	-	-
<b>Gross investment in the lease</b>	<b>175</b>	<b>213</b>

The gross investment and the minimum lease payments will be received over the following periods;

	Gross Investment in the Lease		Minimum Lease Payment	
	31/03/12 £000	31/03/11 £000	31/03/12 £000	31/03/11 £000
Not later than one year	87	112	87	112
Later than one year and not later than five years	141	202	141	202
Later than five years	236	178	236	178
	<b>464</b>	<b>492</b>	<b>464</b>	<b>492</b>

ii) Operating Leases

The Authority leases out Commercial property for Investment purposes.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/12 £000	31/03/11 Restated £000
Not later than one year	2,086	2,300
Later than one year and not later than five years	7,155	7,914
Later than five years	28,094	29,815
	<b>37,335</b>	<b>40,029</b>

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**Notes to the Core Financial Statements**

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**36. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS****a) Description of PFI Contracts****i) Downham Lifestyles Centre PFI**

A PFI agreement was signed in September 2005 for the provision of the Downham Lifestyles Centre for a period of 32 years. The centre provides health and leisure facilities and opened in March 2007. Unitary charge payments were £2.0m in 2011/12 (£1.9m in 2010/11). It is expected that the lifetime unitary charge payments will be £76m.

**ii) Brockley Area Housing PFI**

An HRA PFI agreement was signed in June 2007 for the provision of the housing management services, repairs and maintenance and Decent Homes Standard refurbishment work to 1,845 leasehold and tenanted properties in the Brockley area. Under this contract the Council made unitary charge payments of £13.5m in 2011/12 (£13m in 2010/11). The contract is for a 20 year period and over its lifetime the project is expected to cost £287m.

**iii) Grouped Schools PFI**

A PFI contract was signed in August 2006 for the rebuild and running of three schools for 30 years at a total estimated cost of £226m. The operational start dates were September 2007 for Greenvale Special School, January 2008 for Forest Hill Secondary School and January 2008 (phase 1) and September 2008 (phase 2) for Prendergast Ladywell Fields College (formerly Crofton Secondary School). The unitary charge for 2011/12 was £6.9m (£6.8m in 2010/11).

**iv) BSF 1 – Conisborough (formerly Catford High) and Sedgehill Schools**

A PFI contract was signed in December 2007 for the rebuild and running of two secondary schools, Sedgehill and Conisborough (formerly Catford High). The operational start dates were January 2009 for Sedgehill School and April 2009 for Conisborough School. The unitary charge for 2011/12 was £8.2m (£8m in 2010/11). The estimated cost over the 26 year operational life of the contract is £241m.

**v) BSF 2 - Trinity (formerly Northbrook) School**

A PFI contract was signed in 2009/10 for the construction of Trinity School and the school became operational in January 2011. The unitary charge for 2011/12 was £2.8m (£0.7m in 2010/11). The estimated cost over 27 years is estimated to be £86m.

**vi) Street Lighting**

The council together with Croydon Council entered into a joint Street Lighting PFI contract with Skanska in August 2011 for a period of 25 years. The contract provides for the replacement of street lighting columns over the first five years and maintenance over the term of the contract. The part year contract charge for 2011/12 was £4.3m which was split between the Councils with Lewisham paying 36% and Croydon 64%. The estimated cost of the contract for the council is £95m.

**vii) BSF 3 – Deptford Green School**

A PFI contract was signed in 2010/11 for the rebuild and running of Deptford Green Secondary School. The school is due to be operational in September 2012. The projected unitary payment of £4m per annum will begin on 1 September 2012 (part of the payment will be indexed by RPIx). The contract will run for 25 years at an estimated cost of £120m

**viii) BSF 4 - Bonus Pastor and Prendergast the Vale Schools and Drumbeat Special Needs School**

A PFI contract was signed in 2010/11 for the rebuild and running of two secondary schools, Bonus Pastor and Prendergast the Vale (due to be operational in September 2012) and a new special needs school, Drumbeat (due to be operational in April 2013). The projected unitary payment will be £7.5m per annum. Three quarters of this charge will begin in September 2012 and upon completion of Drumbeat the full amount will be paid (part of the payment will be indexed by RPIx). The contract will run for 25.5 years at a total estimated cost of £226m.

## Notes to the Core Financial Statements

**b) Movement in PFI Assets in year**

The assets which are used to provide the services under these PFI contracts are recognised in the Council's Balance Sheet. The movements in value over the year are detailed in the following table.

	2011/12		2010/11	
	£000	£000	£000	£000
<b>Gross Book Value B/fwd</b>		<b>215,999</b>		<b>228,566</b>
<b>Additions</b>		<b>3,295</b>		31,715
Revaluations (recognised in Revaluation Reserve)	0		2,507	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	19		511	
<b>Total Revaluations</b>		<b>19</b>		3,018
Impairments (recognised in Revaluation Reserve)	0		(2,125)	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0		(45,112)	
<b>Total Impairments</b>		<b>0</b>		(47,237)
<b>Disposals</b>		<b>0</b>		(63)
<b>Gross Book Value at End of the Year</b>		<b>219,313</b>		<b>215,999</b>
<b>Depreciation Balance B/fwd</b>		<b>(4,039)</b>		<b>(482)</b>
Depreciation for year		<b>(4,489)</b>		(4,041)
<u>Depreciation written back on:</u>				
Assets Impaired		0		482
Assets sold		0		2
<b>Depreciation Balance c/fwd to following year</b>		<b>(8,528)</b>		<b>(4,039)</b>
<b>Net Book Value at End of the Year</b>		<b>210,785</b>		<b>211,960</b>

**c) Payments due under PFI contracts**

The Council makes an agreed fixed payment each year which is linked to inflation and can be reduced if the contractor fails to meet availability and performance standards. The following table shows the estimated cash payments due to be paid (as part of a unitary charge) for each PFI. The price base is in nominal terms assuming a 2.5% 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. The table includes estimated amounts for Deptford Green and Bonus Pastor Schools, both of which are due to be completed in September 2012.

Note: Amounts shown for Brockley HRA PFI relate only to the unitary charge for Tenanted properties.

## Notes to the Core Financial Statements

	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF Catford & Sedgehill	BSF Trinity	Deptford Green School	Bonus Pastor School	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Payments due In 2012/13</b>									
Service charges	5,450	202	2,306	2,165	674	441	512	1,450	13,200
Interest	5,826	1,516	3,725	4,784	1,923	1,670	3,384	260	23,088
Repayment of liability	2,699	113	736	1,224	273	309	1,223	786	7,363
Planned lifecycle costs	41	200	263	132	0	0	0	0	636
	<b>14,016</b>	<b>2,031</b>	<b>7,030</b>	<b>8,305</b>	<b>2,870</b>	<b>2,420</b>	<b>5,119</b>	<b>2,496</b>	<b>44,287</b>
<b>within 2 to 5 years</b>									
Service charges	25,145	861	9,880	9,326	2,870	3,263	5,596	5,232	62,173
Interest	20,731	6,174	14,131	18,105	7,444	11,289	23,457	4,704	106,035
Repayment of liability	11,908	619	2,999	5,374	1,209	2,174	2,338	3,051	29,672
Planned lifecycle costs	619	852	1,985	1,360	206	16	0	0	5,038
	<b>58,403</b>	<b>8,506</b>	<b>28,995</b>	<b>34,165</b>	<b>11,729</b>	<b>16,742</b>	<b>31,391</b>	<b>12,987</b>	<b>202,918</b>
<b>within 6 to 10 years</b>									
Service charges	42,625	1,204	14,004	13,313	3,964	4,908	8,912	5,415	94,345
Interest	18,798	7,831	15,677	19,435	8,531	13,133	27,907	8,208	119,520
Repayment of liability	14,665	713	4,051	7,111	1,886	3,467	3,121	5,260	40,274
Planned lifecycle costs	2,631	1,260	4,650	5,165	895	461	1,111	0	16,173
	<b>78,719</b>	<b>11,008</b>	<b>38,382</b>	<b>45,024</b>	<b>15,276</b>	<b>21,969</b>	<b>41,051</b>	<b>18,883</b>	<b>270,312</b>
<b>within 11 to 15 years</b>									
Service charges	49,033	1,362	16,106	15,430	4,477	6,221	10,571	7,286	110,486
Interest	10,663	8,015	13,232	15,485	7,389	11,395	25,725	6,314	98,218
Repayment of liability	23,112	1,299	5,926	9,990	2,639	4,529	5,418	6,148	59,061
Planned lifecycle costs	3,040	1,440	5,788	7,011	1,539	1,123	1,594	0	21,535
	<b>85,848</b>	<b>12,116</b>	<b>41,052</b>	<b>47,916</b>	<b>16,044</b>	<b>23,268</b>	<b>43,308</b>	<b>19,748</b>	<b>289,300</b>
<b>within 16 to 20 years</b>									
Service charges	627	1,541	18,532	17,888	5,066	7,963	13,586	9,804	75,007
Interest	209	7,693	10,426	10,385	5,729	8,710	20,924	3,761	67,837
Repayment of liability	647	2,082	11,010	16,363	4,349	5,983	8,138	7,087	55,659
Planned lifecycle costs	1	1,645	4,103	6,549	1,769	2,083	3,216	0	19,366
	<b>1,484</b>	<b>12,961</b>	<b>44,071</b>	<b>51,185</b>	<b>16,913</b>	<b>24,739</b>	<b>45,864</b>	<b>20,652</b>	<b>217,869</b>
<b>within 21 to 25 years</b>									
Service charges	0	1,743	17,362	12,083	5,731	9,415	16,232	11,299	73,865
Interest	0	6,882	4,238	1,662	2,972	5,197	13,044	504	34,499
Repayment of liability	0	3,563	14,095	12,263	7,249	9,160	15,231	6,883	68,444
Planned lifecycle costs	0	1,862	3,205	3,714	1,943	2,631	4,249	0	17,604
	<b>0</b>	<b>14,050</b>	<b>38,900</b>	<b>29,722</b>	<b>17,895</b>	<b>26,403</b>	<b>48,756</b>	<b>18,686</b>	<b>194,412</b>
<b>within 26 to 30 years</b>									
Service charges	0	760	0	0	514	895	3,681	0	5,850
Interest	0	2,310	0	0	40	304	1,074	0	3,728
Repayment of liability	0	2,155	0	0	751	1,270	4,308	0	8,484
Planned lifecycle costs	0	811	0	0	253	280	1,068	0	2,412
	<b>0</b>	<b>6,036</b>	<b>0</b>	<b>0</b>	<b>1,558</b>	<b>2,749</b>	<b>10,131</b>	<b>0</b>	<b>20,474</b>
<b>Total Payments Due</b>	<b>238,470</b>	<b>66,708</b>	<b>198,430</b>	<b>216,317</b>	<b>82,285</b>	<b>118,290</b>	<b>225,620</b>	<b>93,452</b>	<b>1,239,572</b>

## d) PFI Liabilities

The unitary payments made to the contractors have been calculated to compensate them for the fair value of the services they provide, the capital expenditure they have incurred and interest they have paid whilst the capital expenditure remains to be reimbursed.

The Council's outstanding liability to pay to the contractors for capital expenditure incurred is shown in the following table. The estimated amounts for Deptford Green and Bonus Pastor Schools are not included since these assets have not yet been brought on to the balance sheet. This will be done following completion of the schemes.

## Notes to the Core Financial Statements

	Liabilities Due within 1 Year		Deferred Liabilities	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
<b>Balance outstanding at start of year</b>	<b>4,900</b>	<b>6,968</b>	<b>173,073</b>	<b>146,189</b>
Movement in Year	931	(2,068)	(2,729)	26,884
<b>Balance outstanding at end of year</b>	<b>5,831</b>	<b>4,900</b>	<b>170,344</b>	<b>173,073</b>

**37. LONG TERM CONTRACTS****a) Leisure Centre Management**

At the start of 2011/12 the Council had a Public Private Partnership (PPP) investment contract for the management of three of its five leisure facilities (Bridge Leisure Centre, Ladywell Arena and the Wavelengths Leisure Centre) with Parkwood. The arrangement included investment, totalling £2.7m over the life of the contract, to upgrade and maintain the facilities. The contract commenced in October 2001 and ran until October 2011. However, due to the extension of the Wavelengths Leisure Centre and Library in August 2008 to include a new 25m pool and changing areas, a variation was agreed to manage the extended facility. The total payment under the revised contract in 2011/12 was £0.62m (£1.44m in 2010/11).

The two remaining centres were run under management only contracts which were due to expire on the 14 October 2006. The Forest Hill Pools contract was allowed to expire on its due date but was still managed under an extension contract until 2009 to enable the site to be maintained and secured. The Ladywell Leisure Centre contract was due to expire in April 2010 but a further Variation was secured to allow the contract to be extended until October 2011 to bring it in line with the existing Parkwood Contract. The total payment for these contracts in 2011/12 was £0.25m (£0.5m in 2010/11).

From October 2012 the Council entered into a new, 15 year contract with Fusion Lifestyles for the operation of all of the current leisure centres plus Bellingham Leisure & Lifestyle Centre. The contract will also cover both the new Forest Hill centre when it opens and the new centre in Loampit Vale, Lewisham which will replace the current Ladywell site. The total payment on this contract in 2011/12 was £0.84m.

**b) Parks and Open Spaces**

The Council entered into a 10 year Green Space Contract with Glendale Grounds Management on 1<sup>st</sup> March 2010. The contract has a 5 year break clause. Contract payments of £3.3m were made in 2011/12 (£3.4m in 2010/11). The contract covers parks and open spaces, highways enclosure and housing grounds maintenance on Lewisham homes sites. There is no investment element to this contract

**c) Networks and Telecommunications and Primary ICT Services**

Lewisham and Bromley Councils jointly procured services from Capita for a period of up to 9 years. The contracts began on 1 April 2011 and run for 5 years, with options to extend for up to 4 more years. For Lewisham Council the cost is £2.3m per annum, which is fixed for the first 3 years of the contract.

**d) Schools' ICT Framework**

As part of the Building Schools for the Future programme, an ICT Framework agreement was signed in December 2007 for the provision of interim and full ICT managed service provision for secondary schools in the Borough over a period of 10 years. The revenue costs of the ICT managed service are being met by the individual schools. The capital investment in ICT equipment for 2011/12 was £0.17m (£0.61m in 2010/11), with the total estimated capital expenditure over the life of the contract to be £20m.

**e) Internal Audit Contract**

In September 2011 the Council entered into a 3 year contract with RSM Tenon for the provision of internal audit services. This contract has a total value of £1.1m.

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**Notes to the Core Financial Statements**

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**f) IT Licenses and Support Contract**

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

**g) Parking Contract**

In August 2006 the Council entered into a 7 year contract with NSL for the provision of parking management services. Contract payments of £1.8m were made in 2011/12 (£1.7m in 2010/11).

**h) Highway Maintenance Contract**

In April 2009 the Council entered into a 3 year contract with FM Conway for the provision of highway maintenance. This was extended for a further year to April 2013. Contract payments of £2.1m were made in 2011/12 (£2.0m in 2010/11).

**38. TERMINATION BENEFITS**

The government's strategy to reduce the national deficit over the lifetime of this Parliament affects the council's future funding plans, but has also had a direct effect on the 2011/12 accounts. A sum of £9.6m for termination of employment costs, affecting 415 employees, has been charged in 2011/12 as the council has implemented savings and staff reductions in response to the new funding climate. This sum includes payments of £1.5m to the Pension Fund in respect of employees who have been granted early access to their pensions. The costs of termination benefits in 2010/11 was £7.3m.

**39. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES**

Teachers employed by the Council are members of the Teachers Pension Scheme, which is administered by Capita on behalf of the Department for Education (DfE). The scheme provides benefits for teachers upon their retirement with the Council making contributions to the scheme based on a percentage of members pensionable pay. The scheme is unfunded and the DfE use a notional fund to set a national employers contribution rate which is paid by all employers.

The Teachers Pensions Scheme is technically a defined benefit scheme. However, the assets and liabilities of the Teachers' scheme cannot reliably be identified at individual employer level and therefore for the purposes of this Statement of Accounts it is accounted for on the same basis as a defined contribution scheme. In 2011/12 the Council paid £12.0m to the DfE in respect of teachers' pension costs (£12.2m in 2010/11). This represented 14.1% of pensionable pay between April 2011 and March 2012.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits are fully accrued in the pensions liability shown in Note 40 below.

**40. DEFINED BENEFIT PENSION SCHEMES**

**a) Participation in pensions 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 therefore are required to be disclosed at the time that employees earn their future entitlement.

The Council makes contributions on behalf of its employees to two pension schemes:

(i) the Local Government Pension Scheme (LGPS), administered locally by the Council. This is a defined benefit final salary scheme, meaning that both the Council and the employees pay contributions into a fund, calculated at a level which is intended to balance the pensions liabilities with investment assets.

## Notes to the Core Financial Statements

(ii) the London Pensions Fund Authority (LPFA), which provides retirement benefits for former Greater London Council (GLC) staff and operates in the same way as the LGPS.

**b) Transactions relating to retirement benefits**

In accordance with International Accounting Standard 19 (IAS19), the Council recognises the cost of retirement benefits relating to the LGPS and LPFA in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge which is required against council tax is based on the cash payable in the year so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made during the year in the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the General Fund Balance:

<b>Comprehensive Income and Expenditure Statement</b>	<b>Local Government Pension Scheme</b>		<b>LPFA</b>	
	<b>2011/12 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>2010/11 £000</b>
<u>Cost of Services</u>				
Current Service Cost	22,247	25,577	381	572
Past Service Cost	1,119	(126,186)	0	(5,599)
Curtailments and Settlements	2,260	660	196	0
<u>Financing and Investment Income and Expenditure</u>				
Interest Cost	58,150	67,088	3,732	4,052
Expected Return on Scheme Assets	(48,752)	(48,664)	(2,937)	(2,944)
<b>Total Retirement Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>35,024</b>	<b>(81,525)</b>	<b>1,372</b>	<b>(3,919)</b>
<u>Other charges to the Comprehensive Income and Expenditure Statement</u>				
Actuarial Gains and (Losses)	(79,816)	169,898	(5,825)	21,323
<b>Total Retirement Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(44,792)</b>	<b>88,373</b>	<b>(4,453)</b>	<b>17,404</b>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made for Retirement Benefits to the Surplus or Deficit on the Provision of Services	(35,024)	81,525	(1,372)	3,919
<b>Actual amount charged against General Fund and HRA Balances for pensions in the year:</b>				
Employers' contributions payable to scheme	27,656	29,852	1,353	710

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement at 31<sup>st</sup> March 2012 is a loss of £363.412m (£345.489m for the LGPS and £17.923m for the LPFA).

**c) Assets and Liabilities in relation to Retirement Benefits**

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2012 are shown in the following tables detailing a reconciliation of opening and closing balances. It should be

## Notes to the Core Financial Statements

noted that the valuation of the assets was based on December 2011 data and may differ from the final valuation shown in the Pension Fund Accounts.

Reconciliation of Present Value of the Scheme Liabilities	Local Government Pension Scheme		LPFA	
	31 Mar 12 £000	31 Mar 11 £000	31 Mar 12 £000	31 Mar 11 £000
<b>Opening Scheme Liabilities</b>	<b>1,061,105</b>	<b>1,319,354</b>	<b>69,484</b>	<b>86,181</b>
Current Service Cost	22,247	25,577	381	572
Interest Cost	58,150	67,088	3,732	4,052
Contributions by Members	7,465	8,376	117	139
Actuarial Losses/(Gains)	50,320	(194,632)	5,816	(11,474)
Past Service Costs	1,119	(126,186)	0	(5,599)
Losses on Curtailments	2,260	660	196	0
Liabilities Extinguished on Settlements	0	0	0	0
Estimated Unfunded Benefits Paid	(4,884)	(5,085)	(256)	(256)
Estimated Benefits Paid	(35,978)	(34,047)	(3,714)	(4,131)
<b>Closing Scheme Liabilities</b>	<b>1,161,804</b>	<b>1,061,105</b>	<b>75,756</b>	<b>69,484</b>

Reconciliation of Fair Value of the Scheme Assets	Local Government Pension Scheme		LPFA	
	31 Mar 12 £000	31 Mar 11 £000	31 Mar 12 £000	31 Mar 11 £000
<b>Opening Fair Value of Scheme Assets</b>	<b>709,444</b>	<b>686,418</b>	<b>59,118</b>	<b>49,863</b>
Expected Return on Assets	48,752	48,664	2,937	2,944
Actuarial Gains/(Losses)	(29,496)	(24,734)	(9)	9,849
Contributions by the employer	22,772	24,767	1,097	454
Contributions by members	7,465	8,376	117	139
Contributions in respect of Unfunded Benefits	4,884	5,085	256	256
Estimated Benefits Paid	(35,978)	(34,047)	(3,714)	(4,131)
Unfunded Benefits Paid	(4,884)	(5,085)	(256)	(256)
Assets Distributed on Settlements	0	0	0	0
<b>Closing Fair Value of Scheme Assets</b>	<b>722,959</b>	<b>709,444</b>	<b>59,546</b>	<b>59,118</b>

The actual return on scheme assets in 2011/12 showed a gain of £19.392m for the LGPS (gain of £43.882m for 2010/11) and a gain of £2.928m for the LPFA (gain of £3.445m for 2010/11).

## d) Scheme History

Scheme History	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
<b>Local Government Pension Scheme</b>					
Fair Value of Scheme Assets	722,959	709,444	686,418	485,433	635,822
Present Value of Funded Liabilities	(1,083,465)	(984,658)	(1,238,943)	(726,182)	(742,585)
Present Value of Unfunded Liabilities	(78,339)	(76,447)	(80,411)	(67,267)	(69,795)
<b>Surplus/Deficit</b>	<b>(438,845)</b>	<b>(351,661)</b>	<b>(632,936)</b>	<b>(308,016)</b>	<b>(176,558)</b>

## Notes to the Core Financial Statements

	2011/12	2010/11	2009/10	2008/09	2007/08
	£000	£000	£000	£000	£000
<b>Scheme History</b>					
<b>LPFA</b>					
Fair Value of Scheme Assets	59,546	59,118	49,863	47,221	54,611
Present Value of Funded Liabilities	(72,486)	(66,375)	(82,777)	(56,548)	(58,914)
Present Value of Unfunded Liabilities	(3,270)	(3,109)	(3,404)	(3,390)	(3,560)
<b>Surplus/Deficit</b>	<b>(16,210)</b>	<b>(10,366)</b>	<b>(36,318)</b>	<b>(12,717)</b>	<b>(7,863)</b>
<b>Total Liability</b>	<b>(455,055)</b>	<b>(362,027)</b>	<b>(669,254)</b>	<b>(320,733)</b>	<b>(184,421)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. Whilst the total liability of £455m has a significant impact on the net worth of the authority as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees (i.e. before the payments become due), as assessed by the scheme actuary. Finance is only required to fund the payment of discretionary benefits when they are actually paid to pensioners.

The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2013 are £22.4m. The total expected contributions to the LPFA in the year to 31 March 2013 are £0.9m.

**e) Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on their latest triennial valuations as at 31st March 2010. The main assumptions used in the valuations are:

	Local Government Pension Scheme		LPFA	
	2011/12	2010/11	2011/12	2010/11
<b>Expected rate of return on scheme assets</b>				
Equities	6.2%	7.5%	6.3%	7.2%
Bonds	3.9%	4.9%	-	-
Property	4.4%	5.5%	-	-
Target Return Portfolio	-	-	4.5%	5.0%
Cash	3.5%	4.6%	3.0%	3.0%
Cashflow Matching	-	-	3.3%	4.4%
Rate of Inflation – CPI	2.5%	2.8%	2.5%	2.7%
Rate of Inflation – RPI	-	3.6%	3.3%	3.5%
Salary Increase Rate *	4.8%	5.1%	4.2%	4.5%
Rate for discounting scheme liabilities	4.8%	5.5%	4.6%	5.5%
	Local Government Pension Scheme		LPFA	
	2011/12	2010/11	2011/12	2010/11
<b>Mortality assumptions</b>				
Longevity at 65 for current pensioners				
Men	21.0yrs	21.0yrs	20.1yrs	20.0yrs
Women	23.8yrs	23.8yrs	23.0yrs	22.9yrs
Longevity at 65 for future pensioners				
Men	22.9yrs	22.9yrs	22.1yrs	22.0yrs
Women	25.7yrs	25.7yrs	24.9yrs	24.9yrs

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**Notes to the Core Financial Statements**


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\* Note – Salary increases in the LGPS forecast are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

Assets are valued at fair value, principally market value for investments, and consist of the following:

Fair Value of Total Scheme Assets	Local Government Pension Scheme			LPFA		
	2011/12		2010/11	2011/12		2010/11
	%	£000	£000	%	£000	£000
Equities	71	513,301	524,989	13	7,741	7,094
Bonds	18	130,133	113,511	-	-	-
Property	9	65,066	63,850	-	-	-
Target Return Portfolio	-	-	-	53	31,559	31,924
Cash	2	14,459	7,094	2	1,191	(591)
Cashflow Matching	-	-	-	32	19,055	20,691
<b>Total Value of Assets</b>	<b>100.0</b>	<b>722,959</b>	<b>709,444</b>	<b>100.0</b>	<b>59,546</b>	<b>59,118</b>

#### f) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in the years 2007/08 to 2011/12 can be analysed into the following categories, shown also as a percentage of assets or liabilities as at 31 March of that year.

Experience Gains and Losses	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
<b>Local Government Pension Scheme</b>					
Experience Gains/(Losses) on Assets	(29,496)	(24,734)	138,009	(199,461)	(136,900)
As a percentage of Assets	(4.1%)	(3.5%)	20.1%	(41.1%)	(21.5%)
Experience Gains/(Losses) on Liabilities	(15,575)	148,890	(2,015)	135	36,809
As a percentage of Liabilities	(1.3%)	14.0%	(0.2%)	0.0%	5.8%
<b>LPFA</b>					
Experience Gains/(Losses) on Assets	(9)	9,849	3,426	(7,825)	1,512
As a percentage of Assets	(0.0%)	16.7%	6.9%	(16.6%)	4.5%
Experience Gains/(Losses) on Liabilities	(95)	763	633	(11)	5,098
As a percentage of Liabilities	(0.1%)	1.1%	0.7%	0.0%	(8.2%)

#### 41. CONTINGENT LIABILITIES

The Council has the following Contingent Liabilities as at the date of the approval of the Accounts:

a) The Council wholly owns Lewisham Homes, which is an arms-length management organisation (ALMO) who are responsible for managing and providing housing related services for the Council. In the event that they cease to be a "going concern", all their assets and liabilities would revert to the Council, with the Council being responsible for any net liability. Since the 2011/12 draft accounts of Lewisham Homes show that they made a surplus and that they are a going concern, it is appropriate that this indemnity is disclosed as a contingent liability, rather than raise a provision in the Council's accounts. It is not possible to quantify the extent of the costs that may result from this event happening.

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**Notes to the Core Financial Statements**


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b) The ending of the Connexions contract on 31 March 2011 resulted in the Council settling part of the case relating to a TUPE liability but an element remains to be resolved. However, there is still an outstanding claim for a member of staff linked to the TUPE transfer to the council.

c) In the Brockley area, leaseholders whose blocks are managed by Regenter under the Housing PFI contract have had their appeal against elements of their share of the costs for works to those blocks upheld by the Leaseholders Valuation Tribunal (LVT). The council is appealing elements of the decision of the LVT, and its ultimate liability cannot yet be ascertained.

d) Following a fire at Monson School in April 2010 whilst works were being undertaken by Lewisham's Schools for the Future LEP Limited (LEP) there has been a dispute between the Council, the Academy, and the LEP's insurers over liability. The Council believes that any liabilities falling to itself are ultimately recoverable through insurance. However, given the complexity of the matter, which is not yet resolved despite the fire taking place over two years ago, there is a possibility that the timing of the cash flows under the insurances in place may give rise to a temporary liability. In the event (which is considered highly unlikely) that the insurance flows cannot ultimately be fully enforced then this liability might crystallise.

**42. 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.

**43. TRUST FUNDS**

The Council acts as a trustee for other funds which are not included in the Balance Sheet.

	<b>Balance 31/03/2010 £000</b>	<b>Movement in 10/11 £000</b>	<b>Balance 31/03/2011 £000</b>	<b>Movement in 11/12 £000</b>	<b>Balance 31/03/2012 £000</b>
Children and Young People	27	1	28	0	28
Community Services	29	(6)	23	239	262
Cemeteries Graves Maintenance	11	11	22	(1)	21
Comforts Fund	1	0	1	0	1
<b>Total Trust Funds</b>	<b>68</b>	<b>6</b>	<b>74</b>	<b>238</b>	<b>312</b>

Interest on trust funds is credited annually at the average rate earned on the Council's revenue balances.

The fund balances as at 31 March 2012 were invested as follows:

	<b>Balance 31/03/2010 £000</b>	<b>Balance 31/03/2011 £000</b>	<b>Balance 31/03/2012 £000</b>
External Investments	27	27	27
Cash	41	47	285
<b>Total Trust Funds</b>	<b>68</b>	<b>74</b>	<b>312</b>

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**Notes to the Core Financial Statements**


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**44. HERITAGE ASSETS**

	<b>2011/12 £000</b>
<b>Balance at Beginning of Year</b>	<b>0</b>
Additions	<b>257</b>
Disposals	<b>0</b>
Revaluations	<b>0</b>
Impairments	<b>0</b>
<b>Balance at End of Year</b>	<b>257</b>

These assets comprise Lewisham Clock Tower and the Civic Regalia. The values used in the accounts are their insurance values which are assessed internally and based on current market values, which are updated annually. They are both valued higher than £40,000, which is the threshold for disclosure and is consistent with assets recorded on the Council's Balance Sheet.

The Council has two other "categories" of asset which have not been disclosed as heritage assets on the Balance Sheet.

28 heritage assets, mainly works of art, have individual insurance values which are immaterial and therefore have been excluded from the Balance Sheet. Their total insurance value is £44,650.

Another 28 heritage 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.

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**Notes to the Core Financial Statements**


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**45. CASH FLOW STATEMENT - OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

	2011/12 £000s	2010/11 £000s
Interest Received	3,026	2,336
Interest Paid	(37,392)	(19,593)
	<b>(34,366)</b>	<b>(17,257)</b>

**46. CASH FLOW STATEMENT - INVESTING ACTIVITIES**

The cash flows for investing activities include the following items:

	2011/12 £000s	2010/11 £000s
Purchase of Property, Plant and Equipment, investment property and intangible assets	(71,008)	(48,301)
Purchase of short and long term investments	(130,000)	(184,871)
Other payments for Investing Activities	(347)	(7,272)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	14,491	22,104
Proceeds from short-term and long-term investments	158,438	146,163
Other Receipts from Investing Activities	46,335	22,576
<b>Net cash flows from investing activities</b>	<b>17,909</b>	<b>(49,601)</b>

**47. CASH FLOW STATEMENT - FINANCING ACTIVITIES**

The cash flows for financing activities include the following items:

	2011/12 £000s	2010/11 £000s
Cash receipts of short and long term borrowing	66,021	38,685
Other receipts from financing activities	1,247	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(5,093)	(4,903)
Repayment of Short-Term and Long-Term Borrowing	(65,346)	(43,685)
Other payments for financing activities	0	(3,234)
<b>Net cash flows from investing activities</b>	<b>(3,171)</b>	<b>(13,137)</b>

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**Notes to the Core Financial Statements**

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**Housing Revenue Account**

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**SECTION 4a**

**HOUSING  
REVENUE  
ACCOUNT**

**2011/12**

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**Housing Revenue Account**


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**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.

<b>COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT</b>	<b>2011/12</b>	<b>2010/11</b>	
	<b>£000</b>	<b>£000</b>	<b>Note</b>
<b>INCOME</b>			
Gross Rent - Dwellings	(63,900)	(65,138)	1
Gross Rent - Other Housing Properties	(3,636)	(3,520)	1
Charges for Services and Facilities	(9,723)	(8,683)	1
Housing Subsidy - Housing Element	(15,145)	(15,527)	2
Contribution towards Expenditure	(3,888)	(6,048)	4
<b>Total Income</b>	<b>(96,292)</b>	<b>(98,916)</b>	
<b>EXPENDITURE</b>			
Supervision and Management - General Expenses	29,313	33,897	5
Supervision and Management - Special Expenses	5,478	6,380	6
Repairs and Maintenance	19,978	20,561	7
Repairs and Maintenance Funded by Major Repairs Allowance	10,811	13,151	15
Rent, Rates and Other Charges	282	379	8
Rent Rebate Subsidy Shortfall	(13)	850	3
Contribution to Doubtful Debts Provision	779	1,338	9
Depreciation - Dwellings	15,329	18,010	11
Depreciation - Other Housing Assets	1,052	994	11
Impairment of Non Current Assets	12,630	322,577	
Debt Management Expenses	48	48	
<b>Total Expenditure</b>	<b>95,687</b>	<b>418,185</b>	
<b>Net Cost of Services included in the Council's Income and Expenditure Account</b>	<b>(605)</b>	<b>319,269</b>	
HRA Services share of CDC	134	140	
HRA share of other amounts included in the Council's net cost of services but not allocated to specific services	0	0	
<b>Net Cost of HRA Services</b>	<b>(471)</b>	<b>319,409</b>	
<b>HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement</b>			
(Gain) / Loss on Sale of HRA Non Current Assets	(2,105)	(6,943)	
Interest Payable and Similar Charges	58,196	17,046	12
Interest and Investment Income	(254)	(213)	
Pension Interest Cost and Expected Return on Pension Assets	14	(29)	17
Government Grant - Self Financing Debt Repayment Grant	(136,338)	0	2
Government Grant - Self Financing Premium Grant	(41,762)	0	2
Government Grant - Stock Transfer Overhanging Debt Grant	0	(41,537)	
<b>Deficit for the Year on HRA Services</b>	<b>(122,720)</b>	<b>287,733</b>	

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**Housing Revenue Account**


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**HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT**

	2011/12 £000	2010/11 £000
<b>Balance on the HRA at the End of the Previous Year</b>	9,908	9,760
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	122,720	(287,733)
Adjustments between Accounting Basis and Funding Basis under Statute	(115,447)	269,395
<b>Net Increase or (Decrease) before Transfers (To) / From Reserves</b>	7,273	(18,338)
<b>Transfers (To) / From Reserves</b>	0	18,486
<b>Increase or (Decrease) in Year on the HRA</b>	7,273	148
<b>Balance on the HRA at the End of the Year</b>	17,181	9,908

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

Details of the movement in Housing Revenue Account Reserves and Balances can be found within Note 16 to the Housing Revenue Account.

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**Housing Revenue Account**


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**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 2012, 1.3% of lettable property was empty (2.4% at 31 March 2011). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £81.70 in 2011/12 and £77.82 per week in 2010/11.

Service charges have been disaggregated from rents and are shown under charges for services and facilities.

**a) Housing stock**

The Council was responsible for managing 15,160 dwellings as at 31 March 2012 (15,195 as at 31 March 2011). There were no stock transfers during 2011/12 (During 2010/11 one stock transfer took place: 2,427 flats and houses in the Chrysalis (Forest Hill, Rushey Green and Catford) area were transferred to London and Quadrant Housing Association).

The stock is made up as follows:

	31/03/2012 Number	31/03/2011 Number
Houses and Bungalows	2,446	2,447
Flats and Maisonettes	12,714	12,748
<b>Stock at 31 March</b>	<b>15,160</b>	<b>15,195</b>

The changes in stock can be summarised as follows:

	2011/12 Number	2010/11 Number
Stock at 1 April	15,195	17,893
Less Sales, Demolitions, etc.	(50)	(271)
Less Stock Transfers	0	(2,427)
Add Re-purchases, Conversions etc.	15	0
<b>Stock at 31 March</b>	<b>15,160</b>	<b>15,195</b>

**b) Rent arrears**

	2011/12 £000	2010/11 £000
Rent Arrears due from Current Tenants	3,202	2,931
Rent Arrears due from Former Tenants	2,032	3,071
<b>Total Arrears</b>	<b>5,234</b>	<b>6,002</b>
Total Arrears as % of Gross Rent of Dwellings Due	<b>8.5%</b>	<b>9.2%</b>

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

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**Housing Revenue Account**


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**c) Rent – other housing property**

	2011/12 £000	2010/11 £000
Aerial Sites	252	313
Garages	910	750
Reception Hostels	1,307	1,324
Commercial Property	1,115	1,065
Ground Rents	52	68
<b>Total Other Rents and Charges</b>	<b>3,636</b>	<b>3,520</b>

**d) Charges for services and facilities to Tenants and Leaseholders.**

Service Charges include caretaking, grounds maintenance, communal lighting and the Lewisham Tenants' Levy. In 2010/11 charges for bulk household waste removal and window cleaning were introduced. In 2011/12, charges for pest control were introduced. The average tenants' service charge was £5.75 in 2011/12 (£4.73 in 2010/11).

	2011/12 £000	2010/11 £000
Heating Charges	979	987
Leasehold Service Charges	4,248	3,558
Tenants Service Charges	4,496	4,138
<b>Total Charges for Services and Facilities</b>	<b>9,723</b>	<b>8,683</b>

**2. GOVERNMENT HOUSING EXCHEQUER SUBSIDY**

This was a Government grant towards the net cost of management and maintenance and financing costs (i.e. capital financing, lease costs and deferred interest payments) after allowing for an assumed rent increase. The subsidy included the major repairs allowance, which represents the Government's estimate of the long-term average amount of capital spending required to maintain the housing stock in its present condition. The Subsidy was made up of the following elements:

	2011/12 £000	2010/11 £000
Management Allowance	16,428	17,116
Maintenance Allowance	23,200	23,981
Major Repairs Allowance	13,010	13,670
Charges for Capital	15,320	14,888
Other Reckonable Expenditure	137	80
PFI Credit	10,353	10,353
Guideline Rent Income	(63,288)	(64,539)
Interest on Receipts	(15)	(22)
<b>Total Housing Element of Subsidy</b>	<b>15,145</b>	<b>15,527</b>

The HRA Subsidy financing system has been abolished with effect from 31 March 2012 and has been replaced by a new system of HRA self financing from 1 April 2012. Further information on this is contained in Note 4 to the Accounts.

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**Housing Revenue Account**


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**3. REBATES**

Assistance with rents is available under the Housing Benefits scheme for those on low income. Approximately 60% of Council tenants received help under this scheme as at 31 March 2012 (60% as at 31 March 2011). The scheme is administered by the Council. Rent rebates are chargeable to the General Fund and the corresponding subsidy is credited to General Fund.

Subsidy on rent rebates is subject to capping and if the Council's rent is in excess of the Government's limit for subsidy on rebates, the cost of rebates over the subsidy limit is recharged back to the HRA. The shortfall on subsidy due to overpayments is now met by the General Fund. Rent rebate administration costs are fully chargeable to the general fund.

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

	2011/12 £000	2010/11 £000
Rent Rebates Given (GF)	41,337	42,717
Subsidy Received on Rebates (GF)	(41,350)	(41,867)
<b>Net cost to the HRA</b>	<b>(13)</b>	<b>850</b>

**4. OTHER INCOME**

	2011/12 £000	2010/11 £000
Commission on insurance and water rates	657	712
Court costs	65	102
Government grants	336	439
Recharges of repairs	2,262	3,926
Professional fees	24	36
Recharge to capital receipts	270	429
Hostels: Heat, Light and Water Charges	241	239
Other miscellaneous income	33	165
<b>Total Other Income</b>	<b>3,888</b>	<b>6,048</b>

**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.

**6. SUPERVISION AND MANAGEMENT - 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.

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**Housing Revenue Account**


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**7. REPAIRS AND MAINTENANCE**

This includes day-to-day repairs to Council housing stock and cyclical external decoration. Void properties prior to re-letting and certain tenants' properties are eligible for internal decoration. Gross repairs and maintenance expenditure for 2011/12 was £20.0m (2010/11 - £20.6m).

**8. RENT, RATES AND OTHER CHARGES**

This includes expenditure relating to business rates, ground rents and lease rents.

**9. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE**

In 2011/12 a contribution of £0.78m (2010/11 - £1.34m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details are as follows:

	2011/12 £000	2010/11 £000
Housing Tenants	4,501	5,349
Leaseholders	2,484	2,453
Commercial Properties, Miscellaneous Debts	671	618
<b>Total Impairment Allowance</b>	<b>7,656</b>	<b>8,420</b>

**10. NON CURRENT ASSETS**

The following table gives details of the valuation of housing assets. 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 (and the Government) of providing housing at less than open market rents. The five yearly revaluation of council dwellings in 2010/11 resulted in a decrease of £300m in the value of the stock as at 31/03/11. In addition, downward revaluations resulting from capital expenditure which did not technically increase the value of the dwellings assets occurred in 2011/12 (13m) and 2010/11 (20m).

	31/03/12 £000	31/03/11 £000
<b>Operational Assets:</b>		
Dwellings (Existing Use Value - Social Housing)	609,047	624,293
Other Land and Buildings	39,667	39,826
Infrastructure	113	119
Vehicles, Plant and Equipment	4,428	2,139
<b>Total Operational Assets</b>	<b>653,255</b>	<b>666,377</b>
<b>Investment Properties</b>	<b>17,374</b>	<b>19,479</b>
<b>Total Housing Assets</b>	<b>670,629</b>	<b>685,856</b>
<b>Valuation of Council Dwellings</b>		
Vacant Possession Value	2,436,188	2,497,172

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**Housing Revenue Account**


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**11. DEPRECIATION**

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

	2011/12 £000	2010/11 £000
<b>Operational Assets</b>		
Dwellings	15,329	18,010
Other Land and Buildings	852	994
Vehicles, Plant and Equipment	200	0
<b>Depreciation charged on Operational Assets</b>	<b>16,381</b>	<b>19,004</b>

Depreciation was not charged on Non Operational assets.

**12. INTEREST PAYABLE AND SIMILAR CHARGES**

This line includes the charge for capital assets calculated in accordance with the DCLG's Item 8 Credit and Item 8 Debit (General) Determination for 2011/12 (£10.4m). It also includes £1.2m for the cost to the HRA of loan redemption premiums and income from loan redemption discounts which are amortised over 10 years. For 2011/12 only, it includes the premium of £41.8m incurred in respect of the debt repayment as a result of HRA self financing.

**13. HOUSING CAPITAL EXPENDITURE**

The level of capital expenditure in 2011/12 (£19.1m) was significantly higher than that in 2010/11 (£8.4m). This is mainly due to a borrowing approval from the Government for Decent Homes improvements. As in previous years, all expenditure that could not be capitalised as a component or did not add value to an existing asset has been charged to revenue. This amount has been fully funded from the Major Repairs Reserve, which can be used for both revenue and capital expenditure.

The total capital receipts from the disposal of housing assets were £9.8m in 2011/12 (£1.1m in 2010/11) of which £1.1m (£0.3m in 2010/11) were defined as usable capital receipts.

	2011/12 £000	2010/11 £000
<b>Expenditure:</b>		
Dwellings	18,619	8,076
Revenue Expenditure Funded from Capital under Statute	495	280
<b>Total Capital Expenditure</b>	<b>19,114</b>	<b>8,356</b>
<b>Financed by:</b>		
Government Supported Borrowing	15,350	2,700
Capital Grants and Contributions	1,491	877
Capital Receipts	1,392	3,152
Major Repairs Reserve	881	1,627
<b>Total Capital Expenditure Financed</b>	<b>19,114</b>	<b>8,356</b>

Revenue Expenditure Funded from Capital under Statute consists of expenditure in 2011/12 of £147k on the Cash Incentive Scheme (£280k in 2010/11) and £348k on Hilton House new build.

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**Housing Revenue Account**


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**14. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)**

Under the HRA Subsidy financing system, which operated in 2011/12, there was no requirement to repay principal on housing debt. The total housing debt at 31 March 2012 was £83.5m, compared to £204m as at 31 March 2011. The reduction during the year was due to the debt repayment as part of the preparation for the move to the new system of HRA self financing from 1 April 2012.

**15. MAJOR REPAIRS RESERVE**

	2011/12 £000	2010/11 £000
<b>Balance B/fwd as at 1 April</b>	<b>(3,211)</b>	<b>(4,320)</b>
Transferred in (depreciation dwellings)	(16,381)	(19,004)
Financing of capital expenditure on housing assets	881	1,627
Financing Revenue Repairs (MRA)	10,811	13,151
Transfer to the HRA	3,371	5,335
<b>Balance C/fwd as at 31 March</b>	<b>(4,529)</b>	<b>(3,211)</b>

**16. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES**

	Balance at 31/03/2011 £000	Transfers in £000	Transfers out £000	Balance at 31/03/2012 £000
Non-earmarked Balance	0	0	0	0
Property and Stock Related Reserves	6,737	815	(600)	6,952
Staff Related Reserves	300	450	0	750
Other Earmarked Reserves	2,871	6,608	0	9,479
<b>Total</b>	<b>9,908</b>	<b>7,873</b>	<b>(600)</b>	<b>17,181</b>

	Balance at 31/03/2010 £000	Transfers in £000	Transfers out £000	Balance at 31/03/2011 £000
Non-earmarked Balance	0	0	0	0
Property and Stock Related Reserves	6,935	582	(780)	6,737
Staff Related Reserves	300	0	0	300
Other Earmarked Reserves	2,525	346	0	2,871
<b>Total</b>	<b>9,760</b>	<b>928</b>	<b>(780)</b>	<b>9,908</b>

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**Housing Revenue Account**

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**17. 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 .

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**Collection Fund**

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**SECTION 4b**

**COLLECTION  
FUND**

**2011/12**

## Collection Fund

## 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 both Council Tax and National Non-Domestic Rates (NNDR) and the distributions to the Council's General Fund and the Greater London Authority in respect of Council Tax and to the Government in respect of NNDR.

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

The Council's share of the year end balances of the Collection Fund are included in the Council's Balance Sheet and its share of the transactions are included in the Council's Cash Flow Statement.

<b>COLLECTION FUND REVENUE ACCOUNT</b>	<b>2011/12</b>	<b>2010/11</b>	
	<b>£000</b>	<b>£000</b>	Note
<b>INCOME</b>			
Income from Council Tax (net)	95,713	92,619	4
Transfers from General Fund:			
- Council Tax Benefits	28,623	28,359	4
Income from National Non-Domestic Rates (net)	47,987	48,213	5
<b>TOTAL INCOME</b>	<b>172,323</b>	<b>169,191</b>	
<b>EXPENDITURE</b>			
<b>Precepts and Demands upon the Collection Fund</b>			
- London Borough of Lewisham	92,213	91,184	
- Greater London Authority	27,415	27,109	
<b>National Non-Domestic Rates</b>			
- Payment to National Pool	44,908	46,163	5
- Cost of Collection Allowance	316	321	5
<b>Business Rate Supplement</b>			
- Payment to Greater London Authority	1,487	1,173	
- Administrative Costs	7	8	
<b>Bad and Doubtful Debts</b>			
- Net adjustment to Impairment Allowance (Council Tax)	(1,662)	1,876	6a
- Net adjustment to Impairment Allowance (NNDR)	371	246	6b
- Amounts Written Off (Council Tax)	4,673	745	
- Amounts Written Off (NNDR)	898	302	5
<b>Contributions from previous year's Collection Fund Surplus</b>			
- London Borough of Lewisham	18	52	
- Greater London Authority	5	15	
<b>TOTAL EXPENDITURE</b>	<b>170,649</b>	<b>169,194</b>	
<b>DEFICIT / (SURPLUS) FOR THE YEAR</b>	<b>(1,674)</b>	<b>3</b>	3
<b>(SURPLUS) AT THE BEGINNING OF THE YEAR</b>	<b>(29)</b>	<b>(32)</b>	3
<b>FUND (SURPLUS) AT THE END OF THE YEAR</b>	<b>(1,703)</b>	<b>(29)</b>	

## Collection Fund

## NOTES TO THE COLLECTION FUND

## 1. THE COUNCIL TAX BASE AND THE "BAND D" EQUIVALENT

The annual budget process requires that each authority determines its own 'Band D' tax charge by dividing its own budget requirement by the respective tax base for the financial year. The 'Band D' tax calculated forms the basis of the charge for all properties. Properties fall into one of eight valuation bands based on market values at 1st April 1991. Those that fall in other valuation bands pay a proportion of the 'Band D' tax charge according to its banding and the band proportion.

The tax base used in setting the council tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a "Band D" equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for both 2011/12 and 2010/11 assumed a collection rate of 96.25%.

The table below sets out the tax base calculation for 2011/12;

Council Tax Band	Property Value £000	2011/12		Band D Ratio	2011/12		2010/11	
		No. of Properties			Band D Equivalents as per Ratio	Council Tax Charge £	Band D Equivalents as per Ratio	Council Tax Charge £
		Actual Number (1)	Adjusted Number (2)					
A	up to 40	7,192	5,621	6/9	3,746.4	901.29	3,643	901.29
B	40 - 52	32,025	26,015	7/9	20,233.9	1,051.50	19,908	1,051.50
C	52 - 68	41,112	35,238	8/9	31,322.4	1,201.72	30,907	1,201.73
D	68 - 88	25,182	22,583	1	22,583.3	1,351.93	22,407	1,351.93
E	88 - 120	7,170	6,568	11/9	8,027.9	1,652.36	8,036	1,652.36
F	120 - 160	2,751	2,557	13/9	3,693.8	1,952.79	3,700	1,952.79
G	160 - 320	1,296	1,213	15/9	2,021.3	2,253.22	2,008	2,253.22
H	over 320	176	153	18/9	305.5	2,703.86	300	2,703.86
<b>Totals</b>		<b>116,904</b>	<b>99,948</b>		<b>91,934.5</b>		<b>90,909</b>	
Add: Contributions in lieu					0		0	
<b>Total Band D equivalents</b>					91,934.5		90,909	
Estimated Collection Rate					96.25%		96.25%	
<b>NET COUNCIL TAX BASE</b>					<b>88,487</b>		<b>87,500</b>	

(1) Total number of dwellings as per Valuation Officer's List

(2) Total number of dwellings after allowing for Discounts, Exemptions and Other Adjustments

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**Collection Fund**


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**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 as at 31/03/10 £000	Deficit for 2010/11 £000	Surplus as at 31/03/11 £000	Surplus for 2011/12 £000	Surplus as at 31/03/12 £000
London Borough of Lewisham	(25)	3	(22)	(1,290)	(1,312)
Greater London Authority	(7)	0	(7)	(384)	(391)
	<b>(32)</b>	<b>3</b>	<b>(29)</b>	<b>(1,674)</b>	<b>(1,703)</b>

**4. COUNCIL TAX INCOME**

	2011/12		2010/11
	£000	£000	£000
<b>Gross Council Tax Income Due</b>		144,643	143,602
Less: Adjustments to charge	411		604
Exemptions	(5,336)		(5,969)
Disabled Relief	(70)		(74)
Discounts	(15,314)		(15,980)
		(20,309)	(21,419)
<b>Total Due from Council Tax payers</b>		124,334	122,183
Transfers from General Fund for Council Tax Benefits		(28,623)	(28,359)
Adjustment to Charge		2	(1,205)
<b>Net amount of Council Tax Receivable</b>		95,713	92,619

## Collection Fund

## 5. NATIONAL NON-DOMESTIC RATES

The Council is responsible for collecting the National Non Domestic Rates (NNDR) (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 NNDR multiplier, which is set annually by the Government. The amount due is paid over to the Government and redistributed back to councils via the formula grant mechanism. The Council's share of this redistributed money is paid into the General Fund.

	2011/12		2010/11
	£000	£000	£000
<b>Gross NNDR Collectable (after voids and exemptions)</b>		<b>52,635</b>	<b>51,717</b>
<b>Reductions and Relief:</b>			
Mandatory Relief	(4,573)		(3,430)
Discretionary Relief	(170)		(165)
Interest on Refunds and Other Adjustments	95	(4,648)	(1,082)
<b>Total Receivable from Business Rates</b>		<b>47,987</b>	<b>47,040</b>
Irrecoverable Amounts Written Off		(898)	(302)
Net Adjustment to Impairment Allowance		(371)	(246)
<b>Net Amount Collectable from Business Ratepayers</b>		<b>46,718</b>	<b>46,492</b>
<b>Business Rate Supplement</b>			
Payment to Greater London Authority	(1,487)		
Administrative Costs	(7)	(1,494)	
<b>NNDR</b>			
Cost of Collection Allowance transfer		(316)	(329)
<b>Amount Payable to NNDR Pool</b>		<b>44,908</b>	<b>46,163</b>

	2011/12	2010/11
	£m	£m
<b>Non-Domestic Rateable Value</b>	<b>132.1</b>	<b>133.8</b>
	<b>pence</b>	<b>pence</b>
<b>National Non-Domestic Rate Multiplier</b>	<b>43.3</b>	<b>41.4</b>
<b>National Non-Domestic Rate Multiplier (Small Business)</b>	<b>42.6</b>	<b>40.7</b>

## Collection Fund

## 6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

## a) Council Tax

	31/03/2012 £000	31/03/2011 £000
Council Tax Arrears	28,054	29,890
Impairment Allowance	(25,512)	(27,174)
As a Percentage of Arrears	90.9%	90.9%

	2011/12		2010/11	
	Amount £000	Percentage %	Amount £000	Percentage %
<b>Age of Arrears</b>				
Year of Accounts	5,828	21	6,284	21
Under 2 Years old	4,414	16	5,062	17
Under 3 Years old	4,520	16	4,183	14
Under 5 Years old	7,292	26	6,330	21
Over 5 Years old	6,000	21	8,031	27
<b>Total</b>	<b>28,054</b>	<b>100</b>	<b>29,890</b>	<b>100</b>

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund. As at 31 March 2012, the arrears were £5.0m (£5.2m at 31 March 2011) with an impairment allowance of £4.4m or 89% (£4.8m or 91% at 31 March 2011).

## b) National Non-Domestic Rates

	31/03/2012 £000	31/03/2011 £000
NNDR Arrears	3,919	3,167
Impairment Allowance	(1,345)	(974)
As a Percentage of Arrears	34.3%	30.8%

	2011/12		2010/11	
	Amount £000	Percentage %	Amount £000	Percentage %
<b>Age of Arrears</b>				
Year of Accounts	2,308	59	1,883	59
Under 2 Years old	838	22	858	27
Under 3 Years old	428	11	269	9
Under 5 Years old	288	7	133	4
Over 5 Years old	57	1	24	1
<b>Total</b>	<b>3,919</b>	<b>100</b>	<b>3,167</b>	<b>100</b>

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund. As at 31 March 2012, the arrears were £117k (£49k at 31 March 2011) with an impairment allowance of £105k or 90% (£44k or 90% at 31 March 2011).

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**Pension Fund Accounts**

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**SECTION 5**

**PENSION FUND  
ACCOUNTS**

**2011/12**

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**Pension Fund Accounts**

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**PENSION FUND ACCOUNTS**

**INTRODUCTION**

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined 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 operated under various sets of regulations made under the Superannuation Act 1972. The is administered with the following secondary legislation:

4. Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
5. Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
6. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which monitors the external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the fund. The investment managers also have to consider the PIC's views on socially responsible investments. Details of this policy are contained in the Statement of Investment Principles (see web address below).

A statement of the Fund's corporate governance, funding strategy and investment principles can be found on the authority's website, at the following address:

["www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"](http://www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm)

**ACCOUNTING POLICIES**

The Pension Fund Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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 actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note (n) below.

The Local Government Pension Scheme (Amendment) (No.3) Regulations 2007 also requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Code summarises the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to two months after a local authority must approve its Statement of Accounts. The Council will be taking its Annual Report to its Pensions Investment Committee in order to comply with this deadline.

A summary of the significant accounting policies and the basis of preparation of the Accounts are shown below: -

- (a) Basis of Preparation - The Accounts have been prepared on an accruals basis, i.e. income and expenditure attributable to the financial year have been included, even where payment has not actually been made or received, excepting Transfer Values which are prepared on a cash basis.

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**Pension Fund Accounts**


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The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.

- (b) Investments - Investments in the Net Assets Statement are shown at market value based on bid prices as required by the 2011/12 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unlisted equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- (d) 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.
- (e) The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").
- (f) 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 funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure to are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

The only non UK fund is the Continental European Fund 1 and Lend Lease Real Estate Partners 3. Their net asset values are derived from the net asset values of the underlying funds. Like the UK, the value of the underlying assets are assessed by professionally qualified valuers. Valuation practices will vary between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations does however vary. All the funds are independently valued on a rolling basis at least annually.

- (g) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs.
- (h) The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using valuation techniques.
- (i) Contributions – These represent the total amounts receivable from employers within the scheme in respect of their own contributions and any of their employees contributions who are members of the scheme. There are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £13,500 a year to 7.5% for members earning over £85,300 a year. 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.

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**Pension Fund Accounts**


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Full time pay for the post	Contribution rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

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

The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2010.

The valuation was based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following valuation and allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

In order to value liabilities which have accrued at the valuation date and those accruing in respect of future service the actuary has assumed that the Fund's assets will generate a return of 6.1% per annum (5.8% p.a. in 2007). The actuary sets the employer contribution accordingly to recover the deficit over future periods.

Financial Assumption	Funding Basis (%pa)	Gilt Basis (%pa)
Discount Rate	6.1	4.5
Price Inflation	3.3	3.3
Pay Increases	5.3	5.3
Pension Increase:		
Pension in excess of GMP	3.3	3.3
Post -88 GMP	2.8	2.8
Pre -88 GMP	0.0	0.0
Revaluation of Deferred Pension	3.3	3.3
Expenses	0.6	0.6

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**Pension Fund Accounts**


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The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5% with effect from 1<sup>st</sup> April 2011 and annual increases of 0.5% for the subsequent two years. The next actuarial valuation of the fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The triennial valuation on the 31<sup>st</sup> March 2010 revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% (87.4% 2007) of the liabilities valued at £949 million (£840 million 2007) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million (£106 million 2007).

**Actuarial Present Value of Promised Retirement Benefits**

The Actuary has calculated the actuarial present value of retirement benefits (on an IAS 26 basis) to be £1,158 million at the 31<sup>st</sup> March 2012 (£1,044 million as at 31<sup>st</sup> March 2011).

- (o) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008 permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, has been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (p) 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 – the converted foreign exchange rate is used at stock valuation date.  
Dividend receipts – the rate applicable on the day prior to the date the dividend is received is used.

**(q) 2011/12 FINANCIAL YEAR – SUMMARY OF FUND'S MARKET VALUE**

Fund Manager	Assets	Assets Value 31/03/12 £000	Proportion of the Fund 31/03/12 %	Assets Value 31/03/11 £000	Proportion of the Fund 31/03/11 %
UBS	Bonds	138,140	17.8	124,671	16.3
Alliance Bernstein	Global Equities	165,816	21.3	177,416	23.3
RCM	Global Equities incl UK	171,254	22.0	169,067	22.2
Schroders Property	Property	68,846	8.9	68,386	9.0
HarbourVest	Private Equity	33,163	4.3	30,020	3.9
UBS passive equity	UK Tracker Fund	128,474	16.5	125,728	16.5
Fauchier	Hedge Fund of Funds	21,077	2.7	22,054	2.9
Investec	Commodities	37,587	4.8	40,062	5.2
M&G	Credit	11,089	1.4	5,314	0.7
Securities Lending	Securities Lending	8	0.0	150	0.0
LB Lewisham	Cash and Net Current Assets	2,010	0.3	(74)	0.0
<b>Total Fund</b>		<b>777,464</b>	<b>100.0</b>	<b>762,794</b>	<b>100.0</b>

## Pension Fund Accounts

FUND ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2012

The Fund Account shows the surplus or deficit on the fund for the year.

	2011/12 £000	2010/11 Restated £000	See note
<b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
Contributions Receivable:			
- from Employers	26,992	28,899	1
- from Employees	8,979	9,330	1
- reimbursement for Early Retirement from Employers	1,951	606	
Transfer Values In	2,896	3,266	
Other Income	8	0	
<b>Sub-Total: Income</b>	<b>40,826</b>	<b>42,101</b>	
Benefits Payable:			
- Pensions	30,038	27,724	2
- Lump Sums: Retirement allowances	8,826	4,757	
- Lump Sums: Death grants	1,170	535	
Payments to and on account of leavers:			
- Refunds of Contributions	1	1	
- Transfer Values Out	6,059	8,210	
Administrative and other expenses borne by the scheme	1,002	1,021	3
<b>Sub-Total: Expenses</b>	<b>47,096</b>	<b>42,248</b>	
<b>Total Net additions (withdrawals) from Dealings with Scheme Members</b>	<b>(6,270)</b>	<b>(147)</b>	
<b><u>RETURNS ON INVESTMENTS</u></b>			
Investment Income	10,667	11,800	4
Change in market value of investments (realised & unrealised)	13,855	40,118	5
Investment Expenses:			
- Fund Managers' Fees *	(3,045)	(1,649)	
- Tax on Dividends	(537)	(739)	
- Other Direct Expenses	0	(1,735)	
<b>Total Net Returns on Investments</b>	<b>20,940</b>	<b>47,795</b>	
<b>NET INCREASE / (DECREASE) IN THE FUND DURING YEAR</b>	<b>14,670</b>	<b>47,648</b>	
<b>OPENING NET ASSETS OF THE FUND</b>	<b>762,794</b>	<b>715,146</b>	
<b>CLOSING NET ASSETS OF THE FUND</b>	<b>777,464</b>	<b>762,794</b>	

\* The increase in fund managers fees in 2011/12 is mainly attributable to a performance fee of £1.15m paid to Investec during the year.

## Pension Fund Accounts

NET ASSETS STATEMENT AS AT 31<sup>ST</sup> MARCH 2012

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2012.

	31/03/12 £000	31/03/11 Restated £000	See note
<b>INVESTMENT ASSETS</b>			
<b>Equities</b>			
United Kingdom	43,745	38,484	
Global	269,466	280,438	
	<b>313,211</b>	<b>318,922</b>	5
<b>Managed Funds</b>			
Property	66,993	62,831	
Equities	151,513	149,430	
Fixed Interest	88,581	82,110	
Index Linked	49,552	42,516	
Other Assets	98,435	93,218	
	<b>455,074</b>	<b>430,105</b>	5
<b>Cash Deposits</b>	6,196	13,332	9
<b>Derivative Contracts</b>			
Assets	4	203	7
Liabilities	(21)	(249)	7
<b>Other Investment Balances</b>			
Debtors in respect of investment transactions	2,164	3,333	8
Creditors in respect of investment transactions	(1,174)	(2,777)	8
<b>TOTAL INVESTMENTS</b>	<b>775,454</b>	<b>762,869</b>	
<b>NET CURRENT ASSETS AND LIABILITIES</b>			
Debtors	765	547	8
Creditors	(2,273)	(663)	8
Cash in Hand	3,518	41	9
<b>TOTAL NET ASSETS</b>	<b>777,464</b>	<b>762,794</b>	

Note: The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31<sup>st</sup> March 2012. This liability is included within the Council's balance sheet.

## Pension Fund Accounts

## NOTES TO THE PENSION FUND ACCOUNTS

## 1. CONTRIBUTIONS RECEIVED

	2011/12 £000	2010/11 £000
<b>Employer Contributions</b>		
Administering: Normal	22,752	24,344
Admitted: Normal	974	817
Scheduled	3,266	3,738
	<b>26,992</b>	<b>28,899</b>
<b>Employee Contributions</b>		
Administering	7,449	8,241
Admitted	325	206
Scheduled	1,205	883
	<b>8,979</b>	<b>9,330</b>

## 2. BENEFITS PAYABLE

	2011/12 £000	2010/11 £000
Administering	17,907	16,642
Admitted	192	174
Scheduled	730	745
Dependants Pensions	1,226	1,225
Pensions Increases	9,983	8,938
	<b>30,038</b>	<b>27,724</b>

## 3. ADMINISTRATION COSTS

	2011/12 £000	2010/11 £000
Administration	547	466
Advisory Costs (incl Audit Fees) *	452	550
Bank Charges	3	5
	<b>1002</b>	<b>1021</b>

\* Includes £32,200 paid to the Audit Commission for external audit in 2011/12 (£35,000 in 2010/11).

## 4. INVESTMENT INCOME

	2011/12 £000	2010/11 £000
Cash	212	160
Equity	7,846	6,311
Fixed Interest *	0	2,594
Managed Funds (incl Property)	2,467	2,535
Securities Lending	141	200
Other **	1	0
	<b>10,667</b>	<b>11,800</b>

\* For 2011/12, this has been classified as a change in market value.

\*\* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates.

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**Pension Fund Accounts**


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**5. INVESTMENT ANALYSIS**

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

<b>Asset</b>	<b>Manager</b>	<b>2011/12 Value £000</b>	<b>2011/12 %</b>
Global AM Life Equity Tracker	UBS	128,448	16.7
Global AM Life Over 5 Yr index Linked Gilt	UBS	49,552	6.4

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

<b>Asset</b>	<b>Manager</b>	<b>2011/12 Value £000</b>	<b>2011/12 %</b>
<b>UK Equities</b>			
Royal Dutch Shell A Shares	RCM/Alliance Bernstein	4,639	10.6
Vodafone Group	RCM/Alliance Bernstein	3,994	9.1
BHP Billiton	RCM/Alliance Bernstein	3,813	8.7
BP	Alliance Bernstein	3,132	7.2
WPP	RCM	3,089	7.1
Compass Group	RCM	2,652	6.1
Unilever	RCM	2,344	5.4
<b>Global Equities</b>			
Lux EMG	Alliance Bernstein	23,066	8.6
<b>Property</b>			
Standard Life Pooled property Fund	Schroder	8,221	12.3
Schroder Prop. U/TS Exempt property	Schroder	8,194	12.2
Real Continental European Fund	Schroder	6,371	9.5
Hermes Property UT	Schroder	6,028	9
Legal and General Property Fund	Schroder	5,817	8.7
Rockspring Hanover Property Unit Trust	Schroder	5,599	8.4
Blackrock UK Fund	Schroder	5,081	7.6
Real Income Fund	Schroder	3,685	5.5
<b>Managed Equities</b>			
Global AM Life Equity Tracker	UBS	128,448	85
<b>Fixed Interest</b>			
UBS Life :Neutral UK Corporate Bond Fund	UBS	<b>32,751</b>	<b>37</b>
UBS Global Asset Management Corporate Bond Fund	UBS	<b>29,865</b>	<b>33.7</b>
UBS Global Asset Management Long Dated UK Fixed Interest Fund	UBS	25,964	29.3
<b>Others</b>			
Global Commodities and Resources	Investec	37,584	38.2
Jubilee Absolute GBP Class B	Fauchier	21,073	21.4
Cayman Partnership Fund	Harbourvest	11,191	11.4
UK Companies Financing Fund	M&G	10,827	11.0
Cayman Buyout Fund	Harbourvest	7,637	7.8
Cayman Venture Fund	Harbourvest	4,985	5.1

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**Pension Fund Accounts**


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An analysis of investment movements is set out below:

<b>INVESTMENT MOVEMENTS</b>	<b>Value at 31 March 2011 £000</b>	<b>Purchases at Cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Capital Value £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31 March 2012 £000</b>
UK Equities	38,484	16,947	(9,064)	57	(2,679)	43,745
Global Equities	280,438	122,119	(130,245)	(390)	(2,456)	269,466
Managed Equities	149,430	1,830	0	0	253	151,513
Property	62,831	12,602	(8,785)	(85)	430	66,993
Fixed Interest Securities	82,110	0	(3,855)	0	10,326	88,581
Index Linked Securities	42,516	0	(2,145)	0	9,181	49,552
Other *	93,217	8,496	(2,049)	0	(1,229)	98,435
Derivatives	(46)	0	0	0	29	(17)
	<b>748,980</b>	<b>161,994</b>	<b>(156,143)</b>	<b>(418)</b>	<b>13,855</b>	<b>768,268</b>
Cash Deposits	13,332					6,196
Other Investment Balances	556					990
<b>Total Investments</b>	<b>762,868</b>					<b>775,454</b>

\* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

The Pension Fund's bond investments are held with UBS in the form of pooled funds. The fund denoted Index Linked above is comprised wholly of UK Government index linked gilts. The remaining funds are comprised of various government and corporate bonds.

(The amounts in respect of derivative payments and receipts represent the cost at inception of the contract).

Apart from Global Equities, the only other overseas investments held by the Fund fall under the 'Others' category and are namely Private Equity £28.91m and Commodities £37.58m.

The fund held the following unlisted securities as at 31st March 2012: Equities (including managed equities) £94m, Fixed Interest Securities £55.8m, Property £66.9m, and Other Assets £98.43m.

The fund held the following listed securities as at 31st March 2012: Equities (including managed equities) £370.7m, Fixed Interest Securities 32.75m and Index Linked Securities £49.55m.

<b>INVESTMENT MOVEMENTS</b>	<b>Value at 31 March 2010 Restated £000</b>	<b>Purchases at Cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31 March 2011 £000</b>
UK Equities	35,267	10,248	(7,687)	656	38,484
Global Equities	262,034	135,499	(124,997)	7,902	280,438
Managed Equities	148,177	3,162	(15,145)	13,236	149,430
Property	60,276	3,908	(2,380)	1,027	62,831
Fixed Interest Securities	76,354	0	(1,726)	7,482	82,110
Index Linked Securities	40,338	0	0	2,178	42,516
Other *	41,471	44,273	(35)	7,508	93,217
Derivatives	(175)	0	0	129	(46)
	<b>663,742</b>	<b>197,090</b>	<b>(151,970)</b>	<b>40,118</b>	<b>748,980</b>
Cash Deposits	8,143				13,332
Other Investment Balances	38,093				556
<b>Total Investments</b>	<b>709,978</b>				<b>762,868</b>

\* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

## Pension Fund Accounts

## FINANCIAL INSTRUMENTS

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

31 <sup>st</sup> March 2011			Financial Assets	31 <sup>st</sup> March 2012		
Fair Value through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Fair Value through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
318,922			Equities	313,211		
			Managed Funds:			
62,831			Property	66,993		
149,430			Equity	151,513		
82,110			Fixed Interest	88,581		
42,516			Index Linked	49,552		
93,218			Other Assets	98,435		
203			Derivative contracts	4		
	13,332		Cash deposits		6,196	
	2,699		Pending Trades		1,680	
	634		Dividends & Income		484	
	547		Contributions Due		765	
	41		Cash Balances		3,518	
<b>749,230</b>	<b>17,253</b>		<b>Total Financial Assets</b>	<b>768,289</b>	<b>12,643</b>	
			<b>Financial Liabilities</b>			
(249)			Derivative Contracts	(21)		
		(2,777)	Pending Trades			(1,174)
0			Unpaid benefits			(290)
		(663)	Other current Liabilities			(1,983)
<b>(249)</b>	<b>0</b>	<b>(3,440)</b>	<b>Total Financial Liabilities</b>	<b>(21)</b>	<b>0</b>	<b>(3,447)</b>
<b>748,981</b>	<b>17,253</b>	<b>(3,440)</b>	<b>Net Financial Assets</b>	<b>768,268</b>	<b>12,643</b>	<b>(3,447)</b>

## Net Gains and Losses on Financial Instruments

31 March 2011		31 March 2012	
£'000	Financial Assets	£'000	Financial Assets
40,321	Fair Value through Profit and Loss	13,263	
0	Loans and Receivables	0	
	<b>Financial Liabilities</b>		
(203)	Fair Value through Profit and Loss	(21)	
<b>40,118</b>	<b>Total</b>	<b>13,242</b>	

The fund also received bank interest totalling £2,056 during the year.

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**Pension Fund Accounts**


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**Valuation of Financial Instruments carried at Fair Value**

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

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

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

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

Values as at 31 <sup>st</sup> March 2012	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	313,215	426,388	28,686	<b>768,289</b>
Loans and Receivables	12,643			<b>12,643</b>
<b>Total Financial Assets</b>	<b>325,858</b>	<b>426,388</b>	<b>28,686</b>	<b>780,932</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	(21)			<b>(21)</b>
Financial Liabilities at Amortised Cost	(3,447)			<b>(3,447)</b>
<b>Total Financial Liabilities</b>	<b>(3,468)</b>	<b>0</b>	<b>0</b>	<b>(3,468)</b>
<b>Net Financial Assets</b>	<b>322,390</b>	<b>426,388</b>	<b>28,686</b>	<b>777,464</b>

Values as at 31 <sup>st</sup> March 2011	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	319,125	404,305	25,800	749,230
Loans and Receivables	17,253			17,253
<b>Total Financial Assets</b>	<b>336,378</b>	<b>404,305</b>	<b>25,800</b>	<b>766,483</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	(249)	0	0	(249)
Financial Liabilities at Amortised Cost	(3,440)			(3,440)
<b>Total Financial Liabilities</b>	<b>(3,689)</b>	<b>0</b>	<b>0</b>	<b>(3,689)</b>
<b>Net Financial Assets</b>	<b>332,689</b>	<b>404,305</b>	<b>25,800</b>	<b>762,794</b>

**FINANCIAL RISK MANAGEMENT**

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**Pension Fund Accounts**


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As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the fund's risk management strategy rests with the Pension Fund Investment Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

The main risks from the Fund's holding of financial instruments are market, credit and liquidity risks.

Market risk includes price risk, interest rate risk and currency risk. 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 Lewisham Pension Investment Committee (PIC) has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager, and its investment consultant (Hymans) advises on the nature of the investments made and associated risks. Due to the performance of some of the managers, the Committee decided to move the fund towards a more passive rather than active management. This will be reflected in the 2012/13 statement of accounts.

The Fund's investments are held by Northern Trust, who act as custodian on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio.

### 1) Market Risk

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

**a) Market Price Risk** represents 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. The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smooths out short term price volatility

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

<b>Asset Type</b>	<b>Potential Market Movement +/- (%p.a.)</b>
UK Equities	15.3
Overseas Equities	15.9
UK Bonds	7.5
Index Linked	7.9
Cash	0.0

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**Pension Fund Accounts**


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Other Assets	8.6
Property	6.3

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value £'000	Percentage Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	195,258	15.3	225,132	165,384
Overseas Equities	269,466	15.9	312,311	226,621
UK Bonds	88,581	7.5	95,225	81,973
Index Linked	49,552	7.9	53,466	45,622
Cash	6,196	0.0	6,196	6,196
Other Assets	98,435	8.6	106,900	89,970
Property	66,993	6.3	71,213	62,772
<b>Total Assets*</b>	<b>774,481</b>		<b>870,443</b>	<b>678,538</b>

\* This figure excludes derivatives and other investment balances.

**b) Interest Rate Risk** is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 1% change in the interest rate would result in an approximate change in income of £677k.

**c) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund's currency rate risk is routinely monitored by the council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. As at 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. 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.

Following analysis of historical data in consultation with the Fund's advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 9.9%.

This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/12/12 £'000	+9.9% £'000	-9.9% £'000
Overseas Equities	269,466	296,143	242,789
Other Assets *	66,490	73,073	59,907
<b>Total</b>	<b>335,956</b>	<b>369,216</b>	<b>302,696</b>

\* Other assets consist of Private Equity £28.91m and Commodities £37.587m.

## 2) 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 in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties

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## Pension Fund Accounts

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including brokers, custodian and investment managers minimises credit risk that may occur through the failure to settle transactions in a timely manner.

The Pension Fund is exposed to credit risk through Securities Lending and Forward Currency Contracts. The Securities Lending programme is run by the Fund's custodian Northern Trust who 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.

Forward Currency Contracts are with Alliance and Bernstein and RCM. The Fund manages its risk by monitoring the credit quality and financial position of its fund managers. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

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

### 3) Liquidity Risk

This is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the pensioner payroll costs and capital commitments. The council 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 2012 these assets totalled approximately £604m, with a further £6.196m held in cash by the custodian on behalf of the fund managers.

## 6. PRIOR YEAR ADJUSTMENT

The overall 2010/11 market value for Harbourvest included £125k relating to the mid value of the UK listed equities. This asset has been restated in 2010/11 to exclude this mid value valuation resulting in a reduction in the Harbourvest market value of £125k as at 31<sup>st</sup> March 2011. As a result, the net asset statement for 2010/11 has been reduced by £125k from £762,919 to £762,794. This is represented in the Fund account by a reduction in the change in market value of investments (Realised and Unrealised) of £125k.

The Council makes a cash re-imbusement to the fund as a contribution towards early retirement benefits paid during the year. In 2010/11, this was included in the Employer Contributions. As this is not part of the standard employer's contribution, it has now been restated as a separate item in the accounts. This totalled £606k in 2010/11 but had no effect on the net asset statement total.

## 7. DERIVATIVE CONTRACTS

The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of assets held. This is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer.

At 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. At 31 March 2011, forward foreign exchange contracts were the only derivative contracts held. Forward foreign exchange contracts are disclosed in the accounts at market value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

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**Pension Fund Accounts**


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	2011/12 £000	2010/11 £000
Foreign Exchange Gains	4	203
Foreign Exchange Losses	(21)	(249)
<b>Total Unrealised Gains / (Losses)</b>	<b>(17)</b>	<b>(46)</b>

**8. DEBTORS AND CREDITORS****(a) Debtors**

	2011/12 £000	2010/11 £000
Contributions Due from Admitted / Scheduled Bodies	765	547
Equity Dividends/ Income from Managed Funds	484	483
Interest and Other Income	0	151
Pending Trades	1,680	2,699
	<b>2,929</b>	<b>3,880</b>

**(b) Creditors**

	2011/12 £000	2010/11 £000
Fund Manager and Custody Fees	(516)	(663)
Consultancy / Advisory Fees	(19)	0
Audit Fees	(8)	0
Pension Payments due to Employees	(290)	0
Pending Trades	(1,174)	(2,777)
LB Lewisham	(1,440)	0
	<b>(3,447)</b>	<b>(3,440)</b>

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. At the year end these are treated as investment debtors and creditors.

**9. CASH DEPOSITS**

The Northern Trust Company is the fund's global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of the fund and its managers. The total cash held for this purpose as at 31<sup>st</sup> March 2012 was £6.19m (£13.33m at 31 March 2011). Approximately £1.72m of this cash was held for Schroders, £0.8m for Alliance Bernstein and £3.35m for RCM.

**Cash in Hand**

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31<sup>st</sup> March 2012. The increase in the cash in hand figure from 2010/11 to 2011/12 is mainly due to the Fund operating its own bank account, which necessitates the availability of cash. The cash in hand figure includes a figure of £1.44m to be paid by the Fund to the council for items described in note 13b below.

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**Pension Fund Accounts**


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**10. TRANSACTION COSTS**

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

	2011/12 £000	2010/11 £000
Total Purchases	199	167
Total Sales	144	239
<b>Total Transaction Costs</b>	<b>343</b>	<b>406</b>

**11. POST YEAR END EVENTS**

A restructure of the Fund's investment portfolio will take place in 2012/13. The Fund will move from being actively managed to being passively managed. This will result in the change of some fund managers.

These changes are deemed to be non-adjusting post balance sheet events. There have been no events since March 2012, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

**12. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31<sup>st</sup> March 2012:

**Harbourvest**

Fund	Amount	Translated £
HarbourVest Partners VIII – Cayman Venture Fund L.P	\$2,422,500	1,513,336
HarbourVest Partners VIII – Cayman Buyout Fund L.P	\$6,706,250	4,189,394
HarbourVest International Private Equity Partners V – Cayman Partnership Fund L.P	Euros 3,587,500	2,990,580
HarbourVest International Private Equity Partners V – Cayman Direct Fund L.P	Euros 258,750	215,697
<b>Total</b>		<b>8,909,007</b>

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31<sup>st</sup> March 2012.

Total Harbourvest commitments as at 31<sup>st</sup> March 2011 were £11,999,889.

**M&G**

A contribution of £9,107,145 (£14,728,129 as at 31<sup>st</sup> March 2011)

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**13. RELATED PARTY TRANSACTIONS**

There have been non 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. Five Councillors of this Committee are members of the pensions scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest which are minuted at the meeting.

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**Pension Fund Accounts**


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During the year Cllr Maslin declared an interest in UBS. He is a Director of Hales Gallery from whom UBS has purchased one painting. Cllr Maslin has not taken part in any of the decisions taken during the year involving UBS.

No other trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

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

- a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £547k (see note 3).
- b) Some cash transactions relating to pension activities are currently effected through its own bank account and the Council's bank account and consequently pension fund cash balances are held by the Council from time to time. Any interest receivable on such balances is paid to the Pension Fund annually at an interest rate equating to that earned by the Council on temporary investments.
- c) The salary of the Executive Director for Resources and Regeneration has been disclosed in the Council's full set of accounts (Note 28).

#### 14. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. There are currently 125 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

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

	2011/12			2010/11
	Equitable £000	Clerical Medical £000	Total £000	£000
<b>Value at the Beginning of Year</b>	535	906	1,441	1,421
Contributions and Transfers Received	5	243	248	337
Investment Return	20	32	52	54
Paid Out	(25)	(197)	(222)	(371)
<b>Value at the End of the Year</b>	<b>535</b>	<b>984</b>	<b>1,519</b>	<b>1,441</b>

#### 15. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31<sup>st</sup> March 2012:

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

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**Pension Fund Accounts**


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**16. ADMITTED BODIES**

The following are admitted bodies to the fund as at 31<sup>st</sup> March 2012:

National Car Parks Ltd	T Brown & Sons
Excalibur Tenant Management Project	Quality Heating
PLUS	Blenheim CDP
Housing 21	RSM Tenon (formerly RSM Bentley Jenison)
Lewisham Nexus Services	Broomleigh Housing Association
Lewisham Way Youth and Community Centre	Penrose
SAGE Educational Trust	Skanska
CIS Securities	One Housing
Wide Horizons	Fusions Leisure Management
Phoenix	3 C's Support
INSPACE	

**17. STOCK LENDING**

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). Equities and fixed income assets held in segregated accounts in custody may be lent. The Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

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

Northern Trust pays income to the Fund on a contractual basis (i.e. pay date) for contractual income markets. For non-contractual income markets, Northern Trust pays income to the Fund once income is received from the local sub custodian. Therefore, income is paid at the same time as income is paid for in-custody positions. 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<sup>st</sup> March 2012, the value of aggregate stock on loan was £25.5m (£10.2m as at 31<sup>st</sup> March 2011). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

**Collateral**

The collateral held versus securities on loan cannot be sold or repledged in absence of default by the borrower.

The council entered into stock lending transactions during the financial year earning £0.10 million net of direct expenses (£0.15m as at 31<sup>st</sup> March 2011). The value of collateral held was £27.2m (£11m as at 31<sup>st</sup> March 2011).

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**Pension Fund Accounts**


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**18. MEMBERSHIP**

	<b>Employees</b>		<b>Deferred Beneficiaries</b>		<b>Retired Former Employees</b>	
	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>
<b>Administering Authority</b>	<b>5,035</b>	5,436	<b>6,958</b>	6,694	<b>6,448</b>	6,201
<b>Scheduled Bodies</b>	<b>666</b>	642	<b>243</b>	194	<b>106</b>	91
<b>Admitted Bodies</b>	<b>162</b>	128	<b>66</b>	51	<b>39</b>	35
	<b>5,863</b>	<b>6,206</b>	<b>7,267</b>	<b>6,939</b>	<b>6,593</b>	<b>6,327</b>

**19. AUTHORISATION**

These accounts were authorised on the 26<sup>th</sup> September 2012 by the Executive director for Resources and Regeneration.

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**Group Accounts**

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**SECTION 6**

**GROUP  
ACCOUNTS**

**2011/12**

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**Group Accounts**

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**GROUP ACCOUNTS**

The following Group Accounts present the financial position of the Council's group of organisations. The Council's group includes Lewisham Homes Limited and Catford Regeneration Partnership Limited. These organisations are both wholly owned subsidiaries of the Council.

Lewisham Homes Limited is an arms-length management organisation (ALMO) that was set up as part of the Council's initiative to deliver better housing services and achieve the government's Decent Homes Standard by 2012. Lewisham Homes Limited is responsible for managing and providing housing related services such as repairs and maintenance of council dwellings.

Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council and the Head of Property and Programme Management and the Head of Business Management and Support are directors of the board

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**Group Accounts**


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**GROUP MOVEMENT IN RESERVES STATEMENT – YEAR ENDING 31ST MARCH 2012**

<b>YEAR ENDING 31ST MARCH 2012</b>	<b>General Fund Balance £000</b>	<b>Earmarked Gen Fund Reserves £000</b>	<b>Housing Revenue Account £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b>Balance at 31 March 2011 Brought Forward</b>	11,452	83,903	13,693	32,745	3,211	4,583	149,587	757,756	907,343
<b>Movement in Reserves during 2011/12</b>									
Surplus or (Deficit) on the provision of services	(3,611)	0	125,606	0	0	0	121,995	0	121,995
Other Comprehensive Income and Expenditure	2	0	(672)	0	0	0	(670)	(81,647)	(82,317)
<b>Total Comprehensive Income and Expenditure</b>	<b>(3,609)</b>	<b>0</b>	<b>124,934</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>121,325</b>	<b>(81,647)</b>	<b>39,678</b>
Adjustments between accounting basis and funding basis under regulations	30,320	0	(115,447)	(8,418)	1,318	1,963	(90,264)	90,264	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>26,711</b>	<b>0</b>	<b>9,487</b>	<b>(8,418)</b>	<b>1,318</b>	<b>1,963</b>	<b>31,061</b>	<b>8,617</b>	<b>39,678</b>
Transfers to / from Earmarked Reserves	(26,470)	26,470	0	0	0	0	0	0	0
<b>Increase / (Decrease) in 2011/12</b>	<b>241</b>	<b>26,470</b>	<b>9,487</b>	<b>(8,418)</b>	<b>1,318</b>	<b>1,963</b>	<b>31,061</b>	<b>8,617</b>	<b>39,678</b>
<b>Balance at 31 March 2012 Carried Forward</b>	<b>11,693</b>	<b>110,373</b>	<b>23,180</b>	<b>24,327</b>	<b>4,529</b>	<b>6,546</b>	<b>180,648</b>	<b>766,373</b>	<b>947,021</b>

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**Group Accounts**


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**GROUP MOVEMENT IN RESERVES STATEMENT – YEAR ENDING 31ST MARCH 2011 RE-  
STATED**

<b>YEAR ENDING 31ST MARCH 2011</b>	<b>General Fund Balance £000</b>	<b>Earmarked GF Reserves £000</b>	<b>Housing Revenue Account £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b>Balance at 31 March 2010 Brought Forward</b>	11,516	75,580	12,024	20,298	4,320	3,463	127,201	731,432	858,633
<b>Movement in Reserves during 2010/11</b>									
Surplus or (Deficit) on the provision of services	80,452	0	(286,212)	0	0	0	(205,760)	0	(205,760)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	254,470	254,470
<b>Total Comprehensive Income and Expenditure</b>	<b>80,452</b>	<b>0</b>	<b>(286,212)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(205,760)</b>	<b>254,470</b>	<b>48,710</b>
Adjustments between accounting basis and funding basis under regulations	(72,193)	0	269,395	12,447	17,377	1,120	228,146	(228,146)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>8,259</b>	<b>0</b>	<b>(16,817)</b>	<b>12,447</b>	<b>17,377</b>	<b>1,120</b>	<b>22,386</b>	<b>26,324</b>	<b>48,710</b>
Transfers to / from Earmarked Reserves	(8,323)	8,323	18,486	0	(18,486)	0	0	0	0
<b>Increase / (Decrease) in 2010/11</b>	<b>(64)</b>	<b>8,323</b>	<b>1,669</b>	<b>12,447</b>	<b>(1,109)</b>	<b>1,120</b>	<b>22,386</b>	<b>26,324</b>	<b>48,710</b>
<b>Balance at 31 March 2011 Carried Forward</b>	<b>11,452</b>	<b>83,903</b>	<b>13,693</b>	<b>32,745</b>	<b>3,211</b>	<b>4,583</b>	<b>149,587</b>	<b>757,756</b>	<b>907,343</b>

## Group Accounts

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDING 31ST MARCH 2012

2010/11 Re-stated				2011/12		
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
			<b>SERVICE</b>			
41,277	(33,863)	7,414	Central services to the public	39,266	(32,414)	6,852
25,589	(3,764)	21,825	Cultural and related services	24,004	(3,989)	20,015
38,629	(5,270)	33,359	Environmental and regulatory services	36,564	(6,079)	30,485
19,498	(6,670)	12,828	Planning services	17,226	(4,754)	12,472
420,452	(293,198)	127,254	Children's and education services	351,243	(255,118)	96,125
24,394	(10,223)	14,171	Highways and transport services	25,984	(10,938)	15,046
650,591	(306,321)	344,270	Housing services	335,671	(316,039)	19,632
119,249	(29,123)	90,126	Adult social care	120,913	(34,713)	86,200
7,380	(193)	7,187	Corporate and democratic core	6,644	(294)	6,350
(129,046)	0	(129,046)	Non distributed costs	12,932	(15)	12,917
1,218,013	(688,625)	529,388	<b>Cost of Services</b>	970,447	(664,353)	306,094
			<b>Other Operating Expenditure</b>			
220	(6,828)	(6,608)	(Gain) / Loss on the disposal of non-current assets	0	(6,962)	(6,962)
1,787	0	1,787	Levies	1,730	0	1,730
688	0	688	Contribution of housing capital receipts to Government Pool	1,787	0	1,787
2,695	(6,828)	(4,133)		3,517	(6,962)	(3,445)
			<b>Financing and Investment Income and Expenditure</b>			
44,061	(63)	43,998	Interest payable and similar charges	76,687	0	76,687
165	0	165	Changes in fair value of Investment Properties	466	0	466
555	0	555	(Gain) / loss on disposal of Investment Properties	127	0	127
441	(2,135)	(1,694)	Interest and Investment Income	316	(3,579)	(3,263)
71,140	(51,608)	19,532	Pensions interest cost and expected return on pensions assets	64,995	(55,592)	9,403
116,362	(53,806)	62,556		142,591	(59,171)	83,420
			<b>Taxation and non-specific Grant Income</b>			
0	(91,234)	(91,234)	Income from Council Tax	0	(93,522)	(93,522)
0	(58,216)	(58,216)	General Government Grants	0	(47,899)	(47,899)
0	(75,238)	(75,238)	Recognised Capital Grants and Contributions	0	(224,140)	(224,140)
0	(157,367)	(157,367)	National Non-Domestic Rates redistribution	0	(142,512)	(142,512)
0	4	4	Corporation Tax Payable	9	0	9
0	(382,051)	(382,051)		9	(508,073)	(508,064)
		205,760	<b>Deficit/(Surplus) on provision of services</b>			(121,995)
		(61,706)	Surplus or deficit on revaluation of non-current assets			(3,889)
		(191,267)	Actuarial (gains)/losses on pension fund assets and liabilities			86,359
		(1,497)	Other (gains)/losses			(153)
		(254,470)	<b>Other Comprehensive Income and Expenditure</b>			82,317
		(48,710)	<b>Total Comprehensive Income and Expenditure</b>			(39,678)

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**Group Accounts**


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**Reconciliation of the Single Entity Total Comprehensive Income and Expenditure for the year to the Group Total Comprehensive Income and Expenditure**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Total Comprehensive Income and Expenditure for the year on the Authority's Income and Expenditure Statement	<b>(37,557)</b>	(46,810)
Adjustments for transactions with other group entities	<b>(31,233)</b>	(30,860)
Total Comprehensive Income and Expenditure in the Group Comprehensive Income and Expenditure Statement attributable to the authority	<b>(68,790)</b>	(77,670)
Deficit in the Group Comprehensive Income and Expenditure Statement attributable to group entities	<b>29,112</b>	29,428
<b>Group Total Comprehensive Income and Expenditure Statement</b>	<b>(39,678)</b>	(48,242)

## Group Accounts

## GROUP BALANCE SHEET AS AT 31ST MARCH 2012

31/03/2011 Re-stated £000		31/03/2012 £000
	<u>Property, Plant &amp; Equipment</u>	
624,293	Council dwellings	609,047
855,122	Other land and buildings	827,988
30,636	Vehicles, plant, furniture and equipment	33,684
57,339	Infrastructure	71,252
8,162	Community	9,275
0	Heritage Assets	257
31,170	Surplus Assets not held for Sale	32,955
58,098	Assets under Construction	51,435
<u>1,664,820</u>		<u>1,635,893</u>
34,401	Investment Property	33,870
0	Long term investments	0
46	Lewisham Homes Pension Asset	3,570
1,268	Long term debtors	1,402
<u>1,700,535</u>	<b>Total Long Term Assets</b>	<u>1,674,735</u>
78,620	Short Term Investments	50,441
0	Assets Held for Sale	825
262	Inventories	234
38,397	Debtors	41,162
127,966	Cash and Cash Equivalents	182,940
4,712	Prepayments	4,235
<u>249,957</u>	<b>Current Assets</b>	<u>279,837</u>
0	Bank Overdraft	15,096
39,351	Short term borrowing	47,676
3,531	Provisions	3,519
81,247	Creditors	70,393
64,904	Receipts in advance	67,823
4,900	PFI Liabilities due within one year	5,831
<u>193,933</u>	<b>Current Liabilities</b>	<u>210,338</u>
<u>1,756,559</u>	<b>Total Assets less Current Liabilities</b>	<u>1,744,234</u>
303,316	Long term borrowing	157,782
9,683	Provisions	9,718
173,073	Deferred PFI Liabilities	170,344
1,117	Capital Grants Receipts in Advance	744
362,027	Liability related to defined benefit pension scheme	458,625
<u>849,216</u>	<b>Long Term Liabilities</b>	<u>797,213</u>
<u>907,343</u>	<b>NET ASSETS</b>	<u>947,021</u>
	<b>Usable Reserves</b>	
11,511	General Fund Balance	11,800
83,904	Earmarked Revenue Reserves	110,373
9,908	Housing Revenue Account	17,181
32,745	Usable Capital Receipts Reserve	24,327
3,211	Major Repairs Reserve	4,529
4,583	Capital Grants Unapplied	6,546
3,785	Lewisham Homes Reserves	5,999
(60)	Catford Regeneration Partnership Reserves	(107)
<u>149,587</u>		<u>180,648</u>
	<b>Unusable Reserves</b>	
213,229	Revaluation Reserve	212,678
(361,981)	Pensions Reserve	(455,055)
923,021	Capital Adjustment Account	1,022,024
469	Deferred capital receipts	337
(10,060)	Financial Instruments Adjustment Account	(8,557)
22	Collection Fund Adjustment Account	1,313
(6,944)	Short Term Compensated Absences Account	(6,367)
<u>757,756</u>		<u>766,373</u>
<u>907,343</u>	<b>TOTAL EQUITY</b>	<u>947,021</u>

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**Group Accounts**


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**GROUP CASH FLOW STATEMENT 2011/12**

<b>2010/11 Restated £000s</b>		<b>2011/12 £000s</b>
<b>(205,760)</b>	Net surplus or (deficit) on the provision of services	<b>121,995</b>
<b>305,630</b>	Adjustment to surplus or deficit on the provision of services for noncash movements	<b>(35,160)</b>
<b>(47,044)</b>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<b>(60,564)</b>
<b>52,826</b>	<b>Net Cash flows from operating activities</b>	<b>26,271</b>
<b>(50,155)</b>	Net Cash flows from Investing Activities	<b>17,433</b>
<b>(13,137)</b>	Net Cash flows from Financing Activities	<b>(3,826)</b>
<b>(10,466)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>39,878</b>
<b>140,782</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>127,966</b>
<b>130,316</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>167,844</b>

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**Group Accounts**

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**Notes to the Group Accounts**

**1. Method of preparation**

The Group Accounts have been prepared using the acquisition method and include the accounts of the Council and its subsidiaries, Lewisham Homes Limited and Catford Regeneration Partnership Limited.

**2. Lewisham Homes Limited**

Lewisham Homes Limited was incorporated on the 22 January 2007 and is a wholly owned subsidiary of the council and is limited by guarantee. Its auditors are:

KPMG LLP  
2 Cornwall Street  
Birmingham  
B3 2DL  
United Kingdom.

**3. Lewisham Homes Limited's Accounts**

Lewisham Homes Limited's Accounts for 2011/12 received an unqualified audit opinion and their Statement of Accounts can be obtained from:

Lewisham Homes Limited  
9 Holbeach Road  
Catford  
London  
SE6 4TW

**4. Catford Regeneration Partnership Limited**

Catford Regeneration Partnership Limited was incorporated on the 11 February 2009 and is a wholly owned subsidiary of the council. Its auditors are:

ACF Auditing Services Limited  
Plaza Building  
Lee High Road  
London  
SE13 5PT

**5. Catford Regeneration Partnership Limited**

Catford Regeneration Partnership Limited's Accounts for 2011/12 received an unqualified audit opinion and their Statement of Accounts can be obtained from:

Catford Regeneration Partnership Limited  
5<sup>th</sup> Floor, Laurence House  
Catford  
London  
SE6 4RU

**6. Accounting Policies**

The accounting policies of the London Borough of Lewisham, Lewisham Homes Limited, and Catford Regeneration Partnership Limited are in line with those stated in Section 2 of these accounts.

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**Group Accounts**


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**7. Summary of Subsidiaries' Transactions included in the Group Revenue Account**

This is a summary of Lewisham Homes' and Catford Regeneration Partnership's transactions included in the Group Comprehensive Income and Expenditure Statement, prior to the elimination of intra-group transactions (the transactions that took place between the subsidiaries and the council):

	<b>Catford RP Ltd 2011/12 £000</b>	<b>Lewisham Homes 2011/12 £000</b>	<b>Total 2011/12 £000</b>	<b>Catford RP Ltd 2010/11 £000</b>	<b>Lewisham Homes 2010/11 £000</b>	<b>Total 2010/11 £000</b>
Cost of Services	(761)	(2,057)	(2,818)	(774)	(1,484)	(2,258)
Other Operating Expenditure	0	0	0	0	0	0
Financing and Investment Income and Expenditure	810	(838)	(28)	909	(41)	868
Taxation and non-specific Grant Income	0	9	9	0	4	4
Other Comprehensive Income and Expenditure	(2)	718	716	0	(46)	(46)
<b>Total Comprehensive Income and Expenditure</b>	<b>47</b>	<b>(2,168)</b>	<b>(2,121)</b>	<b>135</b>	<b>(1,567)</b>	<b>(1,432)</b>

**8. Summary of Subsidiaries' Transactions included in the Group Balance Sheet**

This is a summary of Lewisham Homes' and Catford Regeneration Partnership's transactions included in the Group Balance Sheet, prior to the elimination of intra-group transactions (the transactions that took place between the subsidiaries and the council):

	<b>Catford RP Ltd 2011/12 £000</b>	<b>Lewisham Homes 2011/12 £000</b>	<b>Total 2011/12 £000</b>	<b>Catford RP Ltd 2010/11 £000</b>	<b>Lewisham Homes 2010/11 £000</b>	<b>Total 2010/11 £000</b>
Long term assets	11,910	4,341	16,251	11,910	838	12,748
Inventories	0	55	55	0	29	29
Debtors	101	7,067	7,168	86	4,722	4,808
Cash and Cash Equivalents	164	1,612	1,776	124	1,927	2,051
Provisions	0	(47)	(47)	0	(50)	(50)
Creditors	(446)	(3,459)	(3,905)	(396)	(3,635)	(4,031)
Receipts in advance	(58)	0	(58)	0	0	0
Short term borrowing	(90)	0	(90)	0	0	0
Long term borrowing	(11,759)	0	(11,759)	(11,855)	0	(11,855)
Liability related to defined benefit pension scheme	0	(3,570)	(3,570)	0	0	0
<b>Net assets</b>	<b>(178)</b>	<b>5,999</b>	<b>5,821</b>	<b>(131)</b>	<b>3,831</b>	<b>3,700</b>

**SECTION 7**

**ANNUAL  
GOVERNANCE  
STATEMENT**

**2011/12**

## ANNUAL GOVERNANCE STATEMENT

### 1. SCOPE OF RESPONSIBILITY

The London Borough of Lewisham (Lewisham) is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must make certain that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Lewisham also has a duty under the *Local Government Act 1999* to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Lewisham is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Lewisham has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

In accordance with paragraph 3.7.4.3 of the Code of Practice on Local Authority Accounting for 2011/12; it is noted that Lewisham's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) as set out in the Application Note to *Delivering Good Governance in Local Government: Framework*.

The Annual Governance Statement (AGS) explains how the authority has complied with the code and also meets the requirements of regulation the *Accounts and Audit (England) Regulations 2011* in relation to the publication of a statement on internal control.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled. The framework also governs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives or compliance with policies and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lewisham's policies, aims and objectives. It then evaluates the likelihood of those risks being realised and the impact should they be realised, and seeks to manage them efficiently, effectively and economically.

The governance framework has been in place at Lewisham for the year ended 31 March 2012 and up to the date of approval of the annual governance statement and statement of accounts.

#### **A summary of the governance framework**

Lewisham's directly elected Mayor ensures the Council has a clear strategic direction and effective leadership. The Council benefits from the perspectives and contributions of 54 Councillors. The Council's Constitution clearly defines the roles of Members and Officers, and this clarity contributes to effective working relationships across the Council.

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### Annual Governance Statement

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The Local Code of Corporate Governance and well developed Codes of Conduct for Members and Officers demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely. A new Member Code of Conduct was adopted in June 2012 to reflect changes introduced in the Localism Act 2011.

Financial decisions are tied to corporate priorities. The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel to provide a check on the Council's governance arrangements represent constructive and informative tools to ensure the robustness of the Council's arrangements.

The Council's overall vision for the area is shared by its key partners on the Lewisham Strategic Partnership (LSP) and was developed following extensive consultation with the community.

The Annual Audit letter of 2009/10, issued by the Audit Commission's appointed auditor concluded that the Council was considered to have '*strong governance arrangements in place*' and '*effective risk management systems which are well integrated across the whole of the council and includes partnership working*'. In its subsequent reporting no governance concerns have been raised.

In December 2010, the Government introduced the Localism Bill (now the Localism Act) into Parliament. The Head of Law provided an all party briefing on the Act, and also provided a briefing to the Standards Committee in March and June 2012. Briefings on the Localism Act have also been provided to the Mayor and Cabinet, the Executive Management Team and Heads of Service. The Head of Law has also provided training to staff in specific services such Planning and Housing, where the Localism Act could have a significant impact as well as briefings on the new Member Code of Conduct and the revised Constitution.

### 3. ELEMENTS OF THE GOVERNANCE FRAMEWORK

#### a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

The long-standing vision of the Council is: *Together, we will make Lewisham the best place in London to live, work and learn*. This was agreed following extensive consultation and adopted by the LSP as the vision statement for Lewisham's first Community Strategy, launched in 2003. This joint vision is promoted on the Lewisham website and in Council strategies, which are also published on the website.

In 2008 the LSP published "*Shaping our future: Lewisham's Sustainable Community Strategy (SCS) 2008-2020*" in line with the recommendations of the Local Government White Paper, *Strong and Prosperous Communities* (2006). The development of the SCS was informed by an extensive programme of consultation, which identified resident's aspirations for Lewisham, and which ensured that those views fed into the six key outcomes for the borough the SCS sets out to achieve.

This development approach was endorsed by the Audit Commission, when they concluded in their 2009 Area Assessment that "*Lewisham's local strategic partnership understands the issues of concern to residents very well. Their main priorities reflect local people's needs and wishes clearly*".

The Council has an enduring set of 10 corporate priorities. The corporate priorities set out how the organisation will contribute to the delivery of the SCS. Performance against the corporate priorities is reviewed every year through the Annual Report and is also supplemented by the Monthly Management Report. The most recent version was in August 2012.

Details relating to the Council's vision, values and priorities are contained on Lewisham's website. This ensures that members of the public, citizens and service users are able to hold the Council to account.

#### b) Reviewing the authority's vision and its implications for the authority's governance arrangements

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### Annual Governance Statement

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The Lewisham Strategic Partnership is led by the LSP board which is chaired by Lewisham's directly-elected Mayor. A series of thematic partnerships work with the LSP board, each concentrating on a specific set of cross-cutting policy issues. The thematic partnerships bring together the relevant organisations and individuals to determine appropriate interventions and to ensure that joint-working results in the best possible outcomes for citizens and service users. The LSP board and thematic partnership boards have re-aligned their focus around the six key outcomes set out in the SCS. The plans which relate to the thematic boards are monitored on a regular basis. The monitoring of such plans feeds up to the LSP board and into the wider monitoring of the SCS.

The Council assessed the implications of change for the Council's governance arrangements through the review of the Local Code of Corporate Governance at the Standards Committee (10<sup>th</sup> May 2007) and at Council (23<sup>rd</sup> May 2007). Further reviews of the Local Code have taken place in 2008, 2009, 2010, 2011 and is ongoing for 2012. The review of 2009 (reported to Standards Committee on 5<sup>th</sup> May 2009) recommended that the Local Code be extended to include a new requirement – in the light of new CIPFA guidance and the Council's extensive partnership arrangements – to ensure effective partnership governance and risk management.

Further to this, on an ongoing basis, the work of the Constitution Working Party and the Internal Control Board addresses governance issues arising out of the Council's vision for the area.

#### **c) Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources.**

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that: *'The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision. It uses the Performance Plus performance monitoring system to monitor performance. Cabinet and the senior management team monitor the impact of the savings via regular budget monitoring reports.'*

A review of the Performance Management Framework takes place annually, to ensure continuous improvement. The Performance Management Framework allows for robust and structured target setting against national requirements and local priorities. It also allows the Council, its partners and residents to monitor and measure the Council's effectiveness against these national and local performance indicators.

Our Monthly Management Report is the centrepiece of our performance reporting structure. It provides a clear and easy to read analysis of our performance against a basket of 59 indicators including former national indicators and local measures, and also includes an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. It is produced entirely from the Performance Plus (P+) system and is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and to the Mayor and Cabinet.

The Monthly Management Report utilises exception reporting to focus attention on key areas: exception reporting for red Projects, Risk and Finance and Red and Green exception reporting for performance. By combining these four areas for each of our corporate priorities, it functions as the critical tool for supporting decisions across the organisation. While examining this report, the Executive Management Team, Mayor and Cabinet and Public Accounts Select Committee challenge all aspects of performance. The report is also published on the Council's website, and so is accessible to members of the general public.

In March 2012, following a review of the Council's performance management system, our internal auditor RSM Tenon reported that: *'Taking account of the issues identified, in our opinion the Council can take Substantial Assurance that the controls are relied on to manage this area, as currently laid down and operated, are effective.'*

The quality of services for users is also measured through satisfaction surveys and information from the complaints management and resolution process. The Council's complaints procedure is published on the web and has been publicised, through the Council's quarterly newsletter – "Lewisham Life" - to all residents of the borough. The Council has taken active steps to improve its complaints procedure and continues to use the Council's complaints management system, iCasework, to record complaints and feedback. The Council's website has been updated to provide comprehensive information relating to

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### Annual Governance Statement

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complaints. This also includes a fact sheet about the role of the Independent Adjudicator. The Head of Strategy and Performance for Customer Services reports annually to the Standards Committee with an update on complaints, complaints performance is considered annually by Mayor and Cabinet and the Public Account Select Committee. Further reports are considered monthly at Directorate Management Team level and quarterly at Executive Management Team and in the Council's Management Report.

Value for Money (VfM) is integral to Council operations, and the budget strategy is predicated on ensuring that the Council is delivering good VfM. A Budget Saving Strategy Group is in place and provides a focus on securing budget savings (whether this be via improving efficiency, or by the thematic review and re-design of services or by budget cuts or service cessations). The group was created to focus on delivering the revenue budget savings which would be needed to ensure the success of the Budget Strategy.

The Group comprises, Heads of Strategy and Performance and Group Finance Managers, plus a representative from Human Resources and Legal Services. The Group has the remit to review and act as a sounding board for the Budget Strategy, savings process, saving proposals and the mechanics for ensuring the Council has a smooth process for delivering savings. The Group is also responsible for annually reviewing the existing process and suggesting ways to improve it.

In addition to this, the Council is continuing to develop its approach to value for money through its participation in the Local Authority Performance System (LAPS). The LAPS tool enables London local authorities to benchmark costs and performance and develop VFM profiles across a range of service areas.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that *'The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency and productivity'*.

#### **d) Defining and documenting the roles and responsibilities of the Executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The Council's Constitution sets out the roles and responsibilities of the Mayor, Chair of Council, the Council as a whole, the Executive, Overview and Scrutiny committees, Standards Committees and other committees.

Members follow the required formal procedures when making Council decisions, which ensure that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal interest.

Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution. Decisions are taken in accordance with the general principles of administrative law and on the basis of professional advice at all times. Minutes are published and made widely available through the Lewisham website. All Executive decisions are subject to review by Overview and Scrutiny business panel and may be called-in in accordance with the Council's Constitution. There was one matter called-in (referred to the Mayor for reconsideration) during the current AGS 2011/12 review period, this was the prioritisation of transport schemes on June 1<sup>st</sup> 2011. More recently however, there have been two call-ins made; the Removal or Governor report in June 2012 and the Housing Matters Report in July 2012.

The highest standards of ethical conduct are adhered to in order to avoid actual, potential and perceived conflicts of interest. The principles of decision making appear as Article 16 within the Constitution. Each year the Standards Committee receives a report on Member compliance with the Code of Conduct. In December 2011 the Standards Committee reported that there has been good compliance with the Member Code of Conduct. From the 1<sup>st</sup> July 2012 there will be a requirement for a new Code of Conduct, preparations have been made during 2011 and 2012 to brief members of the Standards Committee ahead of this, with the most recent briefing being given in June 2012.

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**Annual Governance Statement**

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In achieving accreditation under the London Member Development Charter in April 2008, the Council agreed a range of role descriptors for members according to the role they fulfil (e.g. executive / community representative / overview and scrutiny etc) and has put in place a personal development scheme to enhance member capability in those roles. In preparation for the 2012/13 Member needs development programme a training needs assessment was carried out. Officers support all Members in the performance of their various roles and this is detailed in the Constitution. The roles of the statutory officers are also set out at Article 14 of the Constitution and in detailed job descriptions. The Schemes of Delegation by both the Mayor and the Council are appended to the Constitution at Part VIII.

**e) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council adopted an amended Member Code of Conduct in July 2010 to comply with new legal requirements. It complies with all statutory provisions and is appended to the Constitution at Part V. It appears on the Council's website, on the intranet and is well publicised. A comprehensive training programme on the Codes of Conduct is delivered by the Head of Law (Monitoring Officer) on an on-going basis for members of the Council. A revised Member Code of Conduct will be in place by July 2012, the Head of Law has briefed members of the Standards Committee ahead of these changes.

Monitoring Officer advice is regularly sought by members in relation to potential Code of Conduct issues. The Standards Committee was consulted on changes to the Member Code in June 2012. They were also consulted on the review of compliance with the Members Code of Conduct in December 2011.

The Council has in place an Employee Code of Conduct which complies with all legal requirements and is appended to the Constitution at Part V. The purpose and content of the Employee Code of Conduct is communicated frequently and widely.

**f) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

***Reviewing and updating standing orders, standing financial instructions***

The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet. The Financial Regulations, the Schemes of Delegation and the Financial Procedures were updated and published in November 2011. The Council's procedure rules, of which Standing Orders are a part, are reviewed alongside the Constitution; the Constitution is reviewed on a regular basis.

Alongside this, the financial awareness rolling training programme for budget holders continued in 2011/12 and beyond, to ensure that all budget holders have the necessary skills required to manage budgets effectively.

***Scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken***

The Constitution is very clear about the decision making process. It requires that Members follow formal procedures when making Council decisions, which ensures that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Committee reports are produced by officers in a standard format to ensure that authors address all significant considerations such as the legal and financial implications of decisions, equalities issues, environmental issues and a crime and disorder assessment.

Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal interest. The principles of decision making appear as Article 16 within the Constitution.

There is a well embedded agenda planning process and a requirement for reports to be signed off by senior officers. Decisions are taken in accordance with the Council and Mayoral scheme of delegation as

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### Annual Governance Statement

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appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution.

The Constitution requires Executive decisions to be published within two working days of being taken, and sent to all Members of the Council where possible by electronic means. Minutes are published and made publicly available on the Lewisham website. All Executive decisions may be called-in by the Overview and Scrutiny Business Panel in accordance with the Council's Constitution.

The Constitution provides for the Council to have a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements. In practice, the procedure rules set out in the Constitution are under constant review to reflect changing needs. In 2011/12 reports to Council have included a Parliamentary Boundary Review, a Polling District review, the creation of a Positive Ageing Council, and the confirmation of a statutory Scrutiny Officer. The Constitution has been updated to reflect these new responsibilities.

In October 2011 the Chief Executive, Barry Quirk, the Head of Law, Kath Nicholson and the Executive Director for Resources, Janet Senior provided training on decision making within the Local Authority. The training was delivered to Group Managers, Head of Services and other relevant staff who undertake decisions within the organisation.

#### ***Maintaining an adequate and effective system of internal audit***

The Account and Audit (England) Regulations 2011, require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The role of internal audit is to provide an independent and objective opinion on the control environment within the Council. Internal audit work is undertaken in accordance with the CIPFA Internal Audit Code of Practice for Internal Audit in Local Authorities 2006 (the code).

The work of Internal Audit is set out in an annual internal audit plan that covers the key financial systems, schools, and the operational activities where Internal Audit and management perceive there are risks to achieving operational objectives. The work of internal audit also supports the work of the Council's External Auditor who reviews their work in detail to satisfy themselves the work of internal audit can be relied upon.

The Council's governance, risk and control management arrangements are subject to annual independent review by the Audit Commission, the Council's external auditors.

In order to provide assurance on our risk management framework, a 'risk maturity thematic review' of risk management across the Council was again commissioned from our internal audit service providers, which reported in May 2012. The conclusion of the review is that the Council has maintained its 'managed' approach to risk, which is the second highest of their five potential categories for the assessment.

For each audit where controls have been analysed, Internal Audit issues an assurance statement which indicates the level of assurance that management can place on the adequacy and effectiveness of the internal controls. For 2011/12, four levels of assurance were used: Two positive levels, 'substantial' and 'adequate' assurance; and two negative levels, 'limited' and 'no assurance'. In each report Internal Audit may also make control improvement recommendations, rated High, Medium or Low.

For 2011/12 89 assurance reviews were undertaken. Of the 81 of these finalised by end July and for which an opinion on internal controls was issued 11% (7% in 2010/11) were issued with a negative level of assurance, including two 'no assurance' opinions. Where a negative or no assurance opinion has been issued remedial action is being undertaken by managers and monitored by Audit Panel and ICB. In respect of the total number of recommendations made from all the reviews in the year; 8% were high (4% in 2010-11) and 48% medium (58% in 2010/11).

The sixteen key financial systems are fundamental to the operation of the Council, so it is important that these systems have robust internal control mechanisms and operate effectively. The Head of Audit and Risk confirmed that, with one exception, all of these systems have been issued with a positive assurance level for 2011/12. In all but three cases these systems have either maintained or improved their assurance level on 2010/11. Recommendations have been made to strengthen internal control for the

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### Annual Governance Statement

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three systems where the assurance opinion was lower this year than last - Council Tax, Payroll and Debtors. Payments to Residential and Domiciliary Care Service Providers system received a limited assurance opinion in 2011/12. These recommendations will be addressed by management and followed-up by internal audit in 2012/13.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that the Council: *'has robust systems and processes to manage effectively financial risks and opportunities and secure a stable financial position'*.

#### ***The processes and controls required to manage risks***

The Accounts and Audit (England) Regulations 2011 highlight the Council's responsibility for ensuring it has in place a sound system of internal control which includes arrangements for the management of risk.

There is a robust risk strategy and framework, reviewed and updated in 2010/11, in place to manage risks. All services must maintain an operational risk register aligned to their service plan objectives. Risks are recorded and reported using the Council's main performance management system – Performance Plus. The risk registers record significant risks and score them in terms of impact and likelihood. Target scores are set and mitigation actions identified and monitored.

Directorate risk registers are considered in detail at least quarterly at Directorate Management Teams. Key risks within the directorate and corporate risk registers are then subject to quarterly reviews by the Risk Management Working Party and the Internal Control Board. The Internal Control Board is chaired by an independent 'non executive' person (Bill Roots, a former London local authority Chief Executive) and comprises the Executive Management Team, Head of Law (Monitoring Officer), Head of Audit and Risk and Group Manager for Insurance and Risk. Risks are updated quarterly and are tracked through the monthly management report which summarises key risks and mitigation actions taken.

The focus on risk in the Management Report was reviewed in 2011/12 to include a statement on the risk environment for each priority as well as the risks with a 'red' rating being reported. In addition, for both corporate and directorate risks any significant variances against target are reported.

Risk Management is embedded within the Council's approach to programme and project management. Project risks are regularly reviewed by Project Review Groups and Corporate Project Board. Risks for the whole capital programme are reviewed and updated quarterly. Members are involved in scrutinising risks with updates of the Capital Programme considered regularly by Public Accounts Select Committee and reported to Mayor and Cabinet.

In addition for 2011/12 to support better decision making, with the significant savings proposals considered and agreed by members, specific attention was given to identifying and assessing the key risks for each proposal submitted as part of the budget setting process.

#### **g) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The Audit Panel is made up of six elected members and up to four independent advisors and meets at least quarterly. A key role of the panel is to review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports are received by the panel on a quarterly basis, summarising the audit reports issued, management's progress on implementing internal audit recommendations, and the performance of the Internal Audit function. Update reports on the activities of the Anti-fraud and Corruption Team are also received by the panel on a quarterly basis. The panel receive the annual report of the Council's Head of Audit and Risk.

The panel consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. In terms of external assurance, the panel consider the external auditor's Annual Plan, other relevant external reports which contribute to the level of assurance. The panel monitors management action in response to issues raised by internal and external audit, and significant issues identified by these are included in the action plan appended to this statement.

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**Annual Governance Statement**

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The panel also consider the Council's annual Statement of Accounts and this Statement and makes comments on those to the meeting of the Full Council that considers the accounts.

**h) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, Members and relevant staff on corporate legislative developments. In 2012, the Head of Law briefed EMT, Members and relevant staff on the Localism Act and the possible impact that it could have on the organisation. The Head of Law has also briefed EMT, Members and relevant staff on the Bribery Act 2010, which came into force on 1<sup>st</sup> July 2011.

Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Where gaps or non-compliance are identified, appropriate action is taken (e.g. in response to Freedom of Information compliance issues, alternative procedural arrangements were put in place to enhance performance). Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council.

The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director for Resources and Regeneration as Chief Finance Officer in accordance with Section 151 of the *Local Government Act 1972* and to discharge the responsibilities under Section 114 of the *Local Government Act 1998* and Sections 25-28 of the *Local Government Act 2003* in relation to the Chief Financial Officer's statutory duties. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources and Regeneration which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process.

The Pensions Investment Committee has agreed a Governance Policy Statement which sets out how the Committee exercises its fiduciary duty to members of the Pension Fund. The Committee's governance arrangements include the appointment of an independent Custodian Bank responsible for the safe custody of the Fund's assets, the appointment of an independent investment advisor, independent actuary and investment consultant, Hymans Robertson. The Committee will review its Statement of Investment Principles in accordance with the CIPFA's Pensions Panel Principles of Investment decision making.

**i) Whistle-blowing and procedures for receiving and investigating complaints from the public**

The Council has a whistle-blowing policy in place which is widely publicised on the Council's website and in 'Lewisham Life'. Complaints made under this policy are handled by the Head of Law (Monitoring Officer). An annual review is considered by the Standards Committee (this most recently happened in March 2012).

**j) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The overall aim of the Members' Development Programme is to ensure that all members 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. For 2011/12 a general member development programme has been completed. This comprised member briefings, specific training events and targeted support as appropriate.

This is recognised as best practice and feedback from members indicates the programme has helped them considerably in carrying out their roles.'

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The Head of Personnel and Development has responsibility for the development needs of senior officers. The Monitoring Officer also plays a key role in ensuring that senior officers are aware of their statutory duties and changes in legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors. These are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

**k) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

Lewisham has an open and outward facing culture that is clearly focussed on the needs of our residents and facilitated by an exceptionally strong and diverse approach to engagement and consultation.

The Council's engagement activity is overseen by the Strategy Performance and Communications Board. The Board operates at Executive Director level and provides a strategic steer on the communication and consultation agendas within the Council. It is supported by its subsidiary, the Consultation Steering Group, which draws representation from across the Council and supports effective resident engagement at an operational level.

These arrangements are underpinned by the Council's Framework for Engagement (2009-2012). This sets in place shared principles for engagement, which were also agreed at a partnership level through the Stronger Communities Partnership.

In support of this, and to provide increased channels through which citizens are engaged, the Council continues to promote e-Participation by implementing a new online engagement system. This system provides the platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Other channels of engagement include the 18 ward-level Area Assemblies which came into operation in 2008 and are open to anybody living or working in the ward, and the Young Citizens Panel which enables any young person aged 11-18 years either living or studying in the borough to join.

The Audit Commission awarded Lewisham a "green flag" for community engagement and empowerment of local people, in their 2009 Area Assessment. They concluded that *'empowering and involving local people is at the heart of the way public sector partnerships work in Lewisham to improve the area as a place to live. Partners have an excellent track record of involving local people, including those who are less likely to be active in the local community.'*

**l) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements**

The Council acts in a number of partnerships with a view to improving the quality of life for local people. These partnerships take a variety of forms, from large scale contracting, as in the case of the Building Schools for the Future programme, to strategic alliances such as the Lewisham Strategic Partnership (LSP). The Council has used the Audit Commission report on the governance of partnerships to provide a framework to assess its arrangements in relation to partnership working.

As a first stage in that process, the Head of Law (Monitoring Officer) conducted an exercise in relation to several of the most significant partnerships in the borough and reported those findings to the Internal Control Board. In February 2009, a detailed audit of all of the Council's major partnerships and contractual arrangements was reported to the EMT and to ICB. In response, EMT required all Directorates to consider partnership governance arrangements, and particularly the business continuity arrangements of those partnerships, as a standing item at Directorate Management Team meetings. In November 2009, the Chief Executive presented a paper to ICB which assessed the main risks to the partnerships within each of Lewisham's six Sustainable Community Strategy priority themes.

As part of the review of the Local Code in 2009 the Standards Committee accepted a recommendation to extend the Code to include a provision to ensure that the Council has robust and effective mechanisms to ensure partnerships are effectively governed and that partnership risks are identified and managed.

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In November 2009, Standards Committee considered a new “Standards in Partnership” protocol that has been developed by Standards for England. Adherence to this protocol is intended to ensure that the aims of the partnership can be fulfilled effectively and the public can have confidence in the operation of the partnership.

The Standing Committee made a recommendation to refer this partnership protocol to the LSP, where it was considered in December 2009. The LSP reviewed its Terms of Reference and Code of Conduct in 2010 in order to reflect the good practice set out in the new Standards for England partnership protocol.

#### **4. REVIEW OF EFFECTIVENESS**

Lewisham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Risk’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process by which the governance framework has been maintained and reviewed is widespread. It occurs throughout the year and at year end. On an ongoing basis, throughout the year, it has involved the following:

- Consideration by Internal Control Board of governance issues – including risk registers, counter-fraud updates and internal audit reports.
- The Head of Audit and Risk prepares a rolling plan of audit coverage to be achieved in the forthcoming year, based in primarily on an assessment of the Council’s risk profile. The plan is reviewed by the Internal Control Board.
- The Audit Panel receives the Internal Audit Strategy and approves the annual audit plan.
- The Audit Panel receives the annual assurance report from the Head of Audit & Risk which set out his opinion on the Council’s overall control environment.
- The Audit Panel reports on its work to the Public Accounts Select Committee twice a year.
- Executive Management Team (EMT) consider a full range of governance issues throughout the year, including issues relating to the improvement of the Internal Audit Service. EMT scrutinise performance and risk regularly and ensure management action where necessary.
- The Standards Committee considered the efficiency of the Council’s complaints handling system and the effectiveness of the Whistle Blowing Policy. In June 2011 it considered the review of the Council’s Code of Corporate Governance, and in December 2011 it reviewed Member compliance with the Member Code of Conduct.
- The Independent Remuneration Panel made recommendations to the Council about the accountability and effectiveness of Members.
- An Executive Remuneration Panel was established and the Pay Policy Statement endorsed by full Council (March 2012).
- Consideration of external audit reports conducted in year by Mayor and Cabinet, Audit Panel and relevant Select Committees.
- Constitution Working Party considered the Ethical framework (Localism Act 2011) and endorsed the retention of a formal Standards Committee.

**At year end, the review of the effectiveness of the governance framework is conducted under the auspices of the Chief Executive by a team of officers consisting of:**

- Kath Nicholson: Head of Law and Monitoring Officer
- Troy Robinson: Standards & Education Law Advisor
- Barrie Neal: Head of Corporate Policy and Governance
- David Austin: Interim Head of Audit and Risk
- Annabel Saunders: Principal Policy Officer
- Paul Aladenika: Head of Policy and Partnerships

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The AGS working party have met regularly since March 2008. Officers have been drawn from across the council to represent key areas of expertise in governance and internal control matters. The terms of reference for the group are as follows:

- To provide expertise in the development of the AGS on governance and internal control matters
- To analyse CIPFA/SOLACE guidance in relation to the development of the Annual Governance Statement
- To collate evidence from across the organisation relating to CIPFA/SOLACE guidance
- To evaluate evidence collated and identify areas for action
- To compile an action plan of significant governance issues
- To develop the Annual Governance Statement to be incorporated in the Statement of Accounts on an annual basis
- To ensure that the AGS is signed off appropriately through the council's key control mechanisms: Internal Control Board (including EMT members), Audit Panel, and Full Council
- To review the Annual Governance Statement and arrangements for governance and internal control throughout the year

The process by which the governance provisions are reviewed at year end includes:

- The consideration by ICB (EMT members) on the 3<sup>rd</sup> September 2012 of a draft Annual Governance Statement. This year no significant gaps or governance issues have been identified, as such the action plan outlined in Annexe 1 outlines instead significant areas of governance focus needed to maintain an effective governance framework
- Preparation of the Accounts and the Head of Audit and Risk's Annual Report and consideration of these and the Annual Governance Statement by the Council's Audit Panel on 20th June 2012.
- A review of the Council's Local Code of Corporate Governance by the Standards Committee on the 6th June 2012, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts, and advice from Audit Panel on the 26th September 2012.
- Sign off by the Chair of the Council and Chief Executive, once approved.

## **5. SIGNIFICANT GOVERNANCE FOCUS**

In addition to the action taken to deal with governance during the course of 2011/12, as outlined in section 3 of this statement, we propose to take steps over the coming year (2012/13) to continue to maintain and improve governance within Lewisham. Annexe 1 outlines the areas of significant governance focus in Lewisham, as well as progress to date and next steps. These actions have been selected due to their importance in maintaining an effective governance framework and have been agreed by the Internal Control Board.

We intend to monitor their implementation, operation and effectiveness as part of our next annual review. To do this regularly throughout 2012/13 it is proposed that the officer team dealing with governance arrangements meet quarterly and report on progress to the Internal Control Board and/or Audit Panel on relevant issues.

**Signed on behalf of the Council;**

**Councillor  
Chair of Council  
Date : 26<sup>th</sup> September 2012**

**Barry Quirk  
Chief Executive  
Date : 26<sup>th</sup> September 2012**

**ANNEXE 1**

**SIGNIFICANT  
GOVERNANCE ISSUES –  
ACTION PLAN**

**2012/13**

## SIGNIFICANT GOVERNANCE ISSUES – ACTION PLAN 2012/13

<b>1. Governance Action:</b>	<b>Legislative Change – Ensure compliance with new and forthcoming legislation</b>
<b>Desired Outcomes</b>	Lewisham is compliant with all legislation including new and forthcoming changes
<b>Timescales</b>	March 2013
<b>Lead Officer</b>	Head of Law
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b> The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. As part of these duties the Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, Members and relevant staff on corporate legislative developments. The Monitoring Officer and Executive Directors accept responsibility for compliance with new legislation.</p> <p>Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council to support with this and wider legal matters.</p> <p><b><u>Progress to date:</u></b> Examples of progress over the past quarter include the following:</p> <ul style="list-style-type: none"> <li>• briefings by the Head of Law have been done for all members, EMT, Service Heads and Legal Services on implications of the Localism Act 2011;</li> <li>• report to full Council on the new ethical framework and adoption of new Member Code of Conduct;</li> <li>• briefing to all members on the revised Member Code of Conduct;</li> <li>• phased redrafting the Constitution to reflect changes introduced by Localism Act 2011;</li> <li>• Healthier Communities Select Committee received a briefing on the Health and Social Care Act 2012;</li> <li>• briefing and discussion at EMT on Community Right to Challenge;</li> <li>• report to members on Community Right to Challenge;</li> <li>• report to Mayor &amp; Cabinet on meeting the Decent Homes Standards and the provision of sufficient housing, and;</li> <li>• report to Mayor &amp; Cabinet on changes to allocations and tenancies post Localism Act 2011.</li> </ul> <p><b><u>Next steps:</u></b></p> <ul style="list-style-type: none"> <li>• report to Constitution Working Party on constitutional amendments following internal review and Localism Act 2011 changes;</li> <li>• report to Council on adoption of revised Constitution;</li> <li>• further consideration on Community Right to Challenge;</li> <li>• implement procedures for Assets of Community Value;</li> <li>• assess impact of anticipated Regulations in relation to Access to Information and Health Scrutiny functions, and;</li> <li>• preparation for transfer of public health functions;</li> <li>• in August 2012 the Government introduced new access to information regulations to be effective from 10th September this year. A report is to be considered by the Council's Constitution Working Party on 6th September with a view to recommending changes to the Council's Constitution at its September meeting to reflect the new law;</li> <li>• the Head of Law is conducting an officer briefing also on 6th September to inform those involved in report writing of the new requirements for access to information. A member briefing will follow.</li> </ul>

## Annexe 1 – AGS Action Plan

<b>2. Governance Action</b>	<b>Procurement Strategy – Development and Implementation of an updated Procurement Strategy</b>
<b>Desired Outcomes</b>	The Council is compliant with the revised procurement strategy including all new legislation
<b>Timescales</b>	December 2012
<b>Lead Officer</b>	Procurement strategy Manager
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b></p> <p>The Procurement team works within European Union and UK legislation related to Public Procurement Regulations; and internally to Lewisham Council 's Contract Procedure Rules included within the Constitution. The Council's procurement function maintains a strategic overview of corporate procurement activity and ensures that contracts and purchasing arrangements are carried out in line with legal requirements and the Council's policies and procedures. The procurement function also:</p> <ul style="list-style-type: none"> <li>• provides advice, guidance and training on all aspects of the Council's contractual procedures and contractual and purchasing arrangements including the review of draft committee reports, and;</li> <li>• undertakes contractor/service provider appraisals, tender evaluation and contract negotiations.</li> </ul> <p><b><u>Progress to date:</u></b></p> <ul style="list-style-type: none"> <li>• legal advice has been gained regarding new and anticipated legislation that will be reflected within the revised strategy, this is namely the Localism Act 2011 and the Public Services (Social Value) Act 2012;</li> <li>• the Procurement Team have been actively assisting client colleagues in meeting the Council's requirement to include social considerations in contracts, which has been achieved by the acceptance of paying the London Living Wage over an increased number of contracts;</li> <li>• the Code of Practice for Contractors, Suppliers and Service Providers has also been amended to include the use of contracting activity to increase the number of apprenticeships, use of local labour and local businesses;</li> <li>• a draft strategy has been produced and is being consulted on by colleagues,</li> <li>• the contract procedure rules have been revised within the new Constitution (to be agreed in September 2012).</li> </ul> <p><b><u>Next steps:</u></b></p> <p>The draft strategy is to be revised in light of comments from colleagues and a final draft is to be presented to the Commissioning and Procurement Board in September.</p>

<b>3. Governance Action</b>	<b>Multi-agency Governance – Maintain effective multi-agency governance and partnership working</b>
<b>Desired Outcomes</b>	Delivery of the priorities within the Sustainable Community Strategy (2008 -2020)
<b>Timescales</b>	March 2013
<b>Lead Officer</b>	Strategic Partnership Manager
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b></p> <p>The Lewisham Strategic Partnership (LSP) brings together representatives from Lewisham's public, private, voluntary and community sector organisations. The LSP Board coordinates partnership activity in Lewisham and brings together representatives from Lewisham's public, private, voluntary and community sectors to set the overarching vision for the borough and to provide a partnership framework which will ensure that this vision is realised.</p>

**Annexe 1 – AGS Action Plan**

	<p>The Shadow Health and Wellbeing Board is the most recently established thematic partnership having been formed in 2011 (ahead of statutory requirements to have this board in place by April 2013).</p> <p><b><u>Progress to date:</u></b></p> <ul style="list-style-type: none"> <li>• an LSP meeting was held in May 2012 to discuss the future role and work programme for the partnership;</li> <li>• formal terms of reference for the Shadow Health and Wellbeing Board have been developed, and;</li> <li>• membership of the Shadow Health and Wellbeing Board has been detailed within the new Constitution (due to be signed off on the 26<sup>th</sup> September 2012 by Full Council).</li> </ul> <p><b><u>Next steps:</u></b></p> <ul style="list-style-type: none"> <li>• following the meeting in May, the Mayor has requested that a paper be drafted outlining the different options, relating to the future role and work programme of the LSP. This options paper will be used to agree any future changes to the partnership structure, and;</li> <li>• the formality of the Health and Wellbeing Board.</li> </ul>
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<b>4.Governance Action:</b>	<b>Internal Control - Maintain robust risk management arrangements</b>
<b>Desired Outcomes</b>	Foreseeable risks are anticipated with mitigations and controls in place and complied with to minimise the impact on service delivery and the wider Council (financial or reputational) in the event of a risk materialising.
<b>Timescales</b>	March 2013
<b>Lead Officer</b>	Head of Audit and Risk
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b></p> <p>The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel also provide a check on the Council's governance arrangements and risk mitigation work. In addition to this the Council also has systems in place to manage business continuity, health and safety (H&amp;S), anti-fraud and corruption and information management.</p> <p><b><u>Progress to date:</u></b></p> <p>In 2011/12 the actions for improvement identified at the Internal Control Board were implemented. This included strengthening the focus and reporting to Internal Control Board on risk and internal control matters, significant business continuity testing and preparation in advance of the Olympics / Paralympics, launch of a mandatory training programme in respect of information asset safeguarding, and preparations for strengthening compliance arrangements.</p> <p><b><u>Next steps:</u></b></p> <ul style="list-style-type: none"> <li>• deliver the full planned core systems and risk based (including lessons learnt from cases of fraud) internal audit programme for the financial year.</li> <li>• complete the refresh and re-launch of all H&amp;S procedures online supported by a full year's H&amp;S training programme to raise H&amp;S awareness and skills.</li> <li>• continue to strengthen the framework around information management by updating policies to meet requirements of Transparency Agenda and proposed Freedoms Bill, delivering training and monitoring compliance with good practice, and;</li> <li>• assess and prepare for the operational impact(s) (immediate or medium term) on internal control arrangements from the integration of health services taken on by the Council.</li> </ul>

## Annexe 1 – AGS Action Plan

<b>5. Governance Action:</b>	<b>Performance Management - Maintain effective and robust performance management arrangements</b>
<b>Desired Outcomes</b>	Performance management arrangements are a robust and transparent indication of the Council's performance
<b>Timescales</b>	March 2013
<b>Lead Officer</b>	Head of Corporate Policy and Governance
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b> The monthly Management Report is the centrepiece of Lewisham's performance reporting structure. It provides performance analysis against a basket of 59 indicators including an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. The management report is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and Mayor &amp; Cabinet. It is also available on the Council website.</p> <p>The Report brings together performance indicators, risk entities, finance data and information on major projects into one overarching document.</p> <p>The production of the monthly Management Report is supported by Directorate Management Teams, which convene performance meetings to directly monitor and address performance for which they are responsible.</p> <p><b><u>Progress to date:</u></b> Following the review of current performance indicators a revised basket of indicators will be presented in the August 2012 report, including some newly introduced indicators.</p> <p>Progress continues to be reported against individual and aggregate performance measures (by Council priorities).</p> <p>The Council is also inputting into the Local Authority Performance System (led by London Councils) and LG Inform (led by the Local Government Association).</p> <p><b><u>Next Steps:</u></b> Over the next year the performance management framework will be reviewed and revised accordingly to ensure continuous improvement of arrangements.</p>
<b>6. Governance Action</b>	<b>Ensure that the financial management of the Local Authority is conducted in accordance with the Council's statutory and financial obligations</b>
<b>Desired Outcomes</b>	<ul style="list-style-type: none"> <li>• improve the quality of auditable grant claims;</li> <li>• close the council's financial accounts on time, and;</li> <li>• accounts are produced on time and without significant issues arising from external audit.</li> </ul>
<b>Timescales</b>	June 2012, October 2012 and December 2012 respectively
<b>Lead Officer</b>	Head of Business Management and Service Support
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b> The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director for Resources and Regeneration as Chief Finance Officer. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources and Regeneration which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process</p>

## Annexe 1 – AGS Action Plan

	<p>The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet.</p> <p><b><u>Progress to date:</u></b> Closing timetable prepared and significantly shorter than last year, allowing for extra focus on key risk areas. Training provided to all finance staff to enable them to understand audit requirements better and hence how to prepare improved working papers.</p> <p><b><u>Next steps:</u></b></p> <ul style="list-style-type: none"> <li>• complete the audit of 2011/12 accounts to be presented to Full Council on the 26<sup>th</sup> September 2012, and;</li> <li>• prepare transition to new auditors from 1 November 2012.</li> </ul>
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<b>7. Governance Action:</b>	<b>Business as usual - Maintain robust control over the business as usual during the economic downturn and public sector cuts</b>
<b>Desired Outcomes</b>	Public welfare (social, economic and environmental wellbeing of the area)
<b>Timescales</b>	March 2013
<b>Lead Officer</b>	Annual Governance Statement Working Party
<b>Notes</b>	<p><b><u>Context and existing arrangements:</u></b> The Executive Management Team (EMT) continue to receive reports on the economic situation and it's impact on related areas including employment, housing and health. EMT are also addressing the demographic pressures on school rolls.</p> <p><b><u>Progress to date:</u></b> The Council is addressing issues of unemployment, the implementation of the Health and Social Care Act, housing needs and the significant increase in demand on school places through discrete initiatives relating to:</p> <ul style="list-style-type: none"> <li>• apprenticeships – which has seen 152 young people benefit to date (plus 63 new apprentices due to start in September). To date 20 new companies have provided expressions of interest for the October 2012 intake;</li> <li>• Mayor and Cabinet has agreed a wide ranging programme of housing investment to respond to increased demand and new financial circumstances, including new and improved council homes and sheltered housing;</li> <li>• the preparation for the transfer of Public Health functions to the Council, the establishment of the Shadow Health and Wellbeing Board, the Clinical Commissioners Group Pathfinder and the successful Council/Lewisham LINK bid to become a Healthwatch Pathfinder, and;</li> <li>• the programme to secure sufficient school places continues through a programme of permanent expansions and temporary enlargements. A new Framework agreement has been established for the procurement of buildings and building modifications.</li> </ul> <p><b><u>Next steps:</u></b></p> <ul style="list-style-type: none"> <li>• recruit for the 4<sup>th</sup> cohort of the apprenticeship program (starting October 2012);</li> <li>• develop a comprehensive NEETs strategy for 12-24 year olds;</li> <li>• delivery of the housing matters programme, which will include building 250 new council homes in the next five years, a programme of improvements for existing sheltered care housing and a new extra care housing scheme, and a conversation with residents about their priorities and the potential of new investment and ownership models, and;</li> </ul>

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**Annexe 1 – AGS Action Plan**

	<ul style="list-style-type: none"><li>• ongoing work to progress the Health and Social Care Act and its implications to ensure appropriate arrangements are in place before April 2013. This includes: the transition of public health functions and resources to the Council; the Commissioning of a local Healthwatch organisation; the procurement of an advocacy service for health complaints; establishing the statutory Health and Wellbeing Board and producing a Health and Wellbeing Strategy, and supporting the authorisation of Lewisham's Clinical Commissioning Group, and;</li><li>• to continue to carry out places planning in order to cater for the additional school places that will be needed.</li></ul>
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**Annexe 1 – AGS Action Plan**

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**ANNEXE 2**

**GLOSSARY OF TERMS  
AND ACRONYMS USED  
IN THE ACCOUNTS**

**2011/12**

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**Annexe 2 - Glossary**

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**GLOSSARY OF TERMS USED IN THE ACCOUNTS**

<b>ACCRUALS</b>	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.
<b>ACTUARY</b>	An independent professional who advises on the financial position of the Pension Fund and carries out a full valuation every three years.
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition or enhancement of assets which significantly prolong their useful lives or increase 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.
<b>CAPITAL ADJUSTMENT ACCOUNT</b>	Represents capital resources set aside to meet past capital expenditure.
<b>CAPITAL RECEIPTS</b>	Income received from the sale of land, buildings and plant.
<b>COLLECTION FUND</b>	A separate statutory account into which Council Tax and National Non-Domestic Rates are paid in order to meet payments due to the Council's General Fund and Preceptors (currently the Greater London Authority).
<b>CONTINGENT LIABILITY</b>	A possible liability to incur future expenditure at the balance sheet date dependant upon the outcome of uncertain events.
<b>CREDITORS</b>	Amount of money owed by the Council for goods, works or services received.
<b>DEBTORS</b>	Amount of money owed to the Council by individuals and organisations.
<b>DEPRECIATION</b>	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.
<b>EARMARKED RESERVES</b>	Amounts set aside for specific purposes to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.
<b>FAIR VALUE</b>	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.
<b>GENERAL FUND</b>	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.
<b>INFRASTRUCTURE</b>	A classification of fixed assets which have no market value and which exist primarily to facilitate transportation and communication requirements (e.g. roads, street lighting). They are usually valued at historic cost.

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**Annexe 2 - Glossary**

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<b>LEASES</b>	<p>A Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The definition of a lease includes hire purchase contracts.</p> <p>A Finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.</p> <p>An Operating lease is a lease other than a finance lease.</p>
<b>MEMORANDUM ACCOUNT</b>	<p>These Accounts are not part of the Council's formal statutory Accounts and are included in the Statement for added information.</p>
<b>MINIMUM REVENUE PROVISION</b>	<p>The prudent amount which must be charged to an authority's revenue account each year for principal repayments on loans .</p>
<b>NATIONAL NON-DOMESTIC RATE (NNDR)</b>	<p>National Non-Domestic Rate (NNDR) is set by the Government and collected by the Council and paid into the central pool. The Government pays back to the Council their share of the pool as part of the formula grant allocation.</p>
<b>PRIVATE FINANCE INITIATIVE</b>	<p>This is a central government initiative 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 may be reduced if performance targets are not met.</p>
<b>PRECEPT</b>	<p>These are demands made upon the Collection Fund by the Council's General Fund and the Greater London Authority in accordance with their budget requirements.</p>
<b>PROVISIONS</b>	<p>This is an amount which is set-aside for a specific liability or loss, which is likely to be incurred, but where the exact amount and date on which they will arise is uncertain.</p>
<b>REVALUATION RESERVE</b>	<p>Represents the gains on the revaluation of non current assets which have not yet been realised through sales.</p>
<b>REVENUE SUPPORT GRANT</b>	<p>This is the main general grant which is paid to the Council by Central Government to fund local services.</p>
<b>REVENUE EXPENDITURE</b>	<p>Day-to-day expenditure incurred in the running of Council services, e.g. salaries, wages, supplies and services.</p>
<b>SUPPORT SERVICES</b>	<p>These are activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front-line services.</p>

**ACRONYMS USED IN THE ACCOUNTS**

<b>CDC</b>	Corporate and Democratic Core
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>COP</b>	Code of Practice
<b>DSG</b>	Dedicated Schools Grant
<b>FRS</b>	Financial Reporting Standard
<b>HRA</b>	Housing Revenue Account
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards
<b>LEP</b>	Local Education Partnership
<b>LGPS</b>	Local Government Pension Scheme
<b>LPFA</b>	London Pensions Fund Authority
<b>LSP</b>	Local Strategic Partnership
<b>MiRS</b>	Movement in Reserves Statement
<b>MRP</b>	Minimum Revenue Provision
<b>NDC</b>	Non Distributed Costs
<b>NNDR</b>	National Non-Domestic Rates
<b>PCT</b>	Primary Care Trust
<b>PFI</b>	Private Finance Initiative
<b>SERCOP</b>	Service Reporting Code of Practice
<b>SPV</b>	Special Purpose Vehicle
<b>SSAP</b>	Statement of Standard Accounting Practice
<b>TPS</b>	Teacher's Pensions Scheme
<b>VAT</b>	Value Added Tax