



# **LONDON BOROUGH OF LEWISHAM**

## **AUDITED STATEMENT OF ACCOUNTS 2019/ 2020**

**LONDON BOROUGH OF LEWISHAM  
2019/ 2020 AUDITED STATEMENT OF ACCOUNTS  
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## **NARRATIVE STATEMENT BY THE DIRECTOR OF CORPORATE RESOURCES**

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

### **1. COUNCIL STRUCTURE AND PERFORMANCE**

#### **a) Corporate structure and governance**

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

#### **b) Management structure**

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

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

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

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

#### **c) Service delivery**

The Council employs some 2,200 full-time equivalent staff to deliver services for residents.

The demographic composition of the Council's workforce as at 31 March 2020 was:

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

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

There are some 3,000 staff employed by schools in the borough which therefore provides an overall combined workforce for Lewisham of some 5,200 full-time equivalent staff.

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

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

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Both of these companies operate as separate entities in their own right, with separate governance structures, board of directors, operational and audit arrangements. Their activities, which include the acquisition and building of new homes has necessitated the need to secure borrowing from the Council, and as such its significance has required group accounts to be produced.

**d) The Council's vision**

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

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

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

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

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

**f) Core values**

The Council also has the following four core values:

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

**g) Performance management**

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

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

## **2. THE IMPACTS OF COVID-19**

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

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

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

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

Following the easing of lockdown measures, most Council meetings have resumed in a virtual setting, but demand for critical services and the new responsibilities that Covid-19 has brought will not ease off for some time. Indeed, new responsibilities continue to emerge for the Council in support of the nationwide test and trace programme.

Throughout the duration of the coronavirus pandemic, the Council's continued focus will be on:

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

Staff who are working remotely will continue to do so until at least the end of March 2021. Work has been done to make the important and necessary physical changes to office environments so they comply with the new Working Safely during Coronavirus guidelines.

The volunteering effort across the Council has transformed the Council's ability to manage through this crisis and there is a need to continue and build on this successful effort via ongoing support for the volunteer programme. Given that the UK is now in the second wave of the coronavirus pandemic, the Council has once again stood up the volunteering programme which now operates on a more conscription basis.

### **b) Government funding**

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

- £33m of additional business rates relief for the 1,560 retail, hospitality, and leisure sectors in Lewisham;
- £47m of small business grants for the potentially 3,385 businesses identified as eligible in Lewisham; and

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- An amount to be confirmed (estimated at £2.3m) of discretionary grant to support small and medium enterprises for guidance is pending from government.

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

In respect of the burden on Council services, the Government has provided some funding to meet the financial impacts. This is via additional funding and early payment of some grants to support cash flow. Of the £3.2bn funding announced nationally, Lewisham initially received £18.0m to cover the costs of the Covid-19 response. A further £3.2m of funding was announced on 17 July 2020, followed by a further tranche of £8.2m in October 2020. The Council will also receive £1.6m plus a further £1.4m in grants for 'infection control' and £2.2m for 'test, track and trace'. Monthly monitoring is now in place to the Ministry of Housing, Communities and Local Government (MHCLG).

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

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

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

Other uncertainties include:

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

The financial impact evaluated from the August 2020 monitoring identified a gross overspend of £40.6m for the 20/21 budget (before applying cash reductions and government funding received), where £30.2m is considered Covid-19 related and the balance of £10.4m are classified as service directorate pressures. The overspend is offset by in-year cash reductions identified by Directorates totalling £5.4m and additional government funding to provide financial support to councils to undertake additional activities in recognition of the unplanned costs which have been incurred in responding to Covid-19. The amount received by Lewisham to date, or due for imminent arrival for such purposes, totals £35.3m.

Once applied to the gross spend projections, this has the effect of reducing the overall pressure for these services down to £6.7m split between a Covid related underspend of £3.7m and a non Covid-19 overspend of £10.4m. The position on Covid related expenditure is due to additional grant of £8.2m being recently notified in October 2020. However, it is important to note the full extent of the Council's costs as

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a result of the coronavirus pandemic, including the losses on sales, fees and charges, losses on collection fund income and the potential second wave costs, go way beyond the existing resources provided by government to date. In addition to the Covid-19 related service pressures and loss of income, the Council is also forecasting losses on its collection fund of over £20m.

The Council has sufficient reserves to meet these financial commitments at present, including the estimated costs and lost income considerations of the Covid-19 response (taking into account additional support from the Government); while the impact of the Covid-19 response may reduce the Council's financial resilience to face future crises. This requires the Council to be mindful of its financial sustainability to ensure it does not need to consider issuing a section 114 notice (the effect of which would be to prevent any further expenditure by the authority save with the approval of the s151 officer, to help control the financial position). The Council is not in this position at this time but is likely to have to make significant changes to the range and scale of services it offers or further put the burden of these costs on local tax payers as a consequence of the financial impact of Covid-19. This situation will be kept under review and will be commented on through the external audit process and their value for money conclusion, in the regular 20/21 monitoring, and as the Medium Term Financial Strategy (MTFS) is refreshed and the budget for 21/22 prepared.

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

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

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

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

- The statutory deadlines for the production of the draft accounts and audited accounts have been changed from 31 May to 31 August for the draft, and from 31 July to 30 November 2020 for the audited accounts. It is expected that the Council will meet these deadlines.
- The review of property asset values in the accounts (and any valuations completed during 2019/20) is being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the review/valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, it will be necessary for the Council to keep the valuation of the portfolio under frequent review.

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

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

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

The Council's strategy in this regard is:

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



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The Council's objectives related to this are:

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

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

### 3. FINANCIAL PERFORMANCE

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

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

##### 2019/20 Revenue Budget Funding

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

#### b) Council Tax

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

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

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

## Narrative Statement

## Band D Council Tax by Tax Raising Body

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

## c) 2019/20 Revenue Budget Outturn

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

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

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

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

As the new financial year begins, with a new set of challenges in terms of the delivery of revenue budget cuts, the council will continue in its resolve to apply sound financial controls. It is clear that the short and medium-term outlook will remain difficult and challenging. However, the new incoming Executive Director for Corporate Resources and the Director of Corporate Resources, as the council's section 151 officer and deputy section 151 officer respectively, will continue to work with directorate management teams to effect the necessary continued actions to manage their services and intervene early where necessary to avoid a budgetary situation becoming unmanageable.

**Budget overspends**

The main element of the overspend was the £6.7m overspend in the Children and Young People (CYP) directorate. The Children's Social Care General Fund budget for 2019/20 was £41.5m with a further £7m funded from corporate resources making a total resource available of £48.5m. It should be noted

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that the revised budget was uplifted to align with the 2018/19 outturn position and then reduced by the savings (£1.5m) proposals as agreed with Mayor and Cabinet.

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

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

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

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

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

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

### **Dedicated Schools Grant**

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

### **d) Balances and Reserves**

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

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**Narrative Statement**


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The Housing Revenue Account (HRA) spent to budget after transfers to reserves as at 31 March 2020. It continues to build reserves up on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs. After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £107.8m (£113.6m as at 31 March 2019). These reserves include the Major Repairs Reserve and are for specific on-going projects as outlined in the notes to the HRA in Section 4 of the Accounts.

**e) Cashflow**

Cash and Cash equivalents held by the Council increased from £75.5m to £112.8m in 2019/20. Note 15 shows that this increase was mostly contained within Investing Activities.

The detailed analysis of the movements in Cash throughout the year can be found in the Cashflow Statement and related notes. The summary is as follows:

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

**f) 2019/20 Capital Budget Outturn**

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

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

## Narrative Statement

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

**Major Projects of over £1m**

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

**4. LOOKING AHEAD****a) Revenue Budget Outlook**

Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity and growth in demand for services. The Covid-19 pandemic has increased the pressure on costs. There are also significant challenges the Council faces through its sustained losses of sales, fees and charges income such as leisure facilities and also unpaid council tax. To date, this is estimated to be in the region of at least £30m. This has all driven significant changes to services that in turn bring additional risks and uncertainties. The consequences of Brexit have added to the uncertainty.

The impact of the challenging financial outlook should also be noted for the wider group accounts including Lewisham Homes and the Catford Regeneration Partnership (CRPL) Limited. With reference to CRPL for instance, although the residential portfolio has stood up well during the coronavirus pandemic period, the commercial units have been significantly impacted where government restrictions to non-essential entities trading has meant that CRPL has needed to provide some support by way of rent deferment, which has an impact on the company's Cashflow. There is no absolute projection in how quickly these commercial units recovery in a post pandemic era.

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

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**Narrative Statement**

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

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

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

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

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

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

## Narrative Statement

**b) Capital Budget Outlook**

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

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

**2020/21 Capital Programme**

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

## Narrative Statement

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

**2020/21 Capital Programme**

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

**c) Corporate Risks**

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

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

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

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



## **5. PENSION FUND VALUATION**

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

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

## **6. THE COUNCIL'S STATEMENT OF ACCOUNTS**

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

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

### **Section 1 – The Core Financial Statements**

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

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

#### **Section 1b - Movement in Reserves Statement (MiRS)**

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

#### **Section 1c - Balance Sheet**

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

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**Narrative Statement**

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

**Section 1d - Cash Flow Statement**

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

**Section 2 – Statement of Accounting Policies**

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

**Section 3 – Notes to the Core Financial Statements**

This section contains notes that help to explain or give more detail to the Core Financial Statements.

**Section 4 – Housing Revenue Account (HRA)**

This is a statutory account which shows the major elements of income and expenditure on Council Housing provision and associated services to Council tenants and leaseholders.

**Section 5 – Collection Fund Accounts**

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

**Section 6 – Group Accounts**

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

**Section 7 - Glossary**

This explains some technical and commonly used terms.

**Section 8 – Pension Fund Accounts**

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

**Section 9 – Annual Governance Statement (AGS)**

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

## THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's Responsibilities

#### The Authority is required:

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

#### Responsibility of the Director of Corporate Resources

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

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

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

#### I certify that I have also:

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

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

*D. Austin*

David Austin CPFA

**Director of Corporate Resources (Deputy S151)**

**26 November 2020**

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

### Report on the Audit of the Financial Statements

#### Opinion

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

In our opinion, the financial statements:

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

#### Basis for opinion

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

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

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

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

#### Conclusions relating to going concern

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

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

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

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

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

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property, infrastructure, private equity and private debt investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report and the pension fund's property valuation reports, which are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. In addition, there is an increased risk that the valuation of the Pension Fund's private equity, infrastructure and private debt investments may be affected and the valuations may be misstated. Therefore less certainty – and a higher degree of caution – should be attached to these property and investment values than would normally be the case, in respect of the Authority and group's property asset valuations and the Authority's share of the pension fund's property, infrastructure, private equity and private debt investment valuations. Our opinion is not modified in respect of these matters.

#### Other information

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

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

We have nothing to report in this regard.



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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Conclusion**

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

#### **Responsibilities of the Authority**

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

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

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

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

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

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

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

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not approved the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have issued our certificates for previous years following our consideration of objections brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Use of our report

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

*Paul Grady*

Paul Grady  
Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

26 November 2020



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

### Opinion

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

In our opinion, the financial statements:

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

### Basis for opinion

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

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

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment. Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

### Conclusions relating to going concern

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

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

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

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

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

We draw attention to Note (X) of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's private equity, private debt, infrastructure and property investments as at 31 March 2020. As disclosed in note (X) to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports. The Fund's property investments are valued on the basis of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global. In addition, there is an increased risk that the valuation of the Pension Fund's private equity, infrastructure and private debt investments may be affected and the valuations may be misstated. Therefore less certainty – and a higher degree of caution – should be attached to these property and investment values than would normally be the case, in respect of the pension fund's property, infrastructure, private equity and private debt investment valuations. Our opinion is not modified in respect of these matters.

**Other information**

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources. Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Paul Grady*

Paul Grady  
Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

26 November 2020

## Core Financial Statements

## SECTION 1 - CORE FINANCIAL STATEMENTS

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

Restated							
2018/19			2019/20				
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	SERVICE	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	Note
411,834	(311,719)	100,115	Children & Young People Directorate	379,587	(314,493)	65,094	
178,040	(85,688)	92,352	Community Services Directorate	181,686	(91,489)	90,197	
113,051	(79,097)	33,954	Housing, Environment & Regeneration Directorate	119,991	(86,650)	33,341	
273,421	(229,244)	44,177	Corporate Services Directorate	251,075	(210,686)	40,389	
109,952	(97,283)	12,669	HRA	130,301	(105,641)	24,660	
20,592	(894)	19,698	Corporate Provisions	10,430	(2,334)	8,096	
1,106,891	(803,926)	302,965	<b>Cost of Services</b>	1,073,070	(811,293)	261,777	1
0	(14,748)	(14,748)	<b>Other Operating Expenditure</b> (Gain) / Loss on the disposal of non-current assets	0	(19,860)	(19,860)	
1,691	0	1,691	Levies	1,700	0	1,700	7
1,926	0	1,926	Contribution of housing capital receipts to Government Pool	20,121	0	20,121	19
3,617	(14,748)	(11,131)		21,821	(19,860)	1,961	
33,526	0	33,526	<b>Financing and Investment Income and Expenditure</b>	35,651	0	35,651	
0	(4,150)	(4,150)	Interest payable and similar charges	0	(4,623)	(4,623)	
48,344	(30,915)	17,429	Interest and Investment Income	47,656	(29,199)	18,457	37
81,870	(35,065)	46,805	Net interest on the net defined benefit liability	83,307	(33,822)	49,485	
0	(112,811)	(112,811)	<b>Taxation and non-specific Grant Income</b>	0	(113,437)	(113,437)	
0	(45,012)	(45,012)	Income from Council Tax	0	(55,224)	(55,224)	
0	(9,859)	(9,859)	General Government Grants	0	(18,568)	(18,568)	
0	(91,530)	(91,530)	Recognised Capital Grants and Contributions	0	(102,075)	(102,075)	
0	(259,212)	(259,212)	Non-Domestic Rates income and expenditure	0	(289,304)	(289,304)	
		79,427	<b>Deficit/ (Surplus) on provision of services</b>			23,919	1
		(22,889)	Surplus on revaluation of non-current assets			(123,566)	21
		70,017	Remeasurement of the net defined benefit liability			(273,410)	20, 37
		47,128	<b>Other Comprehensive Income and Expenditure</b>			(396,976)	
		126,555	<b>Total Comprehensive Income and Expenditure</b>			(373,057)	

## Core Financial Statements

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

YEAR ENDING 31 MARCH 2020	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub- Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 01 April 2019 Brought Forward	20,000	147,145	167,145	76,708	36,919	62,101	16,998	359,871	1,261,635	1,621,506	
<b>Movement in Reserves during 2019/20</b>											
Surplus or (Deficit) on the provision of services	3,192	0	3,192	(27,111)	0	0	0	(23,919)	0	(23,919)	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	396,976	396,976	21, 22
<b>Total Comprehensive Income and Expenditure</b>	<b>3,192</b>	<b>0</b>	<b>3,192</b>	<b>(27,111)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(23,919)</b>	<b>396,976</b>	<b>373,057</b>	
Adjustments between accounting basis and funding basis under regulations	785	0	785	16,970	(2,742)	(733)	6,628	20,908	(20,908)	0	8
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>3,977</b>	<b>0</b>	<b>3,977</b>	<b>(10,141)</b>	<b>(2,742)</b>	<b>(733)</b>	<b>6,628</b>	<b>(3,011)</b>	<b>376,068</b>	<b>373,057</b>	
Transfers to / (from) Earmarked Reserves	(3,977)	3,977	0	17,714	(17,714)	0	0	0	0	0	
<b>Increase / (Decrease) in 2019/20</b>	<b>0</b>	<b>3,977</b>	<b>3,977</b>	<b>7,573</b>	<b>(20,456)</b>	<b>(733)</b>	<b>6,628</b>	<b>(3,011)</b>	<b>376,068</b>	<b>373,057</b>	
Balance at 31 March 2020 Carried Forward	20,000	151,122	171,122	84,281	16,463	61,368	23,626	356,860	1,637,703	1,994,563	
Note		9		HRA 15	HRA 14	19					



## Core Financial Statements

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

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

## Core Financial Statements

## BALANCE SHEET AS AT 31 MARCH 2020

31/03/2019 £000		31/03/2020 £000	Note
	<u>Property, Plant &amp; Equipment</u>		
1,254,452	Council Dwellings	1,283,064	10b, HRA 1a, 9
974,550	Other Land and Buildings	1,074,576	10b
26,871	Vehicles, Plant, Furniture and Equipment	24,159	10b
116,082	Infrastructure	113,902	10b
5,510	Community Assets	5,424	10b
91,500	Surplus Assets not Held for Sale	94,699	10b
31,094	Assets under Construction	80,532	10b
<b>2,500,059</b>	<b>Total Property, Plant &amp; Equipment</b>	<b>2,676,356</b>	
257	Heritage Assets	257	41
2,030	Long Term Investments	1,975	
56,442	Long Term Debtors	56,645	14a
<b>2,558,788</b>	<b>Total Long Term Assets</b>	<b>2,735,233</b>	
341,046	Short Term Investments	268,595	12
165	Inventories	171	
54,844	Debtors	63,655	14b
84,377	Cash and Cash Equivalents	115,967	15
4,178	Prepayments	7,397	
<b>484,610</b>	<b>Current Assets</b>	<b>455,785</b>	
8,887	Bank Overdraft	3,125	15
27,446	Short Term Borrowing	5,968	12
3,918	Provisions (Less than 1 year)	11,863	18
86,997	Creditors	102,269	16
104,215	Receipts in Advance	103,902	17
7,504	PFI Liabilities due within one year	8,797	34d
<b>238,967</b>	<b>Current Liabilities</b>	<b>235,924</b>	
<b>2,804,431</b>	<b>Total Assets less Current Liabilities</b>	<b>2,955,094</b>	
202,015	Long Term Borrowing	222,987	12
5,756	Provisions (More than 1 year)	5,005	18
220,492	Deferred PFI Liabilities	211,567	34d
2,252	Capital Grants Receipts in Advance	2,506	
752,410	Liability related to defined benefit pension scheme	518,466	20, 37
<b>1,182,925</b>	<b>Long Term Liabilities</b>	<b>960,531</b>	
<b>1,621,506</b>	<b>NET ASSETS</b>	<b>1,994,563</b>	

## Core Financial Statements

## BALANCE SHEET AS AT 31 MARCH 2020 (continued)

	<b>Usable Reserves</b>		
20,000	General Fund Balance	20,000	
147,145	Earmarked Revenue Reserves	151,122	9
76,708	Housing Revenue Account	84,281	HRA 15
36,919	Major Repairs Reserve	16,463	HRA 14
62,101	Usable Capital Receipts Reserve	61,368	19
16,998	Capital Grants Unapplied	23,626	42
<b>359,871</b>	<b>Total Usable Reserves</b>	<b>356,860</b>	
	<b>Unusable Reserves</b>		
1,026,623	Revaluation Reserve	1,130,110	21
1,031,425	Capital Adjustment Account	1,070,983	22
93	Deferred Capital Receipts	93	
(36,124)	Financial Instruments Adjustment Account	(34,694)	12e
(752,410)	Pensions Reserve	(518,466)	20, 37
(1,374)	Collection Fund Adjustment Account	(3,570)	Coll. Fund 3
(6,598)	Short Term Compensated Absences Account	(6,753)	
<b>1,261,635</b>	<b>Total Unusable Reserves</b>	<b>1,637,703</b>	
	<b>TOTAL RESERVES</b>	<b>1,994,563</b>	

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

*D. Austin*

David Austin CPFA – Director of Corporate Resources

26 November 2020



## Core Financial Statements

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

2018/19 £000s		2019/20 £000s	Note
(79,427)	Net surplus or (deficit) on the provision of services	(23,919)	
138,179	Adjustment to surplus or deficit on the provision of services for non-cash movements	60,547	43
(31,388)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(51,677)	44
27,364	<b>Net Cash flows from Operating Activities</b>	<b>(15,049)</b>	
(29,375)	Net Cash flows from Investing Activities	56,027	46
(17,219)	Net Cash flows from Financing Activities	(3,626)	47
(19,230)	<b>Net Increase or (decrease) in Cash and Cash Equivalents</b>	<b>37,352</b>	
94,720	<b>Cash and Cash Equivalents at the beginning of the reporting period</b>	<b>75,490</b>	15
75,490	<b>Cash and Cash Equivalents at the end of the reporting period</b>	<b>112,842</b>	15

## SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

### 1. GENERAL PRINCIPLES

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

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

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

### 3. ACCRUALS OF INCOME AND EXPENDITURE

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

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

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

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**Statement of Accounting Policies**

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

**4. EXCEPTIONAL ITEMS**

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

**5. FOREIGN CURRENCY TRANSLATION**

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

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

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

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

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

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

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

**8. OVERHEADS AND SUPPORT SERVICES**

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

**9. GOVERNMENT GRANTS AND CONTRIBUTIONS**

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

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**Statement of Accounting Policies**

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the future economic benefits or service potential of the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or else the future economic benefits or service potential must be returned to the transferor. Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as receipts in advance. When conditions are satisfied, they are credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement (MiRS). Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **10. LEASES**

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

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

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

The Council as lessee does not have any finance leases.

#### **ii) Operating Leases**

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

### **b) The Council as Lessor**

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

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

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

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

**ii) Operating Leases**

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

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

**11. INVENTORIES (STOCK)**

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

**12. LONG TERM CONTRACTS**

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

**13. EMPLOYEE BENEFITS**

**a) Benefits Payable during Employment**

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

**b) Termination and Discretionary Benefits**

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

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

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**Statement of Accounting Policies**

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

**c) Post-Employment Benefits**

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

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

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

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

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

**(ii) London Pension Fund Scheme**

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

**(iii) Local Government Pension Scheme**

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

The assets of the Scheme are included in the Balance Sheet at their fair value as follows:

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

The change in the net pension's liability is analysed into the following components:

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

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**Statement of Accounting Policies**

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- **Re-measurement comprising**

The return on plan assets excluding amounts included in net interest.

The actuarial gains and losses arising from changes in demographic and financial assumptions since the last actuarial valuation.

Other changes not accounted for elsewhere.

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

The detailed accounting policies followed in preparing the pension fund accounts are disclosed separately in the Council's Pension Fund Accounts in Section 8 of the Statement of Accounts.

#### **14. INTERESTS IN COMPANIES**

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

#### **15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES**

##### **a) Provisions**

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

##### **b) Impairment Allowances**

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

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**Statement of Accounting Policies**

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**16. RESERVES**

The Council has set aside specific amounts as reserves to cover future expenditure for contingencies or policy purposes, which fall outside the definition of provisions, and are shown in Note 8 of Section 3. The reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then credited back to the General Fund Balance in the MiRS so that there is no net charge against Council Tax. Statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and are not available for the Council to use to finance services.

**17. CONTINGENT LIABILITIES AND ASSETS**

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

**18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

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

**19. FINANCIAL INSTRUMENTS**

**a) Financial Liabilities**

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

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



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**Statement of Accounting Policies**

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**b) Financial Assets**

Following the adoption of accounting standard IFRS 9 from 01 April 2018, which replaced IAS 39 Financial Instruments, the Available for Sale Financial Asset category is no longer available. Assets previously held as available for sale have now been reclassified in line with IFRS 9 code. In order to comply with the new requirements of the Code, financial assets are now classified into three categories:

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

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

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

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

**c) Expected Credit Loss Model**

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

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

**20. CASH AND CASH EQUIVALENTS**

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

**21. INTANGIBLE NON CURRENT ASSETS**

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

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**Statement of Accounting Policies**

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

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

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

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

**a) Recognition**

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

**b) Measurement and Valuation**

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

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

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

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

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

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

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

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

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

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

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

**d) Impairment**

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

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

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

**e) Depreciation**

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

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

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**Statement of Accounting Policies**

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

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

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

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

**g) Deferred Capital Receipts**

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

**23. HERITAGE ASSETS**

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

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

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

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

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**Statement of Accounting Policies**

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

**25. ACCOUNTING FOR SCHOOLS**

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

## SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	76,168	(11,074)	65,094
Community Services Directorate	84,949	5,248	90,197
Housing, Environment & Regeneration Directorate	16,642	16,699	33,341
Corporate Services Directorate	36,623	3,766	40,389
HRA	(27,917)	52,577	24,660
Corporate Provisions	39,843	(31,747)	8,096
<b>Cost of Services</b>	<b>226,308</b>	<b>35,469</b>	<b>261,777</b>
Other Income and Expenditure	(237,858)	0	(237,858)
<b>(Surplus) or Deficit</b>	<b>(11,550)</b>	<b>35,469</b>	<b>23,919</b>

Opening General Fund and HRA Balance at 01 April 2019	(243,853)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(11,550)
<b>Closing General Fund and HRA Balance at 31 March 2020</b>	<b>(255,403)</b>

<b>Analysed between General Fund and HRA Balances</b>			
	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2019	(167,145)	(76,708)	<b>(243,853)</b>
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(3,977)	(7,573)	<b>(11,550)</b>
<b>Closing General Fund and HRA Balance at 31 March 2020</b>	<b>(171,122)</b>	<b>(84,281)</b>	<b>(255,403)</b>

## Notes to the Core Financial Statements

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

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

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

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

## Notes to the Core Financial Statements

## Notes to the EFA

## (i) Adjustments between Funding and Accounting Basis

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

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



## Notes to the Core Financial Statements

## (ii) Segmental Income and Expenditure

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

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

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

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

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

### 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- a. The Authority has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the Authority is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Authority it is deemed to be a Property, Plant and Equipment asset. If there were no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- b. An accounting judgement has been made for each school as to whether their land and buildings should be included within the Council's Balance Sheet:-
  - Included are 40 Community Primary Schools, 5 Community Secondary Schools, 3 Community Special Schools, 2 Foundation Schools and 2 Nursery Schools (52 schools).
  - Excluded are 22 Voluntary-aided Schools, 2 Foundation Schools, 7 Academies and 3 Other Schools (34 schools).
  - Also excluded are assets acquired via PFI contracts where they relate to the excluded schools given above, although the PFI liability remains with the Council.
- c. A judgement has been made by the Council that it is proper practice to prepare Group Accounts for 2019/20, on grounds of materiality. For further information, see Section 2 – Accounting Policies (para. 14 – Interests in Companies); also Section 6 – Group Accounts; and Note 25 – Investment in Companies.
- d. Lewisham Homes Ltd is a scheduled body to the Lewisham Council Pension Fund. The Council has agreed that it will indemnify all pension costs relating to Lewisham Homes Ltd staff, enabling the company to continue as a going concern. The Council's Single Entity Accounts include the deficit applicable to Lewisham Council, whilst the Group Accounts include, in addition, the deficit attributable to Lewisham Homes. It should be noted that if Lewisham Homes Ltd was in any way unable to deliver a satisfactory housing management service, the Council would have to provide such a service itself, together with the consequent pension liability of the staff involved.

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

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

#### a) Property, Plant and Equipment

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

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**Notes to the Core Financial Statements**

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the review of the Council's non-current asset values (and any valuations completed during 2019/20) is reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these values than would normally be the case. The net book value at 31 March 2020 stands at £2,676.4m; a drop in value of 5% would reduce this by £133.8m; a higher drop of 10% would reduce this value by £267.6m.

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

**b) Arrears of Significant Debtors**

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

**c) Pensions Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net Pensions liability of changes in individual assumptions can be measured and are outlined in the Defined Benefits note to these Accounts (Note 37).

**d) Pension Fund Investments**

The uncertainty in the financial markets caused by the coronavirus pandemic creates further risk that the valuation of the unlisted investments may have an increased level of uncertainty, and the estimated valuations may be misstated. There is an extremely wide range of outcomes, resulting in a high degree of uncertainty about the ultimate impact of the pandemic and the time it will take for markets to return to a 'steady state'.

The total value of the Fund's property, private equity, infrastructure and private debt valuations in the financial statements is £304m. There is a risk that the actual values are lower than was estimated at year-end, possibly resulting in a fall in valuations of between 0-5% across asset classes, which represents between £0-£6.3m of the above value (allowing for varying levels of sensitivity between asset classes). The Council's proportion of this value is 82%, hence £0-£5.2m. The investments listed here are therefore presented in the context of a 'material valuation uncertainty' due to the factors mentioned. Likewise, the review of the Council's Pension Fund Property asset values is reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these property values than would normally be the case.

For further information on Pension Fund, see Section 8.

## 5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

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

## 6. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the then Acting Chief Finance Officer in June 2020. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions.

- a) **Covid-19 Pandemic:** Following the introduction of lockdown in late March 2020, there have been significant changes to the way in which the Council operates, giving rise to unprecedented cost pressures in 20/21. In summary, an assessment of the financial impact has identified a potential £82.7m impact to the 20/21 budget - from additional costs of £22.9m and lost income of £59.8m (before applying Government funding received). After applying Government funding received of £33m for business rate reliefs, £18m for Council services, and assuming the remaining estimated Collection Fund lost income of £11.5m is met by Government once the full taxation impact becomes clear, the outstanding financial gap for the Council is currently estimated at £20.2m. This represents all the unallocated reserves the Council holds of £20m. This is the current position with the recovery and longer term impacts to the budget still to be assessed and funded. Other specific Covid-19 funding received from Government early in 20/21 includes £47m for small business grants and £3.2m as support for council tax payers. Further information on the impact of Covid-19 can be found in the Narrative Statement.
- b) **Business Rates on ATM Cash Machines:** In May 2020 the Supreme Court upheld the Court of Appeal's decision that ATMs (e.g. at supermarkets and petrol stations) should be removed from the list of rateable items. This will require a backdated payment of business rates by the Council of £1.6m for the years 2010/11 to 2019/20 inclusive, plus an annual loss of £0.177m in 20/21 and future years.
- c) **Water Charges to Tenants:** In October 2020 the Court of Appeal dismissed an appeal from Kingston Council after it was ruled to have overcharged tenants when supplying water. The court unanimously ruled that Kingston Council was a water reseller rather than agency, meaning the authority failed unlawfully to pass on discounts to tenants. As a result, a number of authorities who are social landlords (including Lewisham Council) may now need to refund the tenants an amount equivalent to these discounts going back to 2003. The cost of this to Lewisham Council has been estimated at £8.673m. This is covered by a provision of £7.062m set up in 2019/20 plus an Impairment Allowance of £1.611m. There are currently no plans to appeal the judgement. (See also Note 7b to the Housing Revenue Account.)

## Notes to the Core Financial Statements

## 7. OTHER OPERATING EXPENDITURE - LEVIES

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

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

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

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

2019/20	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments to Revenue Resources</b>						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
<b>Pensions costs</b> (transferred to/ from the Pensions Reserve)	39,320	146				(39,466)
<b>Financial instruments</b> (transferred to the Financial Instruments Adjustment Account)	(1,430)	0				1,430
<b>Council Tax and NDR</b> (transfers to/ from Collection Fund Adjustment Account)	2,196					(2,196)
<b>Holiday Pay</b> (transferred to the Accumulated Absences Account)	155					(155)
<b>Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure</b> (these items are charged to the Capital Adjustment Account (CAA))	(8,203)	27,084				(18,881)
<b>Total Adjustments to Revenue Resources</b>	<b>32,038</b>	<b>27,230</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(59,268)</b>

## Notes to the Core Financial Statements

<b>Adjustments between Revenue and Capital Resources</b>						
<b>Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve</b>	(21,964)	(7,402)		29,366		0
<b>Payments to the Government housing receipts pool</b> (funded by a contribution from the Capital Receipts Reserve)	20,121			(20,121)		0
<b>Statutory provision for the repayment of debt</b> (transfer from the CAA)	(8,732)	(2,858)				11,590
<b>Revenue Expenditure Funded from Capital under Statute</b>	1,687					(1,687)
<b>Capital expenditure funded from revenue balances</b> (transfer to the CAA)	0	0				0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(8,888)</b>	<b>(10,260)</b>	<b>0</b>	<b>9,245</b>	<b>0</b>	<b>9,903</b>
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure				(9,978)		9,978
Use of the Major Repairs Reserve to finance capital expenditure			(2,742)			2,742
Application of capital grants to finance capital expenditure	(22,365)				6,628	15,737
<b>Total Adjustments to Capital Resources</b>	<b>(22,365)</b>	<b>0</b>	<b>(2,742)</b>	<b>(9,978)</b>	<b>6,628</b>	<b>28,457</b>
<b>Total Adjustments</b>	<b>785</b>	<b>16,970</b>	<b>(2,742)</b>	<b>(733)</b>	<b>6,628</b>	<b>(20,908)</b>

2018/19	Usable Reserves					Movement in Unusable Reserves £'000
	General	Housing	Major	Capital	Capital	
	Fund Balance £'000	Revenue Account £'000	Repairs Reserve £'000	Receipts Reserve £'000	Grants Unapplied £'000	
<b>Adjustments to Revenue Resources</b>						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
<b>Pensions costs</b> (transferred to/ from the Pensions Reserve)	42,523	135				(42,658)
<b>Financial instruments</b> (transferred to the Financial Instruments Adjustment Account)	(294)					294
<b>Council Tax and NDR</b> (transfers to/ from Collection Fund Adjustment Account)	6,921					(6,921)
<b>Holiday Pay</b> (transferred to the Accumulated Absences Account)	(458)					458
<b>Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure</b> (these items are charged to the Capital Adjustment Account (CAA))	46,282	32,288				(78,570)
<b>Total Adjustments to Revenue Resources</b>	<b>94,974</b>	<b>32,423</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(127,397)</b>

## Notes to the Core Financial Statements

<u>Adjustments between Revenue and Capital Resources</u>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,564)	(19,874)		21,438		0
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,926			(1,926)		0
Statutory provision for the repayment of debt (transfer from the CAA)	(10,966)	(2,954)				13,920
Revenue Expenditure Funded from Capital under Statute	2,200					(2,200)
Capital expenditure funded from revenue balances (transfer to the CAA)	(7,312)					7,312
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(15,716)</b>	<b>(22,828)</b>	<b>0</b>	<b>19,512</b>	<b>0</b>	<b>19,032</b>

## 9. EARMARKED RESERVES

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

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

### a) Specific Earmarked Reserves

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

### b) PFI and BSF Schemes Reserves

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

## Notes to the Core Financial Statements

**c) New Homes Bonus Reserve**

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

**d) Insurance Reserve**

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

**e) Capital Programme Expenditure Reserve**

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

**f) Schools Reserves and Schools External Funds**

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

**10. NON CURRENT ASSETS****a) Non-Current Assets Revaluations**

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

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

**b) Movements in Non-Current Assets**

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



## Notes to the Core Financial Statements

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

## Notes to the Core Financial Statements

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

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

## Notes to the Core Financial Statements

**11. INVESTMENT PROPERTIES**

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

**12. FINANCIAL INSTRUMENTS**

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

**a) Categories of Financial Instruments****Financial Assets**

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

**Financial Liabilities**

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

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

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

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

**b) Non-Financial Instruments**

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

## Notes to the Core Financial Statements

**Debtors**

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

**Creditors**

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

**Other Required Declarations**

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

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

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

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

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

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

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

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

## Notes to the Core Financial Statements

## c) Income, Expense, Gains and Losses

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

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

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

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

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

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

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

## Notes to the Core Financial Statements

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

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

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

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

#### e) Financial Instruments Adjustment Account

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

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

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

#### a) Key Risks

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

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

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

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

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**Notes to the Core Financial Statements**

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

**b) Overall Procedures for Managing Risk**

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

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

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

**c) Credit Risk**

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

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

## Notes to the Core Financial Statements

**d) Amounts Arising from Expected Credit Losses**

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

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

**e) Liquidity Risk**

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

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

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



## Notes to the Core Financial Statements

**f) Refinancing and Maturity Risk**

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

**g) Market Risk – Interest Rate Risk**

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

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

**14. DEBTORS****a) Long Term Debtors**

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

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

**a) Lewisham Homes Limited Loan**

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

**b) Catford Regeneration Partnership Limited Loan**

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

## Notes to the Core Financial Statements

c) Street Lighting PFI Sinking Fund

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

d) Lewisham Gateway Development

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

e) Other Long Term Debtors

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

**b) Current Debtors**

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

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

## Notes to the Core Financial Statements

## c) Impairment Allowances

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

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

## 15. CASH AND CASH EQUIVALENTS

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

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

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

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

## Notes to the Core Financial Statements

**16. CREDITORS**

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

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

**17. REVENUE RECEIPTS IN ADVANCE**

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

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

## Notes to the Core Financial Statements

**18. PROVISIONS**

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

	Balance 31/03/19 £000	2019/20 Transfers		Balance 31/03/20 £000
		Out £000	In £000	
<b>Current (less than 1 year)</b>				
Insurance Provision	2,712	(2,619)	2,277	<b>2,370</b>
Water Charges Provision	0	0	7,062	<b>7,062</b>
Other Provisions	1,206	(963)	2,188	<b>2,431</b>
	<b>3,918</b>	<b>(3,582)</b>	<b>11,527</b>	<b>11,863</b>
<b>Non-Current (Over 1 year)</b>				
Insurance Provision	4,785	(758)	0	<b>4,027</b>
Other Provisions	971	0	7	<b>978</b>
	<b>5,756</b>	<b>(758)</b>	<b>7</b>	<b>5,005</b>
<b>Total - Provisions</b>	<b>9,674</b>	<b>(4,340)</b>	<b>11,534</b>	<b>16,868</b>

Insurance Provisions

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

Water Charges Provision

This is a provision to refund tenants their water charge discounts going back to 2001. This follows a Court of Appeal ruling in October 2020 regarding Kingston Council. A potential liability has been calculated with the current available data and a provision set up. See HRA Note 7b for more details.

## Notes to the Core Financial Statements

**19. USABLE CAPITAL RECEIPTS**

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

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

**20. PENSION RESERVE**

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

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

## Notes to the Core Financial Statements

**21. REVALUATION RESERVE**

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

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

## Notes to the Core Financial Statements

**22. CAPITAL ADJUSTMENT ACCOUNT**

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

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



## Notes to the Core Financial Statements

**23. EXPENDITURE AND INCOME ANALYSED BY NATURE**

	2019/20 £000	2018/19 £000
Employee expenses - LBL	282,180	271,133
Employee expenses - Schools Non-LBL	60,171	57,638
Other Expenditure	721,368	708,004
Revaluation, Depreciation, Amortisation and Impairment	9,351	70,116
Interest payments	35,651	33,526
Precepts and levies	1,700	1,691
Payments to Housing Capital Receipts Pool	20,121	1,926
Gain or loss on disposal of non-current assets	0	0
Net interest on the net defined benefit liability	18,457	17,429
<b>Total Expenditure</b>	<b>1,148,999</b>	<b>1,161,463</b>
Government grants and contributions	(628,892)	(658,157)
Fees, Charges and Other service income	(237,625)	(219,637)
Interest and Investment income	(4,623)	(4,150)
Income from council tax, non-domestic rates, district rate income	(215,512)	(175,485)
Recognised Capital Grants and Contributions	(18,568)	(9,859)
Gain or loss on disposal of non-current assets	(19,860)	(14,748)
Other Income	0	0
<b>Total Income</b>	<b>(1,125,080)</b>	<b>(1,082,036)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>23,919</b>	<b>79,427</b>

**24. AGENCY SERVICES AND POOLED BUDGETS**

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

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

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

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

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

The total Lewisham Better Care Fund for 2019/20 was £38.7m, the split of which can be seen in the table below:

## Notes to the Core Financial Statements

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

Note:

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

## 25. INVESTMENT IN COMPANIES

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

The Council is sole owner of two companies:

- i) Lewisham Homes Limited
- ii) Catford Regeneration Partnership Limited

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

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

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

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

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

## Notes to the Core Financial Statements

The companies concerned are Lewisham Schools For The Future SPV Limited (19/20 £9.3m, 18/19 £8.7m), Lewisham Schools For The Future SPV2 Limited (19/20 £3.2m, 18/19 £2.7m), Lewisham Schools For The Future SPV3 Limited (19/20 £4.6m, 18/19 £3.9m) and Lewisham Schools For The Future SPV4 Limited (19/20 £8.5m, 18/19 £7.5m). The Director of Financial Services is the Council's Director on all of these companies' boards. The corporate structure is standard to BSF schemes.

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

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

iii) Newable Limited

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

iv) Lewisham Grainger Holdings LLP

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

## 26. MEMBERS' ALLOWANCES

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

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

## Notes to the Core Financial Statements

## 27. OFFICERS' REMUNERATION

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

Remuneration Band	Non-Schools		Schools		Totals	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£50,000 to £54,999	92	84	188	214	280	298
£55,000 to £59,999	46	31	113	114	159	145
£60,000 to £64,999	19	23	79	53	98	76
£65,000 to £69,999	15	15	51	34	66	49
£70,000 to £74,999	14	13	21	22	35	35
£75,000 to £79,999	7	5	21	23	28	28
£80,000 to £84,999	3	4	17	18	20	22
£85,000 to £89,999	2	2	12	5	14	7
£90,000 to £94,999	0	1	3	6	3	7
£95,000 to £99,999	3	0	6	6	9	6
£100,000 to £104,999	4	6	6	3	10	9
£105,000 to £109,999	4	0	2	1	6	1
£110,000 to £114,999	1	2	4	2	5	4
£115,000 to £119,999	2	0	1	0	3	0
£120,000 to £124,999	0	0	1	2	1	2
£125,000 and over	0	0	0	1	0	1
<b>Total</b>	<b>212</b>	<b>186</b>	<b>525</b>	<b>504</b>	<b>737</b>	<b>690</b>

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

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

## Notes to the Core Financial Statements

**b) Disclosure of Senior Employees' Remuneration**

The definition of a "Senior Employee" is set out in Regulation 7 of the Accounts and Audit (England) Regulations 2011 (SI 2011/817). In summary, they are either a statutory chief officer, or have the power to direct or control the major activities of the council or report direct to the head of the council's paid service. They are not the same group of senior staff whose salaries are published on the Council's website.

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

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

- (a) Chief Executive - post was covered by an interim from 01-Apr-19 to 27-Oct-19. Salary is the total of both post holders in place during the year. There was a brief overlap between post holders.
- (b) Executive Director for Resources and Regeneration - this was an interim appointment for period 01-Apr-19 to 31-Jan-20. The post holder then returned to their position of Acting Chief Finance Officer for period 01-Feb-20 to 31-Mar-20.
- (c) Director for Children and Young People - post was covered by an interim from 09-Dec-19 to 31-Mar-20 (however only 2 days were worked in Dec-19). Salary is the total of both post holders in place during the year. Agency costs of £9,234 (not included above) were also incurred for the interim employee.
- (d) Executive Director for Community Services - part-time 01-Apr-19 to 29-Feb-20.

## Notes to the Core Financial Statements

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

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

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

## c) Termination Benefits - Exit Packages Agreed in Year

The number and cost of exit packages granted to employees in the year are shown below. These costs include redundancy payments to employees which were charged to the CIES. They also include payments to the Pension Fund in respect of the extra pension costs of employees who were granted early access to their pensions.

## Cost Band (incl. Pension Fund Contributions)

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

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

## Notes to the Core Financial Statements

## 28. EXTERNAL AUDIT COSTS

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

The Council's External Auditors are Grant Thornton.

## 29. DEDICATED SCHOOLS' GRANT

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

	2019/20			2018/19		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
<b>Final DSG before academy recoupment</b>	81,444	209,649	291,093			289,744
Academy figure recouped	(787)	(31,473)	(32,260)			(26,183)
<b>Total DSG after academy recoupment</b>	<b>80,657</b>	<b>178,176</b>	<b>258,833</b>			<b>263,561</b>
Brought forward from previous year	0	0	0			0
Carry forward to next year agreed in advance	0	0	0			0
<b>Agreed initial budgeted distribution</b>	<b>80,657</b>	<b>178,176</b>	<b>258,833</b>	89,455	174,106	263,561
In year adjustments	0	0	0	(181)	(3,615)	(3,796)
<b>Final Budget Distribution</b>	<b>80,657</b>	<b>178,176</b>	<b>258,833</b>	<b>89,274</b>	<b>170,491</b>	<b>259,765</b>
<b>Actual Central Expenditure</b>	<b>80,106</b>		<b>80,106</b>	<b>89,274</b>		<b>89,274</b>
<b>Actual ISB deployed to schools</b>		<b>178,176</b>	<b>178,176</b>		<b>170,491</b>	<b>170,491</b>
<b>Carry Forward</b>	<b>551</b>	<b>0</b>	<b>551</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Notes to the Core Financial Statements

**30. GRANT INCOME**

The following grants were credited to services during the year:

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

**31. RELATED PARTY TRANSACTIONS**

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

(a) Central Government and Other Local Authorities

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

(b) Subsidiaries, Associated Companies and Joint Ventures

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

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

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



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**Notes to the Core Financial Statements**

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(c) Elected Members (Councillors) and Chief Officers

Councillors have direct control over the Council's financial and operating policies, and their total cost is shown in Note 26. They are required to declare all related party transactions which they have with any organisation in which they have a controlling interest. This information is recorded on the Council's Register of Members and Chief Officers' Declarations of Interests and is open to public inspection at the Civic Suite at Lewisham Civic Suite during office hours. The information is also published on the Council's website. The Council is compliant with the Localism Act 2012. The material instances (over £100,000) where a Councillor has declared a related party transaction are as follows (amounts in brackets show how much the Council paid the organisations named in 2019/20):

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

(d) Lewisham Pension Fund

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

## Notes to the Core Financial Statements

**32. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

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

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

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

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

**33. LEASES****a) Council as a Lessee****i) Finance Leases**

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

## Notes to the Core Financial Statements

## ii) Operating Leases

The Council leases out a number of commercial properties for Investment purposes. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/20 £000	31/03/19 £000
Not later than one year	1,329	1,602
Later than one year and not later than five years	3,279	3,637
Later than five years	15,431	15,603
	<b>20,039</b>	<b>20,842</b>

## b) Council as a Lessor

## i) Finance Leases

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

## ii) Operating Leases

The Council leases out a number of commercial properties for Investment purposes. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/20 £000	31/03/19 £000
Not later than one year	3,614	3,441
Later than one year and not later than five years	6,610	7,152
Later than five years	5,751	5,129
	<b>15,975</b>	<b>15,722</b>

## 34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

## a) Summary of PFI Schemes

PFI Scheme	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting
Start of Contract	2007	2007	2007	2009	2011	2012	2012	2011
End of Contract	2027	2039	2036	2035	2037	2037	2038	2036
<b>Total Estimated Cost</b>	<b>£287m</b>	<b>£77m</b>	<b>£227m</b>	<b>£241m</b>	<b>£86m</b>	<b>£118m</b>	<b>£224m</b>	<b>£95m</b>
Total PFI Credits	£207m	£30m			£674m			£54m
<b>Net PFI Cost</b>	<b>£80m</b>	<b>£47m</b>			<b>£222m</b>			<b>£41m</b>

## Notes to the Core Financial Statements

## b) Payments made under PFI contracts

	<b>Brockley HRA</b>	<b>Downham Lifestyles</b>	<b>Grouped Schools</b>	<b>BSF 1</b>	<b>BSF 2</b>	<b>BSF 3</b>	<b>BSF 4</b>	<b>Street Lighting</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>2019/20</b>									
Service Charges	9,023	492	3,733	3,933	975	1,109	2,454	818	22,537
Interest	3,757	1,653	3,138	3,825	1,707	2,559	4,970	2,322	23,931
Liability Repayment	2,858	258	800	1,227	372	723	756	636	7,630
<b>Unitary Charge</b>	<b>15,638</b>	<b>2,403</b>	<b>7,671</b>	<b>8,985</b>	<b>3,054</b>	<b>4,391</b>	<b>8,180</b>	<b>3,776</b>	<b>54,098</b>

<b>2018/19</b>									
Service Charges	8,366	480	3,571	3,719	873	1,056	1,729	798	20,592
Interest	4,138	1,633	3,229	3,958	1,759	2,603	5,158	2,359	24,837
Liability Repayment	2,954	243	769	1,212	393	683	1,232	585	8,071
<b>Unitary Charge</b>	<b>15,458</b>	<b>2,356</b>	<b>7,569</b>	<b>8,889</b>	<b>3,025</b>	<b>4,342</b>	<b>8,119</b>	<b>3,742</b>	<b>53,500</b>

## Notes to the Core Financial Statements

## c) Movement in PFI Assets in year

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

	2019/20		2018/19	
	£000	£000	£000	£000
<b>Gross Book Value b/fwd</b>		424,293		407,587
<b>Additions</b>				0
Revaluations (recognised in Revaluation Reserve)	(2,518)		16,926	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	5,328	2,810	1	16,927
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0
<b>Disposals</b>		18		(221)
<b>Transfers</b>		0		0
<b>Assets reclassified (to)/ from Held for Sale</b>		0		0
<b>Gross Book Value c/fwd</b>		427,121		424,293
<b>Depreciation b/fwd</b>		(5,007)		(4,303)
Depreciation for year		(7,826)		(7,561)
<u>Depreciation written back on:</u>				
Transfers		0		0
Revaluations (recognised in Revaluation Reserve)	4,020		5,772	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,160	6,180	1,085	6,857
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0		0	
Assets sold		0		0
<b>Depreciation c/fwd</b>		(6,653)		(5,007)
<b>Net Book Value at End of Year</b>		<b>420,468</b>		<b>419,286</b>

## Notes to the Core Financial Statements

## d) PFI Liabilities

The unitary payments made to the contractors have been calculated to pay them the fair value of the services they provide, the capital expenditure they have incurred and interest they will pay whilst the capital expenditure remains to be reimbursed. The Council's total outstanding liability to the contractors is shown in the following table.

	Current Liabilities (Due within 1 Year)		Deferred (Future) Liabilities	
	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000
Balance outstanding at start of year	7,504	7,945	220,696	228,224
Balance outstanding at end of year	8,797	7,504	211,880	220,696

## e) Payments due under PFI contracts in future years

The Council makes an agreed payment each year which is linked to inflation and can be reduced if the contractor fails to meet availability and performance standards. The following table shows the estimated payments due to be paid (as part of a unitary charge) for each PFI. The price base is in nominal terms assuming a 1.9% RPI increase per annum compounded until the end of the contract. The amounts are broken down into the different elements of the payments reflecting how they will be accounted for.

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

	In 2020/21 £000s	2 to 5 years £000s	6 to 10 years £000s	11 to 15 years £000s	16 to 20 years £000s	Total £000s
<b>Brockley HRA</b>						
Service charges	8,789	38,356	20,808			67,953
Interest	3,498	10,644	3,252			17,394
Repayment of liability	3,165	15,331	11,452			29,949
Planned lifecycle replacement	549	2,522	1,207			4,278
<b>Downham Lifestyles</b>						
Service charges	246	1,049	1,466	1,658	1,482	5,902
Interest	1,590	6,444	7,984	7,342	4,950	28,310
Repayment of liability	147	810	1,701	2,712	3,808	9,178
Planned lifecycle replacement	258	1,106	1,559	1,771	1,583	6,277
<b>Grouped Schools</b>						
Service charges	2,876	12,343	17,509	20,153	4,921	57,802
Interest	3,059	11,335	11,683	7,221	587	33,885
Repayment of liability	844	4,088	8,730	14,760	4,353	32,775
Planned lifecycle replacement	1,007	4,518	4,742	3,946	951	15,165
<b>BSF 1</b>						
Service charges	2,740	11,795	16,852	19,545		50,932
Interest	3,790	13,331	12,704	5,173		34,998
Repayment of liability	1,537	6,989	13,470	19,900		41,896
Planned lifecycle replacement	1,042	5,477	6,786	5,978		19,284

## Notes to the Core Financial Statements

**BSF 2**

Service charges	810	3,449	4,819	5,452	2,890	<b>17,419</b>
Interest	1,662	6,209	6,508	4,258	769	<b>19,406</b>
Repayment of liability	382	1,831	3,566	5,916	4,064	<b>15,759</b>
Planned lifecycle replacement	229	1,150	1,655	1,856	1,117	<b>6,007</b>

**BSF 3**

Service charges	999	4,664	7,120	9,002	4,749	<b>26,533</b>
Interest	2,516	9,293	9,636	6,368	1,859	<b>29,673</b>
Repayment of liability	835	3,566	5,795	7,735	5,608	<b>23,540</b>
Planned lifecycle replacement	90	759	1,570	2,599	1,304	<b>6,322</b>

**BSF 4**

Service charges	1,854	8,084	12,215	14,919	10,646	<b>47,717</b>
Interest	4,987	18,789	19,900	14,013	4,063	<b>61,751</b>
Repayment of liability	1,196	5,985	10,244	14,993	12,249	<b>44,666</b>
Planned lifecycle replacement	255	1,211	2,433	3,617	3,035	<b>10,551</b>

**Street lighting**

Service charges	838	3,569	4,987	5,642	1,659	<b>16,695</b>
Interest	2,280	8,602	9,097	6,197	957	<b>27,133</b>
Repayment of liability	692	3,416	6,202	9,376	3,228	<b>22,913</b>
Planned lifecycle replacement	0	0	0	0	0	<b>0</b>

<b>Totals</b>	<b>54,764</b>	<b>226,714</b>	<b>247,651</b>	<b>222,104</b>	<b>80,831</b>	<b>832,063</b>
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**35. CAPITAL CONTRACTUAL COMMITMENTS**

The table below lists the contractual commitments for the acquisition of property, plant and equipment. These are estimated amounts based either on the value of open purchase orders or officer estimates.

	<b>Contractual commitments as at 31/03/20 £m</b>	<b>Contractual commitments as at 31/03/19 £m</b>
<b>General Fund</b>		
School Places Programme	1.0	4.1
Fleet Vehicle Replacement	6.3	0.0
Beckenham Place Park	0.0	1.5
Highways, footways and bridges	0.0	0.3
Asset Management programme	0.0	0.4
<b>Housing Revenue Account</b>	<b>13.6</b>	<b>13.4</b>
<b>Total Capital Programme contractual commitments</b>	<b>20.9</b>	<b>19.7</b>

**36. DEFINED CONTRIBUTION PENSION SCHEMES**

The Teachers and the National Health Service Pension Schemes are technically defined benefit schemes. However, their assets and liabilities cannot reliably be identified at individual employer level and therefore for the purposes of the Council's accounts they are accounted for as defined contribution schemes.

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**Notes to the Core Financial Statements**

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Teachers employed by the Council are members of the Teachers' Pension Scheme, which is run by the Department for Education (DfE). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DfE use a notional fund to set a national employers contribution rate based on a percentage of members' pensionable pay – in 2019/20 this rate was 16.48% to 31-Aug-19 and 23.68% from 01-Sep-19 (16.48% in 2018/19). In 2019/20, the Council paid £17.8m to the DfE in respect of teachers' pension costs (£12.5m in 2018/19).

Public Health staff employed by the Council are members of the NHS Pension Scheme, which is run by the Department of Health (DoH). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DoH use a notional fund to set a national employers contribution rate based on a percentage of members' pensionable pay – this rate was 20.7% for 2019/20 (14.4% in 2018/19). In 2019/20 the Council paid £0.052m to the DoH in respect of employees' pension costs (£0.073m in 2018/19).

### **37. DEFINED BENEFIT PENSION SCHEMES**

#### **a) Participation in Pension Schemes**

The Council offers retirement benefits as part of the terms and conditions of staff employment. Although these benefits will not actually be payable until employees retire, the Council is committed to making these payments, and they are required to be disclosed at the time that employees earn their future entitlement. The Council makes contributions on behalf of its employees to the Local Government Pension Scheme (LGPS) and the London Pensions Fund Authority (LPFA). These are defined benefit pension schemes, meaning that both the Council and the employees pay contributions into a fund, calculated at a level which is intended to balance the pension's liabilities with investment assets.

#### **b) Assessment of the Assets and Liabilities of the Pension Schemes**

These are assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. They have been prepared by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on IAS19 assumptions and calculations for the year and the latest triennial valuations as at 31 March 2019. It should be noted the Council has guaranteed any pension liability that may arise for its wholly owned subsidiary, Lewisham Homes Limited – this figure is excluded from the Council's single entity accounts but is included in the Group Accounts (see Section 6).

#### **c) Transactions relating to Retirement Benefits**

In accordance with IAS19, the Council recognises the cost of retirement benefits relating to these schemes in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the required charge to the Council Tax is based on the cash paid in the year so the real cost of retirement benefits is reversed out of the General Fund via the MiRS. The following transactions were made during the year in the CIES and the General Fund Balance via the MiRS:



## Notes to the Core Financial Statements

**Comprehensive Income and Expenditure Statement**

	2019/20 £000	2018/19 £000
<b>Cost of Service</b>		
Current Service Cost	53,619	44,555
Past Service Cost (incl. settlements and curtailments)	515	11,354
	54,134	55,909
<b>Financing and Investment Income and Expenditure</b>		
<u>Net Interest on the Net Defined Benefit Liability</u>		
Interest Income on Scheme Assets	(29,199)	(30,915)
Interest Cost on Defined Benefit Obligation (Liabilities)	47,656	48,344
	18,457	17,429
	72,591	73,338
<b>Total Post-Employment Benefits Charged to the Surplus or Deficit on the Provision of Services</b>		
<u>Remeasurement of the Net Defined Benefit Liability</u>		
Return on Assets excluding amounts included in Net Interest	49,014	(53,238)
Actuarial Losses from changes in Demographic Assumptions	(46,956)	(2,338)
Actuarial Losses from changes in Financial Assumptions	(151,328)	136,321
Other Gains and Losses	(124,140)	(989)
<b>Total Remeasurement recognised in CIES</b>	(273,410)	79,756
	(200,819)	153,094

**Movement in Reserves Statement**

	2019/20 £000	2018/19 £000
Pensions Reserve – Adj. to opening balance (re Lewisham Homes)	0	9,739
Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services	(72,591)	(73,338)
Employers' Contributions Payable to the Scheme	33,125	30,680
Return on Assets excluding amounts included in Net Interest	(49,014)	53,238
Actuarial Gains and Losses	322,424	(132,994)
<b>Net Movement in Pensions Reserve</b>	233,944	(112,675)

**d) Pensions Assets and Liabilities Recognised in the Balance Sheet**

	31/03/20 £000	31/03/19 £000
Fair Value of Plan Assets	1,191,887	1,233,006
Present Value of Defined Benefit Liability (Obligation)	(1,650,206)	(1,919,094)
	(458,319)	(686,088)
Present Value of Unfunded Liabilities	(60,147)	(66,322)
<b>Pensions Reserve - Year End Balance</b>	(518,466)	(752,410)

## Notes to the Core Financial Statements

## e) Reconciliation of the Movements in the Fair Value of Scheme Assets

	31/03/20 £000	31/03/19 £000
<b>Opening Fair Value of Scheme Assets</b>	<b>1,233,006</b>	<b>1,293,992</b>
Interest Income on Scheme Assets	29,307	31,019
Administration	(108)	(104)
<u>Remeasurement Gains / Losses</u>		
Return on Assets excluding amounts included in Net Interest	(49,014)	53,238
Employer Contributions	28,455	26,063
Contributions in respect of Unfunded Benefits	4,670	4,617
Contributions from Scheme Participants	8,120	7,742
Benefits Paid	(55,169)	(49,776)
Unfunded Benefits Paid	(4,670)	(4,617)
Other Gains and Losses	(2,710)	0
Pensions Reserve – Adj. to opening balance (re Lewisham Homes)		(129,168)
<b>Closing Fair Value of Scheme Assets</b>	<b>1,191,887</b>	<b>1,233,006</b>

## f) Reconciliation of the Movements in the Present Value of Scheme Liabilities

	31/03/20 £000	31/03/19 £000
<b>Opening Present Value of Scheme Liabilities (Obligations)</b>	<b>(1,985,416)</b>	<b>(1,933,727)</b>
Current Service Cost	(53,619)	(44,555)
Interest Cost on Defined Benefit Obligation (Liabilities)	(47,656)	(48,344)
Contributions from Scheme Participants	(8,120)	(7,742)
<u>Remeasurement Gains / Losses</u>		
Benefits Paid	55,169	49,545
Unfunded Benefits Paid	4,670	4,617
Actuarial Losses from changes in Demographic Assumptions	46,956	2,338
Actuarial Losses from changes in Financial Assumptions	151,328	(136,321)
Other Gains and Losses	126,850	989
Adj. to write out Lewisham Homes obligation from single entity accounts	0	138,907
Past Service Costs / Curtailments / Settlements	(515)	(11,123)
<b>Closing Present Value of Scheme Liabilities (Obligations)</b>	<b>(1,710,353)</b>	<b>(1,985,416)</b>

## Notes to the Core Financial Statements

## g) Pension Scheme Assets

	31/03/20			31/03/19		
	Active Market	Not in Active Markets	Total	Active Market	Not in Active Markets	Total
	£000	£000	£000	£000	£000	£000
<b>LGPS (LBL)</b>						
Equities	0	0	0	0	0	0
Debt Securities	145,671	0	145,671	155,923	0	155,923
Real Estate	0	87,640	87,640	0	101,839	101,839
Investment Funds / Unit Trusts	628,740	194,737	823,477	640,625	120,959	761,584
Private Equity	0	37,816	37,816	0	34,134	34,134
Cash and Cash Equivalents	0	23,378	23,378	0	96,795	96,795
<b>Total LGPS Assets</b>	<b>774,411</b>	<b>343,571</b>	<b>1,117,982</b>	<b>796,548</b>	<b>353,727</b>	<b>1,150,275</b>

	31/03/20			31/03/19		
	Active Market	Not in Active Markets	Total	Active Market	Not in Active Markets	Total
	£000	£000	£000	£000	£000	£000
<b>LPFA</b>						
Equities	33,425	6,606	40,031	35,953	9,056	45,009
LDI Cashflow matching	0	0	0	0	0	0
Target Return Portfolio	11,177	6,836	18,013	14,104	7,958	22,062
Infrastructure	0	5,187	5,187	0	4,985	4,985
Fixed income	0	0	0	0	0	0
Real Estate	0	6,749	6,749	0	7,779	7,779
Cash	2,707	1,218	3,925	2,655	241	2,896
<b>Total LPFA Assets</b>	<b>47,310</b>	<b>26,595</b>	<b>73,905</b>	<b>52,712</b>	<b>30,019</b>	<b>82,731</b>

## h) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme		LPFA	
	2019/20	2018/19	2019/20	2018/19
Rate of Inflation – CPI	1.9%	2.5%	2.0%	2.5%
Salary Increase Rate	2.6%	3.2%	3.0%	4.0%
Pensions Increases	1.9%	2.5%	2.0%	2.5%
Rate for discounting scheme liabilities	2.3%	2.4%	2.3%	2.3%
<b>Mortality assumptions</b>				
Longevity at 65 for current pensioners - Men	20.9	22.2	20.7	20
Longevity at 65 for current pensioners - Women	23.5	24.6	23.7	23
Longevity at 65 for future pensioners - Men	22.2	24	22.1	21.8
Longevity at 65 for future pensioners - Women	24.8	26.5	25.2	24.9

## Notes to the Core Financial Statements

## i) Sensitivity Analysis

Change in Assumption at 31st March 2020	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
<b>LGPS - LB Lewisham</b>		
0.5% Decrease in Real Discount Rate	9%	145,131
1 Year Increase in Member Life Expectancy	4%	58,052
0.5% Increase in the Salary Increase Rate	1%	9,376
0.5% Increase in the Pension Increase Rate	8%	134,888
<b>LPFA</b>		
0.1% Decrease in Real Discount Rate	n/a	172
1 Year Increase in Member Life Expectancy	n/a	176
0.1% Increase in the Salary Increase Rate	n/a	170
0.1% Increase in the Pension Increase Rate	n/a	172

These are based on reasonably possible changes to the assumptions occurring at the end of the year and assumes for each change that the assumption changes while all the other assumptions remain constant.

## j) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Council anticipates paying £27.5m in contributions to the scheme in 2020/21.

## 38. CONTINGENT LIABILITIES

A contingent liability is an item of expenditure that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council had the following contingent liabilities:

- There are 11 schools with licensed deficit budgets at the year-end, totalling £3.8m. There are also 8 schools with local authority loans with a total balance of £2.2m, 4 of which have licensed deficit budgets. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits / loans, some or all of this total of £6.0m may ultimately fall to be met from the Council's General Fund, either in 2020/21 or a later year.
- There is currently uncertainty over the formula used by some councils to calculate holiday pay for term-time-only support staff in schools dating back several years. This could result in a liability of approx. £3m - £5m for back payments to those staff.
- There is a potential liability of approx. £2m - £3m in respect of savings accounts for children leaving care, which extends back over a number of years.
- The case regarding the application of the NHS for charitable status is to be taken to the Court of Appeal. If this appeal is successful, it would require a backdated payment of around £9.3m by the Council and an ongoing annual loss of business rates of £0.128m.

## Notes to the Core Financial Statements

**39. CONTINGENT ASSETS**

A contingent asset is an item of income that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council has no contingent assets.

**40. TRUST FUNDS**

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances. The total amount held as at 31 March 2020 was £0.2m (£0.2m as at 31 March 2019).

**41. HERITAGE ASSETS**

These assets comprise Lewisham Clock Tower and the Civic Regalia. Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31 March 2020 is £0.26m (£0.26m as at 31 March 2019).

The Council has two other "categories" of heritage asset which have not been included on the Balance Sheet. 28 assets, mainly works of art with a total insurance value of approximately £45,000, have individual insurance values which are immaterial. Another 28 assets, mainly paintings and sculptures, have not been included on the balance sheet because the cost of obtaining valuations is not felt to be economic to the benefits of the users of the accounts.

**42. CAPITAL GRANTS UNAPPLIED**

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can take place. The grants that make up the balance are detailed in the table below:

	2019/20 £000	2018/19 £000
Community Infrastructure Levy - LB Lewisham	(14,363)	(10,016)
Adults PSS Grant (DoH)	(2,895)	(2,895)
Disabled Facilities Grant	(1,452)	(979)
Social Care Single Capital Pot (DoH)	(712)	(750)
NHS Capital Grant	(900)	0
Other Housing Grants (GLA)	(2,845)	0
Other Grants	(459)	(2,358)
<b>Total</b>	<b>(23,626)</b>	<b>(16,998)</b>

## Notes to the Core Financial Statements

**43. CASH FLOW STATEMENT - ADJUSTMENT TO SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS**

	2019/20 £000	2018/19 £000
Depreciation, Impairment and Downward Valuations	9,351	71,725
Increase/ (decrease) in creditors	7,491	23,176
(Increase)/ decrease in debtors	(12,479)	(7,316)
(Increase)/ decrease in inventories (stock)	(6)	(13)
Movement in pension liability	39,466	42,658
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	9,544	6,847
Other non-cash items charged to the net surplus or deficit on the provision of services	7,180	1,102
<b>Total Adjustment to net surplus or deficit on the provision of services for non-cash movements</b>	<b>60,547</b>	<b>138,179</b>

**44. CASH FLOW STATEMENT - ADJUSTMENT FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES**

	2019/20 £000	2018/19 £000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	55	46
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(29,366)	(21,438)
Any other items for which the cash effects are investing or financing cash flows.	(22,366)	(9,996)
<b>Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>	<b>(51,677)</b>	<b>(31,388)</b>

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

	2019/20 £000	2018/19 £000
Interest Received	5,516	3,419
Interest Paid	(36,257)	(33,902)
<b>Net Interest Paid</b>	<b>(30,741)</b>	<b>(30,483)</b>

## Notes to the Core Financial Statements

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

	2019/20 £000	2018/19 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(67,120)	(24,349)
Purchase of short and long term investments	(308,000)	(375,000)
Other payments for Investing Activities	(1,944)	(4,585)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	29,366	21,438
Proceeds from short-term and long-term investments	380,000	345,000
Other Receipts from Investing Activities	23,725	8,121
<b>Net Cash Flows from Investing Activities</b>	<b>56,027</b>	<b>(29,375)</b>

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

	2019/20 £000	2018/19 £000
Cash receipts of short and long term borrowing	0	8,000
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(7,632)	(8,073)
Repayment of Short-Term and Long-Term Borrowing	(203)	(10,240)
Other payments for financing activities	4,209	(6,906)
<b>Net Cash Flows from Financing Activities</b>	<b>(3,626)</b>	<b>(17,219)</b>

## Housing Revenue Account

## SECTION 4 - HOUSING REVENUE ACCOUNT

This account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all income and expenditure relating to the Council's responsibilities as landlord of dwellings and associated property.

## COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

	2019/20 £000	2018/19 £000	Note
<b>INCOME</b>			
Gross Rent - Dwellings	(68,223)	(69,232)	1
Gross Rent - Other Housing Properties	(3,480)	(3,448)	1
Charges for Services and Facilities	(12,545)	(11,936)	1
Housing Subsidy and Government Grants	(17,553)	(10,353)	2
Contribution towards Expenditure	(3,439)	(2,094)	4
<b>Total Income</b>	<b>(105,240)</b>	<b>(97,063)</b>	
<b>EXPENDITURE</b>			
Supervision and Management - General Expenses	36,881	34,216	5
Supervision and Management - Special Expenses	5,303	5,224	5
Repairs and Maintenance	54,621	42,670	6
Rent, Rates and Other Charges	346	762	8
Rent Rebate Subsidy Shortfall	0	0	3
Contribution to Doubtful Debts & Other Provisions	7,698	601	7
Depreciation - Dwellings	22,071	21,993	10
Depreciation - Other Housing Assets	832	794	10
Impairment of Non-Current Assets	4,182	3,278	9
Debt Management Expenses	20	20	
<b>Total Expenditure</b>	<b>131,954</b>	<b>109,558</b>	
<b>Net Cost of Services included in the Council's Income and Expenditure Account</b>	<b>26,714</b>	<b>12,495</b>	
HRA Services share of Corporate and Democratic Core Costs	173	173	
<b>Net Cost of HRA Services</b>	<b>26,887</b>	<b>12,668</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	(7,402)	(13,651)	
Interest Payable and Similar Charges	8,767	6,173	11
Interest and Investment Income	(1,210)	(1,078)	
Pension Interest Cost and Expected Return on Pension Assets	69	75	12
<b>(Surplus) / Deficit for the Year on HRA Services</b>	<b>27,111</b>	<b>4,187</b>	



## Housing Revenue Account

## HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

	2019/20 £000	2018/19 £000
<b>Balance on the HRA at the End of the Previous Year</b>	<b>76,707</b>	<b>70,208</b>
<u>Movement in Year</u> Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	<b>(27,111)</b>	<b>(4,187)</b>
Adjustments between Accounting Basis and Funding Basis under Statute	<b>16,971</b>	<b>9,595</b>
<b>Net Increase or (Decrease) before Transfers (To) / From Reserves</b>	<b>(10,140)</b>	<b>5,408</b> *
<b>Transfers (To) / From Reserves</b>	<b>17,714</b>	<b>1,091</b>
<b>Increase or (Decrease) in Year on the HRA</b>	<b>7,574</b>	<b>6,499</b>
<b>Balance on the HRA at the End of the Year</b>	<b>84,281</b>	<b>76,707</b>

\* Note - MRA only, others are not technically defined as transfers to from reserves, they are movements in the HRA Balance.

An analysis of the amounts included within the figures for "Adjustments between Accounting Basis and Funding Basis under Statute" can be found within Note 8 to the Core Financial Statements.

Details of the movement in the Housing Revenue Account Reserves and Balances can be found in Note 15 to the Housing Revenue Account.

## Housing Revenue Account

## NOTES TO THE HOUSING REVENUE ACCOUNT

## 1. GROSS RENT OF DWELLINGS

This is the total rent collectable for the year after allowance is made for empty property. At 31 March 2020, 0.48% of lettable property was empty (0.34% at 31 March 2019). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £94.98 in 2019/20 and £95.72 per week in 2018/19.

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

**(a) Housing stock**

The Council was responsible for managing 13,796 dwellings as at 31 March 2020 (13,957 as at 31 March 2019).

There have been no stock transfers undertaken in 2019/20.

The stock was made up as follows:

	31/03/20	31/03/19
<u>Stock Numbers at year end</u>		
Houses and Bungalows	2,307	2,324
Flats and Maisonettes	11,489	11,633
<b>Stock at End of Year</b>	<b>13,796</b>	<b>13,957</b>

	2019/20	2018/19
<u>Change in Stock Numbers during the year</u>		
Stock at 1 April	13,957	14,158
Less Sales, Demolitions, etc.	(219)	(203)
Add Re-purchases, Conversions etc.	58	2
<b>Stock at End of Year</b>	<b>13,796</b>	<b>13,957</b>

**b) Rent Arrears**

	2019/20 £000	2018/19 £000
Rent Arrears due from Current Tenants	3,833	3,595
Rent Arrears due from Former Tenants	2,133	1,863
<b>Total Arrears</b>	<b>5,966</b>	<b>5,458</b>
<b>Total Arrears as % of Gross Rent of Dwellings Due</b>	<b>6.6%</b>	<b>6.3%</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 93% of the total collectable from tenants.

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**Housing Revenue Account**


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**c) Rent – Other Housing Property**

	2019/20 £000	2018/19 £000
Aerial Sites	415	260
Garages	164	125
Reception Hostels	2,563	2,573
Commercial Property	280	432
Ground Rents	58	58
<b>Total Other Rents and Charges</b>	<b>3,480</b>	<b>3,448</b>

**d) Charges for Services and Facilities to Tenants and Leaseholders.**

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal and disposal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £8.66 in 2019/20 (£8.58 in 2018/19).

	2019/20 £000	2018/19 £000
Heating Charges	662	659
Leasehold Service Charges	5,587	5,155
Tenants Service Charges	6,296	6,122
<b>Total Charges for Services and Facilities</b>	<b>12,545</b>	<b>11,936</b>

**2. GOVERNMENT HOUSING EXCHEQUER SUBSIDY**

From 01 April 2012 HRA accounts were prepared under the Government's HRA self-financing regime. Under this system no further housing subsidy transactions are made between government and stock owning Councils. This is in recognition that all rent collected will be retained by the Council and not contributed into the national rent pool.

As the Council has a housing PFI scheme, it will continue to receive the PFI credit until completion of the contract in 2027. This represents an annual payment of £10.353m.

The council has also received £7.2m in funding towards the removal and recladding of 3 tower blocks within the borough.

	2019/20 £000	2018/19 £000
Other Reckonable Expenditure	7,200	0
PFI Credit	10,353	10,353
Decent Homes Grant	0	0
<b>Total Grants and Subsidy</b>	<b>17,553</b>	<b>10,353</b>

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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. The scheme is administered by the Council and approximately 40% of tenants received help in 2019/20 (46% in 2018/19). Rent rebates are chargeable to, and the corresponding subsidy is credited to the General Fund.

Subsidy on rent rebates is capped and if the Council's rent exceeds the Government's limit for subsidy, the cost is charged to the HRA. The shortfall on subsidy due to overpayments is charged to the General Fund, as are the administration costs.

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

	2019/20 £000	2018/19 £000
Rent Rebates Given (GF)	30,964	35,643
Subsidy Received on Rebates (GF)	(30,964)	(35,643)
<b>Net cost to the HRA</b>	<b>0</b>	<b>0</b>

**4. CONTRIBUTIONS TOWARDS EXPENDITURE**

	2019/20 £000	2018/19 £000
Court Costs	68	121
Recharges of repairs	2,711	1,173
Recharge to Capital Receipts	401	515
Hostels: Heat, Light and Water Charges	102	113
Other miscellaneous income	157	172
<b>Total Other Income</b>	<b>3,439</b>	<b>2,094</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.

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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**6. REPAIRS AND MAINTENANCE**

This includes day-to-day repairs to Council housing stock and cyclical external decoration. Void properties prior to re-letting and certain tenants' properties are eligible for internal decoration. Repairs & Maintenance expenditure was as follows:

	2019/20	2018/19
	£000	£000
Revenue R&M works	14,004	18,792
R&M works charged to MRR	40,617	23,878
<b>Total Repairs and Maintenance</b>	<b>54,621</b>	<b>42,670</b>

**7. CONTRIBUTIONS TO DOUBTFUL DEBTS & OTHER PROVISIONS****a) Contributions to Impairment Allowance**

A contribution of £0.636m (2018/19 £0.601m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

	2019/20	2018/19
	£000	£000
Housing Tenants	4,517	4,444
Leaseholders	2,109	1,985
Commercial Properties, Miscellaneous Debts	704	641
<b>Total Impairment Allowance</b>	<b>7,330</b>	<b>7,070</b>

**b) Contributions to Provisions**

A contribution of £7.062m (2018/19 £0) was transferred from the HRA to provisions to set up the Water Charges Provision.

This relates to the issue of whether the local authority was acting as an agent for Thames Water or was a water re-seller for the purposes of the Resale Order, which limited the maximum charge that could be applied to individual tenancies.

The value in question is not the Water Charge itself, but the income the authority received from Thames Water and whether this should have been passed onto the relevant tenancies.

There is a current court of appeal case to pass judgement on the agreements local Authorities had with Thames Water and whether this does effectively constitute a Water Re-seller relationship.

Following a Court of Appeal ruling in October 2020 regarding Kingston Council it was decided to set up a provision for the potential liability for London Borough of Lewisham. This was calculated with the data currently available as £8.673m, there is currently a £1.611m Impairment Allowance for this so a provision of £7.062m has been set up in 2019/20.

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Housing Revenue Account

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

Under the current HRA self-financing system, which began on 01 April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31 March 2020 was £55.5m (31 March 2019 was £57.5m).

**9. NON CURRENT ASSET VALUATION**

A full valuation of the housing stock is commissioned every five years with a market adjustment being applied in the year's in-between. The difference between the value of dwellings in their existing use as social housing and the vacant possession value reflects the economic cost to the council of providing housing at less than open market rents.

	31/03/20	31/03/19
	£000	£000
<b>Operational Assets:</b>		
Dwellings (Existing Use Value - Social Housing)	1,283,064	1,254,452
Other Land and Buildings	16,386	15,869
Infrastructure	96	101
Vehicles, Plant and Equipment	6,985	7,331
	<b>1,306,531</b>	<b>1,277,753</b>
Investment Properties	0	0
Surplus Assets	45,679	28,709
<b>Total Housing Assets</b>	<b>1,352,210</b>	<b>1,306,462</b>
<b>Full Valuation of Council Dwellings</b>	<b>5,132,256</b>	<b>5,017,808</b>

**10. DEPRECIATION**

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

	2019/20	2018/19
	£000	£000
<b>Operational Assets</b>		
Dwellings	22,071	21,848
Other Land and Buildings	275	274
Infrastructure	5	5
Vehicles, Plant and Equipment	552	516
<b>Total Depreciation</b>	<b>22,903</b>	<b>22,643</b>

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**Housing Revenue Account**


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**11. INTEREST PAYABLE AND SIMILAR CHARGES**

This line includes the charge of £3.8m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2019/20 (£4.1m in 2018/19). It no longer includes any costs for the net cost of amortised loan redemption premiums and discounts as the final payment was made in 2017/18.

**12. PENSIONS COSTS – IAS 19**

In accordance with IAS 19, Lewisham recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the cost to the HRA is based on the amounts payable in the year, so the accrued cost of retirement benefits is reversed out of the HRA.

**13. HOUSING CAPITAL EXPENDITURE**

Any expenditure on the Capital Programme which cannot be capitalised as a component or did not add value to an existing asset has been charged to revenue. These amounts have been mainly funded from the Major Repairs Reserve, which can be used for both revenue and capital expenditure.

	2019/20 £000	2018/19 £000
<b>Expenditure:</b>		
Dwellings	3,279	3,705
Revenue Expenditure Funded from Capital under Statute		0
	<b>3,279</b>	<b>3,705</b>
<b>Financed by:</b>		
Capital Receipts	537	3,244
Major Repairs Reserve	2,742	461
<b>Total Capital Expenditure Financed</b>	<b>3,279</b>	<b>3,705</b>

**14. MAJOR REPAIRS RESERVE**

The movements on the major repairs reserve are as follows:

	2019/20 £000	2018/19 £000
<b>Balance brought forward at start of year</b>	<b>36,919</b>	<b>38,471</b>
Transferred in (depreciation dwellings)	22,903	22,787
Financing of capital expenditure on housing assets	(2,742)	(461)
Financing Major Revenue Repairs	(40,617)	(23,878)
Contributions from Revenue (Capital)		
<b>Balance carried forward at end of year</b>	<b>16,463</b>	<b>36,919</b>

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Housing Revenue Account

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

The movements in housing revenue account reserves and balances are as follows:

	<b>Balance at 31/03/19 £000</b>	<b>Transfers In £000</b>	<b>Transfers Out £000</b>	<b>Balance at 31/03/20 £000</b>
Property and Stock Related Reserves	5,048	212	0	5,260
Staff Related Reserves	750	0	0	750
Other Earmarked Reserves	70,909	7,362	0	78,271
<b>Total Reserves and Balances</b>	<b>76,707</b>	<b>7,574</b>	<b>0</b>	<b>84,281</b>



## Collection Fund

## SECTION 5 - THE COLLECTION FUND

Lewisham Council is a designated 'Billing' Authority and is required by statute to maintain a separate Collection Fund. The transactions are on an accruals basis and include income from Council Tax and Non-Domestic Rates (NDR) and distributions to the Council's General Fund and the Greater London Authority (GLA) in respect of both Council Tax & NDR, and to the Government in respect of NDR only.

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

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

## COLLECTION FUND REVENUE ACCOUNT

	2019/20			2018/19			Note
	Council Tax	NDR	Total	Council Tax	NDR	Total	
	£000	£000	£000	£000	£000	£000	
<b>INCOME</b>							
Income from Council Tax (net)	144,911		144,911	135,251		135,251	4
Income from Non-Domestic Rates (net)		65,919	65,919		65,354	65,354	5
Income from Non-Domestic Rates (net) - BRS		1,710	1,710		1,445	1,445	5
<b>TOTAL INCOME</b>	<b>144,911</b>	<b>67,629</b>	<b>212,540</b>	<b>135,251</b>	<b>66,799</b>	<b>202,050</b>	
<b>EXPENDITURE</b>							
<b>Precepts and Demands upon Fund (C. Tax)</b>							
- London Borough of Lewisham	111,739		111,739	104,083		104,083	
- Greater London Authority	28,335		28,335	25,438		25,438	
<b>Precepts and Demands upon Fund (NDR)</b>							
- London Borough of Lewisham		30,571	30,571		41,141	41,141	
- Greater London Authority		17,196	17,196		22,087	22,087	
- Central Government		15,923	15,923		(2,629)	(2,629)	
- Cost of Collection Allowance		300	300		305	305	
<b>Business Rate Supplement (BRS)</b>							
- Paid to Greater London Authority		1,660	1,660		1,384	1,384	
- Administrative Costs		6	6		6	6	
<b>Bad and Doubtful Debts</b>							
- Net adj. to Impairment Allowance	4,734		4,734	3,802		3,802	6a
- Net adj. to Impairment Allowance		528	528		(215)	(215)	6b
- Amounts Written Off	403		403	318		318	
- Amounts Written Off		281	281		759	759	
<b>Contributions from previous year</b>							
- London Borough of Lewisham	1,698	108	1,806	8,728		8,728	
- Central Government	0	512	512				
- Greater London Authority	415	740	1,155	2,111		2,111	
<b>Provision for Appeals</b>							
- Net contribution		3,050	3,050		(509)	(509)	
<b>TOTAL EXPENDITURE</b>	<b>147,324</b>	<b>70,875</b>	<b>218,199</b>	<b>144,480</b>	<b>62,329</b>	<b>206,809</b>	
<b>Deficit / (Surplus) for the year</b>	<b>2,413</b>	<b>3,246</b>	<b>5,659</b>	<b>9,229</b>	<b>(4,470)</b>	<b>4,759</b>	3
<b>Deficit / (Surplus) at start of year</b>	<b>(343)</b>	<b>2,742</b>	<b>2,399</b>	<b>(9,572)</b>	<b>7,212</b>	<b>(2,360)</b>	3
<b>Opening Balance Adjustment</b>	<b>0</b>	<b>(2,521)</b>	<b>(2,521)</b>	<b>0</b>	<b>0</b>	<b>0</b>	3
<b>Deficit / (Surplus) at end of year</b>	<b>2,070</b>	<b>3,467</b>	<b>5,537</b>	<b>(343)</b>	<b>2,742</b>	<b>2,399</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 Council determines its own 'Band D' tax charge by dividing its own budget requirement by the respective tax base for the financial year. The 'Band D' tax calculated forms the basis of the charge for all properties. Properties fall into one of eight valuation bands based on market values at 01 April 1991. Those that fall in other valuation bands pay a proportion of the 'Band D' tax charge according to its banding and the band proportion.

The tax base used in setting the Council Tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a "Band D" equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for 2019/20 assumed a collection rate of 97.0% (96.0% for 2018/19).

The table below sets out the original tax base calculation for 2019/20 and has been prepared in accordance with The Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme (CTRS) with effect from 01 April 2013.

		2019/20			2019/20		2018/19	
Council Tax Band	Property Value £000	No. of Properties		Band D Ratio	Band D Equivalents as per Ratio No.	Council Tax Charge £	Band D Equivalents as per Ratio No.	Council Tax Charge £
		Actual Number	Adjusted Number					
		(1)	(2)					
A	up to 40	7,864	4,959	6/9	3,306.0	1,056.30	3,250.5	998.74
B	40 - 52	34,198	24,728	7/9	19,232.8	1,232.35	19,098.0	1,165.19
C	52 - 68	44,852	35,831	8/9	31,849.7	1,408.40	31,366.5	1,331.65
D	68 - 88	26,146	22,457	1	22,456.8	1,584.45	22,205.5	1,498.10
E	88 - 120	7,559	6,734	11/9	8,230.5	1,936.55	8,099.0	1,831.01
F	120 - 160	2,727	2,548	13/9	3,680.2	2,288.65	3,660.7	2,163.92
G	160 - 320	1,300	1,236	15/9	2,060.3	2,640.75	2,055.8	2,496.84
H	over 320	171	162	18/9	323.0	3,168.90	323.0	2,996.20
<b>Totals</b>		<b>124,817</b>	<b>98,654</b>		<b>91,139.3</b>		<b>90,059.0</b>	
Add: Contributions in lieu					0.0		0.0	
<b>Total Band D Equivalents</b>					<b>91,139.3</b>		<b>90,059.0</b>	
Estimated Collection Rate					97.0%		96.0%	
<b>NET COUNCIL TAX BASE</b>					<b>88,405.1</b>		<b>86,456.6</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

## Collection Fund

## 2. COLLECTION FUND SURPLUS OR DEFICIT

Every January, a forecast of the estimated Collection Fund balance at the end of the financial year is made. This estimated surplus or deficit is then distributed to or recovered from the Council and the GLA in the following year in proportion to their respective annual demands made on the Fund. Any difference between the estimated and actual year-end balance on the Fund is taken into account as part of the forecast to be made of the Fund's balance during the following financial year.

## 3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

	(Surplus)/ Deficit			(Surplus)/ Deficit	
	Balance at 31/03/18 £000	Movement in 2018/19 £000	Balance at 31/03/19 £000	Movement in 2019/20 £000	Balance at 31/03/20 £000
<b>Council Tax</b>					
London Borough of Lewisham	(7,711)	7,425	(286)	1,938	1,652
Greater London Authority	(1,862)	1,805	(57)	475	418
	<b>(9,573)</b>	<b>9,230</b>	<b>(343)</b>	<b>2,413</b>	<b>2,070</b>
<b>Non-Domestic Rates</b>					
London Borough of Lewisham	2,163	(503)	1,660	257	1,917
Greater London Authority	2,328	(1,338)	990	88	1,078
Central Government	2,721	(2,629)	92	380	472
	<b>7,212</b>	<b>(4,470)</b>	<b>2,742</b>	<b>725</b>	<b>3,467</b>
<b>Collection Fund Balances</b>	<b>(2,361)</b>	<b>4,760</b>	<b>2,399</b>	<b>3,138</b>	<b>5,537</b>

Collection Fund Adjustment Account

The Council's share of the Collection Fund balance is managed by the Collection Fund Adjustment Account which shows the differences arising from the recognition of Council Tax income in the CIES as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

## 4. COUNCIL TAX INCOME

	2019/20		2018/19
	£000	£000	£000
<b>Gross Council Tax Income Due</b>		<b>185,318</b>	<b>173,279</b>
Less: Adjustments to charge	<b>1,036</b>		1,647
Exemptions	<b>(6,194)</b>		(5,573)
Disabled Relief	<b>(102)</b>		(112)
Discounts	<b>(16,745)</b>		(16,013)
Adjustment for Council Tax Reduction Scheme	<b>(18,402)</b>		(17,977)
		<b>(40,407)</b>	<b>(38,028)</b>
<b>Total Due from Council Tax payers</b>		<b>144,911</b>	<b>135,251</b>

## Collection Fund

## 5. NON-DOMESTIC RATES

The Council is responsible for collecting the Non-Domestic Rates (NDR) (often referred to as Business Rates) which are payable within its area. The amount payable is based upon the rateable value of commercial properties multiplied by the NDR multiplier, which is set annually by the Government. The amount due is paid as precepts to London Borough of Lewisham's General Fund (48%), Greater London Authority (27%) and Central Government (25%).

	2019/20		2018/19
	£000	£000	£000
<b>Gross NDR Collectable (after voids and exemptions)</b>		87,312	83,882
<b>Reductions and Relief:</b>			
Mandatory Relief	(16,883)		
Discretionary Relief	(2,800)		
		(19,683)	(17,083)
<b>Total Receivable from Business Rates</b>		67,629	66,799

	2019/20	2018/19
	£m	£m
<b>Non-Domestic Rateable Value</b>	177.4	180.8

	2019/20	2018/19
	pence	pence
<b>Non-Domestic Rate Multiplier</b>	50.4	49.3
<b>Non-Domestic Rate Multiplier (Small Business)</b>	49.1	48.0

## 6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

	31/03/20	31/03/19
	£000	£000
Council Tax Arrears	49,864	44,696
Impairment Allowance	(45,694)	(40,959)
As a Percentage of Arrears	91.6%	91.6%

	2019/20		2018/19	
	Amount £000	Percentage %	Amount £000	Percentage %
<b>Age of Arrears</b>				
Year of Accounts	9,104	18	8,278	19
Under 2 Years old	6,224	12	5,832	13
Under 3 Years old	5,191	10	4,077	9
Under 5 Years old	7,193	14	6,772	15
Over 5 Years old	22,152	44	19,737	44
<b>Total</b>	49,864	100	44,696	100

**Collection Fund**

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

**b) Non-Domestic Rates**

	<b>31/03/2020</b> <b>£000</b>	<b>31/03/2019</b> <b>£000</b>
NDR Arrears	4,753	3,424
Impairment Allowance	(2,135)	(1,607)
As a Percentage of Arrears	44.9%	46.9%

	<b>2019/20</b>		<b>2018/19</b>	
	<b>Amount</b> <b>£000</b>	<b>Percentage</b> <b>%</b>	<b>Amount</b> <b>£000</b>	<b>Percentage</b> <b>%</b>
<b>Age of Arrears</b>				
Year of Accounts	2,173	46	1,588	46
Under 2 Years old	1,056	22	569	17
Under 3 Years old	480	10	372	11
Under 5 Years old	473	10	334	10
Over 5 Years old	571	12	561	16
<b>Total</b>	<b>4,753</b>	<b>100</b>	<b>3,424</b>	<b>100</b>

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

## **SECTION 6 – GROUP ACCOUNTS**

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and its wholly owned local authority trading companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited have been consolidated.

The group accounts are presented in addition to the Council's "single entity" financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash flow Statement

These statements (the purposes of which are explained on pages 4 and 5), together with those explanatory notes that are considered necessary in addition to those accompanying the "single entity" accounts and accounting policies are set out in the following pages.

## Group Accounts

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDING 31 MARCH 2020

Restated 2018/19			2019/20		
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
411,835	(311,720)	100,115	379,587	(314,493)	65,094
178,040	(85,688)	92,352	181,684	(91,468)	90,216
113,051	(79,097)	33,954	119,520	(85,112)	34,408
273,869	(230,092)	43,777	251,293	(211,767)	39,526
118,594	(103,845)	14,749	149,555	(110,586)	38,969
20,592	(894)	19,698	10,430	(2,334)	8,096
1,115,981	(811,336)	304,645	1,092,069	(815,760)	276,309
0	(14,748)	(14,748)	0	(19,860)	(19,860)
1,691	0	1,691	1,700	0	1,700
1,926	0	1,926	20,121	0	20,121
3,617	(14,748)	(11,131)	21,821	(19,860)	1,961
33,526	0	33,526	35,385	0	35,385
0	0	0	0	0	0
0	(4,236)	(4,236)	0	(1,058)	(1,058)
52,163	(34,434)	17,729	51,641	(32,617)	19,024
85,689	(38,670)	47,019	87,026	(33,675)	53,351
0	(112,811)	(112,811)	0	(113,437)	(113,437)
0	(45,012)	(45,012)	0	(55,224)	(55,224)
0	(9,859)	(9,859)	0	(18,568)	(18,568)
0	(91,530)	(91,530)	0	(102,075)	(102,075)
115	0	115	170	(136)	34
115	(259,212)	(259,097)	170	(289,440)	(289,270)
		81,436			42,351
		(23,095)			(122,769)
		87,564			(300,342)
		64,469			(423,111)
		145,905			(380,760)

## SERVICE

Children & Young People Directorate  
Community Services Directorate  
Housing, Environment & Regeneration Directorate  
Corporate Services Directorate  
HRA  
Corporate Provisions  
**Cost of Services**

**Other Operating Expenditure**  
(Gain) / Loss on the disposal of non-current assets  
Levies  
Contribution of housing capital receipts to Government Pool

**Financing and Investment Income and Expenditure**  
Interest payable and similar charges  
Loan Restructuring  
Interest and Investment Income  
Net interest on the net defined benefit liability

**Taxation and non-specific Grant Income**  
Income from Council Tax  
General Government Grants  
Recognised Capital Grants and Contributions  
Non-Domestic Rates income and expenditure  
Corporation Tax Payable

**Deficit/(Surplus) on provision of services**

Surplus or deficit on revaluation of non-current assets  
Remeasurement of the net defined benefit liability

**Other Comprehensive Income and Expenditure****Total Comprehensive Income and Expenditure**

## Group Accounts

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

YEAR ENDING 31 MARCH 2020	General Fund Balance	Earmarked Gen Fund Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019 Brought Forward</b>	<b>20,000</b>	<b>149,311</b>	<b>86,916</b>	<b>36,919</b>	<b>62,101</b>	<b>16,998</b>	<b>372,245</b>	<b>1,240,837</b>	<b>1,613,082</b>
<b>Movement in Reserves during 2019/20</b>									
Surplus or (Deficit) on the provision of services	3,192	53	(45,596)	0	0	0	(42,351)	0	(42,351)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	423,111	423,111
<b>Total Comprehensive Income and Expenditure</b>	<b>3,192</b>	<b>53</b>	<b>(45,596)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(42,351)</b>	<b>423,111</b>	<b>380,760</b>
Adjustments between accounting basis and funding basis under regulations	785	0	21,670	(2,742)	(733)	6,628	25,608	(25,608)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>3,977</b>	<b>53</b>	<b>(23,926)</b>	<b>(2,742)</b>	<b>(733)</b>	<b>6,628</b>	<b>(16,743)</b>	<b>397,503</b>	<b>380,760</b>
Transfers to / from Earmarked Reserves	(3,977)	2,714	17,714	(17,714)	0	0	(1,263)	1,263	0
<b>Increase / (Decrease) in 2019/20</b>	<b>0</b>	<b>2,767</b>	<b>(6,212)</b>	<b>(20,456)</b>	<b>(733)</b>	<b>6,628</b>	<b>(18,006)</b>	<b>398,766</b>	<b>380,760</b>
<b>Balance at 31 March 2020 Carried Forward</b>	<b>20,000</b>	<b>152,078</b>	<b>80,704</b>	<b>16,463</b>	<b>61,368</b>	<b>23,626</b>	<b>354,239</b>	<b>1,639,603</b>	<b>1,993,842</b>



## Group Accounts

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

YEAR ENDING 31 MARCH 2019	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2018 Brought Forward	13,000	161,515	78,840	38,471	48,350	17,299	357,475	1,401,512	1,758,987
<b>Movement in Reserves during 2018/19</b>									
Surplus or (Deficit) on the provision of services	(75,240)	400	(6,596)	0	0	0	(81,436)	0	(81,436)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(64,469)	(64,469)
<b>Total Comprehensive Income and Expenditure</b>	<b>(75,240)</b>	<b>400</b>	<b>(6,596)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(81,436)</b>	<b>(64,469)</b>	<b>(145,905)</b>
Adjustments between accounting basis and funding basis under regulations	69,262	374	13,581	(461)	13,751	(301)	96,206	(96,206)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(5,978)</b>	<b>774</b>	<b>6,985</b>	<b>(461)</b>	<b>13,751</b>	<b>(301)</b>	<b>14,770</b>	<b>(160,675)</b>	<b>(145,905)</b>
Transfers to / from Earmarked Reserves	12,978	(12,978)	1,091	(1,091)	0	0	0	0	0
<b>Increase / (Decrease) in 2018/19</b>	<b>7,000</b>	<b>(12,204)</b>	<b>8,076</b>	<b>(1,552)</b>	<b>13,751</b>	<b>(301)</b>	<b>14,770</b>	<b>(160,675)</b>	<b>(145,905)</b>
Balance at 31 March 2019 Carried Forward	20,000	149,311	86,916	36,919	62,101	16,998	372,245	1,240,837	1,613,082

## Group Accounts

## GROUP BALANCE SHEET AS AT 31 MARCH 2020

31/03/2019 £000		31/03/2020 £000
	<b>Property, Plant &amp; Equipment</b>	
1,297,337	Council dwellings	1,310,558
974,550	Other land and buildings	1,074,576
28,015	Vehicles, plant, furniture and equipment	24,936
116,082	Infrastructure	113,902
5,510	Community	5,424
91,500	Surplus Assets not held for Sale	94,699
31,094	Assets under Construction	80,532
<b>2,544,088</b>	<b>Total Property, Plant &amp; equipment</b>	<b>2,704,627</b>
257	Heritage Assets	257
15,767	Investment Property	14,970
2,030	Long term investments	1,975
6,581	Long term debtors	6,284
<b>2,568,723</b>	<b>Total Long Term Assets</b>	<b>2,728,113</b>
341,046	Short Term Investments	268,595
207	Inventories	210
55,200	Debtors	64,158
91,992	Cash and Cash Equivalents	118,418
4,178	Prepayments	4,357
<b>492,623</b>	<b>Current Assets</b>	<b>455,738</b>
8,887	Bank Overdraft	3,125
27,482	Short term borrowing	5,968
4,046	Provisions	12,037
91,274	Creditors	96,051
104,215	Receipts in advance	103,902
7,504	PFI Liabilities due within one year	8,797
<b>243,408</b>	<b>Current Liabilities</b>	<b>229,880</b>
<b>2,817,938</b>	<b>Total Assets less Current Liabilities</b>	<b>2,953,971</b>
202,015	Long term borrowing	222,987
6,154	Provisions	5,302
220,492	Deferred PFI Liabilities	211,567
2,252	Capital Grants Receipts in Advance	2,506
773,943	Liability related to defined benefit pension scheme	517,767
<b>1,204,856</b>	<b>Long Term Liabilities</b>	<b>960,129</b>
<b>1,613,082</b>	<b>NET ASSETS</b>	<b>1,993,842</b>

## Group Accounts

## GROUP BALANCE SHEET AS AT 31 MARCH 2020 (Continued)

20,000	<b>Usable Reserves</b>	
147,145	General Fund Balance	20,000
10,208	Earmarked Revenue Reserves	151,122
2,166	Lewisham Homes Reserves	(3,577)
76,708	Catford Regeneration Partnership Reserves	956
36,919	Housing Revenue Account	84,281
62,101	Major Repairs Reserve	16,463
16,998	Usable Capital Receipts Reserve	61,368
	Capital Grants Unapplied	23,626
<b>372,245</b>	<b>Total Usable Reserves</b>	<b>354,239</b>
	<b>Unusable Reserves</b>	
1,027,358	Revaluation Reserve	1,131,311
1,031,425	Capital Adjustment Account	1,070,983
93	Deferred Capital Receipts	93
(36,124)	Financial Instruments Adjustment Account	(34,694)
(773,943)	Pensions Reserve	(517,767)
(1,374)	Collection Fund Adjustment Account	(3,570)
(6,598)	Short Term Compensated Absences Account	(6,753)
<b>1,240,837</b>	<b>Total Unusable Reserves</b>	<b>1,639,603</b>
<b>1,613,082</b>	<b>TOTAL RESERVES</b>	<b>1,993,842</b>

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

2018/19 £000s		2019/20 £000s
(81,436)	Net surplus or (deficit) on the provision of services	(42,351)
145,789	Adjustment to surplus or deficit on the provision of services for noncash movements	75,719
(31,388)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(51,677)
<b>32,965</b>	<b>Net Cash flows from operating activities</b>	<b>(18,309)</b>
(42,044)	Net Cash flows from Investing Activities	53,399
(5,869)	Net Cash flows from Financing Activities	(2,902)
(14,948)	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>32,188</b>
98,053	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>83,105</b>
83,105	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>115,293</b>

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**Group Accounts**


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**Notes to the Group Accounts****1. General**

The Group Accounts should be read in conjunction with the Lewisham Council single entity accounts on pages 4 to 109. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

The 2018/19 Group Accounts have been re-stated in-line with the LBL single entity accounts. This is due to a re-organisation of the Council's management structure in 2019/20 which affected the CIES and all related notes.

**2. Group Boundary**

The Council has an interest in a number of entities, the most significant of which are the wholly owned subsidiaries Lewisham Homes Limited and Catford Regeneration Partnership Limited which are consolidated into these accounts. The table below provides information on the nature of company business and associated risks:

<b>Company</b>	<b>Business</b>	<b>Risks</b>
Lewisham Homes Limited	An arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.	If Lewisham Homes Limited was in any way unable to deliver a satisfactory housing management service, the Council would have to provide such a service itself.
Catford Regeneration Partnership Limited (CRPL)	The company owns the Catford Shopping Centre and aims to drive forward a regeneration programme for the town centre and the surrounding area.	As a property investment company, CRPL is exposed to risk in market movements in terms of the capital value of properties and in the level of income that can be generated through rental charges

**3. Accounting Policies**

- (i) In preparing the Group Accounts the Council has aligned the accounting policies of its companies with those of the Council and made consolidation adjustments where necessary.
- (ii) In 2019/20 Lewisham Homes "Council Dwellings" assets were re-valued using the same accounting standards as LBL to consolidate Lewisham Homes assets into the Group balance sheet. This resulted in an impairment charge of £15.117m to the Group CIES due to the downward revaluation of the assets. The revaluation was from cost based in the Lewisham Homes accounts of NBV £42.885m to Fair Value in the Group Accounts of NBV £27.494m
- (iii) The Council has consolidated the companies' financial statements with those of the Council on a line by line basis and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiaries.

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**Group Accounts**

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**4. Investment Properties**

Whilst the Council has no investment properties, CRPL owns Catford shopping centre and several surrounding properties. As these properties were solely being used to generate income at 31 March 2020, under the code of practice they are classed as investment properties.

The fair value of the properties owned by CRPL as at 31 March 2020 was £14.970m. This is a £0.797m reduction in value from 2018/19 and a £6.950m reduction from the draft CRPL statement of accounts of £21.920m.

Due to the outbreak of Covid-19 being declared as a “Global Pandemic” it was decided to get the Investment Properties re-valued again in September 2020. Our valuers have said that due to Covid-19 market activity has been affected in many sectors and as of the valuation date they can attach less weight to previous market evidence for comparison purposes to inform opinions of value.

Therefore their valuations are reported on the basis of “Material Valuation Uncertainty” as per VPS3 and VPGA10 of the RICS Red Book Global. Consequently, less certainty, and a higher degree of caution, should be attached to the valuation than would normally be the case.

**5. Pensions**

Lewisham Homes Limited is a scheduled body in the London Borough of Lewisham Pension Fund. The Council has indemnified Lewisham Homes Limited against any liability that may arise on its notional share of the Pension Fund’s assets and obligations.

Lewisham Homes include the asset and liability for the Pension Fund under Current Assets and Long Term Liabilities in their single entity accounts. When consolidating with the LBL accounts to create the Group Accounts this has to be changed to Unusable Reserves and Long Term Liabilities to be in-line with how LBL treat these balances. This results in the various elements of the in-year movement in the valuation being charged through the different areas of the Group CIES.

## Group Accounts

## 6. Movements in Non-Current Assets

The movements in non-current assets during 2019/20 and 2018/19 were as follows:

2019/20	Council Dwellings £000	Other Land & Bldgs £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
<b>Gross Book Value b/fwd at 01 April 2019</b>	<b>1,298,495</b>	<b>976,188</b>	<b>60,638</b>	<b>186,403</b>	<b>5,587</b>	<b>91,757</b>	<b>31,094</b>	<b>2,650,162</b>
Additions	2,123	5,325	2,045	6,186	361	896	54,966	<b>71,902</b>
Revaluations (recognised in Revaluation Reserve)	30,522	64,256	0	0	0	13,888	0	<b>108,666</b>
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(16,018)	37,405	0	0	0	4,989	0	<b>26,376</b>
Impairments (recognised in Revaluation Reserve)	(7)	(7,953)	0	0	0	(5,033)	0	<b>(12,993)</b>
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(278)	(1,484)	0	(608)	(352)	(5,037)	(1,416)	<b>(9,175)</b>
Disposals	(3,732)	0	(392)	0	0	(6,063)	0	<b>(10,187)</b>
Transfers	454	4,197	0	0	0	(539)	(4,112)	<b>0</b>
<b>Gross Book Value c/fwd at 31 March 2020</b>	<b>1,311,559</b>	<b>1,077,934</b>	<b>62,291</b>	<b>191,981</b>	<b>5,596</b>	<b>94,858</b>	<b>80,532</b>	<b>2,824,751</b>
Depreciation b/fwd at 01 April 2019	(1,158)	(1,638)	(32,623)	(70,321)	(77)	(257)	0	<b>(106,074)</b>
Depreciation for year	(22,604)	(14,328)	(5,112)	(7,758)	(95)	(1,015)	0	<b>(50,912)</b>
<u>Depreciation written back on:</u>								
Transfers	(33)	(1)	0	0	0	34	0	<b>0</b>
Revaluations (recognised in Revaluation Reserve)	20,482	6,898	0	0	0	513	0	<b>27,893</b>
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,312	5,711	0	0	0	253	0	<b>8,276</b>
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	<b>0</b>
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0	0	49	0	<b>49</b>
Assets Sold	0	0	380	0	0	264	0	<b>644</b>
Depreciation c/fwd at 31 March 2020	(1,001)	(3,358)	(37,355)	(78,079)	(172)	(159)	0	<b>(120,124)</b>
<b>Net Book Value at 31 March 2020</b>	<b>1,310,558</b>	<b>1,074,576</b>	<b>24,936</b>	<b>113,902</b>	<b>5,424</b>	<b>94,699</b>	<b>80,532</b>	<b>2,704,627</b>

LEWISHAM STATEMENT OF ACCOUNTS 2019/20

Group Accounts

2018/19	Council Dwellings £000	Other Land & Bldgs £000	Vehicles, Plant & Equip't £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
<b>Gross Book Value b/fwd at 01 April 2018</b>	<b>1,286,466</b>	<b>1,014,477</b>	<b>56,422</b>	<b>180,370</b>	<b>5,029</b>	<b>94,821</b>	<b>26,726</b>	<b>2,664,311</b>
Additions	11,036	112	6,169	5,961	214	1,944	8,604	<b>34,040</b>
Revaluations (recognised in Revaluation Reserve)	9,163	(7,655)	0	0	0	561	0	<b>2,069</b>
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(2,873)	(18,337)	0	0	0	(689)	0	<b>(21,899)</b>
Impairments (recognised in Revaluation Reserve)	(10)	0	0	0	0	(9,619)	0	<b>(9,629)</b>
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(26)	(113)	0	0	0	(9,829)	0	<b>(9,968)</b>
Disposals	(6,809)	0	(1,953)	0	0	0	0	<b>(8,762)</b>
Transfers	1,548	(12,296)	0	72	344	14,568	(4,236)	<b>0</b>
<b>Gross Book Value c/fwd at 31 March 2019</b>	<b>1,298,495</b>	<b>976,188</b>	<b>60,638</b>	<b>186,403</b>	<b>5,587</b>	<b>91,757</b>	<b>31,094</b>	<b>2,650,162</b>
Depreciation b/fwd at 01 April 2018	(1,321)	(3,416)	(29,635)	(62,946)	(54)	(198)	0	<b>(95,535)</b>
Depreciation for year	(22,446)	(15,396)	(4,903)	(7,375)	(23)	(1,027)	0	<b>(51,170)</b>
<u>Depreciation written back on:</u>								
Transfers	26	189	0	0	0	(215)	0	<b>0</b>
Revaluations (recognised in Revaluation Reserve)	21,704	8,044	0	0	0	701	0	<b>30,449</b>
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	879	8,941	0	0	0	173	0	<b>9,993</b>
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	<b>0</b>
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0	0	309	0	<b>309</b>
Assets Sold	0	0	1,915	0	0	0	0	<b>1,915</b>
Depreciation c/fwd at 31 March 2019	(1,158)	(1,638)	(32,623)	(70,321)	(77)	(257)	0	<b>(106,074)</b>
<b>Net Book Value at 31 March 2019</b>	<b>1,297,337</b>	<b>974,550</b>	<b>28,015</b>	<b>116,082</b>	<b>5,510</b>	<b>91,500</b>	<b>31,094</b>	<b>2,544,088</b>

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Glossary of Terms Used in the Accounts

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**SECTION 7 – GLOSSARY OF TERMS USED IN THE ACCOUNTS**

<b>ACCRUALS</b>	These are amounts included in the accounts to cover income and expenditure attributable to the financial year, but for which payment had not been received or made as at 31 March.
<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>	This is expenditure on the acquisition or enhancement of assets which significantly prolongs their useful lives or increases their market value. This is considered to be of benefit to the Council over a period of more than one year, e.g. land and buildings.
<b>CAPITAL ADJUSTMENT ACCOUNT</b>	This represents the capital resources which have been 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 Non-Domestic Rates (NDR) are paid in order to account for payments due to the Council's General Fund and Preceptors (currently the Greater London Authority for Council Tax and NDR, and Central Government for NDR).
<b>CONTINGENT LIABILITY</b>	A possible liability to incur future expenditure at the balance sheet date dependent upon the outcome of uncertain events.
<b>CREDITORS</b>	This is an amount of money owed by the Council for goods, works or services received.
<b>DEBTORS</b>	This is an amount of money owed to the Council by individuals and organisations.
<b>DEPRECIATION</b>	This is the loss in value of an asset due to age, wear and tear, deterioration or obsolescence. An annual charge in respect of this is made to service revenue accounts over the life of most assets to reflect the usage in the year.
<b>EARMARKED RESERVES</b>	These are 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>	This is the account which comprises the revenue costs of providing services, which are met by General Government Grants and the Council's demand on the Collection Fund.
<b>INFRASTRUCTURE</b>	These are non-current assets which do not have a market value and primarily exist to facilitate transportation and communication (e.g. roads, street lighting). They are usually valued at historic cost.



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**Glossary of Terms Used in the Accounts**

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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. Lease classification is made at the inception of the lease.</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. 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 (MRP)</b>	<p>The prudent amount which must be charged to the Council's revenue account each year for the principal repayment of debt.</p>
<b>NON-DOMESTIC RATES (NDR)</b>	<p>Also known as Business Rates, these are set by the Government and collected by the Council. The income due is paid as precepts to the Council's General Fund, the Greater London Authority and Central Government.</p>
<b>PRIVATE FINANCE INITIATIVE (PFI)</b>	<p>This is a scheme whereby contracts for specified services are let to private sector suppliers by the Council which may include capital investment as well as the provision of the service. Payments are made to the supplier in return, which are reduced if performance targets are not met.</p>
<b>PRECEPTS</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. A share of the NDR precept is also paid to Central Government.</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>This represents the gains on the revaluation of non-current assets which have not yet been realised through sales.</p>
<b>REVENUE SUPPORT GRANT (RSG)</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>SPECIAL PURPOSE VEHICLE</b>	<p>This is a legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives.</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>

**COMMON ACRONYMS USED IN THE ACCOUNTS**

CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
COP	Code of Practice on Local Authority Accounts in the United Kingdom
DSG	Dedicated Schools Grant
DfE	Department for Education
HRA	Housing Revenue Account
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LEP	Local Education Partnership
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
LSP	Local Strategic Partnership
MiRS	Movement in Reserves Statement
MRP	Minimum Revenue Provision
NDR	Non-Domestic Rates
PFI	Private Finance Initiative
RICS	Royal Institution of Chartered Surveyors
SeRCOP	Service Reporting Code of Practice
SPV	Special Purpose Vehicle
SSAP	Statement of Standard Accounting Practice
TfL	Transport for London
TPS	Teachers' Pensions Scheme
VAT	Value Added Tax

## **SECTION 8 - PENSION FUND ACCOUNTS**

### **FOREWORD**

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year ending 31 March 2020.

The Pension Fund's value decreased over the year by £35m (2.5%), from £1.387bn to £1.352bn, in large part due to the impact of the Covid-19 coronavirus outbreak. At the start of March 2020 the value of the Fund had seen an-year increase of almost 6.0%, only to fall off by month end. Clearly the timing of the outbreak has impacted the financial position reported in these accounts as at 31 March 2020, and additional information on its impact will be provided within the accounting policies and notes to the accounts.

### **INTRODUCTION**

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The Fund is a contributory defined benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

### **ORGANISATION**

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation (referred to henceforth as "the Regulations"):

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

The Pension Fund administration is managed by a small in-house team, which is also responsible for other areas of work such as redundancy payments, gratuities and teachers compensation.

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

[Lewisham Pension Fund Website](#)

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**Pension Fund Accounts**


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**ACCOUNTING POLICIES**

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 26 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee later in the year to comply with this deadline.

A summary of the significant accounting policies, valuation techniques, and the basis of preparation of the accounts are shown below:

- (a) Fund Assets at 31 March 2020 – the below table outlines the fund managers, asset classes, and values of those assets held by the Fund as at 31 March 2020.

<b>Fund Manager</b>	<b>Asset</b>	<b>Asset Value 31 March 2020 £000</b>	<b>Proportion of the Fund 31 March 2020 %</b>	<b>Asset Value 31 March 2019 £000</b>
<b>Blackrock</b>	Passive Equity and Bonds	501,591	37.1	526,667
<b>UBS</b>	Passive Equity and Bonds	426,666	31.5	446,038
<b>Schroders Property</b>	Property	106,328	7.9	112,281
<b>J.P. Morgan</b>	Infrastructure	78,098	5.8	80,580
<b>Invesco</b>	Diversified Growth/Targeted Returns	77,726	5.7	76,231
<b>HarbourVest</b>	Private Equity	57,267	4.2	51,321
<b>Partners Group</b>	Multi-Asset Credit	40,400	3.0	41,776
<b>Pemberton</b>	Multi-Asset Credit	34,873	2.6	22,937
<b>M&amp;G</b>	Credit	0	0.0	656
<b>Various Managers</b>	Cash and Net Current Assets	29,683	2.2	28,678
<b>Lewisham</b>	Cash and Net Current Assets/(Liabilities)	(424)	0.0	(438)
<b>Total Fund Assets</b>		<b>1,352,208</b>	<b>100.0</b>	<b>1,386,727</b>

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**Pension Fund Accounts**

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- (b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2019/20 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (e) Passive equity and bonds - dividend income earned from equity and bonds with BlackRock and UBS is reinvested and not repaid directly to the Fund as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the notes for Debtors and Creditors.
- (f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of these investments, the value carried in the accounts as at 31 March 2020 is the fair value using the latest available valuation at 31 December 2019, rolled forward to include known fund level activity up to 31 March 2020, and adjusted for market valuation changes. As a result, it does not take into account potential valuation declines due to the Covid-19 outbreak.
- (g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the Fund has exposure are located in the UK. They are valued in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).
- The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies, and will be based on the price frequency of the underlying assets.
- As at 31 March 2020, RICS have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions arising from the coronavirus pandemic, with valuers unable to accurately rely on previous market experience to form an opinion of value.
- (h) Financing Fund – The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund collected on its last outstanding loan in February 2020 and made final distributions to investors in the same month; as at 31 March 2020 it is in the initial stages of liquidation.

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**Pension Fund Accounts**


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- (i) Diversified Growth/Targeted Returns Fund – The Fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.
- (j) Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

- (k) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.
- (l) Contributions – These represent the total amounts received from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 1 April 2019 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

Pensionable Pay for the Post	Contribution Rates 2019/20	
	Main Section	50/50 Section
Up to £14,400	5.50%	2.75%
£14,401 to £22,500	5.80%	2.90%
£22,501 to £36,500	6.50%	3.25%
£36,501 to £46,200	6.80%	3.40%
£46,201 to £64,600	8.50%	4.25%
£64,601 to £91,500	9.90%	4.95%
£91,501 to £107,700	10.50%	5.25%
£107,701 to £161,500	11.40%	5.70%
More than £161,500	12.50%	6.25%

The employer's contribution is reviewed every three years and is determined by the Fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for the administering authority in 2019/20 is 22.5%, unchanged from 2018/19.

- (m) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

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**Pension Fund Accounts**


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- (n) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (o) Taxation – The Fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (p) VAT – By virtue of Lewisham Council being the administrating authority, VAT input tax is recoverable on Fund activities. Any irrecoverable VAT is accounted for as an expense.
- (q) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out by the actuaries was as at 31 March 2019. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	March 2019 (%)	March 2016 (%)
Discount Rate	3.5	4.0
Price Inflation (CPI*)	2.3	2.1
Pay Increases	3.0	2.9
Benefit Increase	2.3	2.1
CARE Revaluation	2.3	2.1
Expenses	0.7	0.6

\* Consumer Price Index

With effect from 1 April 2017 to 31 March 2019, the actuarial review carried out for 31 March 2016 resulted in the Council's employer contribution rate being set at 22.5%.

The recent triennial valuation as at the 31 March 2019 revealed that the Fund's assets, which at 31 March 2019 were valued at £1.387bn, were sufficient to meet 90% (78% in 2016) of the past service liabilities valued at £1.541bn (£1.328bn in 2016) accrued up to that date. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016).

- (r) Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1.817bn as at 31 March 2020 (£2.098bn as at 31 March 2019), which includes an allowance for the McCloud ruling on age discrimination, being an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The key actuarial assumptions used to calculate this value are summarised in the below table:

Financial Assumptions	March 2020 (%)	March 2019 (%)
Discount Rate	2.3	2.4
Salary Increases	2.6	3.2
Pension Increases	1.9	2.5

## Pension Fund Accounts

Longevity Assumptions for year ended 31 March 2020	Males	Females
Current Pensioners	20.9 years	23.5 years
Future Pensioners	22.2 years	24.8 years

Sensitivity to the assumptions for year ended 31 March 2020	Approximate increase to liabilities (%)	Approximate monetary amount (£m)
0.5% p.a. decrease in the Real Discount Rate	10	173
0.5% p.a. increase in the Salary Increase Rate	0	7
0.5% p.a. increase in the Pension Increase Rate	9	165

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation; these longevity assumptions have changed since the previous IAS26 disclosures for year ending 31 March 2019.

For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would increase liabilities by approximately 3-5%.

- (s) Investment Management and Administration - Regulation 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council, as the administering authority, to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. Management fees of the Fund's investment managers are typically calculated as a set percentage of the market value of funds under management at regular intervals, although some agreements also allow for performance fees above a defined hurdle rate. Of the Fund's nine fund managers, four charge fees by invoice, the remaining five deduct them at source; in the latter instance, adjustments have been made to the Fund Account to recognise the net return on those investments.
- (t) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
  - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
  - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.
- (u) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the Net Asset Statement but is referred to in the notes to the accounts; please see note 11.



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Pension Fund Accounts

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- (v) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
  - (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
    - Assets at amortised cost – assets that have fixed or determinable payments but are not quoted in an active market; and
    - Fair value through profit or loss – assets that are held for trading.
- (w) Critical judgements in applying accounting policies, and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. These assumptions affect the amounts reported for assets and liabilities as at 31 March 2020, as well as revenues and expenses incurred during the year. The impact of these judgements has been heightened by the coronavirus pandemic and its impact on the financial markets, which has affected all asset classes. The ongoing spread of the virus has had, and will continue to have a material adverse impact on local economies in affected countries and on the global economy, as international commercial activity and market sentiment are increasingly impacted by governments' measures in response to the outbreak.

There are two areas in the accounts where critical judgements are applied that are materially significant and will also be impacted by the pandemic:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on Fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. However, the market disruption caused by the coronavirus outbreak will have mixed and uncertain impacts on all of those assumptions, possibly resulting in material changes to the disclosed present value of promised retirement benefits as at 31 March 2020.
- Property, private equity, infrastructure and private debt valuations – these investments are not publicly listed and involve estimation techniques in their valuation. In addition, timing issues in producing capital statements for inclusion in the statement of accounts means that several assets are valued in the accounts at previous quarter valuations or later, and rolled forward to 31 March 2020 with adjustments and estimations where possible for known activity such as disbursements and capital calls. The Fund's private equity and infrastructure holdings (all level 3 investments) are impacted by this delay; as such, the final realised value of those assets may differ from the valuations presented in the accounts.

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Pension Fund Accounts

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- (x) Material valuation uncertainty – The uncertainty in the financial markets caused by the coronavirus pandemic creates further risk that the valuation of the unlisted investments may have an increased level of uncertainty, and the estimated valuations may be misstated; for example, where mark-to-market valuations have been used for private debt, this may not truly represent an asset’s actual value in an orderly market. There is an extremely wide range of outcomes, resulting in a high degree of uncertainty about the ultimate impact of the pandemic and the time it will take for markets to return to a ‘steady state’.

The total value of the Fund’s property, private equity, infrastructure and private debt valuations in the financial statements is £304m. Having engaged with the fund managers of those investments and considered the variety of approaches and timeframes within which valuations at 31 March 20 have been calculated, there is a risk that the actual values are lower than was estimated at year-end, possibly resulting in a fall in valuations of between 0-5% across asset classes, which represents between £0-£6.3m of the above value (allowing for varying levels of sensitivity between asset classes). The investments listed here are therefore presented in the context of a material valuation uncertainty due to the factors mentioned. Likewise, the Fund’s property investments are valued on the basis of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these valuations than would normally be the case.

- (y) Additional Voluntary Contributions (“AVCs”) - Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main Fund, and in accordance with the Regulations, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

## Pension Fund Accounts

## FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

The fund account shows the surplus or deficit on the fund for the year.

	2019/20 £000	2018/19 £000	See note
<b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
<b>Contributions Receivable:</b>			
- from Employers	(35,027)	(32,123)	1
- from Employees	(10,369)	(9,712)	1
Transfer Values In	(10,708)	(4,453)	
Other Income	(79)	(68)	
<b>Sub-Total: Income</b>	<b>(56,183)</b>	<b>(46,356)</b>	
<b>Benefits Payable:</b>			
- Pensions	44,347	42,220	2
- Lump Sums: Retirement allowances	9,726	8,261	2
- Lump Sums: Death grants	1,080	843	2
<b>Payments to and on account of leavers:</b>			
- Refunds of Contributions	105	118	
- Transfer Values Out	5,314	4,133	
<b>Sub-Total: Expenses</b>	<b>60,572</b>	<b>55,575</b>	
<b>Sub-Total: Net (Additions)/ Withdrawals from dealings with members</b>	<b>4,389</b>	<b>9,219</b>	
Management Expenses	3,593	2,830	3
<b>Sub-Total: Net (Additions)/ Withdrawals including fund management expenses</b>	<b>7,982</b>	<b>12,049</b>	
<b><u>RETURNS ON INVESTMENTS</u></b>			
Investment Income	(14,952)	(6,168)	4
Change in market value of investments (Realised & Unrealised)	41,344	(89,474)	5a
Taxes on Income	145	392	
<b>Total Net Returns on Investments</b>	<b>26,537</b>	<b>(95,250)</b>	
<b>NET (INCREASE) / DECREASE IN THE FUND DURING YEAR</b>	<b>34,519</b>	<b>(83,201)</b>	
<b>OPENING NET ASSETS OF THE FUND</b>	<b>(1,386,727)</b>	<b>(1,303,526)</b>	
<b>CLOSING NET ASSETS OF THE FUND</b>	<b>(1,352,208)</b>	<b>(1,386,727)</b>	

## Pension Fund Accounts

## NET ASSETS STATEMENT AS AT 31 MARCH 2020

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2020.

	31/03/20 £000	31/03/19 RESTATED £000	31/03/19 £000	See note
<b>INVESTMENT ASSETS</b>				
<b>Equities</b>				
United Kingdom	0	0	13,747	5
Global	13,342	13,747	0	5
	<b>13,342</b>	<b>13,747</b>	<b>13,747</b>	
<b>Managed Funds</b>				
Property	106,332	112,285	112,285	5
Equities	663,396	695,931	695,931	5
Fixed Interest	176,092	183,854	183,854	5
Index Linked	88,785	92,934	92,934	5
Other Assets	275,021	259,752	259,752	5
	<b>1,309,626</b>	<b>1,344,756</b>	<b>1,344,756</b>	
<b>Cash Held with Custodian</b>	<b>28,393</b>	28,593	28,593	9
<b>Derivative Contracts</b>				
Assets	1,815	0	0	7
Liabilities	(1,815)	0	0	7
<b>Other Investment Balances</b>	<b>1,272</b>	70	70	8a
<b>TOTAL INVESTMENTS</b>	<b>1,352,633</b>	<b>1,387,165</b>	<b>1,387,165</b>	
Current Assets	5,070	1,325	1,325	8b
Current Liabilities	(5,495)	(1,763)	(1,763)	8b
<b>TOTAL NET ASSETS</b>	<b>1,352,208</b>	<b>1,386,727</b>	<b>1,386,727</b>	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2020. This liability is included within the Authority's balance sheet.

The 2018/19 Net Asset Statement has been restated to reclassify an asset categorisation from UK equities to global equities with value £13.7m at 31 March 2019 and £13.3m at 31 March 2020. In the following notes to the accounts, and where applicable, the asset is clearly identified in prior year balances as global equities, without restatement of full notes to reflect the re-categorisation.

## Pension Fund Accounts

## NOTES TO THE PENSION FUND ACCOUNTS

## 1. CONTRIBUTIONS RECEIVABLE

	2019/20 £000	2018/19 £000
<b>Employer Contributions</b>		
Administering Authority	(28,555)	(25,855)
Scheduled Bodies	(5,824)	(5,585)
Admitted Bodies	(648)	(683)
	<b>(35,027)</b>	<b>(32,123)</b>
<b>Employee Contributions</b>		
Administering Authority	(8,251)	(7,701)
Scheduled Bodies	(1,900)	(1,783)
Admitted Bodies	(218)	(228)
	<b>(10,369)</b>	<b>(9,712)</b>

Contributions receivable from employers are shown below:

	2019/20 £000	2018/19 £000
<b>Employer Contributions</b>		
Normal	(33,302)	(31,714)
Early Retirement Strain	(1,024)	(133)
Deficit Funding	(701)	(276)
	<b>(35,027)</b>	<b>(32,123)</b>

## 2. BENEFITS PAYABLE

<u>By Category</u>	2019/20 £000	2018/19 £000
Pensions	44,347	42,220
Commutation and Lump Sum Retirement Benefits	9,726	8,261
Lump Sum Death Grants	1,080	843
	<b>55,153</b>	<b>51,324</b>

<u>By Authority</u>	2019/20 £000	2018/19 £000
Administering Authority	50,057	46,924
Scheduled Bodies	3,808	3,005
Admitted Bodies	1,288	1,395
	<b>55,153</b>	<b>51,324</b>

## Pension Fund Accounts

## 3. MANAGEMENT EXPENSES

	2019/20 £000	2018/19 £000
Administration Expenses	698	626
Oversight and Governance Expenses	403	235
<u>Investment Management Expenses:</u>		
- Transaction Costs	13	24
- Management Fees	2,444	1,911
- Performance Fees	0	0
- Custody Fees	35	34
	<b>3,593</b>	<b>2,830</b>

Oversight and governance costs increased largely as a result of incurring an additional £0.14m in actuarial and investment advisory services during a triennial valuation year.

The increase in management fees is a result of full year charges from the Fund's infrastructure and multi-asset credit managers (which were new mandates in 2018/19) where committed investments have been fully called, and increased charges where further capital has been deployed to those mandates with outstanding commitments. During the year, the Fund incurred management fees that were deducted at source of £1.4m (£0.8m in 2018/19).

## 3A. EXTERNAL AUDIT COSTS

	2019/20 £000	2018/19 £000
External Audit Services	25	16
	<b>25</b>	<b>16</b>

## 4. INVESTMENT INCOME

	2019/20 £000	2018/19 £000
Cash	(1,003)	(258)
Equities	0	0
Fixed Interest	0	0
Index Linked	0	0
Managed Funds (incl. Property)	(12,521)	(5,079)
Securities Lending	(1)	(1)
Other	(1,427)	(831)
	<b>(14,952)</b>	<b>(6,169)</b>

## Pension Fund Accounts

## 5. INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2020	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	190,536	14.1
Aquila Life US Equity Index Fund	Blackrock	162,396	12.0
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	99,797	7.4
IIF UK I LP	JP Morgan	78,098	5.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,726	5.7
UBS Asset Management Life UK Equity Tracker A Nav	UBS	75,078	5.6

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

Asset	Manager	31 March 2020	
		£000	%
<b>Global Equities</b>			
Harbourvest GE PE Shares	Harbourvest	13,346	100.0
<b>Property</b>			
Schroder Unit TST UK Real Estate	Schroders	15,388	14.5
IPIF Feeder Unit Trust Fund	Schroders	13,668	12.9
Hermes Property Unit	Schroders	10,820	10.2
Real Income Fund	Schroders	10,260	9.6
Blackrock UK FD	Schroders	9,576	9.0
Metro Pty Unit Trust	Schroders	9,406	8.8
Mayfair Cap Pty (MCPUT)	Schroders	8,559	8.0
Multi-Let INDL Property Unit Trust	Schroders	7,864	7.4
Legal and General Managed Property Fund	Schroders	5,738	5.4
<b>Managed Equities</b>			
UBS Asset Management Life World Equity Tracker	UBS	190,536	28.7
Aquila Life US Equity Index Fund	Blackrock	162,396	24.5
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	99,797	15.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	75,078	11.3
Aquila Life European Equity Index Fund	Blackrock	38,078	5.7
<b>Fixed Interest</b>			
UBS Asset Mgmt STG Corp Bond Index Fund	UBS	45,399	25.8
UBS GBL Asset Life UK Over 15 Year Gilt Tracker Fund	UBS	44,675	25.4
Blackrock Pensions Aquila Life Over 15 Years UK Gilt Index Fund	Blackrock	43,661	24.8
Blackrock AM (IE) iShares UK Credit Bond Index Fund	Blackrock	42,357	24.0
<b>Index Linked</b>			
Aquila Life Over 5 Years Index Fund	Blackrock	45,170	50.9
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	43,615	49.1
<b>Alternatives</b>			
JP Morgan IIF UK I LP	JP Morgan	78,098	28.4
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,726	28.3
Partners Group Comp MAC 2017 IV	Partners Group	40,400	14.7
Pemberton Euro Debt Investments Jersey II	Pemberton	34,873	12.7
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	19,148	7.0

## Pension Fund Accounts

An analysis of investment movements is set out below:

INVESTMENT MOVEMENTS 2019/20	Value at 31 March 2019 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2020 £000
Global Equities	13,747	0	0	0	(406)	13,342
Managed Equities	695,931	40,119	(10,600)	1,247	(63,301)	663,396
Property	112,285	3,534	(3,856)	(730)	(4,900)	106,332
Fixed Interest Securities	183,854	6,650	(28,526)	(1,247)	15,360	176,092
Index Linked Securities	92,934	4,550	(11,089)	0	2,390	88,785
Other Assets*	259,751	32,421	(26,236)	(11)	9,096	275,021
	1,358,502	87,274	(80,307)	(741)	(41,761)	1,322,968
Cash Deposits	28,593				409	28,393
Other Investment Balances	70				7	1,272
<b>Total Investments</b>	<b>1,387,165</b>				<b>(41,345)</b>	<b>1,352,633</b>

\* Includes Infrastructure, Multi-Asset Credit, Private Equity and Diversified Growth funds.

The Pension Fund's fixed interest and index linked bond investments are held with UBS and Blackrock in pooled funds. Index Linked Securities are comprised wholly of UK Government index linked gilts, whilst Fixed Interest Securities comprise various government and corporate bonds.

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £43.9m, multi-asset credit/private debt with a value of £34.9m, and infrastructure with a value of £78.1m.

The total value of unquoted securities held by the Fund as at 31 March 2020 was £1,011m; this includes equities, bonds, private equity, diversified growth, infrastructure and multi-asset credit funds.

The total value of quoted securities held by the Fund as at 31 March 2020 was £206m; this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £859m and unit trusts valued at £180m, of which £106m relates to pooled property investments. The Fund also holds assets with value £75m as a Limited Partner in the compartments of multi asset credit limited partnerships, and £78m in a perpetual life infrastructure fund.



## Pension Fund Accounts

As at 31 March 2019:

INVESTMENT MOVEMENTS 2018/19	Value at 31 March 2018 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2019 £000
Global Equities	11,487	0	0	0	2,260	13,747
Managed Equities	710,103	8,087	(83,101)	(2,777)	63,619	695,931
Property	108,401	9,207	(8,231)	0	2,908	112,285
Fixed Interest Securities	210,101	15,875	(5,013)	1,867	(38,976)	183,854
Index Linked Securities	42,600	2,100	(3,900)	910	51,224	92,934
Other Assets*	135,223	142,214	(26,634)	(13)	8,961	259,751
	<b>1,217,915</b>	<b>177,483</b>	<b>(126,879)</b>	<b>(13)</b>	<b>89,996</b>	<b>1,358,502</b>
Cash Deposits	86,154				(513)	28,593
Other Investment Balances	16				(9)	70
<b>Total Investments</b>	<b>1,304,085</b>				<b>89,474</b>	<b>1,387,165</b>

\* Includes Multi-Asset Credit, Private Equity and Diversified Growth funds.

## 5A. FINANCIAL INSTRUMENTS

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified between accounting categories during the year ended 31 March 2020, and all assets are held at fair value.

	31-Mar-20			31-Mar-19		
	Fair Value through Profit & Loss £000	Financial Assets at Amortised Cost £000	Financial Liabilities at Amortised Cost £000	Fair Value through Profit & Loss £000	Financial Assets at Amortised Cost £000	Financial Liabilities at Amortised Cost £000
<b>Financial Assets</b>						
Equities	13,342			13,747		
Managed Funds:						
Property	106,332			112,285		
Managed Equity	663,396			695,931		
Fixed Interest	176,092			183,854		
Index Linked	88,785			92,934		
Other Alternative Assets	275,021			259,752		
Derivative contracts	1,815			0		
Cash deposits		28,393			28,593	
Pending Trades		17,500			0	
Dividends & Income Due		1,276			70	
Cash Balances		4,691			1,049	
Other Current Assets		188			87	
<b>Total Financial Assets</b>	<b>1,324,783</b>	<b>52,048</b>	<b>0</b>	<b>1,358,503</b>	<b>29,799</b>	<b>0</b>

## Pension Fund Accounts

<b>Financial Liabilities</b>						
Derivative Contracts			(1,815)			0
Pending Trades			(17,511)			0
Unpaid benefits			0			0
Other Current Liabilities			(5,488)			(1,763)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(24,814)</b>	<b>0</b>	<b>0</b>	<b>(1,763)</b>
<b>Net Financial Assets</b>	<b>1,324,783</b>	<b>52,048</b>	<b>(24,814)</b>	<b>1,358,503</b>	<b>29,799</b>	<b>(1,763)</b>

## Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/20 £000	31/03/19 £000
<b>Financial Assets</b>		
Fair Value through Profit and Loss	(41,760)	89,987
Assets at Amortised Cost	409	(513)
<b>Financial Liabilities</b>		
Liabilities at Amortised Cost	7	0
	<b>(41,344)</b>	<b>89,474</b>

## Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the three levels of the fair value hierarchy, according to the quality and reliability of information used to determine fair values.

Level 1 - consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities (e.g. quoted equities, quoted fixed securities, quoted index linked securities and unit trusts).

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value).

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

## Pension Fund Accounts

Values as at 31 March 2020	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/20 £000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	13,342	1,187,605	122,022	<b>1,322,969</b>
Financial Assets at Amortised Cost	52,238	0		<b>52,238</b>
	<b>65,580</b>	<b>1,187,605</b>	<b>122,022</b>	<b>1,375,207</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Amortised Cost	(22,999)	0	0	<b>(22,999)</b>
	<b>(22,999)</b>	<b>0</b>	<b>0</b>	<b>(22,999)</b>
<b>Net Financial Assets</b>	<b>42,581</b>	<b>1,187,605</b>	<b>122,022</b>	<b>1,352,208</b>

Values as at 31 March 2019	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/19 £000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	13,747	1,225,948	118,807	<b>1,358,502</b>
Financial Assets at Amortised Cost	29,988	0	0	<b>29,988</b>
	<b>43,735</b>	<b>1,225,948</b>	<b>118,807</b>	<b>1,388,490</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Amortised Cost	(1,763)	0	0	<b>(1,763)</b>
	<b>(1,763)</b>	<b>0</b>	<b>0</b>	<b>(1,763)</b>
<b>Net Financial Assets</b>	<b>41,972</b>	<b>1,225,948</b>	<b>118,807</b>	<b>1,386,727</b>

## 5B. FINANCIAL RISK MANAGEMENT

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), interests in collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the Fund's risk management strategy rests with the Council's Pension Investment Committee (PIC). Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

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**Pension Fund Accounts**


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The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate, which is reflected in its most recent investment strategy agreed in February 2020. The new strategy will target a 50% allocation to low carbon passive equity mandates, maintaining the growth strategy of the Fund, whilst continuing to invest in income assets such as renewable infrastructure to ensure the cash flow requirements of the Fund continue to be addressed.

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

**i) Market Risk**

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

**a) Other Price Risk – Market**

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

**b) Other Price Risk – Sensitivity analysis**

The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund's assets in 2019/20, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
<b>UK Equities</b>	<b>12.6</b>
<b>Global Equities</b>	<b>14.7</b>
<b>Bonds and Index Linked</b>	<b>7.9</b>
<b>Alternatives</b>	<b>4.1</b>
<b>Property</b>	<b>2.3</b>
<b>Cash</b>	<b>2.4</b>

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**Pension Fund Accounts**


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Applied to the period end asset mix, the potential impact on the Fund's market value in the next financial year is as follows:

Asset Type	Final Market Value as at 31 March 2020 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	365,850	12.6	411,767	319,933
Global Equities	310,888	14.7	356,704	265,072
Bonds and Index Linked	264,877	7.9	285,800	243,954
Other Assets	275,021	4.1	286,186	263,856
Property	106,332	2.3	108,758	103,906
Cash	28,393	2.4	29,083	27,703
<b>Total Assets*</b>	<b>1,351,361</b>	<b>6.9</b>	<b>1,444,875</b>	<b>1,257,847</b>

\* This figure excludes derivatives and other investment balances

\*\* The % change and value change for Total Assets includes the impact of correlation across asset classes

**c) Interest Rate Risk** is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

**d) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund was exposed to the following significant foreign currency levels (i.e. £2m and over) at the 31 March 2020, with the previous year in brackets:

Euro	€9.9m	(€15.9m)
US Dollars	\$196.4m	(\$190.6m)

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Norwegian Krone and Australian Dollars.

**e) Currency risk – sensitivity analysis**

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2020 there were corresponding pending foreign exchange purchases of £1.8m and sales of £1.8m. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2019/20 to be 7.4%. This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 20 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	310,888	7.4	333,746	288,030
Overseas Fixed Income	87,756	7.4	94,208	81,304
Other Alternatives	156,858	7.4	168,391	145,325
<b>Total</b>	<b>555,502</b>	<b>7.4</b>	<b>596,345</b>	<b>514,659</b>

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**Pension Fund Accounts**


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**ii) Credit Risk**

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust. Northern Trust assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%. However, more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time. The Fund's exposure through the SL programme is now reduced as the Fund is now passively managed and SL activity has greatly reduced.

**iii) Liquidity Risk**

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2020 these assets totalled approximately £942m, comprising of bonds and equities, with a further £28.4m held in cash by the custodian on behalf of the Fund and fund managers.

**6. PRIOR YEAR ADJUSTMENT**

£13.75m of equities in 2018/19 have been reclassified from UK to global equities; the asset represents the Fund's holdings in HarbourVest Global Private Equity, a Guernsey domiciled and London listed evergreen fund.

**7. DERIVATIVE CONTRACTS**

As at 31 March 2020 there were pending foreign exchange purchases of £1.8m and sales of £1.8m, with an unrealised loss of £390. The net gains and losses in the tables below relate to foreign exchange forward contracts.

	2019/20 £000	2018/19 £000
Foreign Exchange Gains	0	21
Foreign Exchange Losses	0	0
<b>Total Unrealised Gains / (Losses)</b>	<b>0</b>	<b>21</b>

## Pension Fund Accounts

**8A. OTHER INVESTMENT BALANCES**

These comprise the following amounts:

	31/03/20 £000	31/03/19 £000
<b>Debtors</b>		
Equity Dividends / Income from Managed Funds	1,244	38
Interest and Other Income	32	32
Pending Trades	17,500	0
<b>Creditors</b>		
Interest and Other Expenditure	7	0
Pending Trades	(17,511)	0
<b>Net</b>	<b>1,272</b>	<b>70</b>

**8B. NET CURRENT ASSETS**

These comprise the following amounts:

**Current Assets**

	31/03/20 £000	31/03/19 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	191	189
Interest and Other Income	0	0
Other Current Assets	188	87
Cash in Hand	4,691	1,049
	<b>5,070</b>	<b>1,325</b>

**Current Liabilities**

	31/03/20 £000	31/03/19 £000
Fund Manager and Custody Fees	(283)	(274)
Consultancy/ Advisory Fees	(35)	(8)
Other Current Liabilities	(5,177)	(1,481)
	<b>(5,495)</b>	<b>(1,763)</b>

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**Pension Fund Accounts**

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**9. CASH AND BANK**

**Cash Held With Custodian**

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2020 was £28.4m (£28.6m as at 31 March 2019). Approximately £10.9m of this was with Schroders (of which £5.3 was committed), £6.0m with HarbourVest, £4.7m with JP Morgan and £6.8 was being held on behalf of the other managers.

**Pension Fund Bank Account**

The Lewisham cash in hand balance of £4.7m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2020. The Fund's accounts are held with Barclays Bank.

**10. POST YEAR END EVENTS**

**Non-Adjusting event – Covid-19**

The coronavirus outbreak, declared a pandemic by the World Health Organisation on 11<sup>th</sup> March 2020, has resulted in thousands of deaths, the imposition of quarantine measures, border closures and travel restrictions, and wider market uncertainty, particularly for those cyclical industries less able to deal with an economic downturn.

The impact on global financial markets in the short term has primarily been greater volatility; for a pension fund, a significant decline in the value of investments could be classed as a non-adjusting event with regards conditions that arose after the reporting period. Longer term performance will depend on how long the pandemic lasts and what path the recovery takes. However, although there have been variations to fund values, the value of the Fund's investments as at 30 September 2020 is overall higher than as reported at 31 March 2020 in these statements (an increase of approximately 11% to £1,502m).

The Fund's level 3 investments are well diversified in terms of geographies, sectors and vintages (year when first tranche of investment capital is called) so any valuation effects of the pandemic will vary depending on such factors. The total value of level 3 investments in the financial statements is £123.7m; this value could see increases where underlying investments are held in sectors such as telecoms and IT, or food products, whilst there is likely to be an adverse impact on investments held in the non-food retail and leisure sectors.



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**Pension Fund Accounts**


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**11. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31 March 2020:

<b>Fund Manager</b>	<b>Fund</b>	<b>Amount ('000)</b>	<b>Translated (£'000)</b>
HarbourVest	HarbourVest Partners XI AIF L.P.	\$20,138	16,236
HarbourVest	HarbourVest Partners X AIF L.P.	\$15,908	12,826
Pemberton	European Debt Investments Jersey II L.P.	£8,212	8,212
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	\$6,975	5,624
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P.	\$833	671
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P.	€ 700	619
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P.	\$190	153
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P.	€ 124	109
	<b>Total</b>		<b>44,450</b>

**12. RELATED PARTY TRANSACTIONS**

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are recorded.

During the year the following declarations were made:

- Councillor John Muldoon declared his interest as a member of Lewisham's Pension Fund.
- The Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

No other trustees or Council chief officers with direct responsibility for Pension Fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2020.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £654k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently Pension Fund cash balances are held by the Council from time to time and vice versa.

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**Pension Fund Accounts**


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- The salary of the Executive Director for Resources and Regeneration for 2019/20 was £136,964, which includes employer's pension contributions of £25,157. This was an interim appointment to 31 January 2020, after which the post holder returned to their position of Acting Chief Finance Officer from 1 February 2020 to 31 March 2020.
- The salary of the Acting Chief Finance Officer, covering the period 1 February 2020 to 31 March 2020, was £27,393, which includes employer's pension contributions of £5,032.

**13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

Contributing members have the right to make AVCs to enhance their pension. There are currently 45 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The Fund has two AVC providers: Clerical Medical and Utmost (formerly Equitable Life). The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham Fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2019/20			2018/19		
	Utmost £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
<b>Value at the Beginning of Year</b>	<b>428</b>	<b>964</b>	<b>1,392</b>	<b>434</b>	<b>876</b>	<b>1,310</b>
Contributions and Transfers Received	3	182	185	3	172	175
Investment Return	81	(83)	(2)	13	93	106
Paid Out	(91)	(77)	(168)	(22)	(177)	(199)
<b>Value at the End of the Year</b>	<b>421</b>	<b>986</b>	<b>1,407</b>	<b>428</b>	<b>964</b>	<b>1,392</b>

**14. SCHEDULED BODIES**

The following are scheduled bodies to the Fund as at 31 March 2020, arranged in descending order by the value of their contributions in 2019/20:

Lewisham Homes Limited
Haberdashers' Aske's Knights Academy
Christ The King Sixth Form College
Childeric
Tidemill Academy
St Matthews Academy
St George's Academy

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**Pension Fund Accounts**


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**15. ADMITTED BODIES**

The following are admitted bodies to the Fund as at 31 March 2020, arranged in descending order by the value of their contributions in 2019/20:

Youth First LTD
Phoenix
Phoenix Agency Services
DB Services
Lewisham Music
Skanska
Chartwells Compass
One Housing (Ceased 31/12/2019)
Change Grow Live
NSL (formerly known as National Car Parks Ltd)
Nviro
Fusions Leisure Management
Quality Heating
3 C's Support
Housing 21
Pre-School Learning Alliance
Tower Services
Wide Horizons (Ceased 31/07/2018)

**16. STOCK LENDING**

The Statement of Investment Principles and Investment Strategy Statement permit the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent.

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

Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

As at the 31 March 2020 the value of aggregate stock on loan was £0m (£0m as at 31 March 2019); the Fund does not currently hold any segregated assets for participation in the securities lending programme.

**Collateral**

The collateral held as security on loans cannot be sold or re-pledged in the absence of default by the borrower. The Fund did not enter into any stock lending transactions during the financial year, and the value of collateral held as at 31 March 2020 was £0m (£0m as at 31 March 2019).

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**Pension Fund Accounts**


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**17. MEMBERSHIP**

	Active Members		Deferred Beneficiaries		Retired Members	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Administering Authority	5,590	5,656	10,502	10,295	7,556	7,360
Scheduled Bodies	1,050	951	1,234	1,051	346	298
Admitted Bodies	114	119	124	123	122	111
	<b>6,754</b>	<b>6,726</b>	<b>11,860</b>	<b>11,469</b>	<b>8,024</b>	<b>7,769</b>

**18. AUTHORISATION**

These accounts were approved by Council on 25 November 2020.

## SECTION 9 – ANNUAL GOVERNANCE STATEMENT

### What is corporate governance?

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; and for having a governance framework that comprises of the culture, values, systems and processes by which this is achieved. It must make sure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively to meet its strategic objectives.

It also has a duty, through the establishment of internal control measures, to manage risk to a reasonable level by identifying, prioritising, evaluating and managing the risks to the achievement of its policies, aims and objectives. Finally, it has a duty to secure continuous improvement in the way in which its functions are exercised.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives and Senior Managers) Framework Delivering Good Governance in Local Government. This statement explains how the authority has complied with the code and also how it meets the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of a statement on internal control.

***“Corporate governance is about making sure that the Council is run properly. It is about ensuring the Council does the right things, at the right time and in the right way.”***

### How has this statement been prepared?

Every year a review of the effectiveness of the Council's governance framework is conducted by the Annual Governance Statement working party, which comprises policy, legal and audit officers with expertise in governance and internal control matters.

The group meets quarterly to collate and evaluate governance evidence and identify areas requiring action; and is responsible for analysing CIPFA/SOLACE guidance in relation to the development of this statement and ensuring that the statement is approved via the Council's key control mechanisms.

### The governance review process includes:

- The consideration of the Annual Governance Statement Action Plan by the Council's Internal Control Board (ICB) on a quarterly basis.
- The consideration of the Accounts, the Head of Corporate Resources (as Head of Internal Audit) Annual Report and the Annual Governance Statement by the Council's Audit Panel.
- A review of the Council's Local Code of Corporate Governance by the Standards Committee, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts.
- Sign off by the Chair of the Council and Chief Executive, once approved.
- This year, the Council's governance arrangements have operated as designed, with some acting up arrangements, principally in respect of the Head of Paid Service (for part of the year) and Section 151 Officer roles.

### The Council's governance arrangements in 2019/20

The Council's governance arrangements aim to foster effective leadership and high standards of behaviour; a culture based on openness and honesty; and an external focus on the needs of service users and the public. The diagram below shows the Council's external facing governance structure, as set out in the Council's constitution.

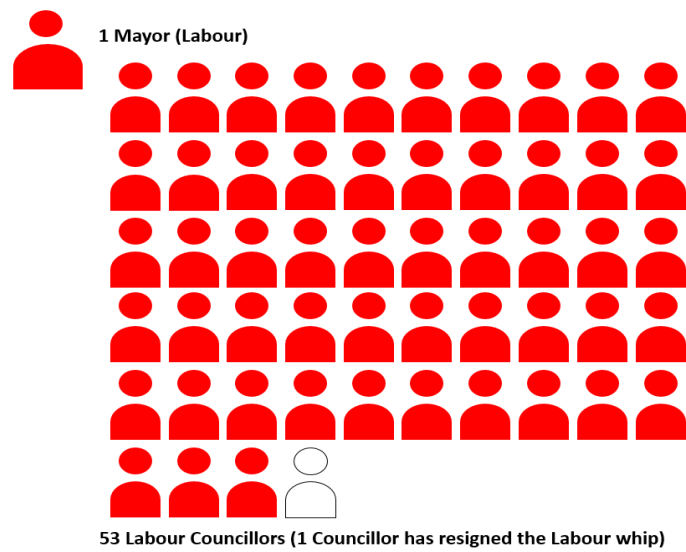
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**Annual Governance Statement**

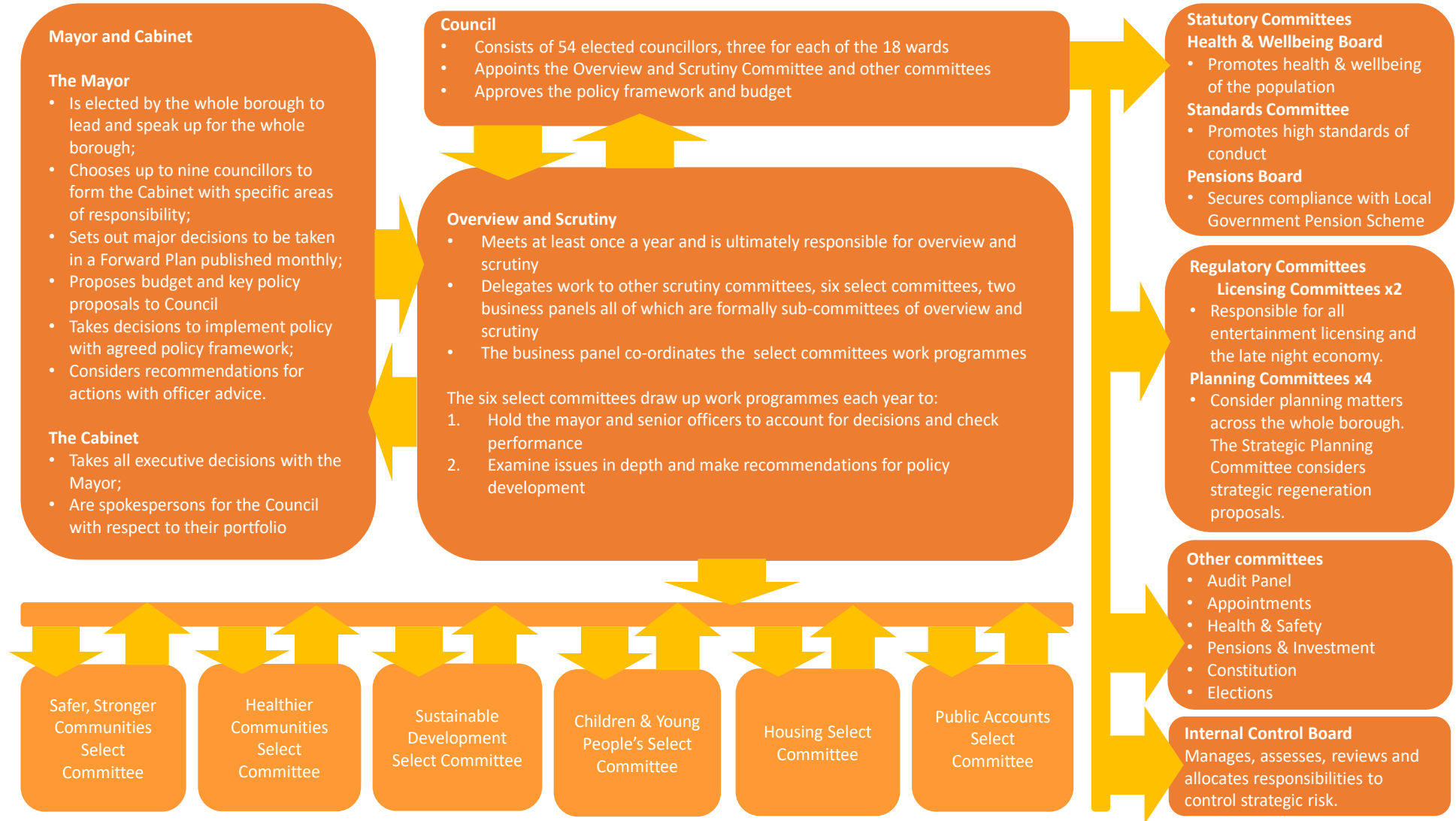
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Lewisham’s directly elected Mayor provides the Council with clear strategic direction and effective leadership but the Council also benefits from the perspectives and contributions of its 54 Councillors. The Council’s constitution clearly defines the roles of councillors and officers, and this clarity contributes to effective working relationships across the Council. The Constitution Working Party, the Standards Committee and the Audit Panel monitor and challenge the governance arrangements and ensure their robustness.

The Council has worked closely with its partners, both strategic and operational. The Council has two statutory partnership boards: the Safer Lewisham Partnership which works to protect the community from crime and disorder, anti-social behaviour and drug misuse and help people feel safer; and the Health and Wellbeing Board which works to promote greater partnership engagement across the various statutory and non-statutory agencies that contribute to health and social care outcomes locally.



Annual Governance Statement



### **Communicating and reviewing the Council's vision**

The Council adopted a new Corporate Strategy 2018-2022 in February 2019. The Council's new Corporate Strategy sets out how Lewisham Council plans to deliver for our residents over the next four years. There are seven corporate priorities:

**Open Lewisham** – Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.

**Tackling the housing crisis** – Everyone has a decent home that is secure and affordable.

**Giving children and young people the best start in life** – Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.

**Building an inclusive local economy** – Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.

**Delivering and defending: health, social care and support** – Ensuring everyone receives the health, mental health social care and support services they need.

**Making Lewisham greener** – Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.

**Building safer communities** – Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

The Council's performance is monitored via monthly Directorate (Children and Young People Services, Community Services, Housing Regeneration and Public Realm, Corporate Resources, and Chief Executive) management reports and regularly at the Executive Management Team. The reports use 'red' exception reporting to focus attention on underperforming or high risk areas and is a critical tool for supporting decisions across the organisation. These reports are available to Cabinet Leads, giving them direct line of sight to current and emerging performance issues. The appropriateness of Directorate performance measures is reviewed annually. The quality of services for users is also measured through satisfaction surveys and information from the complaints and management resolution processes. In addition, where areas for improvement are identified, the Council acts swiftly to address them. For example, following the Inspection of Local Authority Children's Services by Ofsted in July 2019, the Council took steps, building on the existing senior officer led improvement plan overseen by a discrete improvement Board, to address areas for improvement that were identified by the regulator.

### **Roles and responsibilities**

The Council's constitution sets out the roles and responsibilities of the Mayor, the Chair of Council, the Council as a whole, the Executive, Statutory Officers, Overview and Scrutiny committees, Standards committees and other committees to help ensure that all decision making activity is lawful and transparent. Decisions are taken and scrutinised in accordance with the Council and Mayoral scheme of delegation, the procedure rules set out in the constitution and on the basis of professional officer advice, as part of an annual programme of regular meetings.



### **Embedding Roles and Responsibilities**

The Local Code of Corporate Governance and the Codes of Conduct for Members and Officers, set out in the constitution, demand the highest standards of ethical behaviour. These are reviewed regularly by the Monitoring Officer and are communicated widely. The Standards Committee received its annual report on Member compliance with the Code of Conduct in January 2020 and concluded that the Member Code of Conduct was well embedded and the evidence suggested a high level of compliance. Training on the Member Code of Conduct was delivered to all Councillors in June 2018, following the local elections that year, as part of a comprehensive induction programme to enable Members to understand and access all appropriate support and development to undertake their role. Training is updated periodically.

### **Decision making**

The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. This includes declaring if they have a personal interest in the matters under discussion and, if required, withdrawing from the room whilst the decision is taken. Reports are produced in a standard format to ensure that report authors address all significant considerations such as the legal, financial and equalities implications of decisions. The minutes of every formal meeting are published on the Council website.

The constitution requires Executive decisions to be published within two working days of being taken and they may be **called-in** (referred to the Mayor for reconsideration) by the Overview and Scrutiny Business Panel and the Education Business Panel.

In 2019/20 two items were called in by the Overview and Scrutiny Business Panel. These are as follows:

- Re-commissioning of Building-Based Day Services for Older Adults (November 2019)
- Disposal of former Wide Horizons sites in Wales and Kent (January 2020)

The Council has a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements but in practice, the procedure rules set out in the constitution are under constant review to reflect changing needs.

### **Internal Audit**

The role of internal audit is to provide an objective opinion on the internal control environment within the Council. Its work is set out in an annual internal audit plan that covers the activities where internal audit and management perceive there are risks to achieving objectives. This work is conducted in compliance with the Public Sector Internal Audit Standards (PSIAS), as adopted by the Council in its Internal Audit Charter.

The annual self-assessment of the compliance to the PSIAS, confirms that the service continues to meet the standards. For the 2019/20 the Head of Internal Audit was also acting as the Council's s151 officer in an acting up capacity. This was discussed with the external auditors and the Audit Panel and compensating controls implemented.

The internal audit plan for the year concludes with reporting to the Audit Panel in June/July with an annual assurance opinion. For 2018/19, 66 (39 corporate and 27 schools) assurance reviews were undertaken and the annual opinion of the Head of Internal Audit, reported to the Audit Panel, was:

*“the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2018-19 is **Satisfactory**. The Schools opinion also remains as Satisfactory.”*

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Subject to the following qualifications to the opinion;

- Internal audit resources - vacancies experienced by both the contractor and in-house team impacted the delivery of the audit plan which was reduced in year from the original plan;
- Through part of the year, the Head of Internal Audit also had wider finance management responsibilities raising the risk of possible conflicts of interest for which compensating governance arrangements were adopted;
- Following the move to the new finance processes and system early in the year some control weaknesses were identified with the accounts payable and receivable areas, the audit opinions for which were Limited; and
- Internal audit recommendations were reported to Audit Panel and the Internal Control board, with monthly reminders of open outstanding actions are reported at directorate management teams. In addition, the Audit Panel has requested for sponsors to report on limited assurance reports and update on follow up actions completed.

For 2019/20, as discussed with the Audit Panel in February, work on the audit plan was suspended in March. This was due to the need for the Council to focus its response to Covid 19 by front line teams and the internal audit team who were redeployed in support. The internal audit plan was picked up in June and reported to the Audit Panel in September for the 2019/20 year.

### **External audit**

The Council's governance, risk and control management arrangements are subject to an annual independent review by Grant Thornton, the Council's external auditors. In their last Annual Audit Letter on the 2018/19 accounts Grant Thornton gave an unqualified opinion for the financial statements and unqualified conclusion for the Council's value for money arrangements. Grant Thornton reported:

*"In our opinion, the financial statements:*

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
  - have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
  - have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014."
- and

*"we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019."*

The final audit certificate was not issued pending the auditors finalising their work into two objections received to the accounts in 2016/17 by a number of authorities. Both responses to these objections have concluded with no action required and Grant Thornton will be able to issue the audit certificates from 2016/17 to date on completing the 2019/20 accounts.

While the audit will conclude and report to the Audit Panel and Council in the usual way, the 2019/20 closing will be later due to delays arising from Covid 19. The government deferred the audit deadlines for completion of audits to November 2020, from July originally.

### **Audit Panel**

The Council's Audit Panel meets quarterly and is made up of a mixture of Councillors and independent advisors. The key roles of the Panel are to:

- Review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports, summarising the audit reports issued, management's progress on

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implementing any recommendations and the performance of the Internal Audit function, are received by the Panel on a quarterly basis.

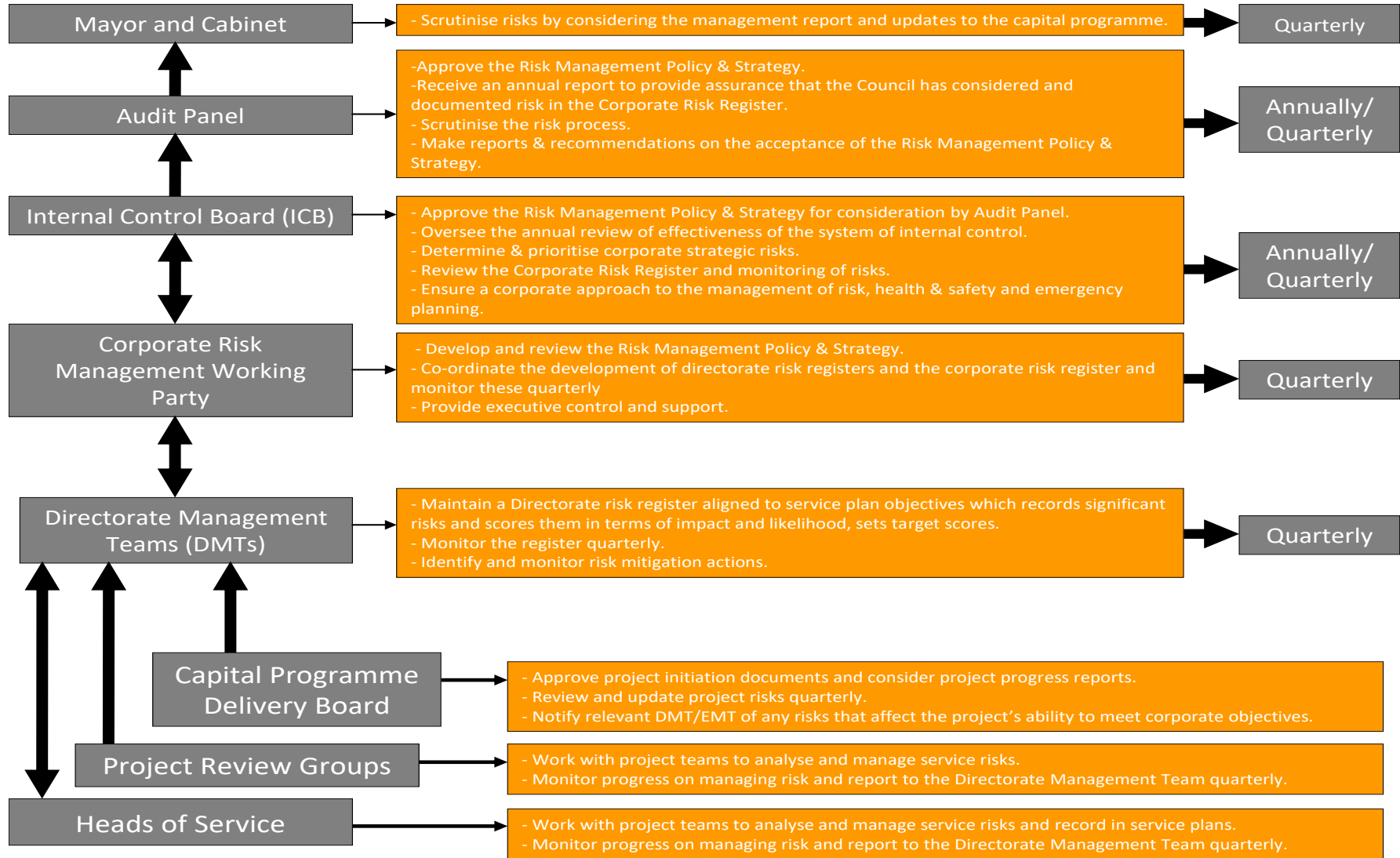
- Consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Consider the external auditor's annual plan and other relevant external reports which contribute to the level of assurance.
- Consider the Council's annual Statement of Accounts and this statement and make comments to Full Council when it considers the accounts.

### **Compliance**

The Monitoring Officer is central to ensuring compliance with the rules and procedures set out in the constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs the Executive Management Team (EMT), councillors and relevant staff on corporate legislative developments; and legal advice is incorporated in every council report. Where gaps or non-compliance are identified, appropriate action is taken. The financial management of the authority is conducted in accordance with financial regulations set out in the constitution and the Council had designated the Executive Director of Resources as its Section 151 Officer, who advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. The s151 role is now attached to the Executive Director for Corporate Resources post. The Council has a whistle-blowing policy in place which is publicised on the Council's website. Complaints made under this policy are handled by the Monitoring Officer and an annual review is considered by the Standards Committee.

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Risk and Strategy Framework



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It should be noted that the Council's ICB was dissolved at the end of the financial year to which these accounts relate, following its last meeting in February 2020. The work of the ICB will revert to being undertaken by the EMT.

**Training and development**

The Council runs a Member Development Programme, focussed heavily initially on the period following local elections, which ensures that all Councillors have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. There is an ongoing programme of learning development available for councillors every year, inclusive of regular all member briefings. The development needs of senior officers are the responsibility of the Head of Human Resources and the Monitoring Officer who are aware of their statutory duties and stay abreast any changes in relevant legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors which are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

**Engaging the community and partners**

The Council promotes e-Participation through its online engagement system which provides a platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Ward-level Local Assemblies are an opportunity for residents to work with their ward councillors to shape the future of their neighbourhood; and the Young Citizens Panel gives young people aged 11–18 the chance to feed into council policy and spending decisions, including the use of the Young Mayor's budget.

The Council's website includes a page on open data and transparency, which gives information on spending; wages of senior managers; Freedom of Information requests; the annual audit of accounts; the pay policy; and Council decisions. The arrangements for strategic partnership working are set out earlier in this statement. Periodically the Council also engages in wide consultation and communication activities. Going into 2020/21 the Council has also established closer working to support the response to Covid-19, particularly with through the Communities Partnership Board to shield and protect the vulnerable and the creation of a Business Taskforce to support and promote economic recovery.

**How do we know our arrangements are working?**

Throughout the year, the Council regularly reviews the priorities of the previous year and the effectiveness of its governance framework, including its system of internal control. Activity undertaken includes:

- Consideration of governance issues by the ICB – including risk registers, counter-fraud updates and internal audit reports. This work continues to be on-going and falls under the remit on EMT.
- Preparation of a rolling plan of audit coverage is in progress and to be achieved in the forthcoming year by the Head of Audit and Risk, primarily based on an assessment of the Council's risk profile, and review of the plan by ICB.
- Receipt of the Internal Audit Strategy by the Audit panel and approval of the annual audit plan.
- Preparation of the annual assurance report by the Director for Corporate Resources as Head of Internal audit, setting out their opinion on the Council's overall control environment and approval of the report by the Audit Panel.
- Annual updates to the Public Accounts Select Committee on the work of the Audit Panel.
- Consideration by EMT of a range of governance and performance issues throughout the year, including issues relating to the improvement of the Internal Audit Service and scrutiny of performance and risk (ensuring management action is taken where necessary).
- Consideration of the following reports by the Standards Committee:
  - Review of Compliance with the Council's Code of Corporate Governance (July 2019)

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- Review of Whistle-blowing and Referrals Policy (January 2020)
- Review of Compliance with the Member Code of Conduct (January 2020)
- Annual Complaints Report 2018-19 (January 2020)
- Consideration of external audit reports by Mayor and Cabinet, Audit Panel and relevant Select Committees.

**What are our governance priorities going forward?**

Our priorities continue to include:

- Continue to progress delivery of the Mayor's policy programme, as set out in the Corporate Strategy to 2022 adopted by Council in 2018/19. It is estimated that 90 per cent of commitments have either been delivered or are on track for delivery. At the same time, the Council continues to monitor the impact of the Covid-19 pandemic on the delivery of Corporate Strategy commitments. The current assessment is that whilst there may be some deliverability risk, none of the 111 are undeliverable.
- Plan and prepare to implement further cuts and adjust the allocation of resources across services in light of the anticipated further budget reductions the Council faces – to address the £10m persistent in-year service overspending and identify the estimated £40m plus of cuts required for the next three years (£24m in 2021/22) while also responding to the impact of the Covid pandemic and related economic uncertainties, including Brexit;
- Embed the Directorate and operational changes and work to deliver the corporate priorities agreed at Council in February 2020, following appointments within the period considered by the 2019/20 accounts and subsequently to the roles of Chief Executive, s151 Officer, and Monitoring Officer;
- Complete the annual reviews of the schemes of delegation and performance report to align to the new Directorate structures implemented in 2020/21;
- Update the payroll and HR procedures to ensure resilience and capture the operational changes from the move to a new system (Oracle Cloud);
- Continue to structure and enhance the management development programme;
- Address the external and internal audit findings reported to the Audit Panel to maintain and, where necessary, improve the Council's financial controls (e.g. in respect of income);
- Continue to address areas for improvement overseen by a discrete Improvement Board on the findings and recommendations of the Children Services review; and
- Continue the work with our local and regional health partners to best deliver the 'integrated health and social care agenda' for the benefit of the borough's citizens, via the Joint Borough Based Board established in 2019/20.

In addition to the above the Council is responding to the impact of Covid 19 on the Borough and the Council. The impact of the pandemic has been considerable both in terms of loss of life as well as disruption to the economy. In response, the Council has had to change the way it works both internally and with others. These changes, and the impact of the pandemic, remain in effect at the time of preparing this statement. The impact of the pandemic has also placed significant pressure on the Council's finances from both loss of income and unplanned expenditure/costs.

- The exceptional measures impacted the conclusion of the 19/20 municipal year and post balance sheet date period during the accounts audit with revised governance arrangements put in place. These included reduced Member meetings restricted to Council, Mayor & Cabinet, and Overview and Scrutiny for decision making in line with the Constitution and the introduction of virtual meetings for participants and the public. The Council was able to hold its Annual General Meeting on the 15 July to start the 2020/21 municipal year. As the exceptional measures introduced following Covid-19 are eased, the Council is gradually moving from a response to transition and recovery phases.

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Signed on behalf of the Council

*Tauseef Anwar*

Councillor Tauseef Anwar  
Chair of Council  
26 November 2020

*Kim Wright*

Kim Wright  
Chief Executive  
26 November 2020