

# Auditor's Annual Report on London Borough of Lewisham Council

2021/22

6 December 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary






## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

# Executive summary

## Overview

Overall the Council has demonstrated robust arrangements across all three areas of focus of the Value for Money work (Financial Sustainability, Governance and the 3E's). Appendix B highlights the three types of recommendation that can be raised as a result of the findings of the review, statutory, key and improvement recommendations. No weaknesses have been identified in the Council's arrangements which would lead to raising the most serious recommendations. Some improvement recommendations have been highlighted in our work and these represent suggestions of ways the Council may achieve best practice as opposed to correcting poorly performing arrangements. The Council should take comfort from the fact that arrangements are deemed to effectively respond to the challenges the Council has faced in 21/22 including responding and recovering from the pandemic and uncertainty in relation to future funding levels. There is a clear drive for improvement at the Council which has been demonstrated via the greater level of collaboration and communication being observed at all levels of the organisation and therefore although the Council faces future uncertainties, particularly financial, the arrangements in place prepare them well for the challenge.



## Financial sustainability

Finance remains at the forefront of both the Sector, and the Council's attention as future funding sources remain uncertain and the impact of Covid-19, the cost of living crisis and inflation is forecast to increase expenditure significantly. The Council reported a small overspend for 21/22 of £0.5m, after the application of Covid-19 funding from central government to fund specific pressures relating to the pandemic. This performance is in line with the prior year where a small overspend was also reported. Within this position Adult Social Care and Children's Social Care continue to be the services with the largest overspends. The Council has engaged external consultants to assist in realising savings and efficiencies in Adult's Social Care with aim of reducing overspends in the medium term, with Children's Social Care likely to be a focus of future years. This work remains ongoing and is expected to complete in 22/23, although it will take time for the actions taken as a result of this work to embed and impact the services financial position.

The Council has set a balanced budget for 22/23 in line with legislation, with a net budget position of £248.610m. The majority of the assumptions used in developing this position are realistic with the exception of inflation which is deemed to be optimistic. The Council has mechanisms in place in order to review the budget and make amendments throughout the 22/23 year. We would expect to observe amendments given inflation has continued to increase in excess of the rates at the time of the budget being set, to ensure the budget remains balanced this may also see changes to savings required or use of reserves unless additional funding is provided by central government to support the cost (currently there are no communications which support this potential solution).

The Council continues to forecast a financial gap in the medium term, which stands at £36m for the period to 26/27. Some savings have already been identified which has reduced the original gap and the Council have already begun acting on a number of initiatives in order to address the remaining gap.

Savings performance remains an area of challenge for the Council. Undelivered 20/21 savings were rolled forward to 21/22 which resulted in a total savings target of £30.7m. 44% of these savings were undelivered, including some of those also undelivered in 20/21. This has resulted in further rolled forward savings into 22/23 and therefore increases financial pressure into future years. The Council relies heavily on the Community Directorate to deliver its savings target, Adult Social Care which sits within this directorate was the overriding cause of the non-delivery, although non-deliver was seen in other services and directorates. Slippage was, in part, due to officers needing to focus on post-pandemic recovery. Work currently being undertaken with external consultants is aiming to address this issue. Although the cause is suggested to be demand led pressures there are some areas of very high comparative unit costs which should be targeted in reducing the costs of this service. The expectation is that the consultant led work will focus on addressing both cost and demand side factors.

Although we have raised some improvement recommendations in our work we have not identified any weaknesses in the Council's arrangements for securing financial sustainability.

# Executive summary



## Governance

The Council's governance arrangements have remained largely unchanged from the prior year and therefore our work has focussed on gaining a deeper understanding in some specific areas of arrangements – risk management, financial monitoring, budget setting and compliance and regulation. Arrangements reviewed in the prior year continue to be fit for purpose and our work has not identified any weaknesses in existing, or updated arrangements. Some improvement recommendations have been suggested, however these are aimed at developing best practice arrangements as opposed to correcting any significant issues.

In terms of risk management there have been some minor changes to the Strategic Risk Register but further improvements are expected in arrangements in 22/23 with the development of a new Risk Management Strategy currently in progress. The Council continues to be supported by Internal Audit in ensuring risk management is effective. Internal Audit have been unable to complete their Audit Plan for 21/22 however, sufficient work has been completed to enable the Head of Internal Audit Opinion to be provided. This opinion was one of positive assurance and therefore supports our view of the appropriate governance arrangements being in place.

Furthermore the Council took part in the Local Government Association Peer Review in year which assessed the Council's governance, culture and strategic performance. Although this provided some recommendations for the Council to consider in order to demonstrate best practice the review overall was complimentary, particularly in relation to the Senior Leadership Team's management of the Council. Again this supports our conclusion that arrangements in relation to governance for 21/22 are effective.



## Improving economy, efficiency and effectiveness

The Council has demonstrated its commitment to its development journey and has demonstrated this in 21/22 through its focus on Adults and Children's Social Care. The Council has undertaken extensive benchmarking on Adults Social Care and is now starting to look at Children's Social Care in order to identify opportunities for savings and efficiencies. To ensure that these opportunities identified in Adults Social Care can be taken advantage of and translated into tangible actions the Council has sought support from an external consultancy and although that work remains ongoing progress to date on the expected savings is positive. The Council continues to effectively monitor the progress and outcome delivery of that project effectively. The Council will then focus on addressing potential opportunities in Children's Social Care and Special Educational Needs (SEND). Given the success of the deep dive and day-to-day benchmarking in these two services the Council may be able to identify further opportunities by extending their benchmarking activities to other directorates and service lines.

The Council have updated the way in which they monitor operational performance within their directorates, using a KPI dashboard approach, to highlight trends in performance against target for key metrics which allows action to be taken in a timely manner. These updates have been positive and ensure that directorates and Executive staff have good oversight of the operational performance that can directly impact finances. Members still have limited oversight of the KPI dashboard and this would be an improvement going forwards.

Like the governance, there are limited changes from the prior year, but we have not noted any weaknesses in the Council's arrangements to secure economy, effectiveness and efficiency and only improvement recommendations have been made.

# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We are still undertaking our audit of your financial statements. At this stage we expect to issue an unqualified audit opinion. Our draft Audit Findings Report will be presented to the Audit Panel on 6 December 2022.

The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022. We therefore expect to issue our audit opinion early in 2023.

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

No such issues identified

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

No such issues identified

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No such issues identified

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

No such issues identified

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No such issues identified

# Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 36

# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 21/22 Financial Position

For 2021-22, the Council narrowly missed the balanced budget set prior to the start of the financial year. The Council-wide outturn for General Fund activities was an overspend of £25.7m. This position consists of Covid related expenditure or income foregone of £25.2m which was met entirely by Covid grant funding, leaving a business-as-usual remaining overspend of £0.5m. This demonstrates that the Council has been heavily impacted by the pandemic but that it was able to sufficiently fund this through application of the grants received from central government, therefore there is a sufficient level of control of the underlying financial position. The remaining overspend is not deemed to be significant enough to suggest a weakness in the Council budget management arrangements as it represents only 0.2% of the planned net budget requirement of £243.1m for 21/22 and therefore unlikely to exert significant pressure on the future financial viability of the Council.

In line with prior years the largest overspends in specific services within the 21/22 outturn position are in Children's Social Care (£5.2m) and Adults Social Care (£4.5m), this is a common picture across the sector. These services are an area of focus for the Council and having undertaken targeted benchmarking to highlight where potential opportunities for savings and efficiencies can be taken advantage of the Council are now working with an external consultancy to assist in realising the opportunities in Adult's Social Care with work to realise efficiencies in Children's Social Care and updating systems being prioritised in future years. Work remains ongoing but the use of external expertise to support the transformation effectively responds to our recommendation in our prior year VFM work suggesting that the Council should prioritise the completion of reorganising social care work and the system used by those staff.

Resource from the external consultant has been used to provide the necessary capacity and capability to deliver strategic transformation on the scale required to effect the necessary changes. This change programme within Adult Social Care is known as Empowering Lewisham. The Design and Implementation phase of Empowering Lewisham is nearing completion and has included new ways of working, the transformation and reconfiguration of services and the transfer of sustainable skills and knowledge to staff. The IT systems that support Adult Social Care have been upgraded and this has resulted in better oversight of expenditure to date.

Looking forwards the Council will receive additional financial support targeted at these services specifically with the 22/23 Local Government Settlement confirming that all existing funding streams have continued to be provided for 22/23 with two new funding streams announced - the Market Sustainability and Fair Cost of Care Fund and the Services Grant. The government expects these funding streams will support councils to meet the extra cost and demand-led pressures to keep providing services at pre-pandemic levels and therefore are targeted at Adult Social Care and Children's Social Care which are demand-led in nature.

## 22/23 Budget

For 2022/23, in line with legislation, the Council has set a balanced budget which was made up of a General Fund budget expenditure requirement of £248.610m matched with funding from a variety of expected sources.

The Council developed the 22/23 budget using a 'roll forward' approach utilizing the prior year budget assumptions and updating for known changes in expenditure and funding. This roll forward approach is a well-established methodology applied at the Council and across the sector. An alternative budgeting approach would be zero based budgeting, where the budget is developed from scratch with no prior year information used. As noted in our Governance work although this does provide the opportunity for a full review of costs and could generate additional efficiencies yet to be identified, the approach is significantly more time consuming and resource intensive and therefore is not practical for the Council. Given the overspends reported in Adult Social Care and Children's Social Care this approach could be beneficial if targeted towards those services however, given that work is in progress with Adult's Social Care with external consultants, we believe the outcome of that work may need to embed before any further changes to budgeting are considered so as not to overwhelm staff in those services and allow change to take effect.



We would expect the Council to review and update assumptions in relation to key sources of funding (from Council Tax, Business Rates, fees and charges and grants), key sources of expenditure (inflation, adult social care and pay), savings and efficiencies and reserves each year during the budget setting process. Review of the budget and Medium Term Financial Plan (MTFP) has noted that each of these has been considered and updated in line with expectations.

The funding assumptions were all in line with expectations and deemed to be realistic based on the information available at the time the budget was produced. Council tax was set at the maximum permissible amount of 2.99% (1.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 1% increase for the social care precept) is appropriate as this remains the most stable and predictable form of income within the local government sector and therefore the Council is seeking to maximise the benefit of this income stream. All grant income included in the budget is as per the local government settlement announcement and fees and charges have been increased between 3-10% as a result of a full review (except for those fees set by statute). The increase in fees and charges to maximize a key income stream has been balanced with Council priorities and the requirements of legislation.

In relation to expenditure assumptions in the budget inflation, pay and social care costs are those area we would expect to have the largest impact to the spending power of the Council, and all have been sufficiently considered and updated. The Council has budgeted for a non-pay inflation rate of 3% per annum to reflect the Council's commitment for contracted goods, works and services and equates to approximately £2.7m (net) in 2022/23. This is lower than the forecast Consumer Price Index (CPI) inflation rates for 2022 of 4.6% available at the time of budgeting, with inflation having continued to increase since the budget was set (Inflation CPI 8.6% at August 22). Therefore, there is a potential budget shortfall as a result of underestimating inflation at the time the budget was set of approximately £1.5m based on the 1.6% difference, this shortfall is expected to be much larger now knowing that inflation has continued to increase. The Council has identified £21.3m of pressures within the 22/23 budget which have been fully funded, this includes £6.5m of risks and pressures including inflation. As such the contingency for inflation within the budget is appropriate based on the inflation figures at the time of the budget being produced but will not cover the ever-increasing rates seen in 22/23. Another topical area of challenge across the sector we would expect to be planned for are rises in energy prices. £1.4m has been set aside within the budget under the 'Greener Lewisham' agenda to address this pressure.

Similarly, the Council has included 2% per annum average pay inflation increase within the budget, which is based on the historic pay increases and the Bank of England's target inflation rate. This is also considered optimistic and therefore our recommendation covers both pay and non-pay inflation. There has been a long-standing real term pay freeze across government, of which many government bodies (including the Council) have received pressured on lifting due to rising costs, this factor along with the rising inflation rates noted causes us to believe that the 2% assumption is not sufficient.

The budget setting process is a 'live' approach, where the budget assumptions are continuously reviewed throughout the year via the budget monitoring reports and informal meetings between Finance and the Directorates and so mechanisms are already in place to make updates for key assumptions in inflation where these have been underestimated during the budget setting. To ensure the budget remains balanced this may also see changes to savings required or use of reserves unless additional funding is provided by central government to support the cost (currently there are no communications which support this potential solution). The budget monitoring reports for 22/23 to date demonstrate that methods such as corporate budgets being released and reserves will be used to fund the additional pay award and inflation pressures identified ensure the year end outturn position can be protected.

The Council have a Public Accounts Select Committee (PASC) whose role is to review and how the Council manages and uses money, having a committee with this specific remit ensures that there is scrutiny of finances throughout the year with advice provided to Mayor & Cabinet as required. Having this specific committee set up for finances then allows the Council's Overview & Scrutiny Committee to focus on a wider range of cross cutting issues without taking away resource from reviewing finances regular, which is a priority for the Council and the Sector. Discussions with officers also confirms that regular informal meetings occur with the Overview and Scrutiny Committee to review financial performance and savings as they are developed at budget setting. Scrutiny and challenge of finances, especially on an ongoing basis, is even more important in 22/23 and beyond given the uncertainty in funding streams and escalating assumptions such as inflation and there is evidence the Council has strong mechanisms in place to support this review.

### [Medium Term Financial Plan \(MTFP\)](#)

The Council continues to update its MTFP annually during the budget setting process for the next year. This involves updating for the future funding landscape (known or forecast) and estimating future expenditure forecasts using 22/23 budget as a baseline. In addition, there has been analysis undertaken on expected risks and pressures and these have been incorporated into the budget and MTFP.

The Council has identified an estimated budget gap of £36m over the next four years (2023/24 to 2026/27). The current base case assumptions produce a profile of £10m, £10m, £8m, and £7m in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four-year budget gap down by £19m or up by £17m from the base case of £36m. In the prior year we recommended that the Council needed to further develop their scenario planning, sensitivity analysis and stress testing, there is a clear increase in the detail and analysis used to develop these scenarios in the MTFP since the prior year and so our recommendation has been effectively responded to.

The Council have already begun acting on a number of initiatives in order to address the medium-term gap. These include the work currently underway with external consultants to realise savings and efficiencies in Adults Social Care. The Council has also undertaken benchmarking with similar Councils to identify other areas where they have comparatively high costs, these have been identified as learning disabilities, younger adults and those with Mental Health challenges. Root cause analysis has highlighted that the Council has not spent enough on prevention such as enablement services, and therefore has incurred additional spending on these areas in the medium-term.

The MTFP includes £11.8m budget cuts for 2022/23 and £3.6m for 2023/24. These were predominantly identified in the 21/22 budget setting process and have been reviewed by officers to confirm they remain deliverable. We have reviewed savings and budget cuts within the budget and reviewed these against the Corporate Plan. We are satisfied that the cuts and savings do not cause the Council to deviate from its priorities and represent delivering services different for the benefit of service users as opposed to removing or reducing services.

Budget reductions are identified each year through the budget process with the £11.8m being made up of £10.4m identified in 21/22 and the remainder identified as part of the 22/23 budget process. We would expect the identification of budget cuts to continue as part of the 23/24 process and MTFP update to close the future gaps. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention to continue to use the targeted key service led approach and to seek efficiencies as set out in the report to developing future budget reduction proposals. This will involve EMT and Senior Leadership Team (SLT) working to develop draft officer proposals to be put to Members for scrutiny. All services are a part of this process.

Overall, there is a timely, ongoing and comprehensive approach to the budget gaps identified from our discussion with officers however there is limited evidence of any formal action plan provided to members to detail these actions being taken and allowing them to monitor progress.

**Improvement Recommendation – the Council has developed ‘worst case’ scenario forecast as part of the MTFP and would benefit from developing actions that could be taken, at a high level, to respond should that scenario occur and communicate this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.**

Given the fact that employees are a significant cost to the Council and inflation, pay awards and National Insurance changes are expected to have an impact on these costs in 22/23 and beyond we would expect that the Council to have developed a Workforce Plan or Strategy that details the future expectation of the establishment based on Council priorities to help inform the budget. We have not been provided with any evidence of any such plan in our work, budget holders do have access to establishment information from the HR and Payroll systems which allows delivery plans and staff costs to be reconciled, however this is based on current establishment and is not forward looking in nature. In addition, the establishment information that the system provides is only one aspect of a workforce strategy and therefore other important aspects such as planning for hierarchy, team sizes, skills and skill mix requirements and demand is not currently available in one forward looking plan.

**Improvement Recommendation - We recommend that a Workforce Plan or Strategy is developed covering all aspects of the future workforce required for the Council to fulfill its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.**

## Savings

The savings delivery target for 21/22 included £8.1m of undelivered savings in 20/21 rolled forwards and £22.6m of savings identified in 21/22 therefore bringing the total to be delivered in 21/22 to £30.7m. Almost half of this total was to be achieved by the Community Services directorate and therefore demonstrates that the Council is heavily reliant on this directorate in order to make the efficiencies required to meet the balanced budget set for the 21/22 year.

The Council did not deliver the 21/22 savings target in full with £5.5m of the 20/21 rolled forward savings and £8m of the 21/22 savings target undelivered. This equates to a substantial 44% non-delivery. The undelivered 20/21 savings have been largely covered by Covid-19 grants however this is unsustainable given the uncertainty of this type of funding for the future and therefore cannot be relied upon going forwards. The fact that there are undelivered 20/21 savings rolled into 21/22 which remain undelivered for a second-year running does not demonstrate a strong track record of savings delivery. However, despite the additional pressures from unachieved savings, the Council has still produced an appropriate outturn position of a minor deficit and has not had to rely on reserves to fund the gap. Savings underperformance has been common-place across the sector and is largely attributed to pressures in responding to the ongoing impact of the pandemic and recovery of service following the pandemic.

The non-delivery is largely attributable the Community Services directorate where there are £10m of undelivered savings, the larger ask in terms of delivery is a factor here. Specifically, the under delivery relates to pressures associated with being able to deliver planned adult social care packages. This pressure was flagged via the budget monitoring reporting in year which red rated several savings schemes within the directorate as unlikely to deliver, the most significant of which was £3m in Adult Social Care Demand management. The Council have recognised the ongoing pressure in the adult social care service and have engaged external consultants to assist in delivering transformational changes in the department with their work expected to be complete in 22/23. As such action has been taken but the impact is not expected to be immediate.

Using national returns made by all Councils we have been able to identify where the Council have comparatively very high unit costs which could be leading to the pressures. This analysis demonstrates that for Adult Social Care unit costs as a service overall are in line with other London Boroughs. This suggests that the Council does have control on some specific costs incurred by this service despite the savings issues noted. This indicates that the challenges in savings delivery in this service are likely to be a result of high demand/volume as opposed to costs.

Lewisham Service	Total Costs 2022/23 £000	Units	Unit Cost £	Unit Cost Score
TOTAL ADULT SOCIAL CARE (AGED 18+)	92,342	237,033	389.57	Average
Learning Disability Support – Adults (18-64)	35,486	207,679	170.89	Very High
Social Care Activities (18+)	14,487	237,003	61.12	Very High
Support with Memory and Cognition (18-64)	1,132	207,679	5.45	Very High

Source: RA Returns (Comparator London Borough Councils)

At a more granular level there are some very high unit costs in specific elements of Adult Social Care, which have been offset by some areas of low cost, where the Council may look to target its savings. These are highlighted as learning disability support, social care activities and support with memory cognition. The work being undertaken between the Council and their external consultants includes a specific workstream in relation to Learning Disabilities and therefore the response to address this service is already in progress and is appropriate to prioritise given it has the highest total cost of the services identified in our analysis.

Improvement Recommendation – following on from the current work being undertaken with external consultants on learning disabilities, the Council could work directly with the Communities Directorate Adult Social Care Team to identify additional opportunities for savings in the remaining two areas. We note that currently the Council is prioritising Children's Social Care as this is experiencing demand led pressures and therefore these high unit cost areas may be revisited in future years

Officers have noted that there are early signs of the impact of work undertaken to both improve productivity and outcomes for people using their Enablement Service and also help to reduce or delay long term care placements. But these improvements come at a time when the NHS recovery plans mean pressure on service remains very high. It is clear that the Council understand the pressure and have acted, it will not be clear until the 22/23 whether actions taken by the external consultants have had a positive impact on improving the savings position.

The total savings plan for 22/23 is £25.2m, this is made up of £11.48m for 22/23, £7.8m undelivered from 21/22 and £5.6m undelivered from 20/21. In 22/23 with £8m is currently expected to be undeliverable in total. Again, the pressure is coming specifically from schemes in Adult Social Care Demand Management and Adult Social Care cost reduction and service improvement programme as a result of the lag expected between the action being taken and the time to take effect and embed.

The Council develops savings schemes to balance the budget each year and therefore does not have additional schemes in place should there be slippage, such as that being seen in 22/23 to date. However, there is clear evidence that the Council includes contingencies and provisions at the outset of the budget. Finance officers work closely with directorates to redesign, pair back or restructure services to respond to savings gaps.

The MTFP includes £36m of further savings needed over the 4 years from 23/24. When the MTFP is developed savings are requested to be developed over the same time frame. The MTFP includes some approved savings already in place for 23/24 and 24/25 but none in the latter years of the MTFP. The schemes that have been identified have reduced the overall requirement still to be identified and demonstrates that the Council effectively use both recurrent and non-recurrent savings schemes to meet their financial targets. This is good practice and ensures that there are already schemes 'laying in wait' in future years and reducing the pressure of identifying additional schemes each year..

Improvement Recommendation – there is an opportunity for the Council to focusing on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan

Savings schemes are developed collaboratively between Finance and the individual directorates with review and scrutiny by Executive management and members throughout the year. Significant savings schemes are also subject to public consultation before being formally approved by Mayor and Council and Full Council within the budget setting process. Public consultation is built into the budget setting process and is targeted at specific areas of the budget each year as a rolling programme. **Some of these consultations are statutory, such as Business Rates and Council Tax, and the Council incorporates additional areas into the consultation process which re specific areas of focus**

Improvement Recommendation – there was no evidence of the consultation process including a review of the full savings programme, and therefore the Council may consider that this could be built into the budget consultation each year, on a recurring basis, given the need to improve savings performance. The Council do consider and undertake consultations on specific savings schemes as they deem necessary but a review of the full programme via this process provides the opportunity for all schemes to be reviewed and therefore maximise the potential efficiencies that could be identified.

Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised, we did not identify any instances of these reviews occurring. It is important, given the scale of some of the projects, that this is formalised for the current work on Adult Social Care being performed with the help of external consultants as there may be the opportunity to extend some of these savings and efficiencies to other service lines.

Improvement Recommendation – the Council should perform these reviews, focusing on savings which have had the greatest financial impact.

Savings plans continue to be formally monitored by Mayor & Cabinet for oversight as part of the budget monitoring report. The monitoring is at an appropriately granular level to demonstrate how the Council is performing by individual scheme and at directorate level. In addition, the monitoring report is RAG (Red, Amber Green) rated which easily highlights to decision makers where issues are occurring which facilitates challenge and discussion on propose actions. However, we do note that Mayor & Cabinet have only had sight of financial monitoring including savings in July, October and December 21 with the outturn presented in June 22, there was also inclusion within the budget setting papers in February 22. Therefore, Mayor & Cabinet members sight of the savings progress and financial performance quarterly even though monitoring behind the scenes and through Executive is monthly. There is limited discussion and challenge noted in the minutes to the Mayor & Cabinet meeting in relation to those savings which are red rated and expected not to deliver, although challenge of the overall budget and discussion has improved since the prior year. The Public Accounts Select Committee role is to look at how the Council manages and uses money and therefore scrutiny of savings sits within their remit. This committee receive the financial monitoring reporting, which includes the detailed appendix on savings, quarterly. The Committee are then able to report to Mayor & Cabinet by exception on areas that require attention at this level of the organisation. The minutes from early 22/23 demonstrate that members are aware that there is under-delivery of savings but discussion on specific underdelivering schemes and action to be taken is limited.

Improvement Recommendation - the Council explore ways to encourage focused discussion by the Public Accounts Select Committee on specifically under delivering savings schemes in 22/23.

Monitoring in the latter half of the year focusses on the savings achieved, unachieved and the gap between the two. However, monitoring of the savings position in the early part of 22/23 is on a forecast basis and shows what is expected to be achieved based on progress to date, taking into account phasing of the schemes. This is an important distinction and provides decision makers with a clear and early indication of performance of savings to, again, allow action to be taken before year end when time may not allow for any positive impact on the financial position.

The delivery risks to savings are managed closely by Finance officers, and issues are communicated clearly to the responsible directors in order for mitigating actions to be put forward. This is primarily achieved through regular and informal 'Budget Management' meetings held by the Section 151 Officer with service leads as a drive to work more collaboratively and support directorates to take ownership of their own savings plans.

In the prior year we noted that the within the budget monitoring reports these should clearly articulate the underlying causes for the under delivery of savings plans. Although the presentation of savings performance is via a detailed appendix to the budget monitoring report there still remains limited information on cause or actions included within this and so our prior year recommendation remains unaddressed.

There is a Project Management Office (PMO) in place for 22/23 who have supported officers in identifying savings proposals and ensuring they are realistic. This new rigour in governance arrangements around savings will continue into 22/23 as the PMO will be monitoring and reporting on programme-wide delivery of cuts, risks and equalities impact. Clear roles and responsibilities (between the PMO and service Directors) have been drawn up in order to ensure there are clear lines of accountability. This is a positive and notable improvement in arrangements from prior years. As at July 22 31% of savings are expected to be undelivered, although some non-delivery is still expected this is an improvement on the 20/21 under-delivery of 44%. It is unclear how much of this improvement is a result of the PMO input specifically.

## Cash

Consideration has been given to the level of cash reserves the Council holds. Strong cash reserves are indicative of a sustainable financial position for the future. The financial monitoring, cashflow and accounts of the Council show that the Council will enter 22/23 with £392.8m in cash, cash equivalents and short-term investments. Cashflow forecasting, produced until December 2025, demonstrates that the Council is expecting a net cash outflow in each of the financial years the forecast is produced for, however despite this outflow the Council expects to be left with £178m in cash at December 2025. This remains a substantial balance and therefore it is clear the Council has sufficient cash available for the medium term with which to support its day to day provision of services. The forecast is reviewed regularly, updated for new information and we have not noted any obvious omissions in terms of the sources of funding and expenditure included. Given the level of cash available in the medium term the Council has sufficient time with which to take action should cash balances begin to deviate from the forecast.

## Reserves

For 21/22 the Council was able to set its balanced budget without the use of reserves to address any budget gap. Usage of some reserves was noted in the outturn report however these have been reviewed and confirmed to be pre-planned at the budget setting process and in line with the purposes for which those reserves were earmarked. As such this is not indicative of using reserves in a reactive or unsustainable manner. Uses of reserves were for reasons such as providing corporate funding to the Children and Young People's directorate to provide time to allow them to implement overspend reduction measures, planned insurance draw down and to support known high educational needs spend.

The financial statements confirm, that as a result of this planned usage, reserves in 21/22 reduced from £382m to £378m (decrease of £5m or 1.3%). In the context of the overall value of the reserves this movement is not considered to be significant and therefore is not suggestive of unsustainable usage. Benchmarking analysis with other London Boroughs demonstrates that the Council is in a comparatively strong position, and ranks in the top quartile in terms of the level of general fund, earmarked and schools reserves as well as reserves as a proportion of its net cost of services. The strong reserves position reflects the solid financial management arrangements that the Trust has implemented over multiple years and reflects consistent contribution to reserves in order to fund specific future priorities. A specific example is the 'Building for Lewisham' Programme focused on providing social housing. The significant level of reserves reflect the fact that this programme is a multi year programme with reserves being used across the medium to long term having been previously built up for this specific purpose.

The Budget Model for 22/23 is structured around three key phases which are:

1. Budget assumptions (including Budget Reductions, Council Tax, and Inflation)
2. Budget pressures to be funded
3. Risks and other potential budget pressures to be managed.

Therefore, there is evidence that the Council's use reserves as a last resort as it develops budget reductions, provisions and contingencies as part of the budget process as first alternatives.

For 22/23 the Council has identified £11.835m of budget reductions necessary to set a balanced budget, being £10.410m identified in setting the budget for 2021/22 and the further £1.435m identified in 22/23. These budget reduction measures were identified using a thematic approach sponsored by Members and led by the Executive Management Team and enabled the Council to set a balanced budget for 22/23 without using its reserves to do so. The delivery of these budget cuts is monitored, any shortfall will have to be covered, in the short-term by services offering alternative proposals or through the use of reserves. This would represent unplanned usage however as we have noted in our analysis the Council has a sufficient level of reserves to support this as a temporary measure.

In the 22/23 budget the Council has also identified £21.3m of budget pressures and identified funding to allocate to these to ensure key risks can be proactively managed within available resources. It is a matter of good budgeting to make a general allowance for risk and uncertainty, particularly at such a time of rapid change in the local government sector. An allocation of £6.500m in 2022/23 has been set aside for corporate risks and pressures, specifically, that are known at the time of the budget within the £21.3m total. The total has been fully committed to pressures which can be quantified within a reasonable range.

Two key emerging areas of financial pressure across the sector for 22/23 are in relation rising energy costs and pay awards. Within the 22/23 budget funding was allocated for risks associated with rising energy costs, at the same time as the Council looking to reduce energy consumption by becoming carbon neutral by 2030. However, there was an acceptance at the time that the budget was set that above inflationary tariff increases would likely outstrip any consumption savings and require funding. At July 22 this pressure has come to fruition with £1m of budgeted reserves being applied to partially fund the pressure on the General Fund due to energy price rises. Additional energy pressures are being seen in directorates where Finance are working closely with teams to identify measures to reduce this pressure by year end.

An unexpectedly large pay award was agreed via the National Joint Council (NJC) with trade unions which has also caused a pressure within the 22/23 budget. This has led to £4.5m of unbudgeted reserve funding to meet the anticipated pay award over and above the budgeted level for 22/23, this has already been incorporated within the budget setting for 2023/24. It should be noted that both the pay award and energy prices rises are out of the Council's control and they do have sufficient reserves, even where unbudgeted usage has been required, to address the issues. This is not sustainable in the medium term and therefore building these pressures into the 23/24 budget mitigates unplanned reserves usage as far as possible.

There are also several other risks and potential budget pressures to consider which are less easy to quantify with any certainty which may become an additional call on reserves through the year if they arise. These are regularly monitored and reported throughout the year in the budget monitoring reporting and as noted the reserves position is strong with which to address this additional pressure if required.

In 2021/22, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was also £6.5m. This was allocated in full to identified risks and pressures and allowed the Council to perform just over budget at £0.5m deficit without the use of reserves, therefore historic performance and track record suggest that the approach for 22/23 remains appropriate. Should pressures such as inflation and energy costs continue to rise exponentially the Council may need to review whether the level of contingency is appropriate since £6.5m was set aside in both 21/22 and 22/23 but with very different rates of inflation in each year.

The budget confirms that the use of reserves will need to be considered in 2022/23 to meet any additional cost of recovery from Covid-19 not funded by government and for 2023/24 if sufficient measures are not found to set a balanced budget each year. Members are made aware use of reserves is a one off and once used cannot be replaced and would need to be rebuilt and thus are a last choice scenario and this message is continually delivered and reiterated through the Section 151 Officer regular meetings with members, budget reports and member briefings and as such the whole organization is aware of the importance attached to effective reserves management.

## Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent a weakness in current arrangements. The Council's financial arrangements remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

# Improvement recommendations



## Financial sustainability

### Recommendation 1 (priority improvement recommendation)

In the continued efforts to improve savings performance against target the Council should explore ways to:

- encourage focused discussion by the Public Accounts Select Committee on specifically under delivering savings schemes in 22/23
- Undertake public consultation on the savings programme
- learn from successfully delivered schemes via post implementation reviews.
- savings under-delivery historically has been attributed to the Communities Directorate Adult Social Care Team and therefore Finance Officers should work directly with that team, in a targeted and collaborative manner, to focus on specific savings that can be generated from high unit cost services within this directorate that are not currently being addressed
- focus on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan

### Why/impact

Due to the track record of under-delivery of savings in recent year, and expected under delivery in 22/23, close and more frequent attention may be required to the progress of savings schemes in year so that action can be taken in a timely manner to respond to any under-delivering schemes.

To maximise the success and achievability the Council could benefit from additional scrutiny and input in identifying savings in the initial stages of budget setting.

Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised.

Although Adult Social Care is a demand led service with high costs being a product of increasing numbers of service users, specific services with Social Care where unit costs are also high could exacerbate the overspends observed in this service.

Ensuring that savings identified cover the full MTFP term maximises potential savings across the medium term and reduces pressure to identify additional savings each year by focussing on identifying those which are recurring.

The range of recommendations that external auditors can make is explained in Appendix C

# Improvement recommendations



## Financial sustainability

### Summary findings

Mayor & Cabinet receive details of the progress of savings within the budget monitoring report quarterly, with monitoring behind the scenes and through Executive undertaken monthly. There is also limited discussion and challenge noted in the minutes to the Mayor & Cabinet meeting in relation to those savings which are red rated and expected not to deliver, although challenge of the overall budget and discussion has improved since the prior year. This role of challenge and scrutiny of savings is fulfilled, instead, by the existing Public Accounts Select Committee whose role is to look at how the Council manages and uses money and therefore scrutiny of savings sits within their remit. This committee receive the financial reporting and savings appendix quarterly and are then able to report to Mayor & Cabinet by exception on areas that require attention at this level of the organisation. There is an awareness of the under-delivery of savings but limited discussion on specific underperforming schemes.

We did not identify any post implementation reviews taking place in relation to successful savings schemes. The Council are undertaking work to identify and realise savings and efficiencies in Adults Social Care with the assistance of external consultants and given this is a large-scale project its important lessons are learned from the efficiencies identified to allow these to be extended or rolled out to other areas of the Council where possible.

The Council undertakes public consultations each year when undertaking the budget setting process. These focus on different topics each year in a rolling programme. This year consultations were focused on rent setting and business rates. There were no consultations with the public in relation to the savings programme as a whole and such consultation may be a given the need to improve savings performance.

Using national returns made by all Councils we have been able to identify where the Council have comparatively very high unit costs which contribute to the pressures. These are highlighted as learning disability support, social care activities and support with memory cognition.

The MTFP includes some approved savings in place already for 23/24 and 24/25 but none in the latter years of the MTFP, which spans to 26/27. These schemes have reduced the overall requirement still to be identified in each year and therefore are a benefit to the future financial sustainability of the Council.

### Management Comments

This recommendation is taken in the spirit of continuous improvement and management action will focus on consideration of doing more of the steps already in place. For example:

- PASC will continue to carefully review and scrutinise the financial budget setting and monitoring reports with particular attention to progress with delivering savings.
- As we do each year, we will continue to consult internally and with the Cabinet Member for Resources and Strategy on the best approach to engagement around Budget proposals, building on the current process of discussing and inviting all Members to contribute to including the option to run a larger public consultation on the savings proposed. Officers will continue to undertake public consultations on specific proposals that directly impact on our residents and the local community.
- The Finance Business Partnering approach will continue to be developed with learning from recent successfully delivery service changes (captured as part of service plan reporting by each Director) and improved with the business intelligence and support using data insights and performance benchmarking to effectively target risk and opportunity.
- Within the constraint of local government only receiving one year settlements at present, officers will continue to work on the potential for more transformational multi-year savings options, building on the work done in the larger social care services in recent years.

The range of recommendations that external auditors can make is explained in Appendix C



# Improvement recommendations



## Financial sustainability

### Recommendation 2 (priority improvement recommendation)

The Council should develop a Workforce Plan or Strategy covering all aspects of the future workforce required for the Council to fulfill its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.

### Why/impact

Ensuring the budget, MTFP and Workforce Plan are complementary of one another will ensure that the future establishment is affordable and Council priorities are met within budget constraints

### Summary findings

Employees are a significant cost to the Council and inflation, pay awards and National Insurance changes are expected to have an impact on these costs in 22/23 and beyond. We would expect that the Council to have developed a Workforce Plan or Strategy that details the future expectation of the establishment based on Council priorities to help inform the budget. We have not been provided with any evidence of any such plan in our work, budget holders do have access to establishment information from the HR and Payroll systems which allows delivery plans and staff costs to be reconciled, however this is based on current establishment and is not forward looking in nature. In addition, the establishment information that the system provides is only one aspect of a workforce strategy and therefore other important aspects such as planning for hierarchy, team sizes, skills and skill mix requirements and demand is not currently available in one forward looking plan.

### Management Comments

In the context of local authority a single plan or strategy would not be appropriate, given the varied nature of services and the skills required. However, we can identify any common themes identified and build these into the overarching People and OD strategy which sets out our vision for our people and identifies the areas we need to focus on to achieve our ambitions.

Detailed workforce planning takes part in the annual service planning process supported by finance, HR and transformation business partners. The Councils service planning framework encapsulates the areas identified within the audit. We can also seek to strengthen the guidance for managers on service planning as well as the working relationships between the relevant business partners to ensure that these three areas are appropriately aligned.

Principles in relation to structural design e.g. spans of control and hierarchy fall outside of service planning, and are covered within the Council's management of change (restructure) policy

# Improvement recommendations



## Financial sustainability

### Recommendation 3 (minor improvements recommendation)

Overall the Council's arrangements to secure financial sustainability are appropriate, the Council may wish explore ways that it can make iterative improvements to demonstrate best practice financial arrangements. These could include developing actions that could be taken, at a high level, to respond should that 'worst case' scenario included in the MTFP should it occur and communicating this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.

### Why/impact

The Council made a small deficit in 21/22 and the 22/23 financial landscape is forecast to be challenge for London Borough of Lewisham and the Local Government sector as a result of Covid-19 challenges not matched by additional funding, rising inflation, pay increases and the cost of living crisis which could all potentially negatively impact the year end financial position. As such it is important that the Council has robust arrangements in place to monitor finances closely and respond to issues as they emerge.

### Summary findings

See body of the report.

### Management Comments

Officers bring the experience of having been consistently involved in making budget reductions each year since 2010 (gross £230m to date; including £92m reinvested to reshape service delivery and meet demand), working closely with partners in the Borough and across London, and effectively managing the Council's financial security and stability, including the use of reserves.

Officers will continue to develop this experience to inform the assessment of the financial risk landscape and update the risk mitigations for these risks quarterly as part of the corporate risk management strategy. The risk register is reviewed by the Executive Management Team and PASC quarterly which will provide the opportunity for actions to be agreed as necessary and scrutinised to ensure lessons and improvements are acted on.

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Risk Management – Strategy and Risk Register

The Council's current Risk Management Strategy is unchanged from previous years, the strategy covers the period 2017-22 and a refreshed strategy is due to be reviewed by Audit Panel in December 2022. At the June 21 Audit Panel, the 2017-20 strategy was reviewed and extended to 2022, the Panel have been appropriately updated on progress of the strategy throughout 21/22 and it is clear that the refresh of the strategy is progressing as planned. It is our view that key policies should be reviewed every 3 to 5 years, or as a result of changes in the operating environment or regulation/legislation, to ensure they remain relevant and fit for purpose. The current timeframe for updating the strategy meets this expectation.

We raised a recommendation in the prior year that the Council should streamline and centralise the approach to risk management, which is the purpose of the refreshed strategy. The refresh of the Strategy has been delayed as a result of the diversion of resources due to Covid-19 and the Finance Restructure which has impacted the resourcing of risk management.

The Head of Assurance has expressed satisfaction in the Annual Internal Audit Report that during the year ended 31 March 2022 the Council's management of its internal controls was adequate and effective and positive assurances were provided. This opinion included arrangements in risk management. Therefore, despite the need for a refreshed strategy, the existing risk management arrangements have remained fit for purpose. Some recommendations were raised by Internal Audit which included themes such as ensuring considerable time is allocated to develop the Council's risk approach to include its reporting, comprehensiveness and integration with wider decision-making. The Council has expressed commitment to addressing these as a priority and improvements are expected following the refreshed strategy being implemented in 22/23.

A specific review of the risk management framework was undertaken by Internal Audit and a report issued in June 2021 which gave reasonable assurance (satisfactory). An action plan is in place and was monitored throughout 21/22 with progress being reported to the Executive Management Team (EMT) and Audit Panel. Once the refreshed strategy has been implemented the Council would benefit from a further Internal Audit review to ensure it is fulfilling its purpose and operating effectively, this will be confirmed by the Internal Audit Plan developed after 22/23 as the strategy was not implemented at the time it was developed.

The Council's Audit Panel continues to receive quarterly reports on strategic risk management from the EMT, including the Strategic Risk Register itself for review. EMT provide a pivotal support role which ensures there is a link in the management of risk between the Directorates and the Members of the Audit Panel. Therefore, Audit Panel and EMT are fulfilling their responsibilities as outlined in the Risk Management Strategy. The Strategy also expects that Mayor and Cabinet should receive an annual report to provide assurance that the Council has considered and documented risk in the Strategic Risk Register, however we have been unable to evidence that the Mayor & Cabinet have received the risk register in year or an annual report on risk. Membership of the Mayor and Cabinet and the Audit Panel does not have any commonality and therefore there is a lack of oversight of risk at the top level of the organisation. Risk is inherent throughout Mayor and Cabinet discussions, in particular financial risk in their scrutiny of the budget, and therefore there is some consideration included in other agenda items even through there is no standing item covering risk management.

**Improvement Recommendation - The Council should ensure that there is a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet. There is effective oversight of risk by EMT and Audit panel, however oversight at the top of the organisation could be strengthened. The risk management strategy needs to be followed consistently.**

The format, frequency of review (quarterly by Audit Panel) and intensity of review (there is evidence of member and officer scrutiny at each meeting) of the Strategic Risk Register is appropriate, in line with expectation and reflective of the level of risk the Council faces. In order to ensure that risks can be appropriately assessed by decision makers we would expect the format of the risk register to meet some minimum standards – these include:

- risks being assigned to a specific officer for accountability,
- risk being RAG (Red, Amber, Green) rated to highlight those that require immediate action,
- direction of travel of each risk is clear to highlight any trends where action should be taken immediately or risks removed,
- scoring includes likelihood and impact factors and that risks are linked to the Council's objectives

There have been changes to the format of the risk register over the year which overall has improved its benefit to the users of the document, overall three of the four minimum standards have been achieved. The risk register includes clear mitigating actions being taken to respond to each of the risks although the impact these are having on the risk score is unclear.

**Improvement recommendation - following updates to the risk register the Council should ensure that risks are linked to corporate objectives and that there is a clear distinction of risk score before and after mitigating actions so that the full impact of actions can be seen and challenged.**

To ensure the number of risks is manageable, reflective of the size and operations of the Council and strategic in nature we would expect the risk register to include between 15 and 30 risks. The Council has 27 risks which is at the higher end of this range. Having compared to large unitary Councils, both in and out of London, we would suggest the Council is also comparatively higher in terms of number of risks. However, there is regular review via EMT, and Audit Panel, and changes are presented at each meeting therefore we are aware there is a continual effort to ensure that risks are relevant, we see additions, changes in risk scoring and removals throughout the year. Therefore, the high number of risks is not having a negative impact on the level of oversight achieved.

### **Risk Management – Internal Audit**

The audit service is delivered by an in-house team of auditors and complemented by technical support for IT assurance from PWC and additional resource from Mazars, each procured through framework agreements. From August 2020 to January 2022 the Head of Internal Audit role was filled by a secondee from PWC, with the current Head of Assurance starting in January 2022.

The 21/22 Audit Plan included 67 engagements, 41 covering the Council's service directorates and 26 covering schools. At year end 21 of these engagements (including 9 schools) did not take place but Internal Audit were satisfied they had sufficient assurance from prior year work and the 6 engagements that had been added to the plan in year to provide a robust annual opinion. The incomplete work is across several different areas of operations and therefore there are no gaps in assurance in any one particular area, the completed work has good coverage across a range of topics.

The Internal Audit function experienced resourcing issues stemming from long-term sickness and redundancies following the Finance review that required adaptations to the plan as originally presented to Members. These changes were raised in good time to the Audit Panel who agreed changes to the plan focusing on high-scoring risk areas, reliance on recent alternative assurance and using more bought-in resources to supplement delivery.

The Internal Audit function has sought to continue to achieve efficiency in further developing its existing Quality & Improvement Plan. This includes actions such as spending more time planning engagements to avoid wasted time at the fieldwork stage, adapting the existing standard reporting templates to save time and improve quality, and seek shorter, more specific actions to ensure follow-up is more focused. Each action is expected to have a positive impact on the progress of the Audit Plan in the 22/23 year.

**Improvement recommendation - Although the Internal Audit opinion has not been jeopardised as a result of the resourcing issues, we would recommend that the Council and Audit Panel work with Internal Audit to ensure that the 22/23 audit plan is achievable and review the number of reviews required to provide an appropriate opinion aligns to the time and resource available. The Council should track progress against the Quality Improvement Plan to ensure that Internal Audit are held to account and delivery of the 22/23 plan.**

Of the 21/22 reports completed, 4 were issued with a limited assurance rating. Management have accepted the recommendations, following challenge or requesting more information as required, and updates have already been made to arrangements for those limited assurance reports. The Head of Internal Audit has confirmed that none of the engagements, individually or together, led them to qualify their overall opinion.

The Audit Panel receives an annual assurance report from Internal Audit as well as quarterly progress reports which inform the panel on the Council's progress against recommendations and assurance ratings for each review. The format and content of the reports is in line with prior years and other Councils and does not cause concerns about the level of information Audit Panel are receiving and a quarterly review is sufficiently regular.

There has been sufficient review of both Internal Audit and the Audit Panel in year do assess the effectiveness of these functions. The Internal Audit function has complied with the requirements of having an annual external review against the Public Sector Internal Audit Standards (PSIAS) which concludes that Lewisham generally conforms to the Standards. This is the top of a three-point scale used by City of London that also includes 'partially conforms' and 'does not conform' as possible outcomes.

The Audit Panel itself has been subject to a review by the Council's own Public Accounts Select Committee in line with the Constitution which included a self-assessment against its Terms of Reference. The outcome of this raised no concerns with the effectiveness of the Panel.

**Improvement Recommendation - the Audit Panel are subject to extensive review in their effectiveness, but we have not identified such reviews for other committees and recommend these could be of benefit to ensure committees remain fit for purpose and operating in line within their Terms of Reference.**

### **Budget Setting**

The approach to setting the budget has remained largely consistent with the prior year with the 22/23 budget being finalised and approved by Cabinet 9 February 22. Prior to approval by Mayor and Cabinet the budget is reviewed and challenged by the Executive Management Team and Overview and Scrutiny Committee. Final sign off and approval was then provided by Full Council in March 2022.

There is evidence that there has been effective liaison between budget holders and finance, led by the Section 151 Officer, throughout the year and this has been largely achieved through the newly established Budget Management Meetings. The output from these meetings was an agreed schedule of budget reductions proposals which were approved by Mayor and Cabinet and the Public Accounts Select Committee and incorporated into the 22/23 budget. To support a culture of effective financial management and ownership throughout the Council, a series of workshops have been set up, led by Finance, with all departments to ensure all levels of the organisation are involved in the budget setting process, buy in is achieved and importance of financial management is emphasised.

The development of the budget has been a collaborative process between the Finance team, led by the Section 151 Officer, directorates and members in 22/23 with the Section 151 Officer providing a clear link from the members of the organisation to those directorates delivering the requirements of the budget. This is a clear improvement from the process in prior years which focused on a more 'top down' approach to setting the budget delivered by the Finance Team. Further developments have taken place in 22/23 to increase collaboration, with a member away day held in October 22 to ensure the same collaboration at this more senior level is achieved. In place of this event the Section 151 Officer Officer has liaised with members via member briefing and informal member meetings, to discuss finance and strategy and answer any questions. The success of these meetings is evident in the increased level of challenge and discussion observed in relation to the budget papers at Mayor and Cabinet in February 22.

The Chief Executive meets with members monthly to enable the link between operational matters, financial and non-financial, and strategy to be discussed. The S151 Officer meets with the Chair of Public Accounts Select Committee in advance of committee meetings to discuss issues arising from the agenda and promote open and honest discussion on financial challenges.

The Council aim to establish a "budget manager self-service arrangements" where budget holders for the directorates take ownership for developing financial forecasts and monitoring, which are key components of the budget setting process. There is an awareness at the Council that this approach will require additional training and support for directorates and are seeking to provide that over the medium term. Once this is achieved the aim is to implement a full business partnering approach and therefore achieving a greater level of collaboration. The collaborative approach observed in 21/22 in relation to the budget is an important stepping stone to achieve this approach and demonstrates a positive direction of travel.

The Council took part in the Local Government Association (LGA) Peer Review which was reported in Nov 21. The aim of this review was to assess the Council's governance arrangements and provide recommendations for improvements that could be made to achieve best practice. One of the recommendations suggested that the Council may wish to strengthen budget setting arrangements by undertaking a three-year detailed budget to include transformation of children's and adults, undertake zero based budgeting and work collaboratively with partners. Discussion with the Finance Officers at the Council has noted that although zero based budgeting was considered it has been deemed time consuming and therefore impractical, we agree with this sentiment since the Council is already seeking efficiencies in specific directorates (noted in Financial Sustainability) and implementing a more collaborative approach between finance, directorates and members in the budget setting process. While this is embedding it does seem impractical to also change the budget approach just as members are beginning to understand and engage with the current process.

## Financial Monitoring

Financial performance continues to be presented on a quarterly basis to Mayor & Cabinet and this is deemed sufficient based on common practice in the sector, the schedule of meetings which are around every 2/3 months and the financial risk facing the Council. Prior to the meeting of the Mayor and Cabinet performance is sighted by EMT and Public Accounts Select Committee to ensure that there is a good level of scrutiny and discussion and key issues highlighted to decision makers. There is also more informal discussion at Budget Review Meetings between the Section 151 Officer and Directorate leads to ensure that all levels of the organization are involved in monitoring performance and held accountable. This represents a comprehensive level of review of the financial information throughout the year.

The reports are detailed and extensive in their information, using appendices to ensure that decision makers are provided with a full suite of information with which to make informed decisions. We would expect the level of detail in the narrative to reflect the financial risk facing the organization and since there were overspends highlighted in year the level of detail is appropriate to address the risk being faced at the time. The narrative does focus on those sub-services where there are overspends and more detail weighted towards the greater overspends such as Children's Social Care. This is appropriate so as not to overwhelm decision makers with information.

### Improvement Recommendation – budget monitoring reports would benefit from shifting the balance away from reasons of overspends and towards the forward look of how performance can be improved.

The Executive summary clearly sets out performance against budget and the impact on the outturn at year end based on current trends. The use of forecasting is appropriate to allow decision makers to effectively see the impact of in year performance on the year end position and act in a timely manner.

We have noted performance being presented for Q1 in October 21, Q2 in December 21 and year-end outturn at June 22 to Mayor & Cabinet and therefore a gap in information for Q3. There is Section 151 Officer, Directorate and EMT involvement throughout the year particularly through Budget Management Sessions and the Public Accounts Select Committee receive the quarterly reporting, including a report to end of Jan 21 to fulfil this Q3 gap. However, given there was a forecast outturn of £8.5m overspend in Q3 we might expect closer and more frequent attention from Mayor & Cabinet.

### Improvement Recommendation – upholding quarterly review of information at Mayor & Cabinet on financial performance is important considering in year overspends were noted, the level of reporting should reflect the risk and therefore the Council may also consider increasing the frequency of review of financial information by Mayor & Cabinet if in year overspends are deemed significant.

For information to be relevant to decision makers we would expect no more than a 1-2 month time lag between the period the information relates to, and the meeting being held, evidence suggests that reporting to both EMT and Mayor & Cabinet achieves this and therefore the information they receive is considered timely with which to make decisions.

An area of notable practice in the financial monitoring is the distinction between performance with and without the impact of Covid-19 so that Covid-19 pressures and the associated funding do not mask any areas of performance that may need to be addressed. There is a further drill down on performance within each directorate and extensive narrative to explain the reason for the performance.

The Council have an annual performance cycle as well as a mid-year update which is the key mechanism by which the performance of individuals is assessed. Financial performance is a key objective for senior management, and this is communicated through their job descriptions. However, there is no formal exercise as part of performance appraisals of individuals to hold them to their financial targets and this is an area that could be enhanced to improve accountability and ultimately performance at Council wide level. Currently there is no clear direct impact or consequences on an individual if they or their team doesn't financially perform.

### Improvement Recommendation – the Council should explore ways to incorporate assessments of financial performance into the appraisals of budget holders to ensure that they have accountability for performance.

## Decision Making

Through our review of documentation and interviews with key officers and it is evident that there is a drive for change in culture being driven by the Chief Executive and Section 151 officer. We have noted instances of this throughout the year and this was most evident from a greater level of collaboration observed between these two senior leaders, members and directorate teams. We have observed a heightened level of discussion and scrutiny at meetings such as the Overview and Scrutiny Committee, Standards Committee, Audit Panel and Public Accounts Committee which demonstrates a good level of challenge. In particular we note that the budget meeting of the Mayor & Cabinet scrutinised the budget on a line-by-line basis which we believe was possible due to the ongoing liaison and face to face meetings between the Section 151 Officer and members in the build up to the final budget being presented.

We have observed less challenge at Council with minuted discussion being limited, particularly on the budget. Given that there is appropriate challenge on the budget/savings at the other committees noted, including Mayor & Cabinet, we do not believe an improvement is needed to arrangements as the role of these committees is to support Council in their decision making and escalate issues on an exception basis for further discussion or approval.

As noted previously the Council took part in the LGA Peer Review which, although it generated some improvement recommendations, overall, the results were positive with recommendations being aimed at best practice as opposed to correcting existing arrangements. In particular, in relation to decision making culture, this review noted that the Council has strong political and executive leadership, and the direction of travel is well understood in the organisation. The refresh of the Senior Leadership Team (SLT) has been welcomed and there is clarity and commonality of purpose. This demonstrates a positive culture at the Council which has been achieved as a result of the increased collaboration and openness in discussion observed.

The Council aims to involve a range of stakeholders in its key decisions. There is evidence of involvement of Members, Finance, Directorate Leads/Budget Holders and the public being involved in the budget setting process. In addition, the Council extensively consults, both internally and externally, before implementing any significant change in services. The Council consults across a wide range of service changes and has a dedicated section for this on its website. We have noted consultations in year in relation to planning, schools, grants, Borough of Culture, health and pharmacy. The website is clear on how residents can take part and clearly published the responses and how they have been used.

Although the council has good mechanisms in place for obtaining service user feedback, unfortunately some areas see a trivial response rate. For example, Business Rates Payers consultation was open for 20 days to all businesses registered in Lewisham (>10,000). In total there were 18 responses, with only 13 responses appropriate for consideration. Although the Council assessed these 13 responses and identified two main themes which were considered as part of the budget, the feedback pool is not statistically proportionate of the population and therefore not a reliable source of information. Many of the service-related consultations have low response rates in comparison to the population. There is an opportunity for the Council to learn from and make improvements from more successful surveys, such as the Waste Management Strategy Consultation which garnered around 1,700 responses.

**Improvement Recommendation - The council should investigate ways of increasing feedback response, options include direct contact, extending the window of response or increase awareness of the request so that responses increase and therefore the results are more accurate.**

A judicial review was raised against the Council in 21/22 in relation to the Mais House Development. The City of London Corporation, who own the Sydenham Hill estate, planned to build 110 new social homes on the estate, for which the Council granted planning permission for a 100% social housing development at Mais House to allow this scheme to go ahead. Campaigners appealed the High Court's decision to back the Council's approval of 110 council homes next to the Sydenham Hill Wood nature reserve.

In May 21 a High Court judge ordered that Lewisham Council's planning permission for the new homes be quashed over "significant errors" in its decision-making. It was ruled amongst other things that a conservation officer's advice should not have been withheld from the planning committee when it approved the redevelopment. The planning committee at Lewisham Council subsequently granted permission for a second time in June 2021 following lesson learned.

A second Judicial Review was raised which concluded in July 22 with the Council winning the review and therefore confirming there was no unlawful decision making in granting the permission. The cause of the second judicial review has been investigated thoroughly by the Council and confirmed as an isolated human error in exceptional circumstances from a missed consultation letter. Given we have noted extensive consultations in our work and are not aware of any other incidents being raised against the Council we are minded to agree with this statement. The team responsible for the consultation have been made aware of the cause to ensure lessons are learned and all letters checked by the Council with no further missed letters noted.

## **Compliance and Regulation**

There have been no changes to arrangements in place to monitor compliance with regulation and legislation in year and we have not identified any acts of misconduct, breaches of the constitution, legislative breaches or regulatory non-compliance, therefore indicating that arrangements remain fit for purpose.

The Monitoring Officer (MO) takes a lead role at the Council in ensuring these arrangements remain effective. The MO has been an interim role for much of the 21/22 year however this has not caused any issues in arrangements or evidence of non-compliance. A permanent Monitoring Officer was appointed from March 22. The Monitoring officer ensures compliance with the rules and procedures set out in constitution which requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. The Monitoring officer attends Mayor & Cabinet and Council meetings and regularly briefs the EMT, Councillors and relevant staff on corporate legislative developments.

Legal advice is incorporated in every council report with each report including a standing item on legal and financial implications of the decision being discussed, this is completed and reported consistently throughout the year across all committees.

The Council has a newly established Assurance Board, chaired by the Chief Executive and attended by the Monitoring Officer and Section 151 Officer, as well as the Head of Internal Audit. This adds an additional layer of assurance in 21/22 that was not previously present with its aim being to ensure statutory duties are effectively discharged, complied with and share good practice. To date this has resulted in an observed greater level of understanding of members around the financial challenges and budget setting process at the Council.

There has been no evidence of any data security breaches or significant cyber incidents in year. An invoice dispute in year with a financial software provider did result in the deleting scripts and data used by the Council to process interface files from the Adult's and Social Care systems and the rent payments for landlords. This issue occurred between early May and late June 22. The Council reacted immediately following notification from the supplier. Actions included implementing an interim manual payments solution which included reconciliation controls to limit errors and ongoing liaison with the supplier to resolve the contract issue and find a permanent solution.

Each department issued payments in advance to carers who had claimed for financial hardship funds to ensure that quality of service was not hindered during this time. Reporting has included clear lessons learned from the incident which includes what worked well and what could be improved, it is clear what further action is needed and who is responsible. The ongoing response is being led by the Section 151 Officer who communicated with Mayor and the Cabinet Member for Finance and Strategy at the outset of the incident and with the specifically impacted Cabinet Members for Housing, Adult Social care, Children and Young People and Finance twice weekly via email during the incident itself. The Public Accounts Select Committee members received informal verbal updates during this period also.

Updates also included information on discussions with the incumbent supplier and potential new suppliers and the manual payments being made to ensure these can be scrutinized for any issues or errors. At the height of the issues informal meetings became more frequent, and therefore effectively reflect the changing risk of the incident. The actions taken have clear involvement from Mayor, Finance Portfolio Holder and Members in solving the problem, liaising with the supplier and reviewing the new manual processes.

We have not noted any reports provided to members via Mayor & Cabinet meetings during the incident and understand this is due to the dynamic nature of the issue and the need to act and update in a reactive way more frequently than the reporting schedule of Mayor & Cabinet would allow. There were no meetings in May 22 and the one at June 22 was towards the end of the incident.

**Improvement Recommendation - to ensure that all members are fully sighted on the issues and in particular lessons learned, in relation to the financial software IT critical incident, although this impacted specific service lines lessons learned from the response may be able to be applied to future supplier or IT challenges and therefore shared knowledge of the process would be beneficial**

## **Conclusion**

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring robust governance and do not represent a weakness in current arrangements. The Council's governance arrangements, where unchanged from prior year, remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.



# Improvement recommendations



## Governance

### Recommendation 4 (priority improvement recommendation)

The Council should continually review its risk management procedures to ensure they remain effective and fit for purpose. This could include:

- ensuring that there a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet
- updating the format of the strategic risk register.
- working collaboratively with Internal Audit to ensure that the 22/23 audit plan is achievable within the time and resource available.
- tracking progress against the Quality Improvement Plan developed by Internal Audit.

### Why/impact

The Strategic Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced.

To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Mayor & Cabinet meeting papers for transparency to the entire organisation.

The Internal Audit Plan is key in ensuring an appropriate number and coverage of assurance reviews are undertaken in year to be able to provide an effective opinion on the strength of the Council's controls. The Audit panel plays a key role in holding Internal Audit to account for their performance.

### Summary findings

The Risk Management Strategy expects that Mayor and Cabinet should receive an annual report to provide assurance that the Council has considered and documented risk in the Strategic Risk Register. We have been unable to evidence that the Mayor & Cabinet have received the risk register in the year or an annual report on risk.

The Strategic Risk Register has been updated in year and as a result has improved in its benefit to the users have the document. However best practice would ensure that the risks are linked to the Council's corporate priorities and that it is clear how the actions being taken to respond to each risk are impacting the risk score by confirming the score before and after these actions. We did not identify these two element in the Strategic Risk Register, although all other elements of the register were within expectation of an effective risk management tool.

The Internal Audit function completed an amended audit programme due to resourcing issues resulting from long-term sickness and redundancies following the Finance review. The revisions to the plan deferred some engagements for consideration in future years, and others where the function obtain alternative assurances from prior years and work added to the plan. The function has responded effectively to the issues by continuing to develop its Quality & Improvement Plan. The ability to provide a Head of Internal Audit Opinion for the 2021/22 year has not been impacted by the challenges

### Management Comments

The refreshed risk management strategy was approved by EMT in November 2022 and will be rolled out in the new year. It includes biannual reporting to the Mayor & Cabinet of the highest risks.

Following the publication of the new Corporate Strategy in November 2022 we will refresh the risk register content in 2023 to link to objectives and align with formats in the new Risk Management Strategy.

Members approved the 2022/23 Internal Audit plan in March 2022 which includes a resource analysis and flexible options on delivery to support the achievement of sufficient breadth and quality of coverage to deliver a robust audit opinion for 2022/23

# Improvement recommendations



## Recommendation 5 (minor improvement recommendation)

Overall the Council's governance arrangements are strong and operating consistently in line with Council policies. The Council may wish explore ways that it can make iterative improvements to demonstrate best practice governance arrangements. These could include:

- updating financial monitoring reports to include details of actions being taken on overspending services throughout the year .
- ensuring that presentation of financial performance to Mayor & Cabinet is sufficiently regular.
- undertaking effectiveness reviews of their committees to ensure that they are performing effectively against their Terms of Reference.
- incorporating assessments of financial performance into the appraisals of budget holders.
- investigating ways of increasing feedback response to consultation exercises.
- ensuring that members are sighted on the lessons learned from the Financial Software IT Critical Incident.

### Why/impact

Strong governance is the backbone of any organisation and ensuring arrangements are as robust as possible maximises the Council's ability to make well informed decisions.

### Summary findings

See body of the report

### Management Comments

In relation to each point noted:

1. The financial monitoring reports which now flag the variances for key services with detail on service financial performance supported with activity details will be reviewed to include more clarity on next steps being taken.
2. The Council will continue to report on the financial position at least quarterly and keep open the option to report by exception to M&C outside of this cycle if necessary, as was done through the Covid pandemic.
3. The Audit Panel, by the nature of the internal audit standards, is under a specific expectation to review its performance and report on this annually. The second phase of the Constitution review being led by the Monitoring Officer will consider whether a similar approach might be appropriate for the Council's other Committees.
4. The staff appraisal forms currently have fields for identifying what is being done well and what could be improved based around key objectives. The guidance will be reviewed to assess the benefit of being more specific on financial management, to supplement the detailed expectations set out in the financial regulations and procedures.
5. The low response rate in relation to the Business Rates consultation is due to there being a statutory requirement for the Council to consult businesses on Council Tax, which does not directly impact on businesses. Due to the requirement to set a balanced budget by the 11<sup>th</sup> March and to issue papers well in time of the committee cycle, it would not be practical to extend the consultation period. The expectation is that extending the consultation period will not yield additional responses. We will look at direct contact if this is feasible within the resources we have available. The Council did use direct contact via our the Economic Forum partners for the 22/23 budget and still did not get many more responses.
6. Feedback on the Budget and monitoring of the risk registers is part of the quarterly PASC work schedule but, as set out else where we will continue to look to enhance the focus and value of these discussions to generate improvement and delivery more value.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Non-Financial Performance Reporting

The Council's operational performance is monitored via a suite of Directorate Management Reports, a separate report is produced for each Directorate at the Council. These are presented monthly to each directorate and quarterly to the Executive Management Team (EMT) for their review. This frequency is appropriate and is reflective of the overall performance being viewed for which there are no significant issues noted.

Since last year the quarterly EMT reporting format has been updated to include a dashboard alongside an executive summary report. This has initiated the response to our recommendation to consider adopting a balanced scorecard approach. The council is in the process of developing a new performance framework which will include a full balanced scorecard approach, support Senior Leadership Team in their role in managing performance and include mechanisms to review performance with respective Cabinet Members routinely.

In the prior year we recommended that the council continue to develop and support the creation of a centralised intelligence hub, the Council has responded to this by establishing a Corporate Insight Team which was created as part of the Support for Leadership restructure in July 2021. The team has been in place since October 2021 and have been integral in improving the format of the KPI reporting.

The dashboard includes a suite of Key Performance Indicators (KPIs) across numerous metrics, the reports are sufficiently detailed to assist in making informed decisions and the metrics included are closely aligned to the services and priorities of the directorates. The reports use a RAG rating system and 'red rated' exception reporting to focus attention on underperforming or high risk areas and is a critical tool for supporting decisions across the Council. This is important given that the volume of KPIs in many cases is deemed quite significant although we would not recommend removing these as all are deemed relevant and specific to the services being provided. Each metric is assigned to a responsible officer and there is a clear method of holding the relevant directorate or service lead to account should performance fall below target.

These reports are shared with Cabinet Leads, giving them direct line of sight to current and emerging performance issues. The appropriateness of Directorate performance measures is reviewed annually. However, we have not been provided with any evidence of this KPI reporting being shared with Mayor & Cabinet who are key decision makers at the Council.

**Improvement Recommendation – the Council should increase oversight of the non-financial performance of the Council's services and directorates by members to help them make informed decisions and take action where specific services may be underperforming. This could be achieved via a summary KPI report alongside financial reporting so that the potential impact of non-financial performance on the Council finances can be observed and that financial and non-financial performance are given equal attention by members.**

This recommendation builds on our recommendation from the prior year that a quarterly performance monitoring report should be provided to members to monitor and review.

The Council recognises that further developments are required to improve the impact of operational performance reporting and is committed to ensuring that quarterly performance is discussed with the Mayor and Cabinet members and considered with Scrutiny Members when setting their work programmes going forwards.

The quality of services for users is also measured through satisfaction surveys and information from the complaints management resolution processes. Reporting to EMT is done on a quarterly basis and is deemed sufficient in terms of frequency and in line with the prior year.

To support the KPI reporting in year the Council has also taken part in the LGA Peer Review. The review is aimed at reviewing governance, culture and other more strategic performance areas as opposed to detailed operational targets that the directorate reports monitor. Therefore it is a complementary view of performance as opposed to duplicating reporting already in existence. The report overall was positive in terms of the Council's performance and 11 recommendations were raised to assist the Council in working towards best practice arrangements. The report has been published on the Council website for transparency but there is a lack of evidence of the findings or any action plan being reported to Mayor & Cabinet.

**Improvement Recommendation - the Council should develop and action plan from the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the findings into existing KPI reporting as those structures are already in place**

Currently a data policy does not exist at the Council which would provide guidance and assurances over the data quality of the Council's performance reporting. Creation of such a policy is in progress and is expected to be completed by Q4 22/23. A draft policy has been developed and therefore progress to date suggests that this should be able to be finalised in 22/23 as expected. In the meantime directorate leads, Cabinet Leads and Executive Management have sight of and review the reports to identify any potential issues, including those highlighted due to inaccuracies. This is separate to data policies covering data protection and GDPR which are effectively in place and information available through the public website.

**Improvement Recommendation - the Council should ensure that a data policy is finalised as soon as possible and that the terms of references of sub committees are updated so that the Mayor & Cabinet are able to take assurance of the quality of the data that feeds the board packs. Any delay to developing this policy will potentially impact data quality of non-financial performance reporting which can directly impact reliability of savings and financial performance at year end.**

### **Benchmarking Analysis**

Review of the Directorate level KPI reporting demonstrates that there is inconsistent use of benchmarking in these reports. We noted evidence of the Council comparing to its own internal performance by demonstrating the direction of travel of KPIs and also comparing itself to national performance within the Children's' and Young People's Directorate metrics and some of the Adults Directorate metrics. There was no evidence of comparison with national performance or similar organisations within the KPI reports of other directorates. This suggests that the Council focusses its resources on benchmarking in those directorates where it is felt most beneficial or reflective of the risk. These directorates are those facing recurring overspends each year and therefore focusing efforts in these areas is appropriate where capacity is a restriction.

The Council's approach to learning from other organisations through benchmarking is undertaken on an ad-hoc basis. The Council has benchmarking tools available such as LG Inform but does not subscribe to any benchmarking clubs per se. In year benchmarking 'deep dives' have been undertaken using the LG Inform tool, specifically in Children's and Adults Social Care. The results of this have been used, in conjunction with engaging external consultants, to develop and action plan to realise the opportunities in Adult Social Care specifically highlighted in the data. The work to realise these benefits is ongoing and expected to complete in 22/23 and work to realise opportunities in Children's Social Care will be prioritized in future years.

We raised an improvement recommendation in the prior year which stated that the Council should take a corporate approach to identify benchmarking good practice and co-ordinate its use within the services to challenge performance. We believe the ad hoc deep dives, KPI reports, use of LG Inform and engaging external consultants in year effectively respond to this recommendation for 21/22 but given that these have focused on specific services a Council-wide strategy still needs to be developed.

**Improvement recommendation – the Council should introduce benchmarking into all directorates KPI reports to ensure that comparative performance is observed consistently and opportunities that this highlights can be maximised. The Council would benefit from a Council-wide benchmarking strategy as opposed to an ad hoc approach, although the targeted approach has been effective in year.**

Additional improvements have been implemented behind the scenes to ensure there is a more structured approach to benchmarking going forwards. As part of the Support for Leadership restructure, the role of the corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change.

The Senior Leadership Team uses reports from regulators to improve and strengthen services. In 20/21 there was an appointment of an experienced Director of Children's Services and consistent use of the social work practice model in response to the improvements made by a previous Ofsted inspection in 2019. Since then, Ofsted has revisited the council in 2021. The report concluded that senior leaders and partner agencies have worked well together to deliver an effective response to mitigate the impact of the pandemic in Lewisham. Despite the ongoing pressures this has put on services, leaders have continued to prioritise improvements to children's services, underpinned by corporate and political support. Ofsted recognise the progress made by the Council in recent years in the report and this evident in the reduction in the volume and significance of the recommendations made by Ofsted. The Council have welcome the feedback, reviewed the content of the report in detail through the Children and Young People Committee and confirmed that action is already in hand to tackle the new recommendations.

Using Grant Thornton internal benchmarking tools, which makes use of the annual RO and RA return forms sent by each Council nationally to Department for Levelling Up, Homes and Communities (DLUHC), we have compared unit costs of Council services with other London Boroughs to identify those services with very high comparative unit costs which are also material areas of expenditure for the Council.

Service	Total Cost 21/22 £000	Units	Unit Costs £	Unit Cost Score
Education – Primary Schools	186,517	21,703	8,594.07	Very High
Education – Secondary Schools	108,557	9,790	11,088.56	Very High
Education – Special Schools and Alternative Provision Age 4-18	48,261	54,361	887.79	Very High
Children's Social Care – Looked After Children Age 0-17	41,160	68,276	602.85	Very High

Source: RA Returns (Comparator London Borough Councils)

The Council is already responding effectively to these areas as they have been highlighted as areas of focus through their own internal analysis. In relation to the Education Services the expenditure is monitored on a monthly basis as part of the budget monitoring process and finance are working with the service and the Department for Education to reduce expenditure in this area as part of the 'Delivering Better Value Programme'. For Children's Social Care, the service have a sufficiency strategy focussed on prevention and therefore is proactive rather than reactive in its approach. Currently this service is seeing a reduction in Children Looked After from 483 in April 22 to 453 in September 22, as a result of the actions being taken however the needs of the Children receiving a service are more complex and therefore work continues. The spend on Children's Social Care continues to be a high focus area with regular scrutiny at Senior Officer and Member level.

As noted the Council has undertaken its own benchmarking in year through its KPI dashboards for each directorate and identified Children's and Adults Social Care as areas to undertake deep dives on via the LG Inform tool. The KPI dashboard also includes clear information on areas of performance which impact high costs such as referrals, contacts and caseloads in the Children and Young People Directorate. This has prompted the piece of work with external consultants to identify any further cost saving and efficiency opportunities and to assist in putting tangible actions in place to realise the opportunities identified from their own benchmarking, with a focus on adults initially and children's opportunities to be explored following the completion of the adult services based work. The current consultancy work is focusing on savings and efficiencies overall in relation to the demand for services, however our benchmarking suggests that that it is also important that unit cost is addressed alongside volume to have the largest impact on the financial position. We are aware that the discussion, engagement and work with external consultants is ongoing and expect cost reduction will form part of the conversation. We have also reviewed the project management arrangements in place between the Council and the consultants. These include formal monthly meetings to review the consultants progress, reporting provided to the Council sufficient to allow challenge of the savings being made and savings delivered to date are in line with expectation. As such arrangements to manage the project and maximise success are appropriate.

## Subsidiaries

The Council has two key subsidiary interests in Lewisham Homes Ltd and Catford Regeneration Partnerships Limited (CRPL) which have been in existence for several years. Several reports in relation to Lewisham Homes have been observed as being reviewed by Mayor & Cabinet throughout the year, with the 'Building for the Future' programme (managed by the company, being a regular agenda item. KPIs of this subsidiary are reported to the Housing Committee quarterly and therefore there are effective and sufficiently regular reviews of the company's performance in place. There is evidence within the budget setting reports of the subsidiary also being considered as part of this process.

In the prior year we noted that for Lewisham Homes Limited and Catford Regeneration Partnership Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis. This has been addressed for Lewisham Homes however there is no evidence of performance reporting being provided to Mayor & Cabinet for Catford Regeneration Project in the 21/22 year (we note the business plan has since been reviewed by the committee in September 2022).

To support the formally documented review of performance via the KPI reports there are also informal arrangements in place to ensure the Council receives the assurances it needs to on the performance of Lewisham Homes. These arrangements include a 6-weekly strategic client meeting between the Director for Housing, Council Section 151 Officer and Senior Leadership Team covering performance, expenditure, risks and all the key elements of the contract with the subsidiary. A separate session is held specifically for the "Building for Lewisham" programme which includes how Lewisham Homes add value through their contract, looks at financial viability of the scheme and the contracts within this - this meeting is held on a monthly basis. The Chief Finance Officers of the both the Council and the subsidiary meet on an ad-hoc basis as required and have a good working relationship in place.

Various Lewisham Council directors sit on the CRPL Board and therefore there is a mechanism by which information in relation to the company can be relayed to members and Council Officers although fewer formal and informal meetings and discussions have been observed. The newly established Assurance Board aims to include the subsidiary companies reporting monthly/bi-monthly as an extra layer of operational oversight going forwards and this will further strengthen the arrangements in place provided both subsidiaries are represented.

**Improvement recommendation - the Council should ensure quarterly reporting of KPIs in relation to Catford Regeneration Partnership Limited is presented to Mayor & Cabinet or another relevant committee.**

Lewisham Homes Ltd accounts demonstrate that the company made a £1.266m loss in 21/22. The Council overall made a loss of £0.5m and from review of the outturn report this was predominantly due to pressures in adult social care which is unrelated to Lewisham Homes activities. As such despite the company's loss in year they have not significantly impacted the Council's financial performance. The Council is exploring the option to bring the housing service provided by Lewisham Homes back in house as a means of aligning to the Council priorities which includes effective use of resources. As such the Council is already exploring solutions to remedy the possible future impacts of further financial losses. There were no concerns identified in the financial performance of CRPL which would require any adjustment to arrangements in place.

## Digital

In the 2017/18 VFM conclusion a qualification was raised in relation to poor governance arrangements in managing digital programmes. As a result of this qualification, and the impact of Covid-19 on the Council resource, digital transformation programmes were paused for the past few years. The Council's website and Corporate Plan confirm that digital is once again a priority and the Council has a vision for becoming a truly digital Council and Borough. Specifically, this includes delivering an improved digital infrastructure which will empower residents, businesses, community and voluntary sector and public services, and contribute to Lewisham's economic growth. Lewisham published its first creative and digital industries in 2017 outlining how the council and its partners plan associated industries within the borough which is now outdated. The 2023 digital strategy, addresses how the council will deliver key digital services and infrastructure to residents to thrive and live happy, healthy lives. The overarching ambitions of the strategy are the development of a modern, sustainable borough that harnesses the latest in digital technologies and infrastructure. At present, the Council are in the process of developing the 2023 Digital strategy with this anticipated to be released in mid-2023.

**Improvement Recommendation - In order to build on the previous VFM conclusion, once the digital strategy is developed and released, the should Council identify how the existing governance arrangements can support delivery of the programme.**

The Council has an Overview and Scrutiny and Task and Finish Group (TFG) structure already in place which, if the scale of the programme dictates, could be adapted to ensure ongoing monitoring of the programme. Currently the Council has TFGs for Digital inclusion in Education and Adults with Learning Disabilities which have met twice in the year, with the former having produced a year end report. As such there is the scope to develop another specific TFG for any significant resulting elements of the strategy.

## Conclusion

Overall, arrangements to secure economy, effectiveness and efficiency are appropriate. Improvement recommendations have been made but these are suggested as methods of achieving best practice as opposed to correcting underperforming arrangements at the Council.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 6 (priority improvement recommendation)

The Council should explore ways to ensure the maximum benefit is achieved from the non-financial reporting of the Council's directorates. This could be achieved via increased oversight of the non-financial KPI performance of the Council's services and directorates by members and introducing benchmarking into all directorates KPI reports. The Council would benefit from a Council-wide benchmarking strategy as opposed to an ad-hoc approach.

### Why/impact

Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position.

Comparing performance to similar organisations provides important information to assess if certain services are outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.

### Summary findings

Operational performance is reported via Directorate Management Reports which include a KPI Dashboard. These are reviewed by Directorate Leads and the executive Management Team however there is limited evidence of members having sight of these performance metrics.

The Council includes benchmarking against national data within the KPI reports of the Adults and Children's Directorate reporting on operational performance metrics, however there is no evidence of benchmarking in the reports of other directorates. In addition the Council has undertaken 'deep dives' using benchmarking in year but these have also been focussed on Adults and Children's Social Care. These are areas of overspend therefore this targeted approach is appropriate however it would be of benefit to identify opportunities, from benchmarking, Council-wide.

### Management Comments

The Council is reviewing its performance reporting to support the new Corporate Strategy adopted by Full Council in November 2022. This will develop relevant non-financial indicators to assess progress on delivery of the corporate objectives.

As recognised, Finance and Service teams have been developing more data insights. This work will continue to ensure it is aligned for financial and non-financial data and include benchmarking where there is consistent and reliable data available.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 7 (minor improvement recommendation)

Overall the Council's arrangements in securing economy, effectiveness and efficiency are positive. The Council may wish explore ways that it can make iterative improvements to demonstrate best practice in arrangements. These could include:

- developing an action plan from the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the findings into existing KPI reporting as those structures are already in place.
- ensuring that a Data Policy is finalised as soon as possible.
- exploring ways that equal attention could be paid to monitoring the performance of both of its key subsidiaries.
- identifying how the existing governance arrangements can support delivery of the digital programme, once the 2023 Digital Strategy is developed and released.

## Why/impact

Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position.

Comparing performance to similar organisations provides important information to assess if certain services our outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.

## Summary findings

See body of the report.

## Management Comments

The Council welcomes the assurance that its arrangements for securing economy, effectiveness and efficiency remain positive.

The Council did develop an action plan in response to the LGA peer review. Progress against these actions is currently being updated and will be reported on to Members. This is being coordinated by the Cabinet Member for Resources and Strategy.

Digital and data strategy and policy improvements – both for services to the Borough and internally for officers' ways of working are being reviewed and improved, including the operation of the Council's leading shared service with the London Boroughs of Brent and Southwark.

The reporting and monitoring of the Council's subsidiaries, which includes the main one of Lewisham Homes, will be reassessed as part of the strategic decision currently before M&C on the options for the future of the company with the potential for it to be insured.



# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 Financial Sustainability - The Council should continue its work in enhancing the understanding of the costs of general fund placements and Education Dedicated Support Grant related Education Health &amp; Care Plans and Special, Educational Needs and Disability costs across the Children and Young People Directorate. This work should lead to more accurate financial forecasting as well as assisting with developing interventions that benefit children to live more independently in the longer term.</p>	Improvement	March 2022	<p>The largest overspending service in 21/22 (Children's Social Care Services) sits in the Children and Young Peoples directorate. Essentially, in the prior year, we suggested the Council should focus on understanding and responding to the underlying cause of the overspend in this directorate. Members of the SEND service are currently working with finance colleagues on developing a more sophisticated tools and data to enable the Council to identify profiles of spend and numbers of children receiving support, to identify biggest impact areas based on opportunity for improvement and feasibility. Therefore, this internal collaboration demonstrates good progress on the recommendation has been made but is ongoing, the direction of travel is positive.</p>	Yes	No
<p>2 Financial Sustainability - Budget monitoring reports should clearly articulate the underlying causes for the under delivery of savings plans. Actions taken to address under delivery or proposed alternative plans should also be detailed within the report.</p>	Improvement	March 2022	<p>Although the presentation of savings performance is undertaken via a detailed appendix to the budget monitoring report there still remains limited information on cause or actions included within this and so our prior year recommendation remains unaddressed.</p> <p>Despite the actions not being documented in the reporting where services are struggling to deliver savings, finance and the services work collaboratively to find ways to mitigate/deliver them in alternative ways. Any undeliverable savings which cannot be mitigated are included within the reported financial position for each service area with an explanation of what is causing them to not be delivered. A further section in the report covers financial risks which are not within the reported position but may materialise over the forthcoming financial year.</p>	No	<p>Yes – to be reviewed in 22/23 although the fact this is unaddressed is not a weakness in arrangements since the actions are being taken the improvement is simply needed to the documentation of these actions reported to members.</p>

# Follow-up of previous recommendations

3	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	Financial Sustainability - Complete the re-organisation of social care work and focus on continuing to improve the systems used by Social Care staff.	Improvement	March 2022	The Council have established a change programme within Adult Social Care, known as Empowering Lewisham, and is being supported by external consultants. The Design and Implementation phase of Empowering Lewisham is nearing completion and has included new ways of working, the transformation and reconfiguration of services and the transfer of sustainable skills and knowledge to staff. The IT systems that support Adult Social Care have been upgraded allowing all payments to providers to go through the ContrOCC system. This has resulted in better oversight of expenditure and the system. This is being used to track activity and savings of the directorate already. As such, although it is too early to tell the impact of the consultancy work, the recommendation is considered closed given that actions have been taken to address the issue.	Yes	No
4	Financial Sustainability - The Council will need to continue to work with schools and benchmark the number of Special Educational Needs and Disability provisions in mainstream schools made available compared to neighbouring boroughs.	Improvement	March 2022	There has been an overspend in Education Services of £1.5m for 21/22 which includes spend on SEND. Although there has been an overspend it is not significant in terms of the Children's & Young People Directorate budget of £59m and therefore not seen as a specific pressure. Work continues on the High Needs Mitigation Plan, overseen by Schools Forum and the local area partnership board, with increasing SEND provision capacity as a key focus. We have reviewed the meeting minutes of the Schools Forum and note that the mitigation plan is not a standing agenda item however the Forum is supported by the High Needs Sub-Group who normally meet 7 – 10 days before the Schools Forum meeting. Therefore the sub-group feed into specific agenda items on the provision and use of DFG, as such there is a sufficient response to our recommendation and the direction of travel is positive in terms of progress. Plans are also in place to increase specialist SEND places in Lewisham primary and special schools by 90 during the 2022/23 academic year.	Yes	No

# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	Financial Sustainability - Management have undertaken some sensitivity analysis when setting the 2021/22 budget. Management acknowledges that sensitivity analysis and scenario planning in terms of 'worst case' and 'stress testing' is an area which will need additional work going forward, to model the financial impact of Covid in the longer-term and ensure that plans are in place to make appropriate operational decisions to maintain financial sustainability.	Improvement	March 2022	The Council has updated its MTFP as part of the 22/23 budget setting process which includes base case assumptions which produce a profile of £10m, £10m, £8m, and £7m gap in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four-year budget gap down by £19m or up by £17m from the base case of £36m. This is a direct response to our recommendation as the analysis is deemed to be more comprehensive and developed than the prior year with the scenarios being applied on a line by line basis to the MTFP.	Yes	Yes – we have extended this recommendation to suggest the Council consider applying scenario planning to the annual budget as well as the MTFP. See recommendations
6	Financial Sustainability - The Council is developing longer term solutions to meet the medium term financial challenge, but would benefit from building up a longer term reserves strategy. The strategy should set out principles on the levels of reserves demonstrating how reserves are aligned with priorities and be agile enough to allow the Council to respond appropriately to changes in economic conditions.	Improvement	March 2022	A review is being undertaken of the reserves strategy and this will initially be included within the Budget Report for 2023/24 and therefore expected in February 2023. Going forward this will form part of the MTFS report each year. This effectively responds to our recommendation, the delay of this not being included in the 22/23 process is accepted as this process was already underway when our 21/22 work was released.	Yes	No
7	Financial Sustainability - Revisions to the governance structure are required to ensure: <ul style="list-style-type: none"> <li>• A more comprehensive oversight over the capital programme</li> <li>• There is a clear alignment of capital resources with corporate priorities</li> <li>• A robust approach to programme management</li> <li>• Formal oversight of re-profiling change requests</li> </ul>	Improvement	March 2022	The following actions are being undertaken to address these recommendations: <ul style="list-style-type: none"> <li>• Review of Regeneration Capital Board and Regeneration Capital Programme Delivery Board (RCPDB) Terms of Reference and reporting to ensure oversight.</li> <li>• Review and update of the project manager handbook guidance.</li> <li>• Standardisation of twice yearly capital budget re-profiling in alignment with the budget setting process.</li> </ul> Although these are in progress the direction of travel in response to the recommendation is positive	Yes	No

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
8	Financial Sustainability - Given the uncertainty of the pandemic and current economic environment a routine re-profiling of the capital programme would be required. This needs to be complemented by detailed reporting on a scheme by scheme basis with detailed explanations explaining slippage that will assist with holding delivery managers to account for meeting project timescales.	Improvement	March 2022	Revised project highlight summary reporting will provide clearer detail of the performance of capital projects against time, cost and quality. Slippage against profile will be reviewed on a quarterly basis by Regeneration Capital Board and Regeneration Capital Programme Delivery Board (RCPDB). The in year 21/22 Capital Monitoring in the finance reports include an appendix with the capital programme detailed in the medium term and quarterly monitoring at scheme level, but still with limited information on causes of slippage for each scheme and as such in 21/22 our recommendation was not implemented and remains open. The first 22/23 capital monitoring in the monitoring reports shows that capital schemes are included on a scheme-by-scheme basis in the appendix but there is no detail of spend to date or any forecast slippage. The reporting explains that at this stage these were being revised as part of the year end processes for 2021/22 and an up-to-date budget considering any slippage will be presented in the next report.	No	Yes – to be followed up in 22/23 to ensure the actions the Council describes have been taken.
9	Governance - The Council should streamline the approach to risk management to ensure it is dynamic and there is more consistency and robust centralised risk management.	Improvement	March 2022	The Council are in the process of developing a refreshed Risk Management Strategy with components currently in consultation. The timeline expects EMT approval of the new Strategy in late autumn 2022 with presentation to Members of the Audit Panel in December and full adoption to start in 2023/24. The revised strategy incorporates the findings discussed in the prior year VFM work.	Yes	No – Strategy will be reviewed as part of 22/23 work but it being in development is sufficient to respond to our recommendation.
10	3E's - The council continue to develop and support the creation of a centralised intelligence hub, which will ensure clarity around data and insight for a more strategic reporting approach.	Improvement	March 2022	A new corporate Insight team was created as part of the Support for Leadership restructure in July 2021, and has been in place since October 2021.	Yes	No

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
11	3E's - A quarterly performance monitoring report should be provided to members to monitor and review. The Council should also consider integrated reporting using a balanced scorecard approach, that will better enable management and members to understand the interrelationship between different sources of information.	Improvement	March 2022	Quarterly Directorate reporting has moved from word documents to a dashboard approach which is an important stepping stone in achieving the balanced scorecard approach. The council is in the process of developing a new performance framework which will consider a balanced scorecard approach, support SLT and review performance with respective Cabinet Members routinely. In addition, quarterly performance will be discussed with the Mayor and cabinet members and considered with Scrutiny Members when setting their work programmes.	Partially	No
12	3E's - The Council should take a corporate approach to identify benchmarking good practice and coordinate its use within the services to challenge performance.	Improvement	March 2022	As part of the Support for Leadership restructure, the role of the Corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change. There have been benchmarking deep dives in Adult and Children's Social Care, national benchmarking is included within the performance reporting of these directorates and other benchmarking activity is undertaken on an ad hoc basis. As such there is evidence of an increased level of benchmarking in year, with this being used to develop tangible outputs with the support of external consultants in relation to Adults Social Care. Therefore we have updated this recommendation to suggest that benchmarking is undertaken on a more consistent basis across the Council.	Partially	See recommendations
13	For Lewisham Homes Limited and Catford Regeneration Partnership Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis.	Improvement	March 2022	As noted in the body of the report we have noted appropriate reporting of performance information for Lewisham Homes and therefore have re-raised the recommendation in 21/22 for Catford Regeneration Project Limited to be paid equal attention by committees.	Partially	See recommendations

# Opinion on the financial statements



## Audit opinion on the financial statements

We are still undertaking our audit of your financial statements. At this stage we expect to issue an unqualified audit opinion. Our Audit Findings Report will be presented to the Audit Panel on 6 December 2022.

The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022. We therefore expect to issue our audit opinion early in 2023.

## Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which is reported alongside this report at the Council's Audit Panel on 6 December 2022

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. This work will be completed following the audit of the financial statements. The Council's expenditure and assets are below the £2bn threshold for a detailed audit of the return.

## Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



# Appendices

# Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

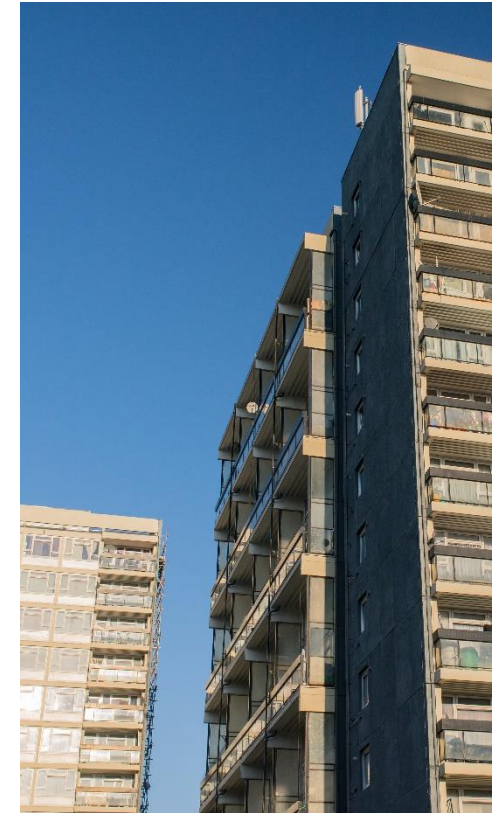
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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





# Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	See relevant sections proceeding Financial Sustainability, Governance and 3E’s narrative

